

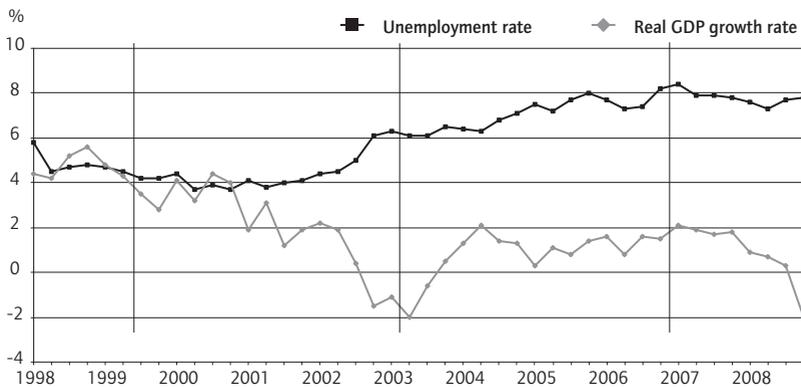
Portugal

Control and activation as major policy guidelines

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In Portugal, unemployment insurance was first introduced as part of the comprehensive reform of the social protection system following the democratic revolution of 25 April 1974. Decree Law No. 169/75 of 31 March 1975 established the framework of the unemployment protection system. Since 1975, this system has undergone three reforms (in 1989, 1999, and 2006). In the fourth quarter of 2002, the unemployment rate was 2 percentage points higher than in the same period of the previous year (Figure 1). Between year-end 2001 and year-end 2002, it rose by 26.3%. In the first few months of 2003, unemployment continued to rise among first-time job-seekers and also among people already in work. To respond to these labour market developments, the government introduced temporary changes to the unemployment protection system in 2003, some of which were adopted permanently in the 2006 reform (e.g. the personal employment plan).

Figure 1 Unemployment rates and real GDP growth rates (1998:I – 2008:IV)



Source: IAF (2009b)

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The financial components of both unemployment insurance (UI) and unemployment assistance (UA) are managed by the Social Security Institute (*Instituto de Segurança Social*), while the Employment and Vocational Training Institute (*Instituto do Emprego e Formação Profissional*, IEFP) is responsible for managing active labour market programmes; monitoring job-search efforts; applying sanctions to unemployment insurance beneficiaries who fail to meet their obligations; providing advice and assistance to job-seekers; giving information on national and European vacancies; and assisting employers wishing to recruit.

In 2008, nearly 59.5% of the unemployed received unemployment benefit: 40.9% received unemployment insurance and 18.6% unemployment assistance. In 2006, before the 2006 reform, 53.7% of the unemployed were receiving unemployment insurance and 17.2% unemployment assistance. As unemployment increased between 2006 and 2007, this means that the 2006 reform resulted in a decrease in the coverage rate of unemployment insurance, as opposed to unemployment assistance whose coverage rate increased.

Table 1 provides a more detailed analysis of people receiving unemployment benefit. According to INE (the National Statistics Institute) figures – concerning overall employment – the coverage rate of unemployment benefit dropped by 17 percentage points, from 77.5% to 60.5%, between 2004 and 2008. However, this trend is not reflected in the IEFP figures – concerning registered unemployment – due to the change in the methodology used to determine registered unemployment in 2006. Registered unemployment decreased between 2006 and 2007 while overall unemployment, as measured by INE, increased.

Among the registered unemployed¹, a larger proportion of men receive unemployment insurance: 47.9% of men and 40.2% of women. However, the opposite occurs for unemployment assistance: 20.8% of unemployed women receive UA compared to only 17.7% of unemployed men.

1. Despite the methodological issue regarding registered unemployment, we use these figures here because the data released by the Social Security Institute on unemployment benefit claimants is not very detailed. To provide a more detailed picture, the present analysis is based on a study conducted by the General Confederation of Portuguese Workers (*Confederação Geral dos Trabalhadores Portugueses*, CGTP).

