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European Employment Observatory

EEO Review: Adapting unemployment benefit systems to the economic cycle, 2011

The Netherlands

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1. Introduction - Unemployment benefit systems and labour market incentives

In the Netherlands all employees (including civil servants) under the age of 65 are covered by the Unemployment Benefits Act (Werkloosheidswet, WW). If an employee meets the following conditions he/she qualifies for unemployment benefit (WW).

- 1) The employee must have lost at least five working hours (and corresponding wages) per week. Employees working less than 10 hours per week already meet this condition if they lose half or more of their working hours. This means that a dismissal is not necessary in order to receive unemployment benefit.
- 2) The employee has to fulfil the so-called 'weeks' condition: that he/she has worked for at least 26 weeks during a period of 36 weeks.
- 3) The employee is excluded from unemployment benefit if: he/she is entitled to sickness benefit, full disability benefit or maternity leave benefit; is 65 years or older; lives or resides outside the Netherlands (however export of unemployment benefits to other EU Member States is possible if the employee meets the conditions of EU Regulation 883/2003); is imprisoned; is on strike and in several other situations.

The employee has to fulfil certain obligations in order to receive unemployment benefit. He/she must avoid becoming 'culpably' unemployed. If the employee loses his/her working hours due to reasons concerning the employees' behaviour (summary dismissal) or resigns from his/her job without good reason he/she is considered to be unemployed 'culpably'. In this case the benefit will not be paid at all, unless the behaviour of the employee is not considered to be blameworthy. In the latter case the amount of the benefit will be lowered to 35 % of the earned wages for the last 26 weeks. In order to obtain unemployment benefit the employee has to submit a claim to the Public Employment Services (UWV) and register as a jobseeker. An unemployed person under the Dutch unemployment law (WW) has to accept a 'suitable' job - a job is not suitable if the earnings are less than 70 % of the income of the lost job. If the beneficiary does not comply with the unemployment benefit regulations, the UWV is in principle obliged to impose administrative measures such as the entire or partial refusal of the benefit. Moreover, if it is deemed necessary in order to find a new job, an unemployed person also has to take up relevant learning opportunities. However, after the expiration of the entitlement to unemployment benefit the unemployed person may be entitled to a social security benefit paid by the local authorities. In that case he/she has to accept any job available, regardless of how much it pays.

If an employee is entitled to an unemployment benefit he/she receives 70 % of the previous daily wage, with a maximum of 75/70 % of EUR 190.32 per day (for the first two months the percentage is higher at 75 %). The unemployment benefit lasts for at least three months. If a person has received wages for at least 52 days in at least four years out of the five years preceding the year in which he/she became unemployed he/she is entitled to an extension of the benefit up to a maximum of 38 months. This condition is known as the so-called '4 out of 5 requirement'. If the employment history of the person is at least 38 years, the unemployment benefit will last for 38 months; if it is 37 years the benefit will last 37 months, etc.

If an unemployment benefit is less than the so-called social minimum, a person can be entitled to a supplementary benefit under the Supplementary Benefits Act (Toeslagenwet). If a person

is still unemployed after having received the maximum term of unemployment benefit he/she can be entitled to benefits under special schemes for older unemployed persons (depending on the scheme in question, 'older workers' are defined as those over 50 or 60 years old, but younger than 65). Contrary to unemployment benefits these benefits are not salary-related but paid at only 70 % of the so-called social minimum.

Currently, the unemployment benefit system is financed by a premium payment made by employers (4.2 % in 2011). Before 2009, employees also contributed to the system by premium payments related to their wages. However, this was abolished following a tripartite agreement between the government and the social partners, while the premium payments of employers were lowered. In return, the social partners promised a sensible wage development for the year 2009 which would not exceed the wage growth of 2008.

Benefit traps and benefit dependence

Benefit traps do not play a great role in the unemployment scheme and are more likely to be found in the welfare scheme. In order to stimulate the unemployed to accept lower paid jobs there is the so-called 'arrangement for a guaranteed daily wage', which was discussed above.

