"la Caixa" Foundation

Inequality and social contract

Outreach Report

Disability, inequality and income redistribution

Comparing the role of cash benefits in Europe

May 2022

TheSocialObservatory

Credits

The Social Observatory of ”la Caixa” Foundation

”la Caixa” Banking Foundation, 2022
Plaza de Weyler, 3
07001 Palma

ISBN 978-84-9900-313-9
(“Inequality and social contract” collection)

Coordination of the work, graphic design and layout:
Knowledge Sharing Network, SL
KSNET

www.ksnet.eu

Proofreading and translation:
Discobole, SL
www.discobole.eu

elobservatoriosocial.fundacionlacaixa.org/en

Research and preparation of report

Elena Bárcena, University of Málaga

Salvador Pérez, University of Málaga

Fernando Morilla, University of Málaga

Curator of the collection:
Luis Ayala, UNED

Scientific committee:
Lidia Brun (ULB), Olga Cantó (UAH), Sara de la Rica (ISEAK), Víctor Lapuente (UG), Marga León (UAB), Jorge Onrubia (UCM), Leire Salazar (UNED)

Table of contents

Abstract

People living in households with at least one member with disability have lower income levels and higher incidence of poverty than the rest of the population. This disability gap tended to widen during the last period of economic recovery in such a way that its structural nature became clear, as well as the fact that people in these households tend to participate less in the recovery than the rest of the population.

This study analyses the extent to which various cash benefits do or do not ensure a level of income that allows disabled households to alleviate their economic vulnerability and risk of poverty. Although cash benefits reduce the incidence and intensity of poverty in Spain, their level of both expenditure and coverage are still far from the levels evident in the compared system.

Main ideas

1

The income of people in disabled households is systematically below that of the rest of the population.

2

The average amount of disability cash benefits in Spain helps to lift them above the poverty line, but these benefits only reach one in four people with disabilities.

3

The poverty rate of people in disabled households increased by 4.5 percentage points between 2012 and 2018, while that of the rest of the population decreased.

4

The impact of disability cash benefits on income has tended to rise in Spain since 2007, from an increase in income of 8.5% in 2007 to an increase of 16.8% in 2018.

5

Although there has been a greater reduction in the poverty rate stemming from disability cash benefits over the past decade (even topping 10 percentage points), the disability poverty gap has widened.

6

Disability cash benefits in Spain have reduced poverty less than in Sweden or Denmark, but more than in France or Portugal.

7

Public spending on disability benefits in Spain (1.6% of GDP) is just over a third of that in Denmark and just over half of that in Sweden.

1 The income of people with disabilities is systematically below that of the rest of the population

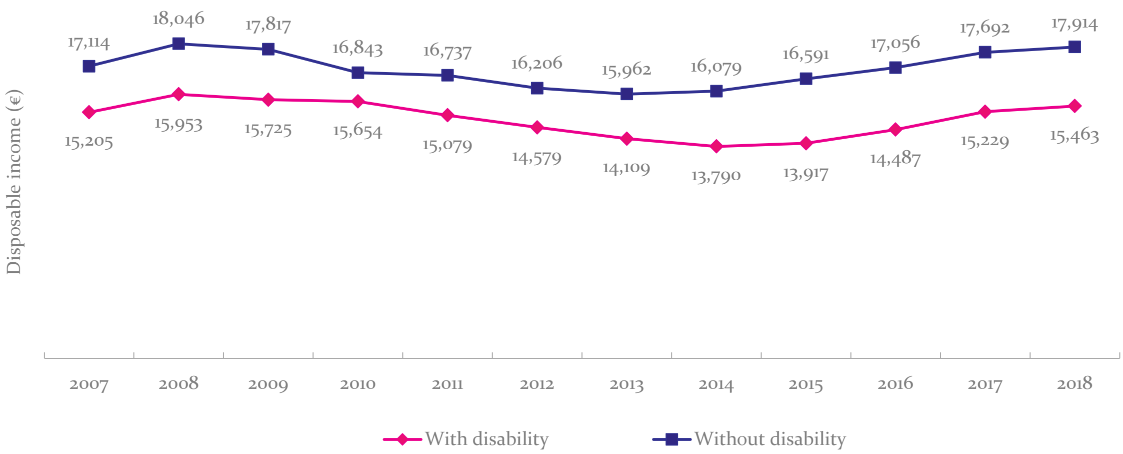
It is calculated that around 18% of people in Spain live in households with a disabled person. Given that disability affects a very significant part of the population, its effects on the well-being of households are of great interest.

Disability affects people's well-being from a financial point of view, as it makes it more difficult for them to access a sufficient level of income to meet their needs. People with disabilities also have higher costs to adapt their daily environment and activities to living conditions that are better suited to their needs. These limitations have an impact at the household level, affecting both people with disabilities and those living with them.

