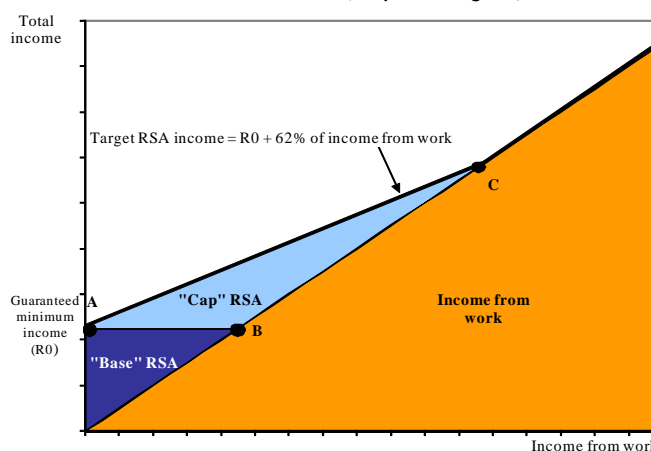


## The "Revenu de Solidarité Active" or earned income supplement: its design and expected outcomes

This study was prepared under the authority of the Treasury and Economic Policy General Directorate and does not necessarily reflect the position of the Ministry for the Economy, Industry and Employment.

- The introduction of the "revenu de solidarité active" (RSA) or earned income supplement, 20 years after the launch of the "revenu minimum d'insertion" (RMI) or minimum integration income, seeks to correct several shortcomings in the French welfare system. These include a generally inconsistent and confusing maze of transfers and taxes or contributions, weak incentives to return to work, and the inadequacy of the traditional tools of social and wage policy in addressing the problem of the "working poor". This new benefit consequently seeks to tackle the problem of poverty despite working and to encourage people to return to work.
- Under the RSA, disposable income rises in line with income from work: depending on the beneficiary's family circumstances, the guaranteed minimum income paid to those not working (the "base" RSA) corresponds to the former RMI and the API single parent allowance; as income from work rises, this can be combined with a fraction (62%) of the income from work to form the so-called "cap" RSA. The new system also strengthens the mechanism for helping people back to work, steering beneficiaries in the first place to "Pôle Emploi" (Job Centre), where they will deal with a single designated adviser.
- The new component, the "cap" RSA, is expected to apply to 1.8 million households (comprising 5.1 million people) every quarter, and 2.4 million households at least once a year. The "cap" RSA is expected to provide an additional income of €130 per month, thereby boosting the incremental income from working, especially for couples where only one partner works and for single-parent families. This would reduce the poverty rate by 0.8 percentage point, enabling 500,000 people to escape from poverty. Without eliminating the risk of poverty while in work entirely, the RSA will improve living standards for low-paid workers. These effects are expected to occur assuming no change in behaviour. The RSA is also intended to affect labour supply and demand behaviour; this paper does not examine these "dynamic effects".
- There is nevertheless room for further improvement in the effectiveness and clarity of the benefits system. Consideration could be given notably to articulating the RSA more effectively with housing benefit, the "prime pour l'emploi" (PPE) or employment tax credit, and other benefit mechanisms.

How the RSA works (simplified diagram)



Source: DGTPE

At the time of its inception in 1988, the RMI minimum integration income was intended to provide temporary help to a few hundred thousand individuals living in extremely precarious conditions. Twenty years later, more than 1.1 million people are in receipt of the RMI. Beyond this steep increase, the RMI's relative resistance to downward pressure at a time of falling unemployment, and the existence of a rump of long-term beneficiaries, illustrate how the mechanism has mutated. Originally conceived as a safety net to protect people from deep poverty, the RMI is now a pillar of the French welfare system, paying benefits to people more or

less durably excluded from the labour market. At the same time, the conventional instruments of social policy (such as income support), or of wage policy (such as the SMIC guaranteed minimum wage), have demonstrated their limits in combating the phenomenon of "working poor" highlighted in France over the past ten or so years. Against this background, the RSA, introduced on June 1, 2009, seeks to achieve three aims, namely to combat poverty among people in work, boost the financial gain from returning to work, and streamline the benefits system.

