CHAPTER 7: LESSONS FROM OTHER COUNTRIES

The VfM and policy review manual suggests that the experience in other countries might be considered as part of the review process. The aim of Chapter 7 is to (i) show spending on child income supports in Ireland in an international context (Section 7.1); (ii) illustrate some specific features of the system in other countries such as age and payment rates (Section 7.2); (ii) show comparative outcomes for poverty relative to outputs in terms of levels of spending (Section 7.3); and (iv) outline the broad direction of reforms internationally as well as in selected countries (Section 7.4).

7.1 CIS spending in an international context

Almost all developed countries, and indeed an increasing number of less-developed countries, provide financial supports for families with children. The range of systems varies enormously in terms of their absolute value to families, whether they are targeted or universal or, indeed, whether they are delivered through the income support system or the taxation system.

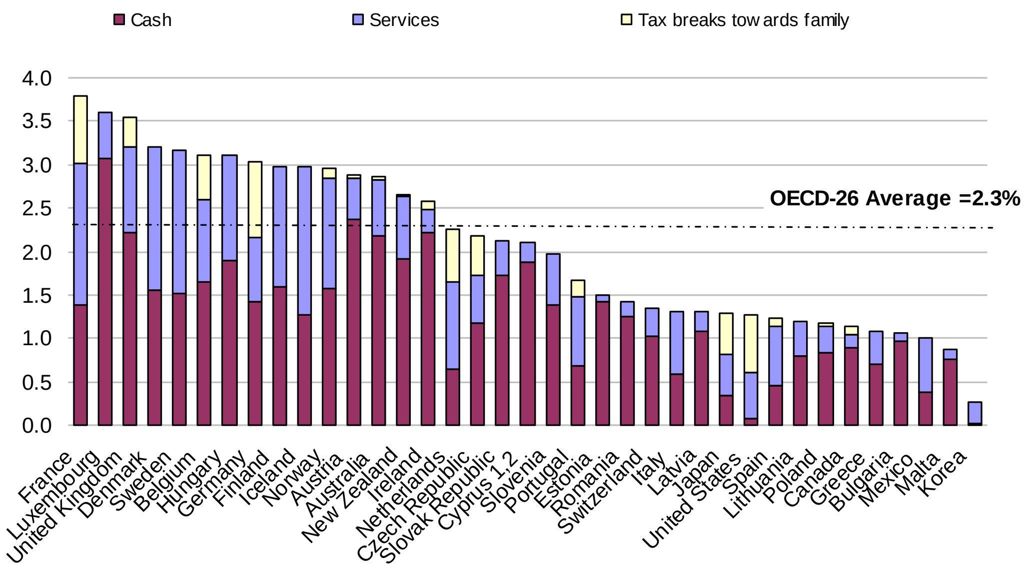
The growth of family benefits programmes in most developed countries can be traced to the post World War II period. These programmes sought to address the needs associated with the prevailing family structures at the time. As outlined in Chapter 2, when Children's Allowance was introduced in Ireland in 1944 its stated objective was to *"to provide means of assisting in the alleviation of want in large families",* thus reflecting the prevailing family structure and norms in Ireland at that time. However, other chapters have shown that CIS programmes here have not remained static but have been modified over the decades in response to changing social and economic circumstances and different social needs. This is also the case in other countries but it can also be said that there is a degree of similarity in the aim of CIS programmes – to improve child well being as a whole and create an environment where parents can take up employment and balance those commitments with family life.

As part of its family policy database,[140] the OECD publishes a series of internationally comparable indicators related to family policies including tax and transfer programmes.

[140] http://www.oecd.org/document/4/0,3343,en_2649_34819_37836996_1_1_1_1,00.html

While not strictly comparable with the definition of child income support used earlier, these indicators show that spending in Ireland on child income support programmes is relatively high in international terms. Spending on cash support in 2005 was estimated at 2.2% of GDP compared with an average of 1.3% of GDP for the OECD-26. Nonetheless total spending on family benefits in Ireland at 2.6% of GDP was only slightly above the OECD-26 average of 2.3% because of relatively low Irish spending on services and tax-exemptions (e.g. income from child benefits that is not included in the tax base). Irish spending on family benefit services (e.g. childcare and early education facilities) amounted to only 0.3% of GDP compared with the OECD-26 average of 0.8% of GDP and is a lot lower than other EC-15 countries such as France, Denmark and Sweden (1.6%), UK (1.0%) and Germany (0.7%). Ireland's spending on cash supports of 2.2% was similar to that in the UK and Australia despite very different benefit structures.

