



EU free movement: make it fair to keep it free

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Open Europe
7 Tufton Street
London
SW1P 3QN

Tel: 0207 197 2333
Fax: 0207 197 2307

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Executive Summary

David Cameron should not seek to put an outright cap or quotas on EU free movement. First, though much reform can be achieved in Europe, this is likely to be tantamount to leaving the EU. Second, free movement is a net benefit to the UK economy.

However, the aggregate economic benefits mask several concentrated challenges, which are now undermining public confidence in free movement and the EU more broadly. The evidence suggests EU migration keeps wages down for the lowest paid. This is often cited as an overall benefit – production costs stay low, making the economy as a whole more competitive. However, downward pressure on wages is simultaneously cited as a challenge, since this has a disproportionate impact on native workers at the lower end of the pay scale.

This balance must be taken seriously and be constantly reviewed if free movement – and its benefits – are to stand democratically. The best way to address these challenges without ending free movement is to re-write the rules around migrants' access to benefits.

There are two aspects of welfare access in the UK:

Out-of-work benefits: Including unemployment benefits. Whilst the EU rules governing this area need to be changed to ensure fairness, so-called 'benefit tourism' is in many ways a second order issue. EU migrants are far less likely to claim unemployment benefits than UK natives. As of February 2014, only 2.5% of the total unemployment benefits claimants were EU migrants.

In-work benefits: Including tax credits, housing benefit, access to social housing and the NHS. Unlike the vast majority of EU countries, these benefits are non-contributory and universal. This is far more significant. EU migrants are slightly more likely to claim in-work benefits than UK nationals. EU migrants make up 5.56% of the UK workforce, but families with at least one EU migrant make up 7.7% of in-work tax credit claims.

This matters because having to make these in-work benefits immediately available to EU migrants effectively acts as an incentive or 'subsidy' for EU migrants to perform low-paid jobs in the UK, which does not exist to the same extent in France and Germany. It also prevents the UK from deploying tax credits specifically as an active employment policy targeted at facilitating the re-integration of unemployed UK natives back into the labour market, as was their original intention.

Open Europe proposes new EU rules which would allow national governments to limit newly arrived EU migrants' access to non-contributory out-of-work and in-work benefits, social housing and publicly funded apprenticeships for a certain period. After this qualification period, EU migrants would have full access to the welfare system. The exact period could be anywhere between one and five years, with somewhere in the middle (2-3 years) being the most politically feasible at home and abroad.

The proposal would substantially decrease the income gap between the UK and the most common 'sending states', in turn reducing the incentive to come to the UK for low-income work.

While our reform proposals would apply equally to all citizens from other EU member states – from Luxembourg to Croatia – it follows that the biggest overall impact will be on those member states with large flows of migrants into low-pay employment in the UK.

Our illustrative examples are therefore based on three EU member states to where this generally applies; Spain, Poland and Bulgaria. Individual reasons for migrating are various and complex, but our illustrative examples highlight the impact that our reforms could have on the financial incentives for the lowest-paid.

According to new Open Europe estimates, for a single worker earning the minimum wage in Poland coming to work on the UK minimum wage, removing immediate access to in-work benefits would halve the financial incentive to migrate to the UK once the cost of living is factored in [on a Purchasing Power Parity basis], with the potential income boost falling from 155% of Polish weekly take-home pay to 72%.

Similarly, a single worker earning the minimum wage in Spain coming to the UK to work on the minimum wage would see their income boosted by a third under the current rules but under Open Europe's proposed new rules, their average weekly income would in fact drop by 8% compared with what they would earn by staying in Spain. The new rules could also reduce incentives for Spanish unemployed to move to the UK, though the exact impact will need further investigation.

Weekly take-home pay: single earner, minimum wage, no dependent children (UK GBP in PPP)					
	UK nationals and EU migrants under current rules	EU migrants in UK under OE rules	Spanish minimum wage	Polish minimum wage	Bulgarian minimum wage
Salary	£227.50	£227.50	£178.07	£174.06	£79.48
Total deductions	-£30.99	-£30.99	-£11.31	-£60.05	-£18.20
Income post deductions	£196.51	£196.51	£166.77	£114.01	£61.28
Benefits/tax credits	£93.77	£0.00	£47.30	£0.00	£0.00
Total	£290.28	£196.51	£214.07	£114.01	£61.28
Effect on income of moving to UK under current rules			+35.6%	+154.6%	+373.7%
Effect on income of moving to UK under OE rules			-8.2%	+72.4%	+220.7%

Source: Open Europe calculations

The effect of withdrawing immediate access to in-work benefits would be even greater for migrants with dependent children. For example, for a Polish single parent with two dependent children earning the average Polish wage, moving to the UK to earn the minimum wage, their average weekly income would in fact drop by 27%; such a move would make little sense from a purely financial perspective.

Weekly take-home pay: single parent, UK minimum wage, two dependent children (UK GBP in PPP)					
	UK nationals and EU migrants under current rules	EU migrants in UK under OE rules	Spanish average wage	Polish average wage	Bulgarian average wage
Salary	£227.50	£227.50	£433.65	£387.90	£191.69
Total deductions	-£30.99	-£30.99	-£80.77	-£136.67	-£43.90
Income post deductions	£196.51	£196.51	£352.88	£251.23	£147.79
Benefits/tax credits	£330.52	£0.00	£9.45	£18.43	£1.66
Total	£527.03	£196.51	£362.33	£269.67	£149.45
Effect on income of moving to UK under current rules			+45.5%	+95.4%	+252.6%
Effect on income of moving to UK under OE rules			-45.8%	-27.1%	+31.5%

Source: Open Europe calculations

Newly arrived EU migrants in the UK would still qualify for contributory benefits, just like in other countries, so they would have certain social protections on top of existing discretionary local government support for genuine ‘hard luck’ cases. The proposal would therefore have an impact on the number of migrants coming to the UK to work on low-incomes but would not end the basic right to work anywhere in the EU – for UK and other nationals alike. It could simultaneously win the backing of the UK public while also drawing support in Europe.