## 1. Prior to the RSA: a complex social and tax system that sometimes rewarded the return to work poorly, and ill protected workers against the risk of poverty

### 1.1 A plethora of poverty-reduction and work-incentive mechanisms

Anti-poverty policy in France works through a variety of instruments:

- Various forms of income support, aimed at people with very low incomes, were gradually introduced for different target populations, such as the elderly or the disabled unable to work, parents experiencing difficulties as a result of family breakdown, or the unemployed whose unemployment benefit entitlement had expired. While the RMI broke with this category-based approach, it failed to simplify the system, and in 2008 there were nine forms of income support existing side by side, each with its own specific assessment scale and eligibility rules;
- A variety of benefits, family and housing allowances, are means-tested or taper off as income rises. These play a very important role in combating poverty, particularly family poverty;
- Finally, a certain number of specific entitlements or grants are subject to means-testing or conditional on the beneficiary being on income support (these are known as "droits connexes" or related entitlements<sup>1</sup>), and are progressively being introduced either nationally or locally.

This plethora of mechanisms has resulted in a complex and relatively inconsistent system. Though intended to assist the least well-off, they may actually act as a disincentive to work. This is because, owing to the differential nature of the various forms of income support<sup>2</sup> and the existence of means-tested benefits, an increase in income from work leads to a reduction in benefits paid. In addition, people are at risk of losing certain indirect entitlements such as the related entitlements referred to above. As a result, a return to work may bring no improvement in a person's living standard, which raises a problem of work incentives (the "inactivity trap") and justice. Even when it does pay to return to work, uncertainties caused by the opacity of the welfare and tax system may act as a disincentive to work.

Various measures were introduced around 2000<sup>3</sup> to address this problem. The "dispositif d'intéressement" work incen-

tive mechanism, which temporarily allows people to combine income from work with income support, and which was provided for from right from the outset of the RMI, was extended to include beneficiaries of the API single parent allowance in 1998. This was then reformed in 2006 to make it more attractive to return to more-than-half-time work. Moreover, a series of reforms since 2000 have helped to improve the progressive nature of transfers and taxes for all low-income people, including a reform of the local residential tax, a change in the scale of housing benefits, and a change in the income tax rebate and assessment scale. Finally, the "prime pour l'emploi" (PPE), or working tax credit, introduced in 2001 and revised sharply upward since then, in favour of part-time workers especially, has improved the gain from working.

### 1.2 Limited and unclear financial gains from working in certain configurations

The bottom line for all these measures remains mixed, however. Admittedly the inactivity traps have been whittled away, but the monetary gain from returning to work is still very weak once the work incentive expires, especially in the case of single-parent families or couples with children and only one working partner (see table 4). They still do not always offset the costs entailed by working (e.g. childcare, travel, moving home, etc.).

In addition, the gains from returning to work were restored only at the cost of creating new mechanisms and rendering the system as a whole even more complex.

Finally, potential beneficiaries are relatively unaware of the PPE and the work incentive scheme<sup>4</sup>, and their payment timetable limits their effectiveness: the PPE is unlimited in time, but with a one-year delay; the "work incentive" scheme kicks in immediately, but is limited in time.

### 1.3 Not very effective in combating poverty

Despite the profusion of instruments and the resources devoted to them, monetary poverty has not retreated significantly since 2002, and 1.7 million workers were deemed poor in 2005.

(1) Such as exemption from certain taxes, entitlement to the CMUC universal healthcare cover, cheap rate electricity, transport, etc. available to the least well-off, for example.

(2) The amount paid is equal to the difference between the ceiling on the benefit and income received from elsewhere. Each additional euro of income thus results in an equivalent decrease in the allowance.

(3) Barnaud and Ricroch, "Les taux marginaux d'imposition: quelle évolution depuis 1998?" (Marginal tax rates: how have they evolved since 1998?), *Diagnostics Prévisions et Analyses Économiques*, no. 63, mars 2005.

(4) Mikol, Vicard, Bonnefoy and Mirouse, "La prime pour l'emploi, un dispositif bien connu dans son principe, peu dans ses modalités" (The working tax credit: a mechanism that is well known in principle, but not in practice), *Dossier Solidarité Santé*, no. 5, 2008, and Deroyon, Hennion, Maigne and Ricroch, "L'influence des incitations financières sur le retour à l'emploi des bénéficiaires du RMI" in *RMI l'état des lieux, collection La Découverte 2008* (The influence of financial incentives on returning to work, in RMI, the state of play, La Découverte collection, 2008).

The PPE has had a limited impact on rolling back the poverty rate, including for people in work, particularly because of its assessment scale, which fails to cover very low paid work (below 0.3 times the SMIC, the guaranteed minimum wage)

and pays little heed to family circumstances, which penalizes large families especially. In 2006<sup>5</sup>, for instance, half of all poor workers did not qualify for the PPE.