Figure 7-1: Public Spending on Family Benefits in OECD countries



7.2 Comparison between specific features

In this section child benefit systems across the OECD are examined under three headings:

The types of public spending on family benefits which form the basis of OECD analysis broadly cover three areas: child related cash transfers to families with children, public spending on services for families with children and financial support for families through the tax system. See also Box 3-1.

- whether the benefit is provided on a universal or tested basis;
- the age up to which child payments are made;
- the level of payment.

7.2.1 Universal or income tested primary family benefit

An analysis of MISSOC sources identifies the countries that operate a universal system as opposed to an income tested one. As outlined in Table 7-1 most OECD countries choose a universal system. For the purposes of this analysis the following definitions apply:

- ***Universal Child Benefits:*** *(also referred to as family benefits, or as child or family allowances)****:*** cash payments to families with children regardless of parental income. The benefit amount may vary by the ordinal position of the child, the age of the child, and/or the employment status of the parent.

- ***Income-Related Child Benefits*****:** eligibility and benefit levels vary by income and are usually limited to families with children whose income is below a certain amount.

Table 7-1: Countries classified by whether they have a means test for the primary family benefit & maximum benefit for 1 child as % of average wage equivalent

Max Benefit for one child as % Average Wage equivalent	*Number of countries with no means or income test for primary family benefit*	*Countries with means or income test*
0 % of AW	1 (Greece)	
1 % of AW		2 (Japan, Spain)
2 % of AW	3 (Cyprus, France, Latvia)	2 (Poland, Portugal)
3 % of AW	9 (Belgium, Estonia, Finland, Lithuania, Netherlands, Norway, Slovak Rep, Switzerland, UK)	4 (Czech Rep, Canada, Portugal, USA)
4 % of AW	4 (Austria, Denmark, Germany, Sweden)	
5 % of AW		2 (Italy, Iceland)
6 % of AW	2 (Luxembourg, **Ireland**)	
7 % of AW	1 (Hungary)	
8 % of AW		2 (Australia, Slovenia)
9 % of AW		1 (Malta)
10% of AW		1 (New Zealand)
Total count	20	14

Note: Data for 2007; No data for Korea or Turkey; A number of countries have supplementary payments. In Australia, Canada, Germany and New Zealand, transfers may take the form of refundable tax credits which are akin to cash benefits as they are not limited to income tax amounts.
Source: derived from OECD (2008) PF3.1 Family Cash Benefits

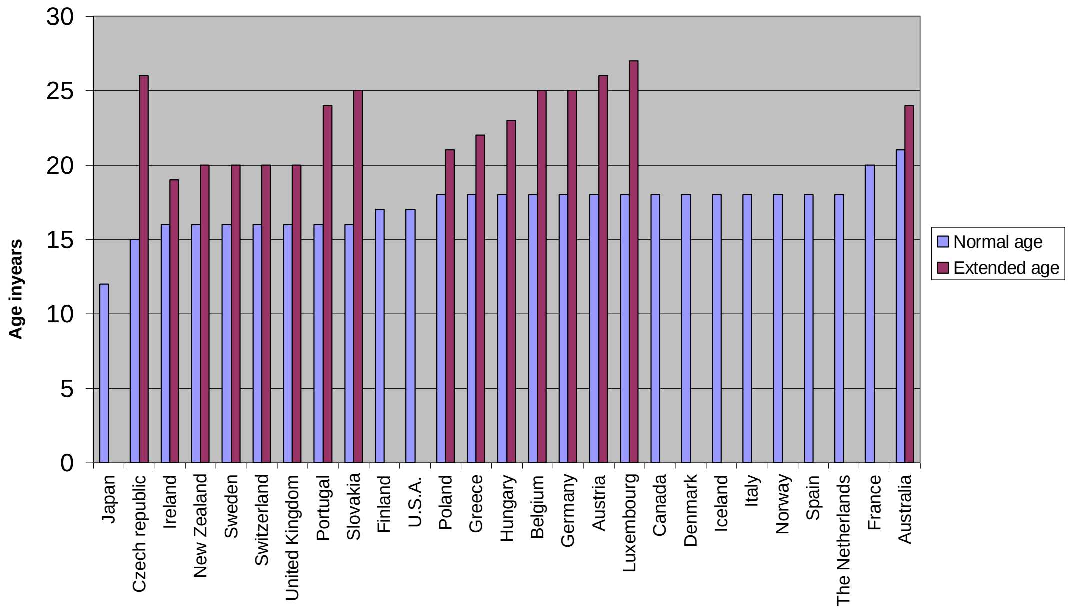
As can be seen from Table 7-1, of the 34 countries examined 20, including Ireland, operate a universal system and 14 countries apply a means/income test. However some countries with a universal system also operate a degree of income testing e.g. in Iceland, while not indicated in the above Table, a basic allowance is paid for all children under age of 7 which is not linked to income. In 13 of the 20 countries which have no means or income test for the primary family benefit, the level of benefit is the equivalent of 3-4 per cent of the average wage. The highest level of universal payments, at 7% of the average wage, is found in Hungary. The amount of payment for Ireland at 6% of the average production wage[141] is therefore higher than the international average. The most common level of universal support for one child was somewhat below this at between 3% and 4% of average earnings (10 countries).