Taking up low paid or part time work

When a person receiving unemployment benefit finds a new job, the benefit is recalculated. For instance if one has lost 40 working hours and finds a job of 20 working hours the amount of the unemployment benefit will be divided by half. This rule applies even if one starts earning less or more euros per hour than in the job one has lost. If the amount of remaining lost working hours is less than five after accepting a new job, the benefit is terminated, because the loss is no longer at least five hours. However, if a person has not found a new job after having received unemployment benefit for at least one year, the general rule stated above no longer applies. In that case the person is obliged to accept all kinds of jobs regardless of the level and salary of his former job. If this person accepts a new job the benefit is not recalculated according to the general rule but instead 70 % of the earnings of this new job are deducted from his/her unemployment benefit. If this person earns more than 87.5 % of the amount of his unemployment benefit the benefit will be terminated, because according to the general rule a loss of less than five hours is not compensated for and 12.5 % of an unemployment benefit is equal to a loss of five working hours. These special rules for long-term unemployed persons were introduced in order to encourage them (and make it more attractive) to accept lower paid jobs.

Strengths and weaknesses of the Dutch unemployment benefit system

The strength of the Dutch unemployment law is that it is not necessary to be dismissed to claim unemployment benefit, because a loss of at least five working hours (including wages over these hours) is sufficient for entitlement to a benefit. This makes the system generous to employees losing at least five working hours but not their entire job. This system also makes it attractive to accept a part-time job for those who become fully unemployed, because they are still entitled to a recalculated benefit. However, a disadvantage and thus a weakness is that the system of (re)calculating the amount of lost working hours is very complex, because the unemployment rights and claims have to be recalculated per week.

Another strength is that in an economic downturn people with long-lasting unemployment benefit entitlements have ample time to look for a new job. This time is often needed when

there are few vacancies available. It also gives people time to search for quality jobs that meet their skills and competences. In the long run it is thus avoided that the low skilled are pushed out of the labour market by highly skilled people who take over their jobs. At the same time, as stated above, the system does include incentives to take up lower paid jobs after one year of receiving benefits. Moreover, after two months the benefit decreases from 75 % to 70 % of the last earned daily wages, which is a small incentive to return to work quickly. Another advantage is that the system avoids a situation where people with long-term unemployment benefit entitlements make a rapid transition to the social assistance schemes (welfare) of municipalities which pose additional constraints on their capital and household earnings (e.g. savings and owning a house; additional income of a partner).

2. Unemployment benefit reforms during the crisis

The Dutch government only took one crisis-related measure within the scope of the Dutch unemployment benefit system, which was the scheme for part-time unemployment benefit (deeltijd-WW). This scheme was implemented in October 2008. It was a follow-up to the short-time working arrangement, which was used by companies when the crisis first affected the Dutch economy. The part-time unemployment scheme on the one hand aimed at preventing unemployment and on the other hand made sure that companies could retain valuable personnel whom they would need after the crisis. Due to the economic recovery and the declining number of employers in need of part-time unemployment support, the measure ended on 1 July 2011.

Employers wanting to make use of the scheme first needed to reach an agreement on reducing working hours with their employees and with the corresponding employee representatives. This reduction of working hours had to be at least 20 % and at most 50 % of the total working hours of the employee. Employers moreover needed to be aware that the employment contracts of employees in the scheme could not be terminated, including a prohibition on (early) retirement and on letting a temporary employment contract expire. In this respect it is very likely that employers would not have been inclined to let their workers on fixed-term contracts make use of the scheme, as they would probably have wanted to avoid having to extend such contracts.

Employers wanting their personnel to receive part-time unemployment benefits had to use the arrangement for at least 26 weeks. After the scheme ended, workers involved were required to return to working their regular number of hours again for at least 13 weeks. In addition, the employer was required to propose training to his or her employees in order to improve their position in the labour market. Moreover, the employees concerned were able to temporarily work for another employer (seconding employees).