The average income of people in disabled households in Spain remained below that of the rest of the population between 2007 and 2018, although the size of the difference varied. The income gap decreased slightly during the period when the economic situation was more adverse and increased at the onset of economic recovery.

Figure 1: The income of people in disabled households in Spain remains below that of the rest of the population

Average disposable income in euros of people in disabled and non-disabled households in Spain, 2007-2018



Note: *disposable income is the total income received by households during the period under review, including all social cash benefits net of taxes and social security contributions. Disabled households are those with a member with a disability aged 16-64.*

Source: compiled by the authors based on data from the EU-SILC, 2008-2019.

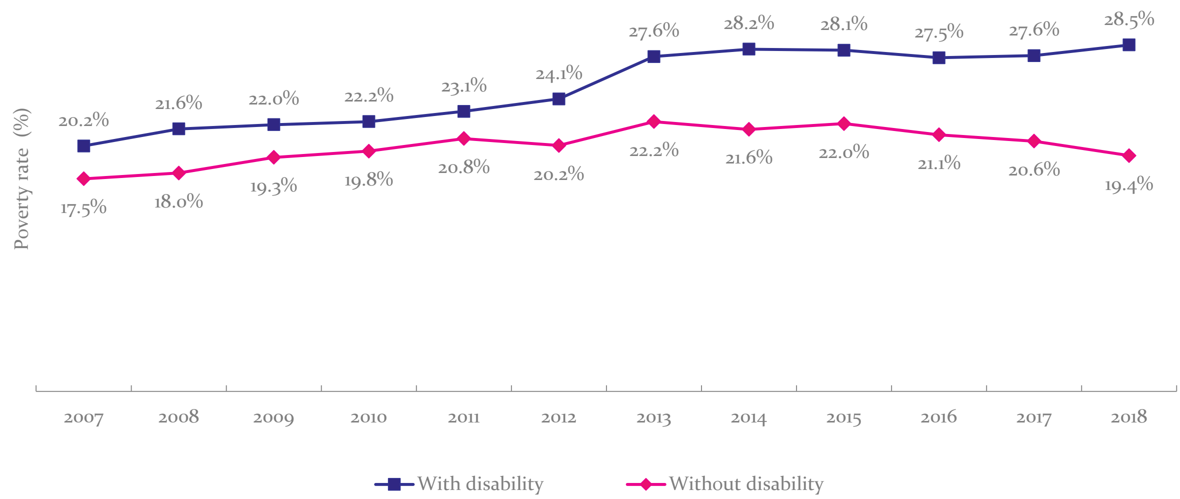
2 The poverty rate of people in disabled households increased between 2012 and 2018, while that of the rest of the population decreased

Some 28.5% of people living in disabled households were poor in 2018, compared to 19.4% of people in non-disabled households in the same situation (disposable income below 60% of median income). The incidence of poverty has been significantly higher among people in disabled households over the past decade, thereby confirming the existence of a structural difference. Moreover, while the gap had ranged between 2 and 4 percentage points until 2011, more extreme differences were observed since the onset of economic recovery in 2013, reaching 9.1 percentage points in 2018. The increase in these differences is associated with the uneven track record of the poverty rate in both groups. The incidence of poverty among people in disabled households has remained above 27.5% since 2013, increasing to 28.5% in 2018, its highest level since 2007. At the same time, people in non-disabled households have seen their incidence of poverty fall since 2013, and in 2018 it was at the same levels as in 2009.

These figures show that people in poverty in disabled households have participated in the economic recovery to a lesser extent than people in poverty in non-disabled households. In this sense, the rate of obtaining employment has been lower among people in disabled households, thereby underlining the employment gap between the two groups. Their employment rate increased by 3.3 percentage points to 25.9% between 2014 and 2019. In contrast, this increase was 8 percentage points to 66.9% for the rest of the population. These data demonstrate significant inequality in terms of employment opportunities between people in disabled and non-disabled households during the recovery phase, after both groups suffered relatively similar falls in their employment levels during the crisis period, with employment rates dropping by 2.6 and 3.8 percentage points respectively between 2009 and 2014.

Figure 2: The incidence of poverty among people in disabled households is eight percentage points higher than in 2007

Poverty rate among people in disabled and non-disabled households in Spain, 2007-2018



Note: *disabled households are those with a member with a disability aged 16-64.*

Source: compiled by the authors based on data from the EU-SILC, 2008-2019.

Figure 3: The employment rate of people in disabled households is significantly lower than that of the rest of the population, and this gap has been widening since 2014

Employment rate of people in disabled and non-disabled households in Spain, 2009-2019

Note: *the employment rate is the ratio between the total number of employed persons and the population aged 16 and over. The figures for the series 2014 onwards are not comparable with those for the series 2009-2014 because of a change in methodology.*

Source: compiled by the authors based on data from Spain's National Statistics Institute (INE), 2009-2019.