7.2.2 Age up to which the payment is made

There is little variation in the normal upper age level regarding the payment of benefit. All the countries in the chart below (except Japan – 12 years old) have similar upper age levels ranging from 15 – 20 years old. The normal age for 14 of the 27 countries is 18 years and 7 of the countries have a normal age of 16 years. The average for all countries is 17.24 years old, slightly above the normal age in Ireland - 16 years of age. With regard to the extended age, 11 of the 27 countries do not provide such a facility. In the remaining 16 countries the extended age ranges from 19 to 27 years of age. The average for all countries is 22.73 years old. The normal extended age in Ireland is 18 years of age.

[141] The OECD calculation of Average Production Worker is somewhat different from the earlier indicator based on industrial earnings. That having been said, the OECD's calculation for Ireland (6%) is comparable to this review estimates for 2005 using Gross Industrial Earnings (5.6% for lower CB rate).

Figure 7-2: Normal and extended age for child payment in OECD countries



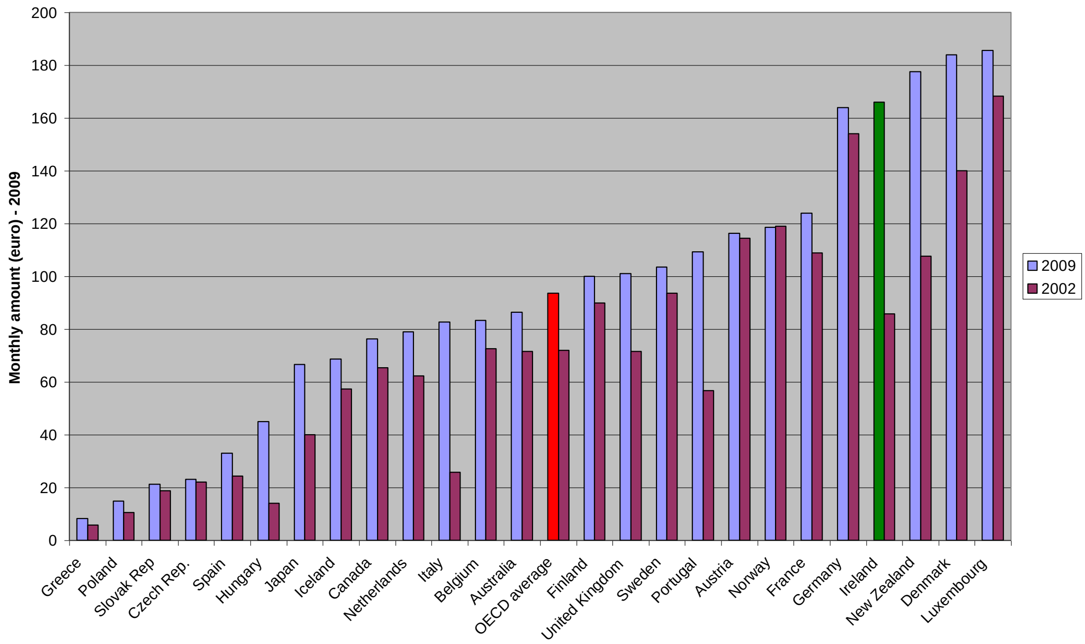
Source date: Missoc situation on 01/07/2009 regarding CB; Except: Canada – source date – Canada Revenue Agency - http://www.cra-arc.gc.ca/bnfts/cctb/fq_qlfyng-eng.html; Japan – source data 2007 - Ministry of Health, Labour of Japan - www.mhlw.go.jp/english/topics/child-support/index.html;

Note: no data for Korea and Turkey.