If the employees met all requirements, the Public Employment Service (UWV) provided them with unemployment benefit for the amount of hours by which the working time was reduced against 75 % or 70 % of the last (maximised) daily wage (which is the normal rate). This also meant that employees did not get wages for the hours they did not work. The part-time unemployment benefit scheme assumed that the employee was not entitled to his salary over the lost hours. From a labour law perspective this is a matter of dispute (Boot, 2009; Van Slooten and Verhulp, 2009). According to article 7:628 BW (article 628 Book 7 Civil Code) an employee is still entitled to his full salary if the employer offers him less working hours for

reasons that are at the risk of the employer. Usually the risk of economic decline is considered to be the employers' risk.

Unlike people on the ordinary unemployment benefit system, employees in the part-time unemployment scheme were not required to apply for a new job. However, receiving part-time unemployment benefit had other consequences for the worker. He or she, being on unemployment benefits, made use of the rights to unemployment benefits he/she had built up in the past, i.e. through his/her work history. If the worker were to become unemployed after having been within the part-time unemployment benefit scheme, his or her entitlements could be different than would have been the case without using the part-time unemployment scheme.

Until July 2010, about 90 % of the employees who had been in the part-time unemployment benefit scheme and were no longer in the scheme, had kept their jobs. Between 1 April 2009 and 1 August 2010, the remaining 10 % (a total of 3 751 employees) became unemployed after having been in a part-time unemployment benefit scheme (Ministry of Employment and Social Affairs, 2010).

Over the course of time, the government decided to prolong the scheme for part-time unemployment benefit until the end of June 2011, albeit with some restrictions. New companies were offered the possibility to enter the scheme, however, companies that had already made use of the scheme could not re-apply. The prolonged arrangement was mainly intended to help to avoid problems in sectors with long-term orders. Usually, companies in such sectors, for example the marine engineering sector and construction sector, are only confronted with the effects of the crisis in the longer term, in this case during the second half of 2010. An interim evaluation showed that until April 2010, EUR 276 million was spent on the part-time unemployment benefit scheme. Half of this sum was given to companies in the metal industry. The inflow of new companies and workers in the part-time unemployment scheme has been decreasing since February 2010. The workers in the scheme are mainly aged 31-56 (see Table 1).

Table 1: Number of employees in part-time unemployment benefit scheme (Deeltijd-WW) by age, April 2009-April 2010

	Age 15-31	Age 31-46	Age 46-56	Age 56-65	Total
Total	11 960	30 160	19 060	7 990	69 170

Source: Ministry of Social Affairs and Employment.

The number of participating people in the part-time unemployment benefit scheme has quickly dropped. By December 2010 about 8 500 people were participating in the scheme and in February 2011 this figure dropped to 6 000 (Ministry of Employment and Social Affairs, 2011). The inflow into the scheme also fell significantly. The reason for this decrease is the economic recovery. In total 75 000 people made use of part-time unemployment, of which 62 000 have already left the scheme. A comprehensive evaluation of the costs and benefits of the scheme is expected to be published by the end of 2011.

A survey among employers shows that 14 % of employers have retained superfluous personnel (labour hoarding). The main reasons to do so were preventing the loss of valuable personnel (67 %), high dismissal costs (31 %) and a perceived shortage of labour in the near

future (21 %). About 4 % of these employers used the part-time unemployment benefit scheme to finance labour hoarding, whereas 78 % of employers were familiar with the scheme of part-time unemployment benefit. The reason not to use government provided schemes mentioned most often was that it was not necessary to do so (Intomart, 2010).