Table 1 Beneficiaries by gender and age group in registered unemployment (2008)*

	UI	UA	Total
Gender			
% Women receiving UB	40.2	20.8	61.1
% Men receiving UB	47.9	17.7	65.6
Age groups			
< 25 years	16.1	14.6	30.7
25-34 years	38.5	17.9	56.4
35-54 years	46.8	21.6	68.4
>=55 years	61.5	19.7	81.4

* December figures

Source: Ministry of Labour and Social Solidarity (MTSS) and IEFP

An interesting conclusion can be drawn from the analysis of the composition of unemployment benefit claimants by age. The coverage rate of unemployment benefit increases with the age of the unemployed. Only 30.7% of individuals under 25 have access to unemployment benefit, compared with 56.5% in the 25-34 age group, 68.4% in the 35-54 age group, and 81.4% among the unemployed over 54. This is probably due to the fact that young people have less experience and are more likely to have precarious employment contracts (nearly one third of employees under 34 have a non-permanent contract).

Unemployment insurance: eligibility

Access to unemployment insurance is restricted to claimants who fulfil the following conditions: they must be involuntarily unemployed; have worked and contributed to social security for at least 450 days in the last 24 months (until 2006, the qualifying period was 540 days of contributions to social security); be capable of and available for work; be registered at the employment office; and not receive any invalidity or old-age pension. The system is the same for all insured employees. Voluntary quitters and workers discharged for misconduct cannot claim unemployment benefit. As for the self-employed, the welfare protection is different; they are not covered for the risk of unemployment and are entitled to a shorter period of sickness benefit than employees (a maximum duration of 1095 days for employees and 365 for the self-employed).

UI entitlement: reference earnings, benefit rates and duration of payment

The replacement rate (i.e. unemployment benefit in relation to gross monthly earnings) is flat and equal to 65% of the reference earnings. The reference earnings correspond to the average daily wage during the 12 months previous to the 2 months prior to unemployment. The monthly limit is three times the Social Support Index² (*Indexante dos Apoios Sociais*, IAS) and the minimum benefit amount is the IAS. UI is not subject to tax or social security contributions. There is no waiting period before receiving unemployment benefit.

Table 2 Unemployment insurance entitlement (UI systems of 1989 and 1999)

Age	1989	1999	Additional duration*
	Duration of benefit (days)	Duration of benefit (days)	
< 25	300	360	
25-30	360	360	
30-35	450	540	
35-40	540	540	
40-45	630	720	+ 60 days for every 5 years of social security contributions
45-50	720	720	
50-55	810	900	+ 60 days for every 5 years of social security contributions
> 55	900	900	
	900	900	+ 60 days for every 5 years of social security contributions

Source: Social Security Institute

Until 1999, the maximum period of entitlement was determined only by the age of the beneficiary on becoming unemployed. Though this feature was maintained in the 1999 system, longer contributory careers started to be rewarded with additional days (Table 2). Moreover, in 1999 there was a generalised increase in the duration of beneficiaries' entitlement

2. The Social Support Index was introduced in 2006 and replaced the minimum wage as the reference for setting and updating contributions, pensions and other social benefits. More information on the respective amounts is given at the end of this chapter.

in several age groups (e.g. aged under 25; 40-45 years; 45-50 years; 50-55 years). Recent studies have shown that the increased potential duration of unemployment benefit led to longer periods of unemployment among beneficiaries (Pereira, 2006; Addison and Portugal, 2007; Centeno and Novo, 2007). This effect was particularly noticeable among young people (Pereira, 2006) and beneficiaries with lower liquidity constraints. Those receiving more (in monetary terms) remain unemployed for longer. The group at the lower end of the benefit distribution, which was already the group in which beneficiaries remained unemployed for the shortest time, was the least affected by the reform of the unemployment protection system (Centeno and Novo, 2007).

Prolonging the potential period for receipt of unemployment insurance is usually criticised as it is thought to be linked to moral hazard behaviour. However, some economists emphasise the potential positive effect of increasing unemployment benefit: beneficiaries would be able to search longer for a new job, which would have a positive effect on the quality of the new matches (e.g. higher wages, better contract) (Belzil, 1999). In the Portuguese economy, the positive effects of extending the potential duration of unemployment benefit on job quality were negligible (Centeno and Novo, 2008). This impact was felt mainly among the unemployed in the lower income bracket.

The 2006 reform of the unemployment protection system introduced a considerable change in the duration of unemployment benefit. The duration of the payments started to be determined by age and social security contributions (Table 3).

According to the non-accumulation principle (Art. 60, DL 220/2006), UI beneficiaries cannot receive any other compensation related to job loss, retirement pensions, or pre-retirement benefit paid by the employer. After exhausting UI or initial UA and having entered long-term unemployment, special conditions are applied to older beneficiaries who want to start receiving old-age pensions.