7.2.3 Level of payment – nominal

The monthly amount a family receives varies from country to country depending on their economic conditions and the importance they place on child benefit payments. There are some developed countries that have a low CB rate, due to the fact that they operate other child related schemes and/or they see CB more as a symbolic payment. Looking at Ireland, we can see that its CB rates are relatively high among OECD countries. The average CB rate across OECD countries is €93.52 per month. Ireland is well above this average with €166 per month. The most "generous" CB rates are in Luxembourg, Demark and New Zealand, which are even further above the average rate. Comparative data from 2002 to 2009 shows that, within the OECD countries, CB rates grew very quickly in Ireland during these years. In 2002 Ireland was close to the OECD average (€71.99 per month) with €85.7 per month, but by 2009, it had almost doubled, and was well above the OECD average (€93.52 per month) with €166 per month.

Figure 7-3: Universal child payment rates in OECD countries – 2009 and 2002



Source: derived from MISSOC data base

Note: Insufficient data for Turkey and Korea; USA's CB system depends from state to state; Switzerland rates varies per canton. Australia, Canada, Czech Rep., Iceland, Italy, Japan, New Zeeland, Poland, Portugal, and Spain – they don't have a universal system - in the table above we have an average rate for these countries. Canada and New Zealand data is from 2008. Denmark, Japan, Poland and The Netherlands rates varies with the child age - in the table above we have an average rate for these countries. France doesn't have CB for the first child; rate for the 2nd child;

7.3 Child poverty outcomes

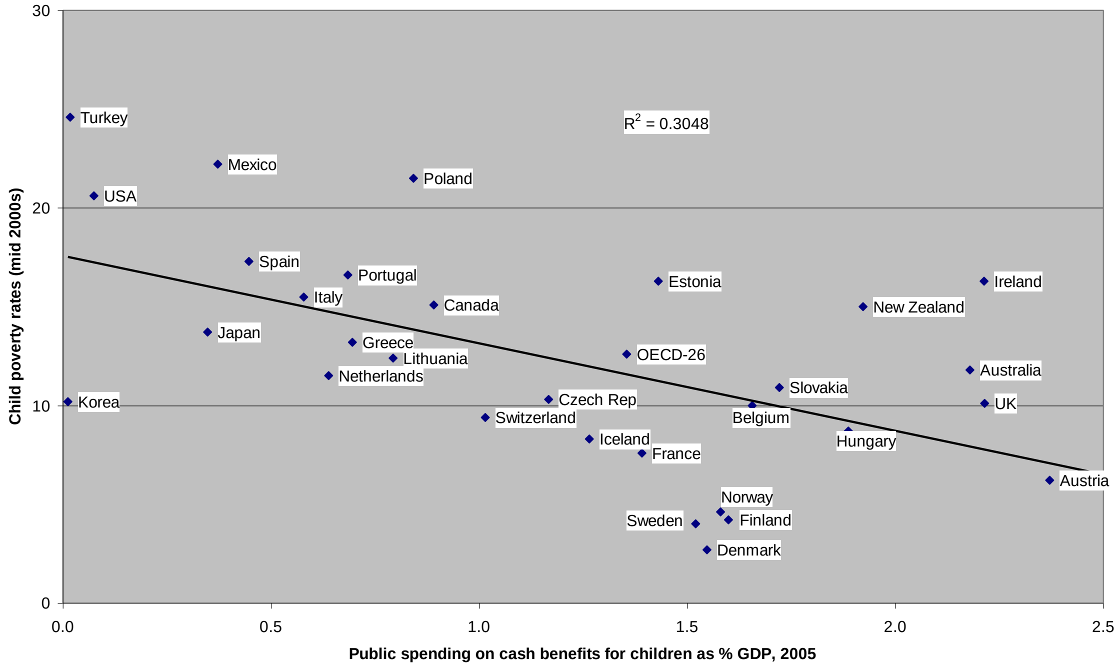
The risk of poverty is used internationally as key indicator in assessing the effectiveness of anti-poverty measures.