However, British politicians, commentators and voters should constantly be aware of the running trade-off involved in these policies. Fewer EU migrants could well make the UK economy less competitive overall – particularly given that firms often consider them more productive than UK natives.

Similarly, migration policies alone cannot address the challenge of getting UK citizens into work. This requires that domestic policies on skills and welfare equip and incentivise British nationals into the job market.

Finally, these reforms would not be mutually exclusive to other policies on EU free movement.

1. Our proposal

In future, national governments should be able to limit newly arriving EU migrants' access to non-contributory out-of-work and in-work benefits, social housing and publicly funded apprenticeships. We propose EU leaders agree a new Directive to that effect. The qualifying period for access to these benefits would be a matter for EU negotiation but could be anywhere between one year and the five years that non-EU migrants in the UK are currently excluded from 'public funds'. Two or three years could be politically feasible both at home and abroad (this would not affect the rights of resident migrants).

Such a proposal would firmly retain citizens' ability and Treaty-bound right to seek work across Europe – this remains one of the most fundamental and beneficial aspects of EU membership. At the same time, it would reserve the right of national governments to target active employment policies, so that it 'always pays to work', at their own citizens.

This could be achieved by tying welfare benefits to national citizenship.¹ The EU legislation would include the following:

- Firstly, it would state the supremacy of national citizenship over EU citizenship by reiterating that welfare benefits are as central to it as the right to vote in national elections. It would set out that non-contributory welfare benefits, social housing and publicly funded apprenticeships are in principle reserved for national citizens and can only be granted to EU citizens in limited circumstances.
- Secondly, the Directive would set out a test for sufficient integration in a migrant's new host country – benefits would only be paid where the EU migrant has lawfully resided in their host State for a certain period.

These reforms – which would not apply to EU migrants already living in the UK - would ensure that EU migrants moving to the UK would first make an appropriate contribution to the welfare pot from which non-contributory tax credits and benefits are funded before being eligible themselves.

This new EU legislation could also address access to publicly-funded healthcare, which could either be funded by mandatory private insurance or be funded by a migrants' state of nationality.

There are some that argue that restricting access to in-work benefits would require treaty change, but we believe this could be achieved by amending EU legislation, particularly if there was the political will among EU leaders to push this reform.

In order for such welfare restrictions at the EU level to be effective, they must be combined with proper domestic enforcement of the minimum wage and housing rules on overcrowding and minimum standards.

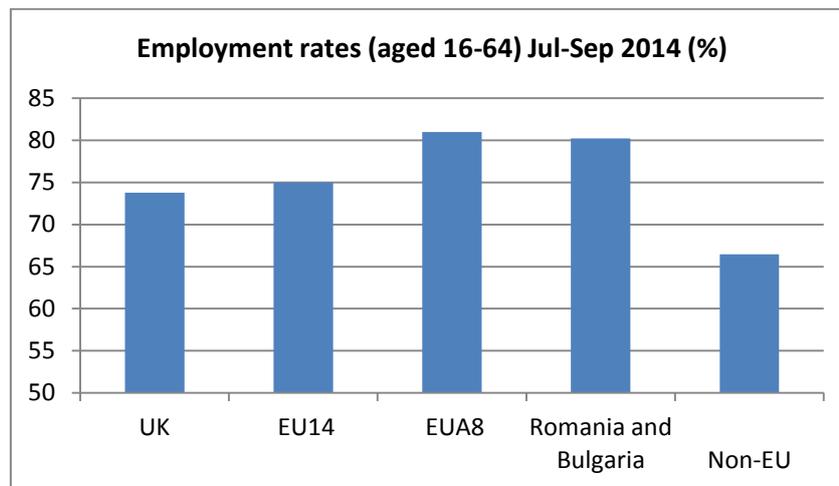
Another controversial aspect of the EUs' rules on access to welfare is the ability to export family benefits for dependent children in another member state.

¹ For a more detailed discussion, see Chalmers, D., & Booth, S., 'A European labour market with national welfare systems: a proposal for a new Citizenship and Integration Directive', *Open Europe*, November 2014; http://www.openeurope.org.uk/Content/Documents/European_labour_market_with_national_welfare_systems_Chalmers_and_Booth_November_2014.pdf

Under our proposals this would not be possible for as long as the EU citizen was not eligible for these benefits – linking the ability to do this at any point could be written into the current EU social security rules. Other policies that could be considered in combination are longer transitional controls for new EU accession states.

2. EU migrants' access to welfare in the UK

So-called 'benefit tourism' is a second order issue when it comes to EU free movement. While a small fraction may abuse the system, the vast majority of EU migrants come to the UK to work. According to the latest Labour Force Survey, foreign born EU A8 migrants have an employment rate of 81%, while those from the EU14 have an employment rate of 75%. In comparison, UK born workers have an employment rate of 73.8% and non-EU migrants just 66.5%.²



Source: Labour Force Survey Q3 2014

Nevertheless, under EU law, EU migrants coming to the UK are potentially entitled to a wide range of welfare benefits, although access is not unrestricted and depends on an individual's circumstances.

There are three broad categories of EU migrant, which is reflected in differing access to the UK welfare system:

- the economically inactive;
- jobseekers;
- workers

In recent months, the Government has introduced several new rules to tighten access to the welfare system for the first two of these groups, the economically inactive and jobseekers.