## 2. The design of the RSA: a durable income supplement guaranteeing an increase in total income for the least well-off households when in work

### 2.1 A progressive structure combining experiment with consultation

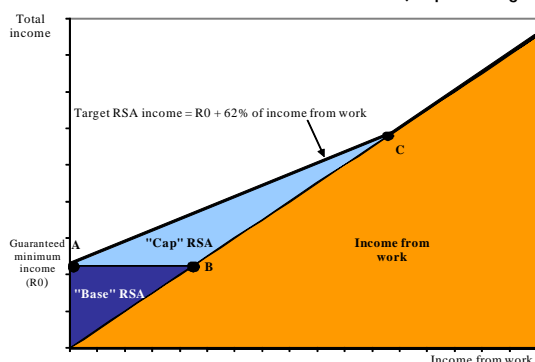
The RSA, which was proposed by the Commission on "Families, Vulnerability, Poverty"<sup>6</sup>, was launched experimentally in 34 departments at the end of 2007 in order to assess its practical arrangements and its impact on beneficiaries. The findings of these assessments were incorporated into the report to Parliament in May 2009.

At the same time, consultations led to publication of a Green Paper in March 2008, making the case for public action and stating the aims of the exercise, along with unresolved issues. The law deploying the RSA nationwide was proclaimed on December 1, 2008 and the new entitlement took effect on June 1, 2009.

### 2.2 A single monetary benefit topping up income from work

The idea behind the RSA is to top up the household's income to bring it up to a guaranteed level that rises along with income from work, and depending on the number of children in the household (see Chart 1). In that sense it plays a twofold role, that of ensuring a minimum income for people out of work (this is the component referred to as the "base" RSA), while offering an income supplement for low-paid households in work (referred to as the "cap" RSA). Altogether, the "aggregate" RSA (comprising "base" and "cap") retains the chief features of the RMI and the API, being both family-oriented and differentiated, paid monthly based on the beneficiary's income for the previous quarter. Its amount is adjusted annually for inflation.

Chart 1: How the RSA works (simplified diagram)



A: Guaranteed income for the jobless (former RMI and API).

B: "Base" RSA cut-off point.

C: "Aggregate" RSA cut-off point: point beyond which the RSA cancels itself out.

Source: DGTPE

### • A safety net for the jobless

For households with low or nil income from work, the RMI and API have been merged into a single component called the "base" RSA. It has been decided not to merge these with the "allocation de solidarité spécifique" (specific welfare allowance) at this stage; this will be considered in consultation with the social partners (labour and employee representatives).

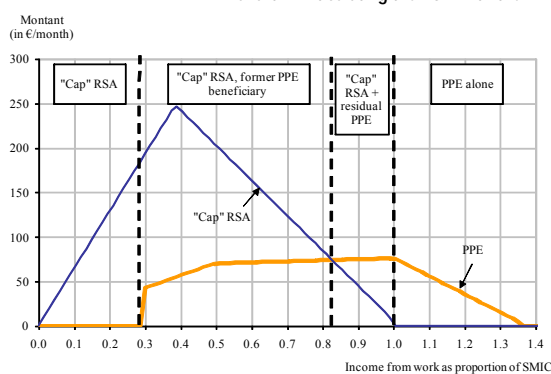
The logic behind the merger consists in maintaining existing entitlements, i.e. no change to eligibility criteria (especially the starting age of 25 for entitlement, except for people with dependents), the amount (family-based) of the allowance, or the means taken into consideration in calculating it.

### • An income supplement guaranteeing an immediate and durable increase in income as a result of taking a job

For households with income from work, the guaranteed income is equal to the income they would receive if jobless plus a share-unrelated to family circumstances or level of income-of the income from work: when this rises by 100, the benefit declines by 38 (versus 100 in the cases of the RMI and the API), so that total income rises by 62 (representing an accumulation rate of 62%).

The new benefit is distinguished from the work incentive scheme by its durable nature, and from the PPE scheme by its immediate and family-based nature. While introduction of the RSA eliminates the need for the work incentive mechanisms, the same cannot be said for the PPE, which targets a wider public and has been partially kept in being: when the "cap" RSA paid to a household during the year is less than its PPE, a PPE top up is paid to it in the following year (see Chart 2).

Chart 2: Articulating the RSA with the PPE



Note: Case of a single person, no children, homeowner with no mortgage.

Source: Paris mock-up, 2009 legislation, DGTPE.

Finally, the related national entitlements now depend on beneficiaries' means and not their status, thereby avoiding threshold effects and loss of entitlements when returning to work.