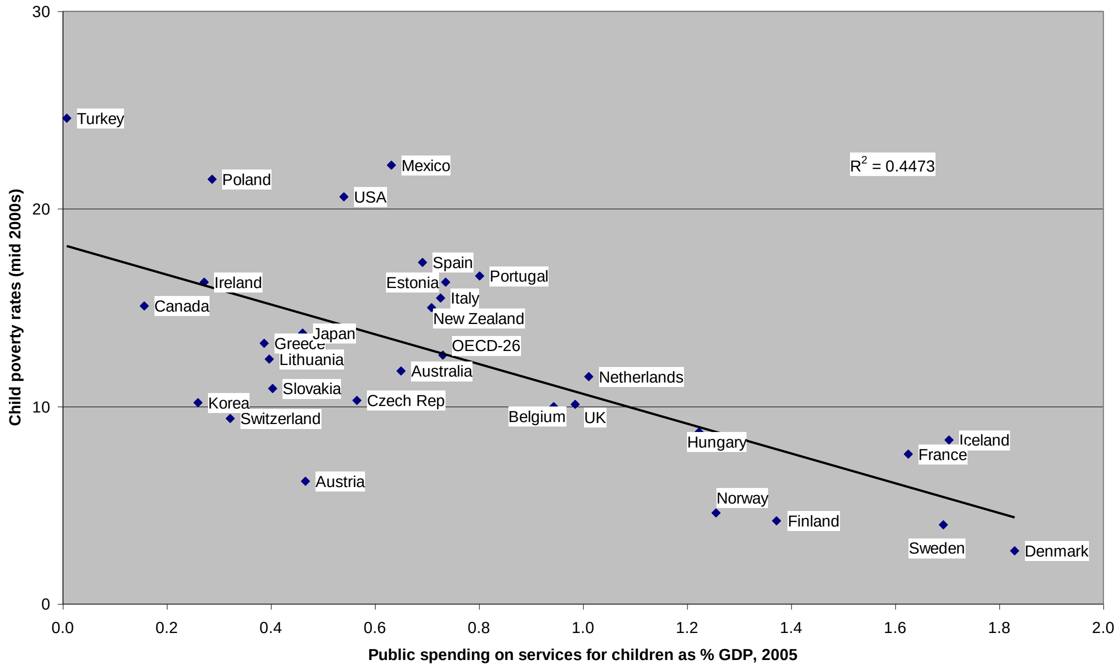
Figure7-4 (a) shows child poverty rates across OECD countries by plotting outcomes in the mid-2000s against spending on (a) cash benefits and (b) services. The data show that the child poverty rate in Ireland was higher than the OECD average despite significantly higher levels of spending on cash benefits. The data confirms the existence of a positive link between spending and poverty outcomes although there are considerable variations in the nature of this link for individual countries. The Irish experience compares for instance with the situation in the UK and Australia where better outcomes are obtained for similar levels of spending and with the Nordic countries where poverty rates are lower notwithstanding lower spending (bearing in mind that the data for Ireland is somewhat distorted through the inclusion of payments to lone parents).

Figure 7-4(b) shows that this relationship also exists for services and that the experience in Ireland is close to that which might be expected from international experience. The Nordic countries spend significantly more on child services, particularly on supports for families with young children with well paid parental leave and a high provision of childcare services.[142]

[142] Marie-Thérèse Letablier, Angela Luci, Antoine Math, and Olivier Thévenon, *The costs of raising children and the effectiveness of policies to support parenthood in European countries: a Literature Review*, p. 10.

Figure 7-4: Public spending on (a) cash benefits and (b) services versus child poverty outcomes - mid 2000s





7.4 Recent reforms in child payments internationally

While there may be similarities in the aims of programmes, the approaches adopted to give effect to these aims differ across countries. In some countries greater emphasis is placed on targeted approaches, while in others CIS objectives are pursued through universal provision. Within these two broad approaches, programmes differences in the objectives being pursued can be discerned. The International Social Security Association (ISSA)[143] highlights a number of common policy roles and objectives among programmes providing benefits to families which are relevant in the context of this review. Overall, ISSA concludes that there is evidence that family benefits programmes are being designed with a view to being more proactive in the pursuit of measurable policy outcomes.

