Independent Authority for Fiscal Responsibility

PRESS RELEASE
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AIReF PROPOSES REFORMING MIS EMPLOYMENT INCENTIVE AND AUTOMATING PROTECTION FOR CHILDREN FROM BIRTH

- **The Independent Authority for Fiscal Responsibility publishes the Fourth Opinion on the MIS, updating the results of previous evaluations and analysing, for the first time, the impact of the benefit on employment**

- **It finds that the MIS reduces the probability of working by 3 percentage points (p.p.) (12%) and reduces the number of days worked by 0.6 days per month (11%)**

- **These effects remain among MIS beneficiaries after the entry into force of the employment incentive in January 2023, demonstrating the persistence of the disincentive impact and the reduced effectiveness of this mechanism**

- **AIReF studies the permanence of the benefit and concludes that 90% of beneficiaries remain on it for more than 12 months, 75% for more than 24 months, and approximately 60% remain on the benefit for more than three years**

- **Regarding the evolution of the MIS, AIReF notes progress in the rollout and scope of the benefit, but without any significant structural changes**

- **It points out that 55% of households that could receive the MIS have not applied for the benefit (non-take-up), a figure that rises to 72% in the case of households eligible for the CAPI, maintaining very similar levels to previous years**

- **It proposes a complete reformulation of the employment incentive, continuing to promote the formulas for the automatic granting of the MIS that AIReF has been proposing since its First Opinion on the MIS, further developing the design of mechanisms to ensure that the CAPI reaches potential households from the time children are born, specifying the goals of the MIS through clearly defined indicators and levels, strengthening individualised information and support campaigns, and continuing to develop homogeneous and comparable statistics on the beneficiaries and monthly amounts of regional minimum income programmes**

The Independent Authority for Fiscal Responsibility (AIReF) published its Fourth Opinion on the Minimum Income Scheme (MIS) today, updating previous modules and analysing, for the first time, the impact of the benefit on employment. It detects progress in some areas, but no significant structural changes in the benefit. It also notes the effects of the benefit on the labour participation of beneficiaries. AIReF proposes a complete reformulation of the MIS employment incentive to prevent it from reducing the probability of working and considers further automation so that

the Child Support Supplement (CAPI) reaches potential households from the time children are born.

The MIS is a non-contributory benefit aimed at preventing the risk of poverty among people who lack the basic economic resources to cover their fundamental needs. It was launched in 2020, and AIReF has been evaluating its effectiveness and efficiency since then. More than five years after its introduction, AIReF's Fourth Opinion evaluates, for the first time, the effects of the benefit on the employment of its beneficiaries. From an economic theory perspective, last-resort benefits such as the MIS can lead to a decrease in labour supply, but they can also entail additional labour and non-labour benefits, such as facilitating the rejection of precarious jobs, allowing for more selective job searches, providing stability that can improve subsequent labour performance, and offering opportunities for professional retraining.

AIReF's econometric evaluation reveals statistically significant effects of the MIS on the labour participation of beneficiaries. The results indicate that it reduces the probability of working by 3 p.p. (a 12% drop) and reduces the number of days worked by 0.6 days per month (11% compared with the previous average). These effects are sustained in the cohorts that began receiving the MIS after the employment incentive came into force in January 2023, which shows the persistence of the disincentive impact and the reduced effectiveness of this mechanism.

AIReF finds that the effects are more pronounced among people under 30, in single-parent households and with above-average benefit amounts, discouraging labour participation by more than 20%. In terms of job quality, changes in job characteristics suggest an improvement in quality among beneficiaries who remain in employment, with a 3% increase in the probability of obtaining a permanent employment contract.

The specific evaluation of the effectiveness of the current employment incentive shows that it is unable to mitigate the disincentive effects identified in the first 12 months since its entry into force, with no significant impact on either labour intensity or participation rates. This result is mainly attributed to its design, as it uses tax information with a time lag that prevents beneficiaries from perceiving the advantages of the incentive instantly and clearly lacks elements that encourage rapid entry into employment or the intensity of the working day. Nor does it offer a guaranteed duration that provides beneficiaries with certainty about the permanence of the benefit.

AIReF supplements the analysis of this Fourth Opinion with a box studying the duration of the benefit and concludes that 90% of beneficiaries remain on the benefit for more than 12 months, 75% for more than 24 months, and approximately 60% continue to receive the benefit for more than three years. This permanence, together with the effects on employment identified, raises questions about the effectiveness of the transition mechanisms to employment currently included in the benefit.

The rest of the Opinion updates the MIS results shown in the previous modules. AIReF notes progress in the rollout and scope of the MIS, with a 14% increase in the number of beneficiaries and 34% growth in the CAPI. In addition, the average processing time for the benefit has been reduced by 45 days. However, this progress coexists with results that show that the MIS has not undergone any significant structural changes, retaining a design that has had limitations since its introduction in terms of achieving its goals.

Among the key indicators that remain without significant improvement are the figure for non-take-up (beneficiaries entitled to receive the benefit but who do not apply for it), which is similar to previous years (55% for the MIS and 72% for the CAPI); continued administrative complexity, with 68% of households experiencing changes due to income reviews, and sustained regional differences in Catalonia and the Balearic Islands, with non-application rates above 65%, which demonstrate the lack of coordination between the MIS and the regional minimum incomes of the Autonomous Regions.

Proposals

AIReF presents five proposals, some new and others already formulated but not yet considered. It proposes completely reformulating the employment incentive with a new design that is visible to potential beneficiaries, transparent in its duration, and scalable according to the time of entry into employment and the intensity of the working day. It also proposes implementing automatic verification formulas for essential requirements to overcome the administrative barriers that AIReF has been pointing out since its First Opinion on the MIS, such as the systematic use of monthly or bi-monthly administrative information to verify income. In this regard, and given that CAPI non-take-up rates consistently remain above 70%, there is a need to further develop automatic mechanisms to ensure that the CAPI reaches potential households from the time the child is registered at birth. All of this would reduce the high non-take-up rates, increase the capacity to respond to unexpected situations of poverty and significantly reduce the number of requests for reimbursement due to undue payments.

Thirdly, AIReF considers transforming the general aims of the MIS into quantified and measurable goals. The fourth pillar of reform focuses on strengthening individualised support programmes, since these are fundamental tools, as highlighted by the pilot projects promoted by the Ministry of Inclusion, Social Security and Migration (MISSM) within the Inclusion Policy Laboratory. Lastly, the fifth proposal seeks to ensure the continuity of the homogeneous and comparable statistics on regional minimum incomes developed by AIReF, which provided, for the first time, monthly, homogeneous and comparable information on all minimum income benefits in Spain.