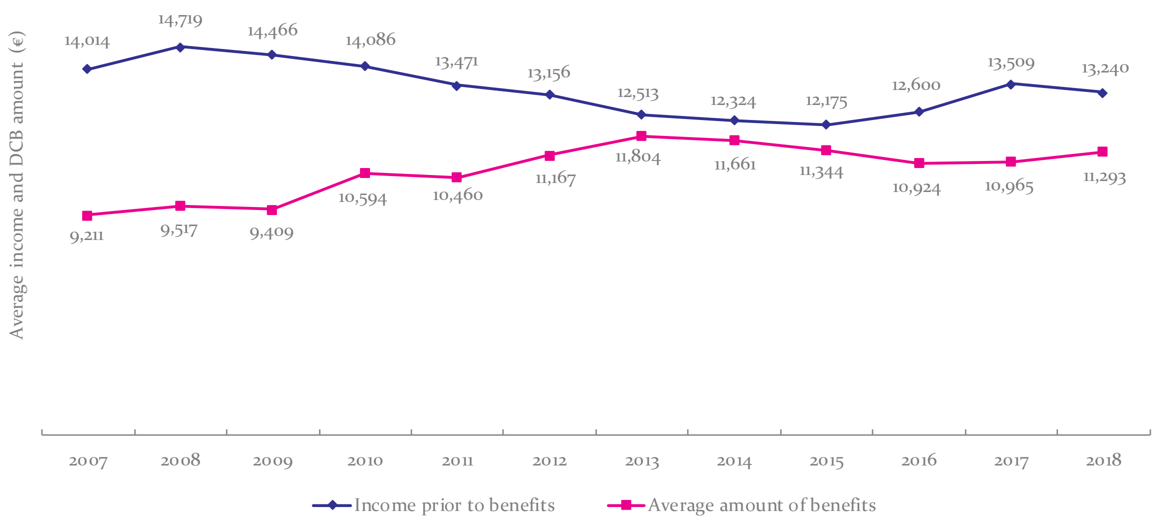
3 The impact of disability cash benefits on income has tended to rise in Spain since 2007

The system of disability cash benefits (DCB) in Spain is based on contributory non-income conditional benefits to cover various risks of job incapacity. The DCB amount depends on prior income from work, degree of disability (minimum 33%), age and household composition. It also includes non-contributory income conditional benefits (disability and dependency) for the most vulnerable groups, the amount of which varies according to the degree of disability.

Disability cash benefits over the past decade have had a very positive impact on the income of people living in disabled households in Spain. Income growth resulting from the inclusion of DCB has doubled from 8.5% in 2007 to 16.8% in 2018. This effect stems from a combination of two factors. On the one hand, the upward trend in the average DCB amount, which increased by 22.6% between 2007 and 2018 to 11,293 euros per annum per recipient and whose trajectory is somewhat related to the economic cycle. On the other hand, it is influenced by the decline in income prior to the disability cash benefits, which fell by 5.5% over this period to 13,240 euros.

Figure 4: The DCB amount increased during the Great Recession, partly offsetting the decline in income of people in disabled households

Average disposable income in euros of people in disabled households prior to DCB and average DCB amount, 2007-2018



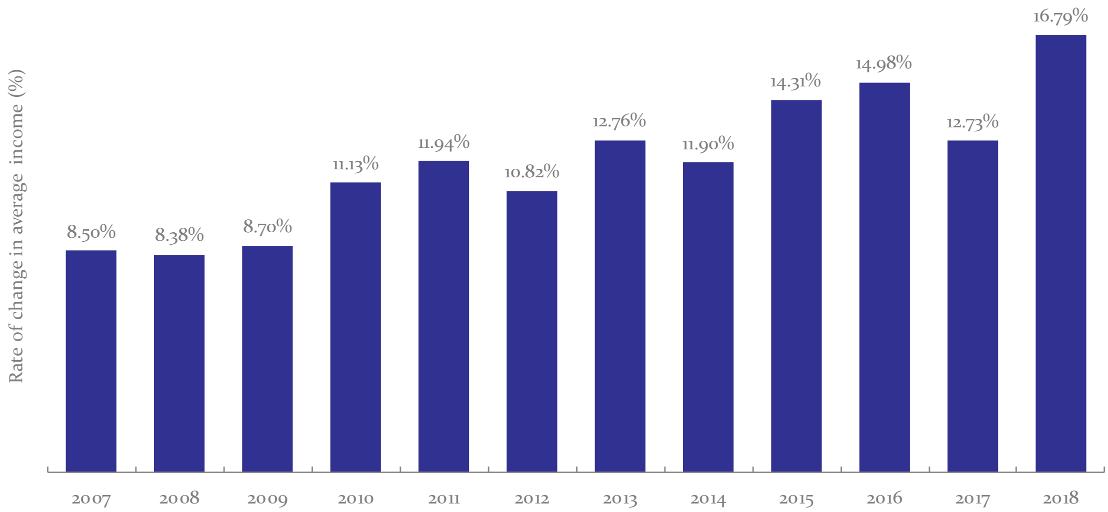
Note: *disposable income prior to DCB is the total income received by households during the period under review, including all social cash benefits except the DCB net of taxes and social security contributions. Disabled households are households with a member with a disability aged 16-64.*

Source: compiled by the authors based on data from the EU-SILC, 2008-2019.