(5) Bonnefoy and Robert-Bobée, "La prime pour l'emploi en 2007: beaucoup de bénéficiaires pour des montants parfois faibles" (The working tax credit in 2007: many beneficiaries, but the amounts are sometimes small), *Dossier Solidarité Santé*, no.5, 2008.

(6) "Au possible, nous sommes tenus" (We have a duty to do whatever is possible), rapport de la commission présidée par M. Hirsch (report of the Commission chaired by M. Hirsch), *La Documentation française*, 2005.

### 2.3 A reinforced work-integration mechanism adapted to the needs of each beneficiary, aimed at getting them back to work

The additional income provided by the "cap" RSA reduces the monetary impediments to a return to work, but it does not clear up all of the social problems facing beneficiaries on income support.

The monetary component of the RSA will come with greater support and counselling, and a new balance between rights and duties:

- beneficiaries who do not work or earn very little from their work are required to seek work or to take the necessary steps to ensure their social insertion or return to work;
- to that end, they are systematically referred to the Pôle Emploi (Job Centre), or to a jobs agency, where they are supervised by a single adviser;

- beneficiaries experiencing special social difficulties (e.g. with housing or health), however, are not obliged to seek work but are steered towards contractually-defined insertion procedures;
- the Chairman of the Departmental Council can suspend payment of all or part of the RSA to beneficiaries who fail to comply with their personalised job-search plan or contract, or if they are struck off the list of job-seekers for no legitimate reason.

In addition, beneficiaries may receive a personalised return-to-work allowance to defray certain costs incurred in getting to work (car purchase, travel expenses, etc.).

Beneficiaries of the RSA in work may also have access to the services of the Job Centre in order to consolidate their foothold in the labour market.

### 3. The expected effects of the RSA: poverty reduction and stronger incentives to work

During the RSA's planning phase, ex ante evaluations were carried out to assess the new measure's redistributive properties and its impact on poverty, using in particular a mock-up of a set of test cases, Paris, and a microsimulation model, Saphir<sup>7</sup> (see Box 1). These simulations shed light on the reform's expected effects, though without claiming to describe its actual consequences. Two points in particular are worth underlining. First, the simulations were performed on data representative of a socio-economic situation very different from the one in which the RSA has been introduced;

second, they do not allow for behavioural changes, whereas the RSA is intended precisely to influence beneficiaries' behaviour.

These simulations served to analyse the impact of the new component of the RSA, which varies with income from work, namely the "cap" RSA. It was estimated that payments in respect of this component would amount to €2.9 billion once it was fully operational, representing an additional outlay of €1.5 billion compared with existing schemes.

#### Box 1: Tools employed in the simulations

##### 1- The Paris test-case mock-up

PARIS recalculates welfare and national tax transfers for a series of given family configurations and means in order to obtain a representation of households' available means. In particular this serves to analyse changes in disposable income depending on income from work, according to household type. The mock-up makes the following assumptions for the sake of simplicity:

- local benefits, the work incentive scheme, the CMUC universal healthcare coverage and local taxes are not taken into account;
- households' means are confined to income from work;
- people earning less than the SMIC are in part-time work paid at the hourly SMIC rate; those whose income from work exceeds the SMIC are in full time work;
- household income is stable over time as a proportion of the SMIC;
- income of people not in work is the RSA (the other income support allowances or unemployment benefits are not taken into account).

##### 2- The Saphir microsimulation model

Saphir serves to apprehend the diversity and complexity of actual situations, based on a representative sample of households for which the characteristics of their members and means are known precisely. On that basis, the model simulates the various benefits and taxes as a function of different assessment scales, in order to determine households' resulting available income.

This model serves, among others, to evaluate the cost and redistributive effects of different measures affecting the welfare and tax system. The data are derived from the 2006 ERFIS tax and welfare incomes survey, "aged" in order to represent the population and incomes at the end of 2008.

Its chief features are:

- tax and welfare legislation in force at the end of 2008, supplemented by the RSA as introduced on June 1, 2009;
- the scope covers ordinary households (excluding people living in institutions) in Metropolitan France;
- disposable income is calculated at household level (i.e. people residing in the same dwelling), but each benefit is calculated at the level of the relevant unit.

There are certain limitations to the basic data and the model, however:

- the model is static;
- information on incomes is not exhaustive and the annual taxable income needs to be analysed on a quarterly basis;
- data derived from the Jobs Survey are declarative and therefore unreliable;
- the model calculates simulated entitlements, which may partially diverge from observed entitlements (resulting from non take-up of benefits, for example).