The economically inactive can be denied out-of-work benefits

The UK already imposes a 'habitual residence test' to these migrants and a recent European Court of Justice ruling made it clear that national governments can deny non-contributory benefits to "economically inactive" EU migrants who have not worked and do not intend to work.³

² ONS, 'UK Labour Market', November 2014; http://www.ons.gov.uk/ons/dcp171778_381416.pdf

³ Judgment in Case C-333/13 Elisabeta Dano, Florin Dano v Jobcenter Leipzig; <http://curia.europa.eu/jcms/upload/docs/application/pdf/2014-11/cp140146en.pdf>

EU jobseekers have restricted access to out-of-work benefits

EU jobseekers are entitled to certain benefits, such as income-based jobseekers allowance, child benefit and child tax credit, but only after they have lived in the UK for three months. Under the Government's new rules, jobseekers have to show that they had a "genuine prospect of finding work" to continue to get income-based Jobseekers' Allowance after six months (and if applicable, Housing Benefit, Child Benefit and Child Tax Credit).⁴

EU 'workers' have immediate access to in-work benefits

An EU 'worker' has an automatic right of residence – and with it access to benefits and tax credits on the same basis as UK nationals – for as long as they are in "genuine and effective work". A worker can retain worker status when they stop working in certain circumstances, e.g. if they are temporarily unable to work because of illness, or have been made unemployed and are looking for work. Worker status can also act as a gateway to other benefits such as Housing Benefit and Child Tax Credit, which can then be claimed indefinitely by those on low incomes.

3. UK in-work benefits can make a substantial difference to those on low incomes

Introduced in 2003, the tax credit system comprising Working Tax Credit and Child Tax Credit aimed at facilitating the transition from unemployment back into the labour market by alleviating in-work poverty and relative child poverty by topping up low incomes with a wage subsidy, providing certain eligibility criteria were met.

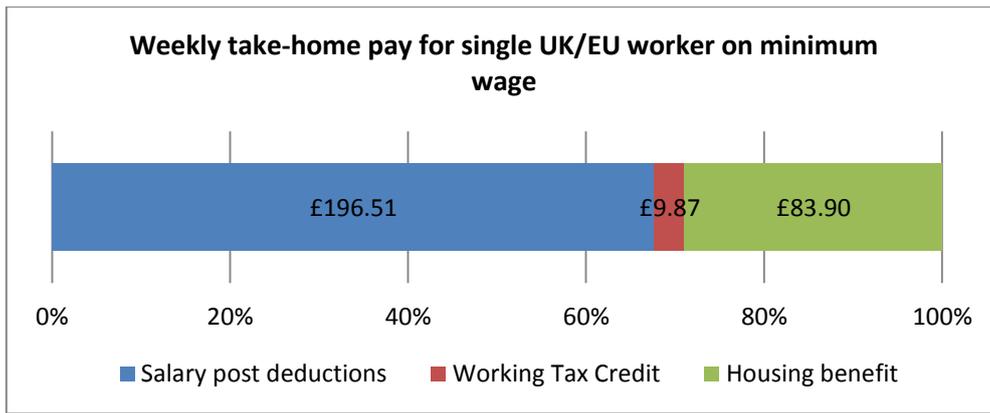
However, tax credits are not offset against income tax contributions; in practice they work just like other benefit payments, and unlike in some other EU countries, tax credits are not factored in when determining eligibility for other benefits such as Child Benefit. For single workers and families on low incomes, the combination of tax credits and other benefits can significantly boost take-home pay. Under the current EU rules, working EU migrants can immediately access these benefits.

Minimum wage workers

A single worker in full time work of 35 hours per week earning the minimum wage of £6.50 per hour earns £196.51 after income tax, National Insurance and Council Tax deductions, which at that level are very low due to the UK's generous tax free allowance. This can then be topped up by £93.77, of which £9.87 comes from Working Tax Credit and £83.90 in Housing Benefit.⁵

⁴ UK Government, press release, 'New measures to tighten up the immigration system', 29 July 2014; <https://www.gov.uk/government/news/new-measures-to-tighten-up-the-immigration-system>

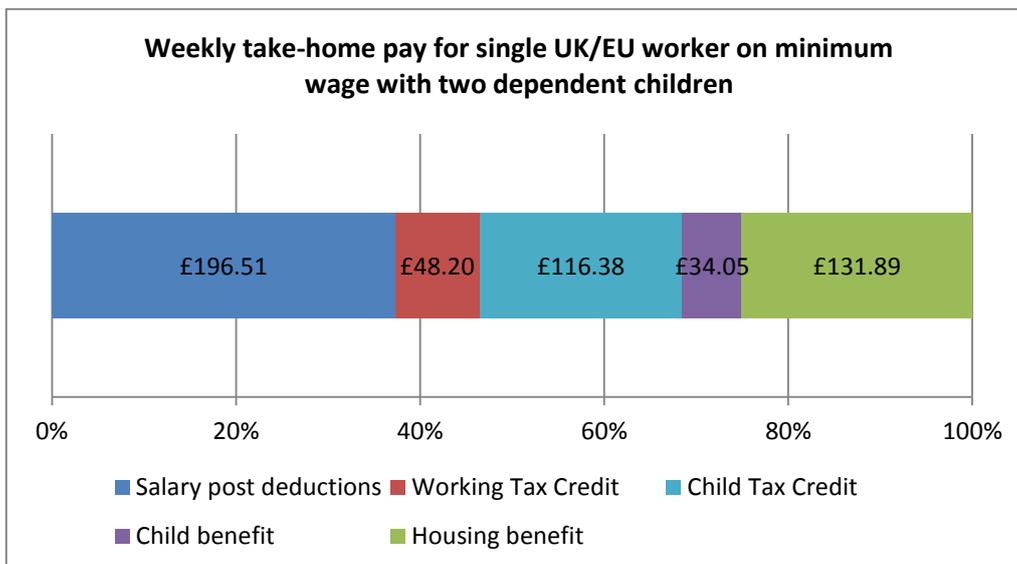
⁵ The figure for Housing Benefit is based on the average October 2014 rent for a one-bedroom property in the private rented sector according to Countrywide (£724 p/cm).