3. Reform priorities within the Europe 2020 framework

Plans to strengthen activation policies

In the coalition accord of the current government, the coalition parties agreed not to reform the unemployment benefit system (WW). There are no signs in the present political debate that this view will change in the short run. However the government does intend to integrate three large benefit schemes for people at a greater distance from the labour market, i.e. people facing mental or physical (work) disabilities, often of a young age, and people in receipt of social assistance. The government has planned to create an 'Act Working according to Ability' (WWnv: Wet Werken naar Vermogen), which is intended to be one general scheme instead of the three currently existing schemes for social assistance: general social assistance (WWB), sheltered employment (WSW) and benefits for the young disabled (Wajong). The aim is to increase the labour market participation of people at a distance from the Dutch labour market. However, the integration of the three benefit schemes also entails large budget cuts for reintegration efforts. Budgets for sheltered workplaces will for instance be cut as the government is of the opinion that more people in sheltered workplaces should get a regular job. It remains to be seen if merely cutting budgets will help people into work. The European Commission is sceptical about this in its 2011 recommendations to the Netherlands. Moreover, as of 2012, the government will introduce budget cuts for reintegration tools. The effects will probably have an impact on people furthest from the labour market and people who work while receiving some kind of support, for instance people whose employer receives wage costs subsidies (Divosa, 2010). In particular costly programmes are likely to disappear, such as wage subsidies to compensate for the lower productivity of people with disabilities which have an impact on their work. The CPB (2011) expects a rise of 45 000 people claiming social assistance (WWB), partly due to the integration of the three benefit schemes. This contradicts the aim to increase labour participation and could moreover result in an increase in the number of people or families in poverty.

Additional reforms

No additional reforms are foreseen to improve benefit coverage for those most at risk of unemployment. This is not a topic of discussion in the Netherlands and has not been a topic in the past either. There is no discussion of any additional reforms of the unemployment benefit system either. However, it goes without saying that that the growing number of people in new forms of labour relations, such as fixed-term workers, temporary agency workers and the self-employed, requires a social security system that provides ample security and flexibility to people in such labour relations. Depending on the precise definition, experts calculate that between 17 % and 34 % of the Dutch working population is in some form of non-standard employment contract (Hilbers et al, 2011). The impact this will have on their access to social security and arrangements such as financial support to undertake training and commit to lifelong learning, is a topic that should be seriously taken up by Dutch politics, especially to guarantee sufficient support for younger generations in their working careers (Bekker, to be

published 2011; Chung, Bekker and Houwing, 2011). However, it is unlikely that this topic will be prominent in the next few years.

Adaptation of unemployment benefit systems over the economic cycle

There is no automatic adaptation of the benefit system to the economic cycle, other than that in times of higher unemployment the number of people making use of unemployment benefits tends to grow, whereas less people contribute to the system (financially). Conversely, in prosperous times, the number of contributions grows whereas the number of benefit recipients decreases. Any reforms to the system have to be planned by the government and approved by parliament. What the former government did do in 2008 was to construct 33 mobility centres to help people to make job-to-job transitions and to help the unemployed back to work. This initiative was a direct effect of the crisis and the growing unemployment rates. Although these mobility centres did have some effect, they were also very much related to the already existing activities of the Dutch Public Employment Service (UWV). Currently there is little information on these mobility centres. The low level of attention paid to additional reforms of unemployment benefit schemes may be the effect of the rather low unemployment rates in the Netherlands. Moreover, the unemployment rate has been declining steadily since 2010. Even youth unemployment is low in comparison to other EU countries, at 7.4 % in the first quarter of 2011 (CBS, 2011).

4. Conclusions

In the Netherlands only one measure has been taken within the field of the Dutch unemployment benefit scheme in order to deal with the effects of the economic crisis. This is the part-time unemployment benefit scheme which ran from October 2008 until July 2011. Although the name (part-time unemployment benefit scheme) might be slightly confusing, as the current unemployment scheme already takes account of people losing at least five working hours instead of their entire job, the measure seemed to have some positive effect for some employees and employers. Instead of making a few people redundant, employers could temporarily reduce the working hours of a larger number of employees. So companies could retain skilled people who they needed after the crisis. Nevertheless from a labour law perspective it remains disputable whether the risk of economic decline should belong fully to employers.

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