#### 3.1 A measure centred on the poorest workers

- Around 1.8 million working households can expect to receive an income supplement thanks to the RSA

In a full year, and once the system is fully operational, it is expected that around 3.3 million, or nearly 12% of house-

holds in Metropolitan France, will receive the aggregate RSA at least once a year. For any given quarter, it is estimated that the number of beneficiaries of the aggregate RSA will be around 2.6 million. Some of these (0.8 million) will receive only the "base" RSA, another portion (0.4 million) will receive the "base" RSA plus the "cap" RSA, and another

(7) The reform scenarios were simulated jointly using the microsimulation models of the Drees (Ines), the CNAF (Myriade) and the DGTPE (Saphir).



portion (1.4 million), the new beneficiaries, will receive only the "cap" RSA.

Consequently, households receiving the "cap" RSA only will account for more than half of all beneficiaries of the new benefit. The aggregate RSA is expected to concern 6.9 million beneficiaries in their own name or dependents, representing 11% of the population of France, and 5.1 million for the "cap" RSA.

The average amount of the RSA varies sharply depending on the beneficiaries work situation: households eligible for the "base" RSA will receive an average of €380 in respect of the "base" RSA if they have no income from work, and €240 if they receive income from work. Households eligible for the "cap" component would, in addition to a possible "base" payment, qualify for a new income supplement of €130 each month, on average.

Table 1: Number of households eligible for the RSA, and average amount

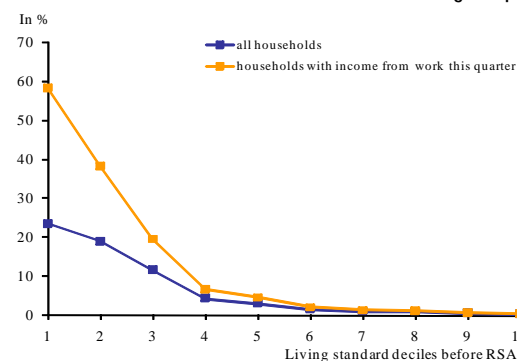
	At least one quarter in the year		In any given quarter			
	No. of beneficiaries		No. of beneficiaries		Average monthly amount	
	Million	% of households	Million	% of households	"Base" RSA (in €/month)	"Cap" RSA (in €/month)
Households receiving aggregate RSA	3.3	12	2.6	10	150	90
Of which: receiving "base" RSA only	0.9	3	0.8	3	380	0
Of which: receiving "base" and "cap" RSA	0.7	3	0.4	1	240	140
Of which: receiving "cap" RSA only	1.7	6	1.4	5	0	130

Source: Saphir model, 2008 legislation (with RSA), DGTPE.

- A measure centred on low-paid workers...

By construction, the "cap" RSA is designed for the least well-off working households. Thus almost a quarter of households in the first living standard decile<sup>8</sup> receives the RSA in any given quarter, and 20% of households in the second decile (see Chart 3). This share is much higher if we look solely at households with income from work (60% and 40% respectively).

Chart 3: Share of "cap" RSA beneficiaries according to living standard (in a given quarter)

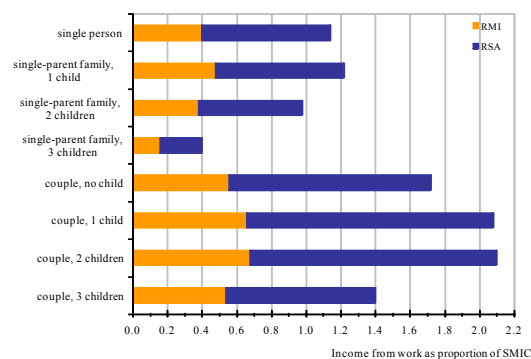


Source: Saphir model, 2008 legislation (with RSA), DGTPE

- ... that also benefits people earning more than the SMIC

The public concerned by the RSA far exceeds the number of current beneficiaries of the RMI or the API, and even that of part-time workers. For instance, a single person with income from work only was eligible for the RMI until his income exceeded 0.4 SMIC; now that person will be able to receive the RSA up to 1.1 times the SMIC (see Chart 4). A couple of salaried workers each earning the SMIC, working full time and with one or two children, will also be eligible for the RSA. Altogether, at least one person in nearly one household in two receiving the RSA works in a job paid at the level of the SMIC or above.

Chart 4: RMI and RSA cut-off points



Note: Children are aged 3 or over; the household lives in rented accommodation in zone 2.