Source: Open Europe calculations

For single earners on the minimum wage therefore, state top-ups can account for 32% of their take-home pay.

However, once children are factored in, the level of tax credits and benefits can go up substantially, eclipsing employment income. A single earner on the minimum wage with two dependent children can earn £527.03. Their net weekly salary of £196.51 can be topped up by £312.52, comprising of £48.20 in Working Tax Credit, £116.38 in Child Tax Credit, £34.05 in Child Benefit, and £131.89 in Housing Benefit.⁶ Therefore, for single earners on the minimum wage with two dependent children, the proportion of tax credits and benefits rises to 63% of their take-home pay.



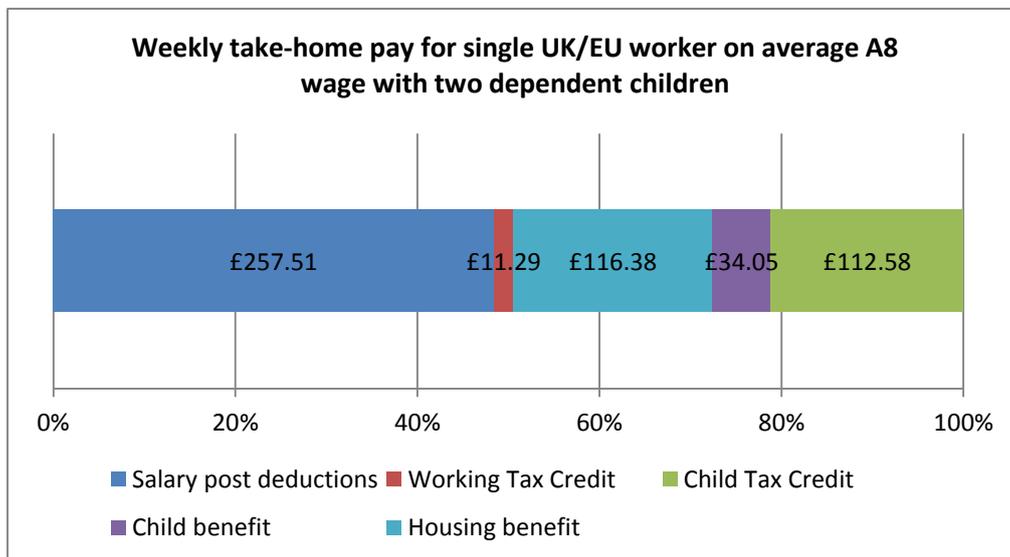
Source: Open Europe calculations

Workers on the average A8 wage

A single earner on the average wage of an A8 migrant in the UK - £9.07 per hour⁷ - is not entitled to either Working Tax Credit or Housing benefit even though this is still below the average UK wage. However, a single earner on the average A8 wage with two dependent children can earn £531.81; their net weekly wage of £257.51 can be topped up by £274.30 comprising £11.29 in Working Tax Credit, £116.38 in Child Tax Credit, £34.05 in Child Benefit, and £112.58 in Housing Benefit.

⁶ The figure for Housing Benefit is based on the average October 2014 rent for a two-bedroom property in the private rented sector according to Countrywide (£825 p/cm).

⁷ This figure is an average of the average rate for A8 males (£9.73 p/h) and A8 females (£8.40 p/h).



Source: Open Europe calculations

4. The impact of low-wage migration

Migrants currently account for around 16% of the UK's low-skilled workforce of 13 million. Those jobs held by migrants are split 60:40 non-EU: EU. Many of the non-EU migrants in low-skilled work have been in Britain for some time – partly because the UK introduced the Points Based System for non-EU migration in 2008. A million migrants in low-skilled jobs have come to the UK in the last decade. Half of them were from Central and Eastern Europe following EU enlargement in 2004 (the A8) and 2007 (the A2).⁸ Since 2010, almost one in six migrants in low-skilled work have come from the EU15 countries such as Spain, Portugal and Italy, which illustrates the impact of the Eurozone crisis has had on unemployment in these countries.⁹

Nevertheless, EU migrants are a very diverse group. Nationals from the 'old EU' countries tend to be in higher paid jobs, while those from the A8 have the lowest average wages in the UK.

Average hourly wage by country of birth (2013)		
	Men	Women
EU A8	£9.73	£8.40
EU	£17.01	£12.95
America	£15.23	£14.17
India	£15.43	£12.00
Pakistan	£10.99	£9.66
Africa	£15.59	£11.74
Australia	£19.10	£18.10
UK	£14.37	£11.71

Source: Migration Observatory, Labour Force Survey¹⁰

⁸ Migration Advisory Committee, 'Migrants in low-skilled work: the growth of EU and non-EU labour in low-skilled jobs and its impact on the UK', July 2014;

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/333084/MAC-Migrants_in_low-skilled_work_Summary_2014.pdf

⁹ Migration Advisory Committee, 'Migrants in low-skilled work: the growth of EU and non-EU labour in low-skilled jobs and its impact on the UK', July 2014, p7;

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/333084/MAC-Migrants_in_low-skilled_work_Summary_2014.pdf

¹⁰ Migration Observatory, 'Characteristics and outcomes of migrants in the UK labour market', 12 November 2014; <http://www.migrationobservatory.ox.ac.uk/sites/files/migobs/Briefing%20-%20Characteristics%20and%20Outcomes%20of%20Migrants%20in%20the%20UK%20Labour%20Market.pdf>