It can therefore be concluded that disability cash benefits have helped to align the disposable income of people in disabled and non-disabled households. Nonetheless, in view of the results discussed in the previous section, the amount is insufficient to close the existing gap between the two groups, as this has in fact increased. In comparison with other European countries, and based on 2017 data, the growth in disposable income as a result of introducing disability cash benefits has been more significant in Sweden and Denmark than in Spain, which ranks third among the countries analysed.

Figure 5: Disability cash benefits increase the incomes of people in disabled households in Spain, displaying an upward trend since 2007

Rate of change in average income of people in disabled households following disability cash benefits, Spain, 2007-2018

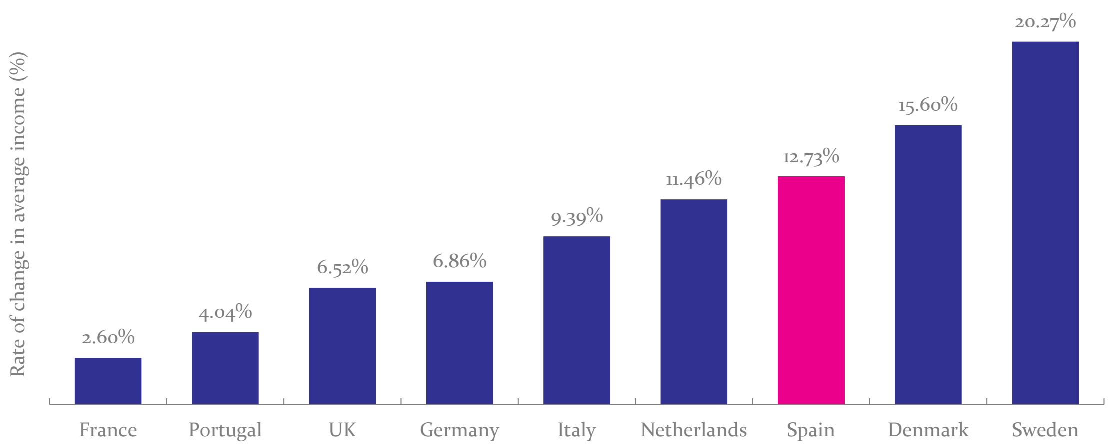


Note: *average income following DCB is the disposable income defined in Figure 1, while the income prior to DCB is calculated by deducting the latter.*

Source: compiled by the authors based on data from the EU-SILC, 2008-2019.

Figure 6: Disability cash benefits have contributed more considerably to average income growth in Sweden, Denmark, Spain and the Netherlands

Rate of change in average income of people in disabled households following disability cash benefits, European country comparison, 2017



Note: *average income following DCB refers to disposable income, while income prior to DCB is calculated by deducting the latter from disposable income.*

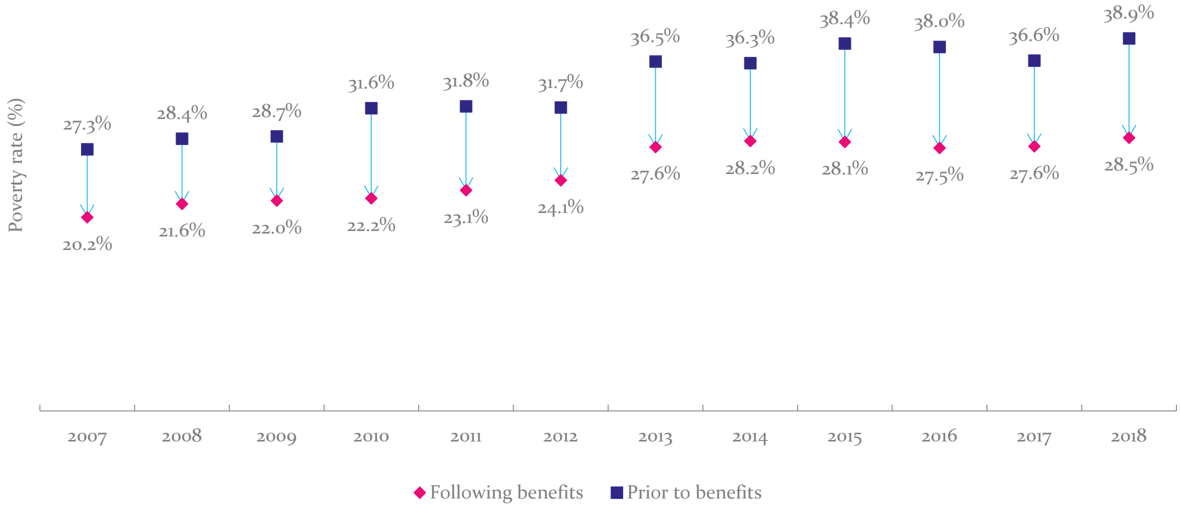
Source: compiled by the authors based on data from the EU-SILC, 2018.