If the worker begins a spell of involuntary unemployment after the legal retirement age, he/she is not eligible for unemployment benefit even if the qualifying period is fully satisfied, but receives an old-age pension instead.

Table 3 Unemployment insurance entitlement (System of 2006)

Age (years)	Social security contributions (months)	Duration of benefit (days)	Additional duration*
< 30	≤ 24	270	
	> 24	360	+ 30 days for every 5 years of social security contributions
30-40	≤ 48	360	
	> 48	540	+ 30 days for every 5 years of social security contributions
40-45	≤ 60	540	
	> 60	720	+ 30 days for every 5 years of social security contributions
> 45	≤ 72	720	
	> 72	900	+ 30 days for every 5 years of social security contributions

* Only social security contributions made after the previous period of unemployment are considered in determining whether the worker has the right to receive additional days of unemployment insurance.

Source: Social Security Institute

In 1989, partial unemployment insurance was introduced in the Portuguese UI system. Following the trend towards workfare policies observed in other countries, the aim of this social benefit was to give UI beneficiaries additional incentives to accept part-time jobs. Since accepting a part-time job implies the need to work, and since taxation on income is less favourable than on social benefits, there is a strong likelihood of the beneficiary refusing part-time work. The partial UI is determined using the following formula: $(1+rate)*UI-wage$. In 1999, the rate was established at 25%. In 2003, due to a sharp increase in unemployment, the government temporarily increased the rate to 35%. The 2006 reform maintained the rate at 35%. However, despite these incentives, the number of people benefitting from partial unemployment insurance is minimal. This is no doubt due to the fact that part-time jobs in Portugal are mainly low-skilled and therefore poorly paid.

The definition of a "suitable job"

One of the duties of a UI beneficiary is to accept a suitable job. The "suitable job" concept was introduced in the 1999 UI system (Art. 9 c), Decree Law No. 119/1999: "a suitable job is one that does not cause a

considerable loss of welfare to the beneficiary or his family”. Many jobs were refused by beneficiaries due to the ambiguity of this definition, thereby reducing the effectiveness of this provision. In 2006, the new legal provision specified the concept of a suitable job in greater detail. For a job to be classified as suitable, conditions must be met regarding educational level, wage, travelling time and expenses (Table 4).

Table 4 The concept of suitable job

Dimensions	Requirements
Education and physical health	Adequate to the education and vocational training of the beneficiary and to his/her physical health.
Gross income	$\geq 1.25 \times$ Unemployment benefit (job offers received in the first six months of unemployment) $\geq 1.10 \times$ Unemployment benefit (job offers received after the first six months of unemployment)
Travelling expenses	$\leq 0.1 \times$ gross monthly income The employer covers the travel expenses or provides free transport
Average travel time	$\leq 0.25 \times$ daily working time (without dependants) $\leq 0.2 \times$ daily working time (with dependants)

Sanctions and monitoring

Sanctions and penalties are applied when beneficiaries and firms fail to meet their obligations. With regard to beneficiaries, their registration with the public employment services (PES) is cancelled and they stop receiving unemployment benefit in the following cases:

- Refusal of a suitable job, socially useful work, the Personal Employment Plan, or other active labour market measure;
- Non-compliance with the provisions of the Personal Employment Plan;
- Insufficient job-seeking efforts;
- Failure to regularly report and reply to notifications from the public employment services.

When registration with the public employment services is cancelled for any of these reasons, the beneficiary has to wait 90 consecutive days before being able to register again. Table 5 summarises the key penalties and sanctions applied.

Table 5 Sanctions and other penalties related to the unemployment protection system

	Occurrence	Financial penalty	Additional sanctions
Beneficiaries	Non-compliance of duties towards PES	€100 to €700	Cancellation of PES registration
	Starting a new job and continuing to receive unemployment benefit	€250 to €1000	- Cancellation of PES registration - May lose UI eligibility for up to a maximum of two years
Employers	Neglecting to inform the authorities about the unemployment of any of their workers	€250 to €2000 Firms with more than 5 employees	
		€125 to €1000 Firms with fewer than 5 employees	

Situations in which the beneficiary starts a new job without informing the social security authorities of the change in his/her labour market status used to be quite frequent in Portugal because the Social Security information system was not linked to that of the tax authorities. This problem has now been minimised with the modernisation of these services and greater integration between their information systems.