4.1. Migration tends to depress wages at the bottom of the market and boost them at the top

The economic literature suggests that, at the aggregate level, migration has a modest effect on employment and wages, but this masks differences across the wage distribution. Low-skilled and low-wage workers can be adversely affected in the form of greater competition for jobs and a depressing effect on wages, whereas higher-paid workers tend to gain.¹¹ For example, a study by Professor Dustmann et al found that each 1% increase in the share of migrants in the UK-born working age population leads to a 0.6% decline in the wages of the 5% lowest paid workers and to an increase in the wages of higher paid workers.¹²

Meanwhile, the UK Government's Migration Advisory Committee's study into low-skilled migration concluded that the effects of migration on wages "are modest and tend to be positive at the top of the wage distribution and negative at the bottom." It added, "As we would expect workers in low-skilled jobs to be at the bottom end of the wage distribution, this suggests that the negative impact is likely to fall on those working in low-skilled jobs."¹³

4.2. Recent migrants are less likely to claim out-of-work benefits but low-wage migrants are slightly more likely than UK natives to receive in-work tax credits

Out-of-work benefits

The UK's benefit payment systems do not systematically record the nationality of benefit claimants, as nationality is not in and of itself a criterion of eligibility for benefits. Therefore there is no complete picture of the number of migrants to the UK or foreign nationals in the UK who receive social security benefits and tax credits, or the cost of this.

However, a 2014 study by academics at UCL found that recent immigrants (those who arrived between 2001 and 2011) are significantly less likely to draw out-of-work benefits in comparison to natives with the same age structure – those from the 'old EU' states are even less likely than A8 migrants. Recent immigrants of the same age overall are also slightly less likely than natives to live in social housing.¹⁴

The DWP and HMRC have provided some figures which offer a snapshot of benefit claimants by country of origin, which shows that migrants are far less likely to claim key out-of-work benefits. As of February 2014, approximately 15% of working age UK nationals were claiming a DWP working age benefit compared to 7% of working age non-UK nationals (at the time they first registered for a National Insurance Number (NINo)).¹⁵ Of the 5.3 million DWP working-age claimants, 395,420 were non-UK nationals when they first registered for a NINo, of which 130,990 claimants (2.5% of the total) were EU nationals and 264,430 claimants (5.0% of the total) were non-EU nationals.

¹¹ See overview in *Migration Observatory*, 'The Labour market effects of immigration', 5 March 2014; <http://www.migrationobservatory.ox.ac.uk/sites/files/migobs/Briefing%20-%20Labour%20Market%20Effects%20of%20Immigration.pdf>

¹² Dustmann, C., T. Frattini, and I. P. Preston., 'The Effect of Immigration along the Distribution of Wages', *Review of Economic Studies* 80, no 1, 2013, p145-173

¹³ *Migration Advisory Committee*, 'Migrants in low-skilled work: the growth of EU and non-EU labour in low-skilled jobs and its impact on the UK', Full report, July 2014, p185; https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/333083/MAC-Migrants_in_low-skilled_work_Full_report_2014.pdf

¹⁴ Dustmann, C., & Frattini, T., 'The fiscal effects of immigration to the UK', *The Economic Journal*, 2014, p24; <http://www.cream-migration.org/files/FiscalEJ.pdf>

¹⁵ It should be noted that this is not the same as those who are currently non-UK nationals, as some of these people will have subsequently obtained British nationality.

There were 67,270 claimants from the EU accession countries that joined the EU from 2004 onwards – these accounted for 1.3% of all claimants.¹⁶ This illustrates that EU migrants are far less likely than UK natives to be claiming out-of-work benefits. Given their high employment rates this is unsurprising.

In-work benefits

According to the 2011 census, families with an EU accession country migrant at the head of the household (320,000) were more likely to have at least one dependent child compared with all families in England and Wales, with 31% having one dependent child. They are also just as likely to have two dependent children as a UK-born family. However, they also have a smaller proportion of families with three or more dependent children (4.7%).

This is likely to reflect the younger age structure of this group (more likely to have a child) and the relatively short time resident in the UK (less likely to have several children)¹⁷. The fact that EU A8 migrants are likely to be on low-incomes and more likely to have at least one dependent child, would suggest that these migrants will be eligible for low-income and family benefits such as Working Tax Credit, Child Tax Credit, Child Benefit and Housing Benefit.

Following a Freedom of Information request, HMRC have produced data on the number of families in receipt of tax credits where at least one adult in the family was a non-UK national at the point of registration for a NINo. Of the £4.9bn in tax credits paid to families containing a non-UK national in 2012/13, £1.2bn was paid to out-of-work families, £3.5bn to in-work families with children and £0.2bn to in-work claimants without children. £4.9bn represents 16.6% of the total £29.55bn of tax credit entitlements paid out during the year.

Using these figures, the MAC concluded that “As tax credits are targeted at those in lower paid work, comparing this proportion with the share of low-skilled employment that is non-UK born (16%) suggests migrant workers are only *marginally* more likely to be tax credit claimants than UK nationals.”¹⁸

The HMRC figures show that of the total 3.26 million in-work families on tax credits, 2.74 million (83.9%) were UK nationals. Of the remaining 526,300 in-work families containing a non-UK national, 252,200 (7.7%) contained a national from another EU member state, while 274,100 (8.4%) contained an individual from a non-EU country.¹⁹ Given that according to ONS figures, as of March 2013 EU-born migrants accounted for 5.56% of people employed in the UK,²⁰ it does hold that EU migrants account for a higher share of in-work tax credit payments relative to their share of the workforce.

As suggested previously, this is likely down to the fact that EU migrants are clustered more heavily than other groups around the lower wage part of the workforce.