4 The reduction in the poverty rate stemming from disability cash benefits has intensified over the past decade

Disability cash benefits help to increase the incomes of people living in disabled households, and they lessen their risk of poverty insofar as they are targeted at the most economically vulnerable. The poverty rate in Spain has therefore been reduced thanks to these. This reduction has been growing over the past decade, reaching more than 9 percentage points in the last 4 years under review. However, the poverty rate of people in disabled households remains high, while the gap with the rest of the population is widening. This is because the adequacy of the DCB amount to the poverty line, although remaining at high levels, has decreased significantly since the onset of economic recovery. The poverty line increased by 13.2% between 2013 and 2018, while the average DCB amount decreased by 4.3%, from a high of €11,804 in 2013 to €11,293 in 2018.

Figure 7: Incidence of poverty has fallen by around 10 percentage points due to the effect of disability cash benefits

Poverty rate among people in disabled households prior to and following DCB payments, Spain, 2007-2018



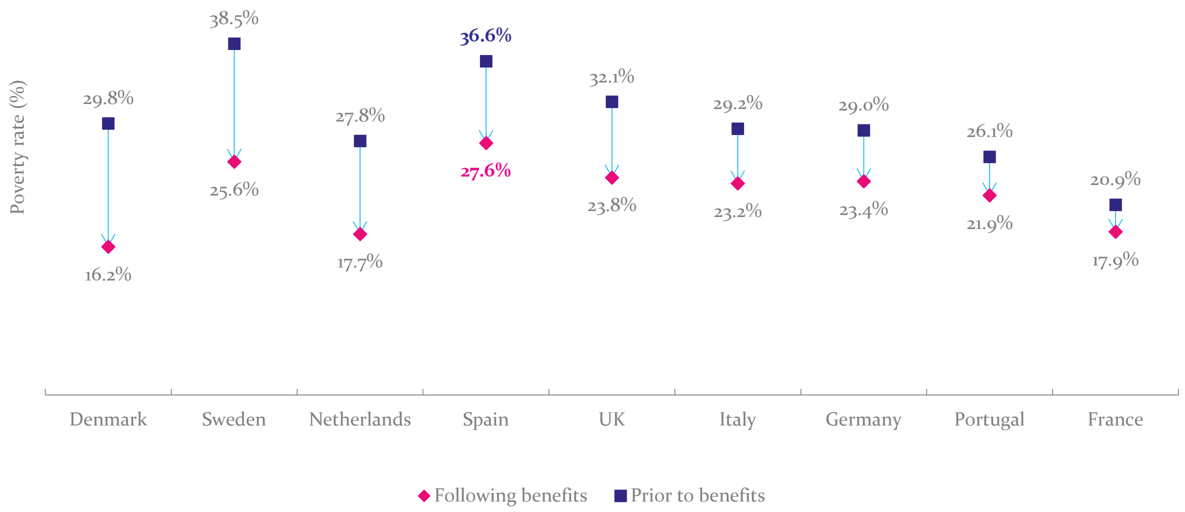
Source: compiled by the authors based on data from the EU-SILC, 2008-2019.

This suggests that people in disabled households have not participated in economic growth to the same extent as others since the Great Recession. Income prior to DCB of people in disabled households increased by 5.8% between 2013 and 2018, compared to 12.2% for people in non-disabled households. Disability cash benefits fail to compensate for this disadvantatge and this leads to an increase in the poverty rate. It could therefore be said that people in disabled households have fallen behind, especially since 2013, despite the effort in terms of disability cash benefits. It is thus worth noting the importance of promoting the inclusiveness of people with disabilities to ensure that they can participate in the economic recovery after the pandemic crisis at least as much as other people.

Compared to other European countries, disability cash benefits have led to the largest reductions in the poverty rate in Denmark and Sweden. This downward effect is also notable in the Netherlands and Spain, although, as indicated above, Spain has the highest poverty rate for this group among the countries under review.