Interpretation: A couple with 2 children was eligible for the RMI up to 0.7 SMIC and will be eligible for the RSA up to 2.1 SMIC.

Source: Paris mock-up, 2009 legislation, DGTPE

- The RSA will boost disposable income for 2.3 million households each year

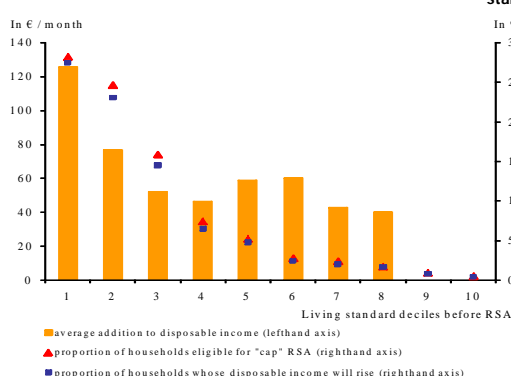
Because of the way the RSA is articulated with the PPE, not all RSA beneficiary households will necessarily see an increase in their disposable income following the reform: for some of them, the RSA will represent a "down payment" on the PPE. However, 94% of the 2.4 million households receiving the "cap" RSA at least one quarter in the year can expect to see an additional €80 of disposable income per month on average, representing a 5% rise in their disposable income. A quarter of these households will gain €130 or more each month.

The RSA will mainly benefit the least well-off households, particularly among the first three living standard deciles (see Chart 5). The gains will be especially high for households in the first decile, many of which are not eligible for the PPE: their disposable income will rise by €130, or 11%, on average.

The reform will be especially beneficial to couples with one partner working and with children, and to single-parent families in work: more than a quarter of these will see a rise in their disposable income (see Table 2).

(8) A household's living standard corresponds to its disposable income relative to the number of consumption units comprising it. The first adult counts for one unit, other individuals aged 14 or over count for 0.5, and children under 14 for 0.3.

Chart 5: Proportion of households whose disposable income will rise and average additional disposable income per month according to living standard



Interpretation: 28% of households in the first living standard decile will receive the "cap" RSA at least one quarter in the year and will see their disposable income rise by €130 per month, on average.

Source: Saphir model, 2008 legislation (with RSA), DGTPE

### 3.2 The RSA will not eliminate poverty among people in work, but it will push back its boundaries

Because its assessment scale explicitly targets low-income households, the RSA will reduce poverty. The proportion of poor people (at the threshold of 60% of the median living standard) will fall from 12.8% to 12% with the RSA, representing a 0.8 percentage point decline<sup>9</sup> (see Table 3). Thus

around 500,000 people—belonging by construction to households with income from work—will rise above the poverty line. The RSA is expected to reduce the number of poor people by 6%, but the number of poor people living in a household where at least one person is in work should fall by 11%. The impact should be particularly pronounced for single-parent families or couples with one working partner and a child. The RSA will also serve to reduce the "intensity" of poverty and hence improve the condition of poor people.

The RSA will reduce the extent of poverty among people in work by significantly reducing the quantity of work (measured by a unit of time paid at the SMIC rate, or at an hourly wage rate) needed to cross the poverty threshold for single persons (with or without children), and for couples with one working partner. Before the RSA, for example, a couple with one working partner but no child was obliged to occupy a job paid at 1.35 times the hourly SMIC rate, full time, in order to exceed the poverty threshold. With the RSA, the necessary wage is 1.15 times the hourly SMIC rate (see Chart 6). On the other hand, the impact is limited for couples where both partners work.

Despite the improvement brought about by the RSA, working full-time at the hourly SMIC rate year-round will still be insufficient to enable a couple where only one adult is in work to rise above the poverty threshold, even with no children.

Table 2: Share of households whose disposable income will rise as a result of the RSA ("winners") and amount of additional income, depending on family configuration

	Share of winners in sub-population (in %)	Average additional disposable income (in €/month)
Single persons	5	70
of which, in work	10	70
Single-parent families	25	80
of which, in work	32	80
Couples with no children	3	65
of which, one partner working	7	80
of which, both partners working	6	55
Couples with 1 or more children	12	95
of which, one partner working	26	115
of which, both partners working	8	75
<b>All</b>	<b>8</b>	<b>85</b>

Interpretation: 5% of single persons will see a rise in their disposable income as a result of the RSA, 10% if these are limited solely to those with income from work. Their disposable income will rise by €70 per month, on average.

Source: Saphir model, 2008 legislation (with RSA), DGTPE.