¹⁶ See *House of Commons Library*, ‘Statistics on migrants and benefits’, 16 October 2014, p3

¹⁷ ONS, ‘2011 Census Analysis: how do living arrangements, family type and family size vary in England and Wales?’, http://www.ons.gov.uk/ons/dcp171776_366963.pdf, p17

¹⁸ *Migration Advisory Committee*, ‘Migrants in low-skilled work: the growth of EU and non-EU labour in low-skilled jobs and its impact on the UK’, Full report, July 2014, p266; https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/333083/MAC-Migrants_in_low-skilled_work_Full_report_2014.pdf

¹⁹ See *House of Commons Library*, ‘Statistics on migrants and benefits’, 16 October 2014, p3

²⁰ ONS, Labour market statistics, Summary of Labour market statistics A01, Sheet 8, November 2014 <http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-331783>

This also increases the likelihood that an EU migrant family has two parents receiving in work tax credits, which may also boost the total amount they receive.

4.3. Pressure on public services

The Migration Advisory Committee identified that one of the costs of low-skilled migration was “pressure on health (e.g. maternity services), education (e.g. churning during school year) and transport services.”²¹ Given that our proposal is likely to have the biggest impact on low-wage migrants with dependent families, reducing the incentive for these people to migrate could help alleviate the pressure on some local services.

5. How our proposal would work in practice

5.1. Restricting access to non-contributory benefits would reduce the incentive to migrate to low-income jobs

Levels of economic migration are determined by a number of different ‘push’ and ‘pull’ factors including labour market regulation, policies on education and training, as well as pay and taxation levels. However, migration is also not purely driven by short-term financial considerations – some migrants will conclude it is tolerable to take a relative hit in terms of living standards in order to establish themselves in a country they see as offering better social and economic prospects in the longer-term; this may particularly apply to parents who decide to re-settle their entire families.

Nonetheless, as we will demonstrate below, restricting access to the UK’s generous, non-contributory in-work benefits would fundamentally change the cost-benefit calculations made by potential migrants.

Scenario A: Single earner on the minimum wage with no dependent children

Under the current rules on EU migrants’ access to in-work benefits, it makes financial sense for someone earning the minimum wage in all three of our illustrative national examples (Spain, Poland and Bulgaria) to move to the UK to earn the minimum wage. A Spanish migrant would see their current weekly income increase by around a third, while a Polish worker would earn two-and-a-half times and a Bulgarian worker would earn almost four-and-a-half times their current weekly income.

However, by removing immediate access to in-work benefits, a Spanish worker would be 8% worse off in terms of their weekly income upon moving to the UK. In the case of Polish migrants, this measure would halve the financial incentive to migrate to the UK once the cost of living is factored in with the potential income boost falling from 155% of Polish weekly take-home pay to 72%.

²¹ *Migration Advisory Committee, ‘Migrants in low-skilled work: the growth of EU and non-EU labour in low-skilled jobs and its impact on the UK’, Full report, July 2014, p9;* https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/333083/MAC-Migrants_in_low-skilled_work_Full_report_2014.pdf

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Source: Open Europe calculations

Scenario B: Single earner with no dependent children moving from the Polish average wage to the UK minimum wage

Under the current rules, there is a financial incentive to drop from earning the Polish average wage down to the UK minimum wage due to the compensatory effects of in-work tax credits and benefits; this would boost a single earner's weekly income by 15.5%. Under Open Europe's reform proposals however, such a move would be highly unattractive financially with a 22% drop in weekly income.

Weekly take-home pay: single earner, UK minimum wage, no dependent children (UK GBP in PPP)

	UK nationals and EU migrants under current rules	EU migrant in UK under OE rules	Spanish average wage	Polish average wage	Bulgarian average wage
Salary	£227.50	£227.50	£433.65	£387.90	£191.69
Total deductions	-£30.99	-£30.99	-£90.22	-£136.67	-£43.90
Income post deductions	£196.51	£196.51	£343.43	£251.23	£147.79
Benefits/tax credits	£93.77	£0.00	£0.00	£0.00	£0.00
Total	£290.28	£196.51	£343.43	£251.23	£147.79
Effect on income of moving to UK under current rules			-15.5%	15.5%	96.4%
Effect on income of moving to UK under OE rules			-42.8%	-21.8%	33.0%

Source: Open Europe calculations

Scenario C: Unemployed single Spanish migrant moving to UK minimum wage

Under Open Europe's proposals, it would no longer make sense from a purely financial perspective for someone employed in Spain to move to the UK for the purposes of minimum wage work. However, one of the main 'push' factor in Spain and the rest of the Mediterranean is not low wages but high unemployment rates, in particular among young people.

While out-of-work benefits in Spain can be relatively generous for people who had previously been in long-term employment, for people with short employment records, they are far less generous; a single worker who has paid their insurance contributions for at least six months is entitled to an 'unemployment subsidy' of £101 per week payable for a maximum of six months.²² Someone who has never paid such contributions is not eligible for any unemployment benefits; this tends to be offset by the support offered by traditional family structures.

This means that with an effective income of £101 per week or even zero, there will still be a financial incentive to move to the UK even to earn the minimum wage under Open Europe's proposed new rules. However, even for unemployed Spaniards, the incentive to move will be reduced.

Scenario D: Single earner with two dependent children

With regards to single parents/couples with a single earner with dependent children, as illustrated in section 2.1, this is where tax credits and benefits can substantially top-up weekly take-home pay, and therefore where Open Europe's reform proposals would have a substantial impact if implemented. Due to the relative generosity of the UK's tax credits and benefits, there is a substantial financial incentive to migrate to the UK as a single earner with two dependent children from each of the three EU member states we use as illustrative examples.