Figure 8: Disability cash benefits have reduced the incidence of poverty in all major European countries, although they are most effective in Denmark and Sweden

Poverty rate among people in disabled households prior to and following DCB payments, European cross-country comparison, 2017



Note: *countries ordered from highest to lowest reduction in the incidence of poverty.*

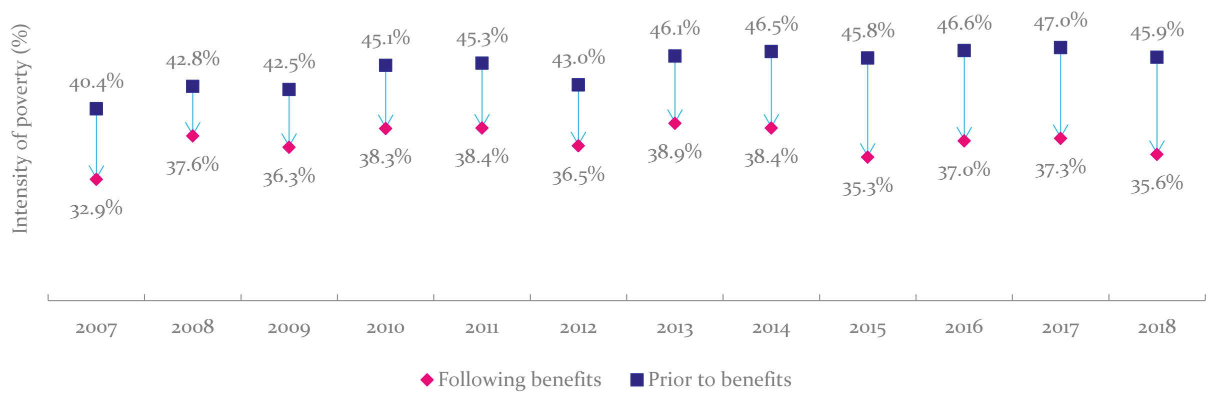
Source: compiled by the authors based on data from the EU-SILC, 2018.

5 Disability cash benefits in Spain have reduced the intensity of poverty in Spain, although this drop is half of that observed in Sweden, Denmark or the Netherlands

Poverty intensity – i.e. the difference between the median income of the poor population and the poverty line expressed in relative terms to it – among people in disabled households in Spain has also witnessed a significant reduction because of the effect of disability cash benefits. This has been more pronounced since 2015 and has exceeded 10 percentage points over the past four years. Compared to other European countries, disability cash benefits have reduced the intensity of poverty more effectively in Sweden, the Netherlands and Denmark, doubling the drop observed in Spain.

Figure 9: Disability cash benefits have helped to reduce the intensity of poverty, with an increase in their effectiveness since 2015

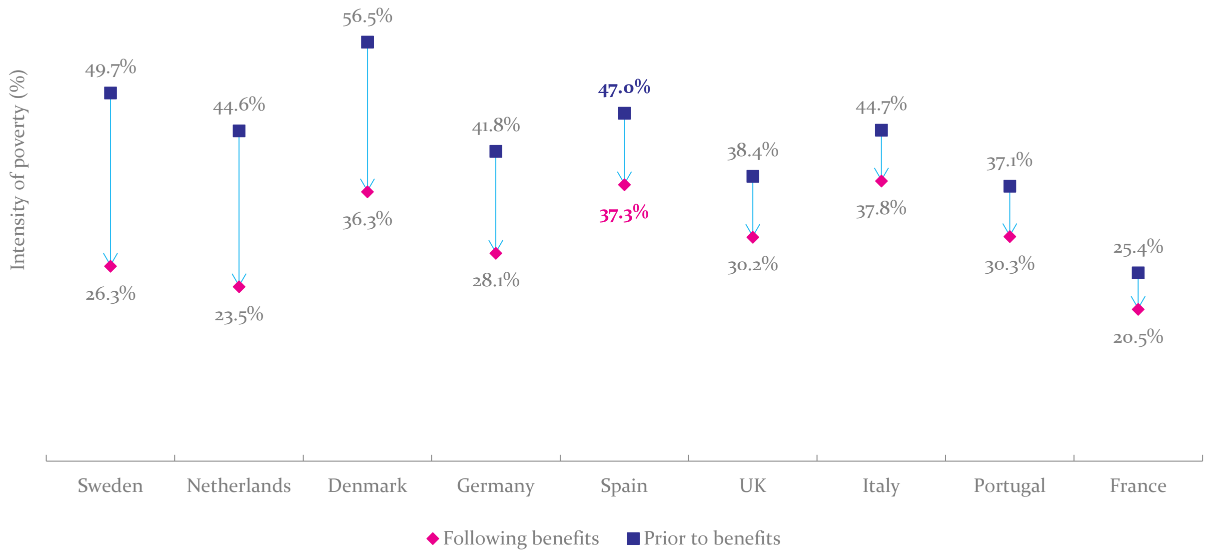
Poverty intensity among people in disabled households prior to and following DCB payments, Spain, 2007-2018



Source: compiled by the authors based on data from the EU-SILC, 2008-2019.