- Family benefits programmes are increasingly a major element within integrated institutional approaches designed, in the immediate term, to alleviate poverty amongst families and, in the longer term, to realise improved indicators of health and educational attainment amongst children and, as such, are a proactive tool for investing in human capital.
- Family benefit programmes are seeking to better reconcile the pressures of family and work life, not least to encourage higher levels of labour market activity amongst the working population.
- Family benefit programmes are facilitating a greater degree of gender equity in the sharing of childcare responsibilities between the mother and the father.
- Family benefit programmes are offering greater support to families who wish to have children.
- Conditional family benefits programmes seek to influence adults to alter behaviour patterns, essentially to better support the longer-term interests of their children.
- More and more, the capacities of cash transfers to support children, parents and the senior generation are viewed positively, with the potential to help combat the growth of social exclusion and to support often fragile and atypical family/household units.

[143] International Social Security Association, *Social Policy Highlight,* Issue No. 14, June 2010.

7.4.1 Refundable tax credit approaches adopted in some countries

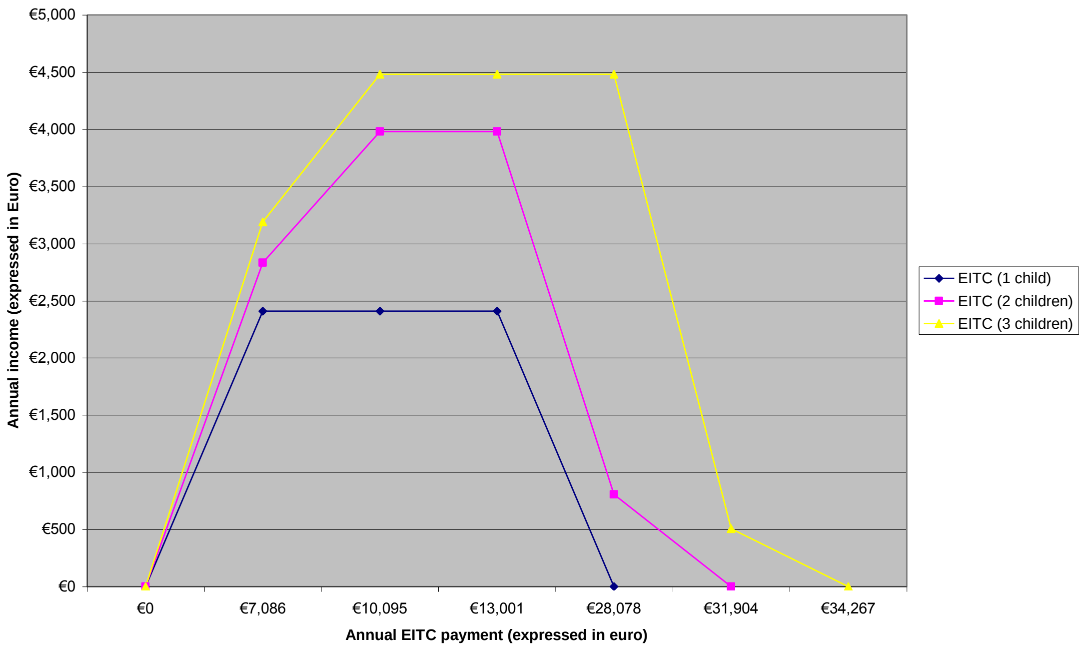
As outlined above a number of countries have placed greater emphasis on targeted approaches. In this regard, it is worth considering the approaches adopted by some countries in structuring child income support by means of tax credits. Of particular interest are the systems operated in the US, Australia and the UK.

United States

The US operates a refundable tax credit, known as the Earned Income Tax Credit (EIFT or EIC), which is means tested and designed to provide an incentive to work for low to moderate income families. The amount of the credit varies depending on the level of income and the number of qualifying children being supported. There are relationship, age and residency requirements to be met in order to be considered as a qualified child. Workers without children can also qualify for EITC if they meet the income and other requirements. The credit is characterised by a three-stage structure that consists of phase-in, plateau and phase-out. Figure 7-5 illustrates the amount of the credit depending on family size and income based on 2009 tax year (in euro equivalent).