Table 3: Poverty rate and poverty intensity with and without RSA

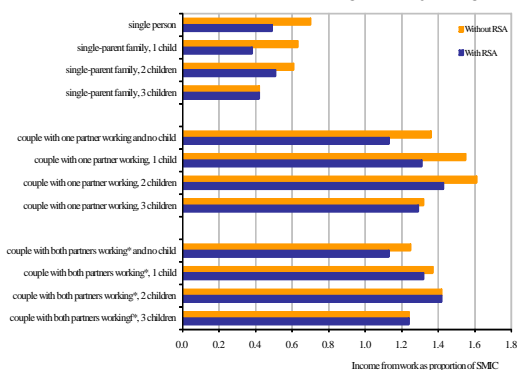
	Poverty rate (in %)		Poverty intensity among persistently poor people* (in %)	
	Without RSA	With RSA	Without RSA	With RSA
<b>All</b>	<b>12.8</b>	<b>12.0</b>	<b>19.5</b>	<b>16.6</b>
of which, households with at least one person in work	9.7	8.7	18.0	13.5
of which, single persons in work	12.4	11.1	28.2	20.4
of which, single-parent families in work	18.2	15.2	18.4	12.9
of which, couples with one working partner and no child	10.6	9.6	17.7	15.3
of which, couples with both partners working and no child	2.2	2.0	14.2	13.8
of which, couples with one partner working and 1 or more children	25.3	22.9	17.0	12.5
of which, couples with both partners working and 1 or more children	3.6	3.2	13.6	9.9

\* Poverty intensity is defined as the gap between the poverty threshold and median living standard of poor people relative to the poverty threshold. The higher this indicator, the more intense poverty is said to be.

Source: Saphir model, 2008 legislation (with RSA), DGTPE

(9) The poverty rate calculated by Saphir (12.8%) differs from the one calculated by INSEE (13.2% in 2006). There are several reasons for this, including date, scope, and income taken into account in calculating disposable income. The poverty rate with the RSA corresponds to the proportion of people whose income, including the RSA, is less than the poverty threshold in the RSA's absence.

Chart 6: Income from work needed to exceed the poverty threshold according to family configuration



\*Partner's wage set at 1 x SMIC. The chart plots the sum of the two partners' wages.

Note: The 2009 poverty threshold is estimated by adjusting the 2006 threshold calculated by INSEE for inflation.

Interpretation: With the RSA, a single person can escape poverty with income from work equal to 0.5 SMIC, versus 0.7 previously.

Source: Paris mock-up, 2009 legislation, DGTPE

### 3.3 The RSA boosts the permanent financial gain from returning to work

#### • Increased financial gains

The monetary gain from working rises steeply with the RSA, especially for people returning to part-time working. Couples with one partner working and single-parent families, which saw relatively weak gains from working under the old system, now see a significant rise in their disposable income on their return to work. On the other hand, the gain in disposable income when the second partner returns to work is small; this is the corollary to the distinct rise in disposable income for couples with one partner working receiving the RSA. While the incentive to participate in the labour market is substantially greater, the gain from switching from part-time to full-time work, on the other hand, is less than under the previous situation (see Chart 8).

Table 4: Increase in disposable income resulting from return to work, before and after the RSA (in €/month)

Household circumstances		Return to work on...					
		... quarter time		... half time		... full time	
		Without RSA	With RSA	Without RSA	With RSA	Without RSA	With RSA
Single person		0	161	130	262	458	458
Single-parent family	1 child	0	161	110	322	488	497
	2 children	0	161	213	322	612	612
	3 children	100	161	442	442	879	879
Jobless couple, then one partner in work	no child	0	161	78	322	344	439
	1 child	0	161	81	322	299	502
	2 children	0	161	84	322	311	523
	3 children	0	161	87	322	486	556
Couple with one, then both partners working*	no child	152	129	429	334	899	804
	1 child	165	67	396	200	815	612
	2 children	174	76	415	203	764	552
	3 children	194	124	441	370	815	744

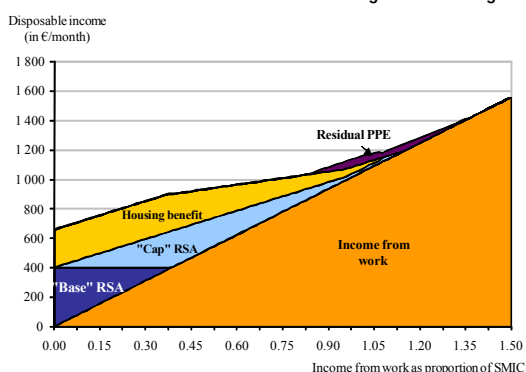
Note: Excluding temporary mechanisms (e.g. the work incentive scheme), excluding related entitlements and local benefits. Children are assumed to be over 3 and single-parent families ineligible for the API. Households are assumed to be living in rented accommodation in zone 2.