Figure 10: The reduction in the intensity of poverty stemming from disability cash benefits in Spain is comparatively low

Poverty intensity among people in disabled households prior to and following DCB payments, European cross-country comparison, 2017



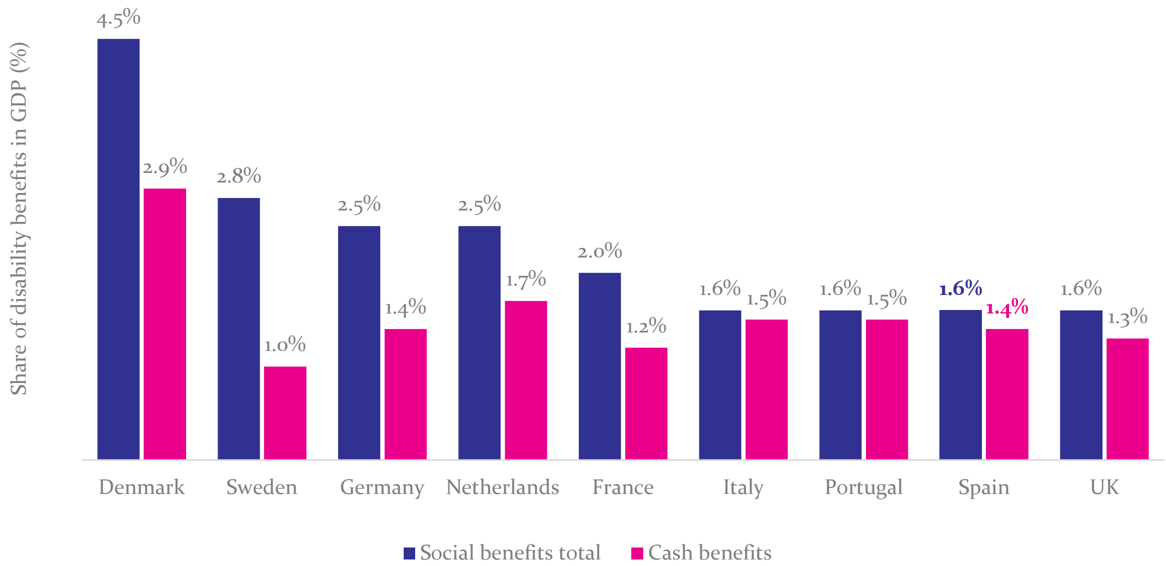
Note: *countries ordered from highest to lowest reduction in poverty intensity.*

Source: compiled by the authors based on data from the EU-SILC, 2018.

6 Public spending on disability benefits in Spain is just over a third of that in Denmark and just over half of that in Sweden

Spain spent 1.6% of GDP on disability benefits (both cash and in kind) in 2017, a figure similar to Italy, Portugal and the UK, but considerably lower than other European countries. For example, Denmark (with 4.5%) almost triples the proportion of GDP spent on disability benefits in Spain, while Sweden, Germany and the Netherlands spend more than one and a half times the proportion of Spain on these. Focusing only on DCB, almost all of the expenditure allocated to disability benefits in Spain is spent on cash benefits. This is 1.4% of GDP, although the figure in Denmark is still twice as high. The share of GDP allocated to DCB in Spain is only higher than in Sweden, France and the United Kingdom. However, benefits in kind feature predominantly in the first two countries and this partially compensates for the low share of cash benefits.

Figure 11: Public spending effort on disability benefits in Spain is comparatively low
Percentage share of disability benefits in GDP in 2018



Source: compiled by the authors based on data from the European System of Integrated Social Protection Statistics (ESSPROS), 2018.

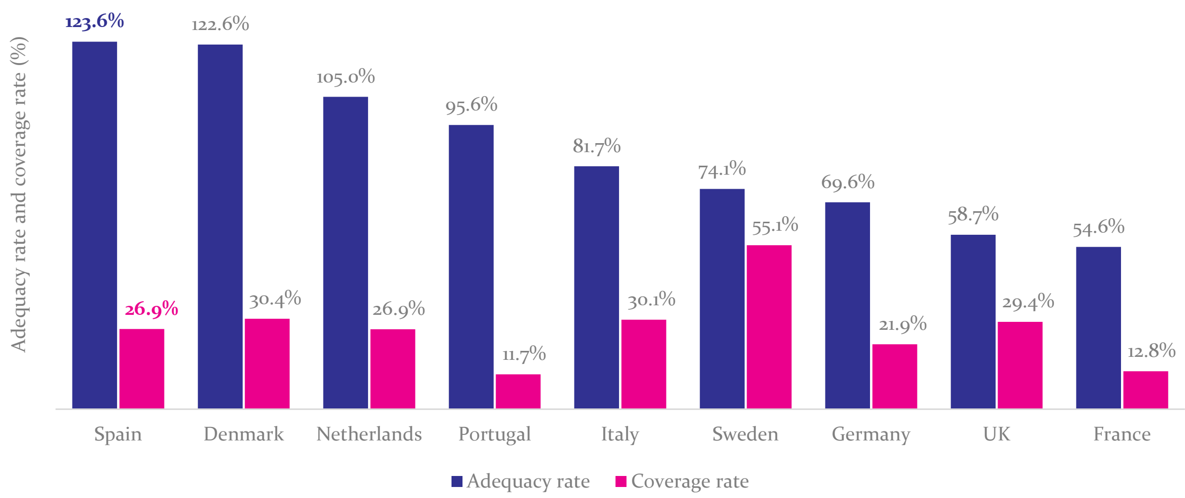
7 Although the average amount of disability cash benefits in Spain helps to lift recipients above the poverty line, these benefits only reach one in four people with disabilities