This means, for example, that for a person with two qualifying children, the credit is equal to 40% of the first $12,570 (€ 10,095) of earned income, reaching a plateau of $5,028 and staying there until earnings increase beyond $16,420 (€13,001), at which point the credit begins to phase out at 21.06%, reaching zero as earnings pass $40,295 (€31,904). The limits are higher for married couples making a joint tax return (filing jointly) and the plateaus travel $5,000 (€4,065) further.

Figure 7-5: Illustration of calculation of EITC for incomes and family size (2009)



Australia

Another international example is provided by Australia's Family Tax Benefit. Australia does not have a universal Child Benefit payment. Family Tax Benefit comprises two Parts – Part A (for parents or carers to help with the cost of raising children) and Part B (which gives extra assistance to single-parent families and two-parent families with one main income, where one parent chooses to stay at home or balance some paid work with caring for children). Entitlement to the benefit is based on the family's taxable income in the given financial year. Payment can be made after a person has lodged a tax return or in advance based on an estimate of taxable income during the financial year, with a reconciliation process at the end of the financial year. The operation of Australia's Family Tax Credit is illustrated in Figure 7-6 and Figure 7-7.[144]

[144] *Ireland's Child Income Supports: The Case for a New Form of Targeting,* p. 65.

Figure 7-6: Australia – family tax credit A, 2005

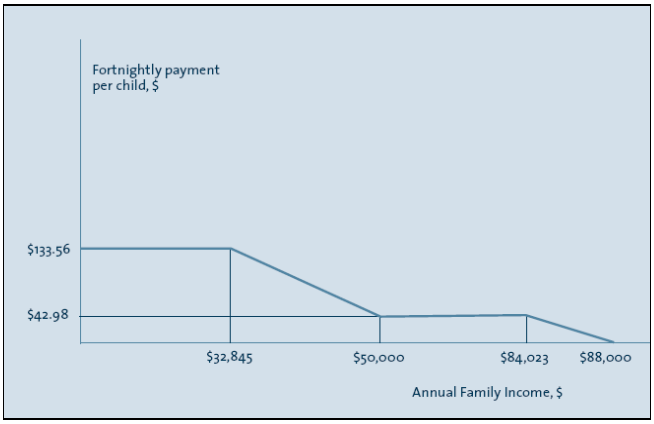
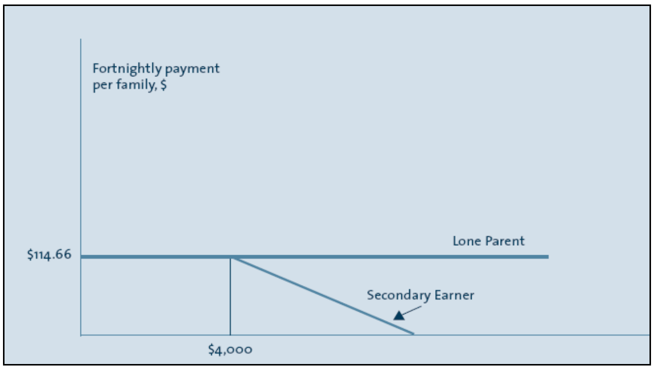


Figure 7-7: Australia - family tax credit B, 2005



United Kingdom

Child Tax Credit (CTC) in the UK provides further insight into the operation and structure of a tax credit/refund based system of child income support. Child Tax Credit (CTC) was introduced in the UK in April 2003 at the same time as a Working Tax Credit (WTC). These two credits replaced the in-work Working Family Tax Credit (WFTC) benefit. Ireland's FIS is very similar to the UK's former WFTC. In the context of this review an overview of both of these credits is relevant. CTC, which is payable in addition to CB, is based on income and is payable whether or not a person is in work. All families with children, with an income of up to £58,000 (€67,200) a year (or up to £66,000 (€76,500) a year if there is a child under 1 year of age) can claim. CTC contains several elements. Table 7-2 shows the maximum value of each element but the amount a person receives depends on income.