Currently, a single earner with two dependent children earning the minimum wage in Spain would more than double their weekly take-home pay by moving to the UK and working for the minimum wage once benefits and tax credits are factored in, but under Open Europe's reform proposals their weekly income would actually fall by 13%, making such a move unattractive from a financial perspective. In the case of a Polish single parent with two dependent children, moving from the Polish minimum wage onto the UK minimum wage would, under Open Europe's rules, result in only a 4.9% uplift in weekly income.

Weekly take-home pay: single parent, minimum wage, two dependent children (UK GBP in PPP)					
	UK nationals and EU migrants under current rules	EU migrant in UK under OE rules	Spanish minimum wage	Polish minimum wage	Bulgarian minimum wage
Salary	£227.50	£227.50	£178.07	£174.06	£79.48
Total deductions	-£30.99	-£30.99	-£11.31	-£60.05	-£18.20
Income post deductions	£196.51	£196.51	£166.77	£114.01	£61.28
Benefits/tax credits	£330.52	£0.00	£58.77	£73.34	£1.66
Total	£527.03	£196.51	£225.54	£187.34	£62.94
Effect on income of			+133.7%	+181.3%	+737.4%

²² A single unemployed worker in Spain would also be eligible for housing benefit but as that is linked to their rent; in practice for someone on a total income of €426 a month this would be very low.

moving to UK under current rules					
Effect on income of moving to UK under OE rules			-12.9%	+4.9%	+212.2%

Source: Open Europe calculations

For a Polish single parent with two dependent children earning the *average* Polish wage, moving to the UK to earn the minimum wage, their average weekly income would in fact drop by 27%; such a move would therefore make little sense from a purely financial perspective. Under the current rules, their income would increase from £269.67 in Poland to £527.03 in the UK, once costs of living have been factored in. Withdrawing immediate access to tax credits and benefits would however reduce this income to £196.51.

Weekly take-home pay: single parent, UK minimum wage, two dependent children (UK GBP in PPP)					
	UK nationals and EU migrants under current rules	EU migrant in UK under OE rules	Spanish average wage	Polish average wage	Bulgarian average wage
Salary	£227.50	£227.50	£433.65	£387.90	£191.69
Total deductions	-£30.99	-£30.99	-£80.77	-£136.67	-£43.90
Income post deductions	£196.51	£196.51	£352.88	£251.23	£147.79
Benefits/tax credits	£330.52	£0.00	£9.45	£18.43	£1.66
Total	£527.03	£196.51	£362.33	£269.67	£149.45
Effect on income of moving to UK under current rules			+45.5%	+95.4%	+252.6%
Effect on income of moving to UK under OE rules			-45.8%	-27.1%	+31.5%

Source: Open Europe calculations

5.2. Removing access to non-contributory benefits would not deprive EU migrants of all social security

In contrast to the rules for EU migrants, the default principle for non-EU nationals migrating to the UK for work is that they do not have recourse to ‘public funds’ until they have been resident in the UK for 5 years.²³ ‘Public funds’²⁴ include a range of non-contributory benefits – including out-of-work

²³ HMRC, ‘Tax credits – coming to the United Kingdom’; <http://www.hmrc.gov.uk/leaflets/wtc-fs5.pdf>; HMRC, ‘TCM0128060 - Eligibility - residency and immigration: Immigration status (Info)’; <http://www.hmrc.gov.uk/manuals/tcmanual/tcm0128060.htm>; HMRC, ‘TCM0128040 - Eligibility - residency and immigration: Immigration control - exclusion exemptions (Info)’; <http://www.hmrc.gov.uk/manuals/tcmanual/TCM0128040.htm>; University of Oxford Migration Observatory, ‘Costs and ‘Benefits’: Benefits tourism, what does it mean?’, 21 February 2014;

http://www.migrationobservatory.ox.ac.uk/sites/files/migobs/commentary-costs%20and%20benefits_0.pdf

²⁴ UK Government, ‘Public Funds’, 17 February 2014; <https://www.gov.uk/government/publications/public-funds--2/public-funds>

and in-work benefits as well as housing support and disability benefits – that can be granted to people on low incomes. Under our proposals, newly arrived EU migrants would no longer gain immediate access to these benefits.

UK non-contributory benefits currently open to EU workers but not non-EU workers	
• income-based jobseeker’s allowance	• domestic rate relief (Northern Ireland)
• income support	• state pension credit
• child tax credit	• attendance allowance
• universal credit	• severe disablement allowance
• working tax credit	• personal independence payment
• a social fund payment	• carer’s allowance
• child benefit	• disability living allowance
• housing benefit	• an allocation of local authority housing
• council tax reduction	• local authority homelessness assistance

However, public funds do not include benefits that are based on National Insurance contributions. Therefore, the benefits to which non-EU migrants are typically entitled to are limited to the small number contributory benefits in the UK system. Under our proposals, EU migrants would still contribute towards and be entitled to these benefits but access to the wider non-contributory benefits would only be granted after the agreed qualification period.

UK contributory benefits available to EU workers and non-EU workers	
• contribution-based jobseeker’s allowance	• widow’s benefit and bereavement benefit
• incapacity benefit	• guardian’s allowance
• retirement pension	• statutory maternity pay

In addition, each local authority has a level of discretionary funding available to provide support for genuine ‘hard luck’ cases such as rapid and/or unexpected changes in personal circumstances.

6. The trade-off: Competitiveness and lower prices versus higher wages

All the above said, there is a trade-off involved. If immigration keeps wages down – this means costs stay lower. Immigrant workers are also favoured over local workers often on the same terms, suggesting they are more productive.

Therefore, not only does this boost competitiveness but – given there is little evidence of huge profit hoarding by firms – it helps keep prices lower for consumers. Reducing the level of immigration could therefore dent competitiveness and potentially increase prices. Overall, there could be a reduction in the net positive effect of immigration, although this may be offset by a reduction in the number of ‘losers’ from immigration and the political benefits.

