A new targeting: a new take-up?

Non-take-up of social assistance in Germany after social policy reforms

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Abstract We present first estimates of rates of non-take-up for social assistance in Germany after the implementation of major social policy reforms in 2005. The analysis is based on a microsimulation model, which includes a detailed description of the German social assistance programme. Our findings suggest a moderate decrease in non-take-up compared to estimates before the reform. In order to identify the determinants of claiming social assistance, we estimate a model of take-up behaviour which considers endogeneity of the benefit level. The estimations reveal that the degree of needs, measured as the social assistance benefit level a household is eligible for, and the expected duration of eligibility are the key determinants of the take-up decision, while costs of claiming seem to play a minor role.

Keywords Non-take-up · Social assistance · Welfare · Microsimulation

1 Introduction

Arguably the most important goal of means-tested social benefits is to ensure a minimum standard of living for every member of society. However, all studies on means-tested social benefits have noted that take-up of benefits by those eligible is considerably lower than 100%. Non-take-up can be seen as a failure of the welfare state to provide the needy population with the minimum necessary resources. Take-up behaviour may also have fiscal implications. If the take-up rate is positively related to the level of entitlements, an increase in the general benefit level will also increase
the take-up rate and consequently the fiscal costs of the benefit hike. At first glance, non-take-up of social benefits seems to be at odds with standard economic theory of rational, utility-maximizing individuals. Possible explanations put forward are the idea of stigma or disutility associated with claiming the benefit (Moffitt 1983). In addition, non-take-up may simply reflect a lack of awareness about the availability of the programme or a potential claimer’s expectation that the cost of applying for the benefit would exceed the benefit available.

In 2005 major social policy reforms were implemented in Germany. The reform of the social assistance system was preceded by intense public debate and increased the public awareness about entitlements. Besides lower information costs, other aspects of the reform, like new administrative arrangements and more generous entitlement rules, might also have increased the take up of social assistance (SA) after the reform. All available studies on non-take-up in Germany are based on data collected before 2005. They show high rates of non-take-up (RNTs), ranging from 43% (Wilde and Kubis 2005) to 67% (Frick and Groh-Samberg 2007).1

Our paper contributes to the existing literature by providing first estimates of non-take-up under the new social policy regime. First, we present results on RNTs based on panel data for the years 2005–2007. The availability of 3 years of data allows us to analyse a possible trend in the take-up rate since introduction of the new policy. Second, we estimate a model of take-up behaviour to identify the determinants of social benefit take-up after the reform. The model takes into account the potential endogeneity of the level of social assistance benefits. Our results indicate a decrease in the RNT compared to previous studies, especially for the years 2006 and 2007. The decline proves to be robust to different simulation approaches. In addition, our model of take-up behaviour highlights the role of the degree of needs for the take-up decision, measured as the benefit level households are entitled to and other proxy variables.

The structure of the paper is as follows: in Sect. 2 we first report pre-reform results on take-up behaviour for Germany, which provide a point of reference for our post-reform analysis. Then we give a short overview of the social policy reform enacted in 2005, highlighting important changes to the former policy. Section 3 explains the data and microsimulation model and presents results on RNTs. In Sect. 4, we augment our analysis by estimating a model of take-up behaviour which accounts for the potential endogeneity of benefits in the take-up decision. The estimation allows us to investigate determinants of claiming social benefits. Conclusions are set out in Sect. 5.

2 Social assistance in Germany

2.1 Non-take-up of social assistance before 2005

A number of studies provide empirical evidence on the magnitude and determinants of non-take-up of SA in Germany (Riphahn 2001; Kayser and Frick 2001; Frick and Groh-Samberg (2007) for an overview of empirical results on RNTs in Germany for the period 1963–2003. For a review of the international literature on take-up behaviour, see van Oorschot (1991).