The unemployment assistance system

In Portugal, UA covers two types of situation:

- When the unemployed person has not completed the qualifying period required for UI benefit. In this case, he/she can apply for initial unemployment assistance. To be eligible to receive this benefit he/she must have had at least 180 days of paid work in the 12 months prior to unemployment;
- When the beneficiary exhausts unemployment insurance. In this case, the individual can apply for ongoing unemployment assistance.

The aim of unemployment assistance is to guarantee a source of income to unemployed individuals in the lower income brackets. To be eligible to receive this benefit, the individual has to present evidence of his/her income level. The subsidy is only given if the income level of the household to which the unemployed person belongs is below 80% of the Social Support Index (*Índice dos Apoios Sociais*, IAS). Gross income from self-employment or paid work, pensions, and gross capital income are the income sources considered when defining the household income. The definition of a household includes all dependants (e.g. children under 18 years of age, husband/wife, civil partner or unmarried partner, parents) as long as they live with the unemployed person in a situation of financial dependency.

UA is set in reference to the IAS. If the beneficiary has no dependants, the amount of the benefit corresponds to 80% of the IAS. If the beneficiary has dependants, UA is 100% of the IAS. When UA is received after UI, the beneficiary is entitled to receive UA for half the number of days during which he/she received the unemployment benefit. If the individual is over 52, UA can be extended until he/she has reached retirement age.

The reinforced role of the public employment services

Some of the key aspects of the 2006 comprehensive reform of the unemployment protection system have been described above. Other changes that should be highlighted include the increased number of rights and duties of the unemployed, and stricter enforcement of sanctions, should the beneficiary fail to meet his/her obligations. Beneficiaries must now search more actively for a new job, accept suitable jobs proposed to them, enrol in vocational training programmes if recommended by job centres, and are more closely monitored. On the other hand, beneficiaries receive more support from the public employment services. The recent modernisation of these services has contributed to this process due to the greater diversity, accessibility and quality of the various services. This process has resulted in faster communication with unemployed people, namely by sending information about job offers by text message, and in an increase in the number of online services available (*NET Emprego*) both for the unemployed (browsing job offers in Portugal and in the EU; replying directly to job offers; browsing information on potential employers; sending out a CV and submitting it in response to job

advertisements; accessing information on job-seeking techniques and available services, programmes and measures), and for employers (communicating job offers, browsing CVs registered online, electronically submitting applications to vocational programmes). The modernisation of the employment offices also included training their technical staff, especially those responsible for liaising with employers. Greater attention is given to the most vulnerable unemployed persons (e.g. young people, the long-term unemployed and unemployed people with higher education) by developing or enforcing targeted programmes.

The broadened responsibilities of the public employment services include elaborating Personal Employment Plans that outline a strategy to promote a fast return to employment; providing personalised support to define the best possible steps to increasing the beneficiary's employability; monitoring compliance with beneficiary obligations, and enforcing/applying sanctions.

Ongoing social debates

It is still too early to assess the new unemployment protection scheme as it only started to produce effects in January 2007. Nevertheless, a number of issues have been raised by different stakeholders (particularly trade unions).

The trade unions have expressed concerns about the self-employed. In Portugal, an increasing number of firms do not offer labour contracts to potential new employees but prefer to pay for their services as self-employed workers, thus avoiding the tax and social security burden. These are “false” self-employment situations which provide additional flexibility in terms of human resource management, but generate a considerable welfare problem as these workers are the most likely to lose their jobs in a downturn without being entitled to unemployment benefit.

At the start of 2007, pensions and social benefits such as unemployment assistance started to be indexed and updated in line with the new Social Support Index – IAS - instead of the national minimum wage (Law No. 53-B/2009 of 29 December). IAS has been lower than the national minimum wage since 2008 (Table 6).

Table 6 The IAS and the minimum wage

	IAS	Minimum Wage
2008	€407.41	€419.19
2009	€426	€450

The average amount of unemployment benefit has declined since 2007 largely due to this measure. The General Confederation of Portuguese Workers (*Confederação Geral dos Trabalhadores Portugueses*, CGTP) and the General Workers' Union (*União Geral de Trabalhadores*, UGT) have both criticised this change by highlighting the negative impact on beneficiaries' welfare.