The level of protection provided by disability cash benefits can be assessed through the average amount received in relation to the poverty line – or adequacy rate – as well as through the percentage of potential beneficiaries (persons with disabilities) receiving the benefits – or coverage rate.

The DCB adequacy rate in Spain, Denmark and the Netherlands exceeds 100%, which means that, unlike in the other countries under review, the average DCB amount in these countries helps to lift people out of poverty. This situation is qualified in Spain by its lower coverage rate, with only 27% of the population declaring a disability receiving disability cash benefits, while some 30% of potential claimants are covered in the United Kingdom, Italy and Denmark, and more than half in Sweden.

Figure 12: Disability cash benefits in Spain are high on average, but only reach around one in four people

Adequacy rate and coverage rate, 2017



Note: *adequacy rate: average DCB amount in relation to the poverty line. Coverage rate: number of DCB recipients out of the number of people with disabilities.*

Source: compiled by the authors based on data from the EU-SILC, 2018.

Conclusions

Disability cash benefits play a key role in improving income and reducing the risk of poverty of people living in disabled households, insofar as disability-related difficulties reduce the prospect of income and increase the costs of daily living.

A first characteristic feature of policy orientation of Spain's cash benefit system is a firm commitment to ensure that disability cash benefits can help achieve the goal of reducing poverty, providing them with generous amounts that in themselves can help to lift recipients above the poverty line. Therefore, in comparison with other European countries, Spain has a remarkable adequacy rate, with the average DCB amount enabling an average of 23% of recipients to rise above the poverty line. On the negative side, however, Spain's coverage rate can clearly be improved, as these benefits only reach one in four people with disabilities.

In terms of public expenditure, cash benefits account for around 1.4% of GDP, which is significantly lower than in other European countries. This lower DCB volume is accompanied by a reduced progressivity of benefits in general terms, which explains why the impact of disability cash benefits does not lead to a reduction of the disability poverty gap. Reforms should therefore allow cash benefits to reach more people with disabilities, combining increased public spending on disability cash benefits with a design that favours the most economically disadvantaged disabled households.

Proposed actions

1

The rate of DCB coverage in Spain is significantly lower than that of other European countries, so it is necessary to review the requirements for obtaining benefits in order to reach more people with disabilities.

2

The percentage of GDP allocated to DCB in Spain is 1.4%, significantly lower than in other European countries, although in line with the EU-27 average. But if we take into account the total expenditure on (monetary and in kind) disability benefits, this represents 1.6% in Spain compared to 2% of the European average. It therefore seems reasonable to envisage an upward spending path to align with average European levels.

3

Disability cash benefits do not reduce the disability poverty gap, which underlines the importance of reviewing their progressivity in order to increase their effectiveness in reducing the incidence and intensity of poverty.

4

Greater participation of people with disabilities in the benefits of economic growth should be promoted through measures that complement public benefits and improve their employment situation, especially for young people.

Study characteristics

A comparative analysis of Spain's DCB system in relation to other European countries can be complemented with a detailed study of other tax mechanisms that can be combined with cash benefits to achieve the desired objectives. It is therefore worth considering both existing benefits in kind and an analysis of the disability-related tax deductions present in the various countries, both non-refundable (limited to reducing the tax debt of taxpayers, which means they benefit those with low incomes to a lesser extent) and refundable (known as "negative taxes", or tax credits, which favour all potential beneficiaries, as the difference is paid to taxpayers as a net benefit if the amount of the deduction is higher than the tax debt).

It should also be noted that market income plays a vital role in the income of disabled households. A detailed analysis of the degrees and types of disability and a more detailed study of the labour market reality of disabled people and their difficulties in obtaining employment would therefore help to further explore one of the main findings of this study: the lower participation of people living in disabled households in the benefits of economic growth during periods of prosperity.

"la Caixa" Foundation