\* Partner's wage fixed at 1 full-time SMIC.

Interpretation: The disposable income of a single person returning to half-time work rose by €130/month before the RSA; it will now rise by €262.

Source: Paris mock-up, 2009 legislation, DGTPE

Chart 7: Test case-breakdown of the disposable income of a single person eligible for housing benefit



Note: Case of a single person eligible for housing benefit in zone 2.

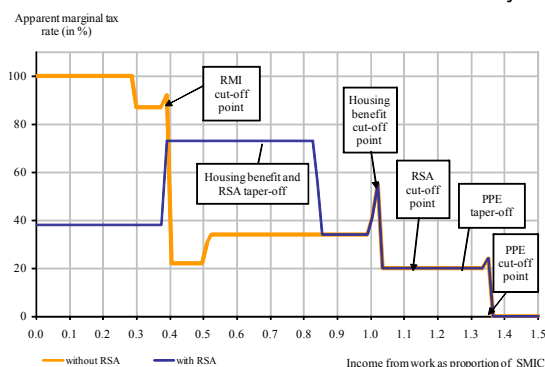
Interpretation: A single person with no income from work will receive €400 under "base" RSA and €260 in housing benefit per month.

Source: Paris mock-up, 2009 legislation, DGTPE

#### • But the complex articulation between the different benefits blunts the incentives

The degressive design of the new benefit (permitting accumulation with up to 62% of income from work), contrasting with the entirely differentiated nature of the RMI, boosts the financial gain from working. This is a significant advance relative to the RMI system, in which returning to work on very short working hours did not always lead to a rise in disposable income in the long run. However, disposable income does not rise completely in line with income from work. This is because, as with the RMI, housing benefits (AL) are paid "on top" of the RSA, with only a flat-rate housing benefit being included in the beneficiary's means base, independently on income from work (see Chart 7). This makes the RSA "doubly degressive" for the income bracket where the RSA and housing benefits taper off simultaneously: for this portion of the mechanism, an increase in income from work of 100 leads to a rise in disposable income of only 27 (100-38 due to the RSA, and 35 due to housing benefit).

**Chart 8: Apparent marginal tax rate, with and without RSA, resulting from the PPE and welfare benefits system**



Note: The apparent marginal tax rate of  $x\%$  implies that a €1 increase in income from work leads to a € $(1-x)$  increase in disposable income. Tax (ex. PPE) is not shown in this chart for the sake of simplicity. Case of a single person eligible for housing benefit.

Interpretation: With the RSA, the marginal tax rate is 38% up to 0.3 SMIC, versus 100% under the old system.

Source: Paris mock-up, 2009 legislation, DGTPE

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Twenty years after the introduction of the RMI, the RSA represents a far-reaching change in the system of welfare benefits. In the short run, in very tough economic conditions and with a severe labour market downturn, it is expected to play a vital role in supporting the incomes of the least well-off workers. In the longer run, over and beyond the financial gain provided by the reform, its ability to act as an incentive to return to work will depend on the greater support given to

beneficiaries, and on the extent to which it removes non-monetary obstacles to a return to work.

Evaluation of this new social policy instrument will play a key role, in order to guide possible adjustments to the system, especially given the considerable amounts of funding being put aside to finance it<sup>10</sup>. This evaluation must focus on the system's specific objectives, namely poverty reduction, work incentives and simplification. But it should also consider possible undesired side effects such as holding down wages, encouraging people to work part time, as well as its impact on couples and work (incentive or disincentive for both partners to work) and hence on women working.

The RSA's articulation with the other instruments of social and tax policy could also be examined in greater depth. Three lines of investigation come to mind immediately:

- its articulation with the PPE, and modifications to their respective assessment scales;
- its articulation with housing benefits, as part of the process of streamlining France's system of allowances and improving its incentives;
- finally, its articulation with the other benefits schemes (e.g. unemployment insurance, or the Allocation de Solidarité Spécifique-specific welfare benefit).

Clément BOURGEOIS,  
Chloé TAVAN

(10) The extra cost entailed by the RSA will be financed by a 1.1% levy on income from capital.

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