Table 7 Average monthly and daily amount of unemployment benefit*

	Average monthly amount (€)	Average daily amount (€)
2006	474.79	16.49
2007	456.26	15.88
2008	463.16	16.06

* December figures

Source: Ministry of Labour and Social Solidarity

As mentioned above, the 2006 reform increased the support available to beneficiaries, but the public employment services' capacity to respond to the significant increase in unemployment in recent months has been the subject of considerable debate. Registered unemployment rose by 17.6% between year-end 2008 and May 2009, which obviously puts these services under a great deal of pressure. An adequate response is impossible unless they are given more resources. To alleviate the pressure on Job Centres, the government intends to create 400 Professional Insertion Centres (*Gabinetes de Inserção Profissional*) that will support unemployed people by providing information on job offers, training, possible labour market pathways, and other on-going programmes as well as supporting them in their search for jobs. This measure is indicative of the public employment services' inability to deal with sharp increases in unemployment.

The trade unions also highlight the need to specify in more detail the responsibilities of the public employment services towards beneficiaries and to redefine the concept of a suitable job and suitable training.

Recent developments

In the aftermath of the current financial crisis, the European Council advised the Member States to take “temporary and well targeted” measures to lessen the “impact on the most vulnerable” (COM(2008) 800). At the beginning of 2009, the Portuguese government followed these guidelines by presenting a set of measures to tackle the effects of the recession on growth and jobs (Initiative for Investment and Employment). One of these focused on unemployment assistance instruments and sought to minimise the negative impact of the crisis on lower-income households by granting UA to those with an income equal to or below 110% of IAS (as opposed to 80% previously). This is a temporary measure in effect only until May 2010. The government has also extended unemployment assistance to 180 days for beneficiaries who will exhaust these benefits in 2009.

Although job creation incentives were not a key aspect of the 2006 reform, the employment policies launched in 2009 tried to promote employment in an attempt to respond to the significant rise in unemployment. Using financial and social security incentives, the government aims to prevent redundancy and dismissals, especially involving groups with lower employability. Measures were taken to increase the demand for labour and to improve the attractiveness of jobs (e.g. giving incentives to firms creating jobs with permanent contracts).

Conclusion

The structural features of the unemployment protection scheme have not altered in the last two decades. However, some new trends can be identified concerning the eligibility and entitlement criteria. The potential duration of unemployment benefit has decreased for all age groups except for the unemployed over 45. While age was initially the principal guideline for the duration of benefits, the person’s previous work record was added as a payment condition after 1999. With the exception of the qualifying period, the other modifications are intended to reduce moral hazard among beneficiaries and tackle fraud. Payment is now more conditional on activation measures. The receipt of insurance benefit has become strictly dependent on active job-search.

Overall, the 2006 reform increased the monitoring of beneficiaries and improved the activation measures. The changes introduced resulted in a reduction in the number of unemployed people receiving benefits and in a decrease in the amount of the payments. The latter decrease is probably due both to the shift in the reference for payments from the minimum wage to the IAS and to the fact that the rate of coverage of unemployment assistance has increased while the rate of coverage of unemployment insurance has decreased.

Due to their low educational level, their known difficulty in adapting to new and more demanding jobs and their high poverty rate, the older unemployed enjoy a higher level of protection when compared to the younger age groups. Young people appear to be the most vulnerable group in terms of unemployment protection, as they are usually unable to meet the qualifying period, partly due to their precarious labour contracts, but benefit more from activation policies. The activation strategy faces another main obstacle: most jobs in Portugal are low-skilled and badly paid. The low quality of existing jobs combined with a highly segmented labour market severely hinders the effectiveness of many activation measures.

The changes to the Portuguese unemployment system are in line with the trends observed in the reforms carried out recently in other European countries (e.g. Germany, France and Spain). Nevertheless, there is an issue specific to the Portuguese economy that raises concerns regarding the near future. Portugal has been benefiting from the European Structural Funds (2007-2013), which provided the financial resources that supported most activation measures. There is some uncertainty regarding the capacity to maintain the current policies when European funding becomes unavailable.

Comprehensive assessments of the impact of the latest reforms on the duration of unemployment, beneficiaries' welfare payouts, and on the social security budget, will be crucial to increasing the effectiveness of future reforms. A more active participation of the social partners in the design of the system may also contribute positively to its development.

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