Table 7-2: Components of child tax credit (2009-2010)

Element	**Annual Amount 2009-2010**
Family element (one per family)	£545 (€632)
Family element , baby addition (paid to families with a child under 1 year in addition to the family element	£545 (€632)
Child element (including those under 1 year old, paid for each child)	£2,235 (€2,590)
Disabled child element (paid in addition to the child element	£2,670 (€3,094)
Severely disabled child element (paid in addition to the child and disability elements	£1,075 (€1,245)

Based on the tax year 2009-2010 a person with two children and an annual income of £15,000, (€17,400) but ineligible for working tax credit, could receive an annual child tax credit of £5,020 (€5,819) - equivalent to £96.32 (€111.65) a week. WTC is a payment to top up the earnings of low paid working people (whether employed or self-employed), including those who do not have children. Like CTC, WTC contains several elements and includes additional amounts in respect, for instance, of the cost of 'registered ' or 'approved' childcare – up to 80% of eligible childcare costs are covered up to a maximum amount depending on the number of children. The childcare element is worth up to an extra £140 (€162) a week (max £175 x 80%) for families with one child, and £240 (€278) a week (max £300 x 80%) for families with two or more children.

WTC is paid in addition to CTC. Based on the tax year 2009-2010 a lone parent or a couple with two children, working 30 hours per week and with an income of £10,000 (€11,590) a year, could receive an annual tax credit of £8,155 (€9,453). The operation of the UK's Child Tax Credit is illustrated in Figure 7-8.

Figure 7-8: UK - Annual income support for first child (2010)

In October 2010 the new UK Coalition Government announced, as part of their multi-annual Spending Review, changes to their Child Benefit scheme. Like Ireland, the UK has a combination of universal and selective programmes for families with children. Under current arrangements, UK Child Benefit is a universal payment and is paid up to the age of 19 years for those in full-time education, or 16 in other cases and is paid at the rate of £20.30 (€23.53) a week for the first child and £13.40 (€15.53) for other children – meaning that a family with 3 children receives almost £2,500 (€2,898) per year. The Spending Review marks a departure from the principle of universality in terms of Child Benefit by withdrawing the payment from families with a higher rate taxpayer from January 2013 (i.e. those who pay tax at a rate of 40 or 50 per cent, the cut off point being £44,000 (€51,000) a year). In effect the UK's measure is to means test Child Benefit through the income tax system. This measure is designed to save £2.5 billion a year by 2014-15. It is envisaged that some of the savings will be used to fund above indexation increases in the Child Tax Credit for low income families during the period 2011 - 2013. The UK Treasury has determined that these measures would have no measurable impact on child poverty rates based on analysis from their tax-benefit microsimulation model.[145]

The implications of this approach are somewhat unclear, although the UK's Institute of Fiscal Studies have identified a number of issues including the withdrawal of Child Benefit where an individual in a couple is a higher-rate taxpayer, regardless of the joint income of the couple, and the impact on incentives for families with children. The Institute suggested that the incentives issue was noteworthy, particularly in cases where adults with children whose income places them below the higher-rate income tax threshold might find themselves considerably worse off from a small rise in income. How these technical issues are dealt with might account for the long lead in time for the implementation of these measures.[146]

Finding 7-1: Most countries provide financial support to families and pursue similar objectives, but approaches can vary

Almost all countries provide financial support to families. While differences in approaches can be discerned, the policy objectives being pursued are similar. Financial support to families has developed over time and reflects changing economic and social conditions. Analysis shows that well over half of OECD countries operate a universal system. There is little variation in the normal age level to which benefit is paid. There are variations in the amount payable across countries. Ireland's rate of payment is relatively high and rose significantly in the period from 2002 to 2009. Despite higher spending, child poverty rates in Ireland are relatively high making Ireland an outlier compared to some countries, particularly the Nordic States. Spending on services is important and has a positive impact on poverty outcomes.

7.5 Summary

This chapter provided an overview of the experience of other countries in terms of spending on child income supports. Section 7.1 considered CIS spending in an international context and while recognising that there are definitional issues between different states on what child income supports comprises of, Ireland's spending on such programmes is relatively high. Section 7.2 examined child benefit systems across the OECD and showed that there were variations between states in terms of whether benefits were paid on a universal or selective basis, and the level of payment. There was less variation in terms of the age up to which payments were made. Section 7.3 considered child poverty outcomes across the OECD and showed that despite the fact that Ireland spent significantly higher levels of

[145] *Spending Review 2010,* HM Treasury (2010), pp 99 – 98.
[146] http://www.ifs.org.uk/publications/5297 (accessed 29 October, 2010).

spending on cash benefits, the child poverty rate in Ireland was higher than the OECD average. Finally, Section 7.4 looked at some recent reforms in child payments in an international context. The trend towards a greater emphasis on a targeted basis was considered with reference to the tax credit systems as operated in the US, Australia and the UK.