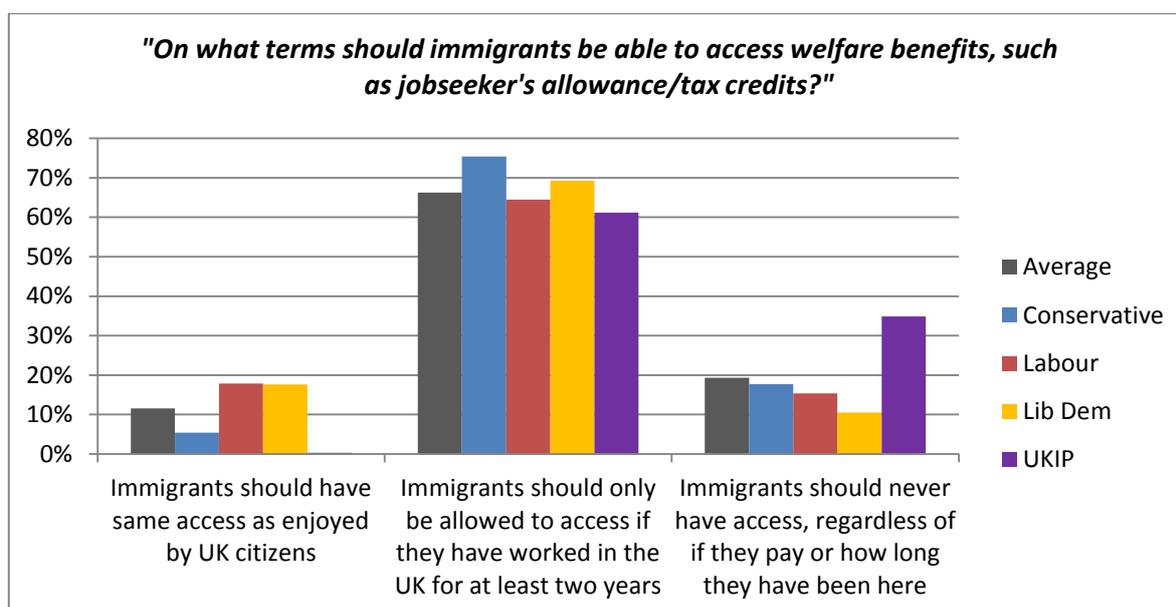
Annex A: Public perceptions of low-skilled migration and access to welfare

Opinion polling often finds that the public has a preference for higher skilled migration and is much more concerned about controls on low-skilled migration.

<i>"Thinking about different types of people who want to come and live in the UK, to what extent should the following groups of people be allowed to come and live in Britain?"</i>		
	People with low levels of education and skills looking for low paid work	People with high levels of education and skills looking for high paid jobs
We should allow more of this group	4%	21%
We should allow the present numbers of this group	17%	43%
We should allow less of this group	31%	19%
We should not allow this group at all	39%	9%
Don't know	10%	9%

Source: YouGov/Sunday Times polling, June 2013²⁵

When it comes to access to welfare, the polling evidence suggests the British public are open to sharing the benefits of their society once EU migrants have made an economic contribution. For example, a 2013 Survation poll found that an absolute majority of respondents, including among voters of the three main parties and UKIP, supported migrants (both EU and non-EU) having access to Jobseekers Allowance and tax credits provided they had worked in the UK for at least two years.



Source: Survation/Sky News 'Attitudes to immigration' poll, 4 October 2013²⁶

²⁵ YouGov/Sunday Times Survey Results, Fieldwork conducted 27-28 June 2013

http://d25d2506sfb94s.cloudfront.net/cumulus_uploads/document/fyrzoifgft/YG-Archive-Pol-Sunday-Times-results-280613.pdf

²⁶ Available here <http://survation.com/wp-content/uploads/2014/04/Full-Sky-News-Immigration-Tables.pdf>

Annex B: Methodology

All of the figures in the report are illustrative examples of what UK nationals and EU migrants in certain income brackets could be entitled to, they are not necessarily average claims. In reality, even within set income brackets weekly take-home pay will vary substantially in different parts of the country to due varying rent levels – and therefore Housing Benefit payments – and Council Tax charges. Below is a breakdown of all the figures and sub-calculations for the UK as well as Spain, Poland and Bulgaria. All the figures are in UK GBP adjusted for Purchasing Power Parity (PPP).

UK

Income and deductions

The UK minimum wage is £6.50 an hour or £227.50 per week assuming a 35 hour working week. The average A8 wage in the UK is £9.07 per hour (£9.73 for men, £8.40 for women) or £317.28 per week.

With the UK's annual tax free allowance of £10,000, 20% income tax per week on the minimum wage works out as £7.04 per week on the minimum wage and £24.99 per week on the average A8 wage. National Insurance contributions (12% over earnings over £153 per week) work out as £8.88 per week on the minimum wage and £19.71 per week on the average A8 wage.

The average Council Tax payment per dwelling in England in 2013/14 was £1,045 per annum²⁷ which works out as £20.10 per week, or £15.07 per week with the single person's discount.

Total deductions therefore amount to £30.99 per week on the minimum wage and £59.77 per week on the average A8 wage resulting in a post-deductions income of £196.51 per week on the minimum wage and £257.50 per week on the average A8 wage.

Benefits and tax credits

Working Tax Credit and Child Tax credit were calculated using the government's Entitledto benefits calculator²⁸ to work out the eligibility of single workers and single earners with two dependent children. A single worker on the minimum wage can claim £9.87 per week in Working Tax Credit while a single worker on the average A8 wage is not eligible. A single earner on the minimum wage with two dependent children can claim £48.20 per week in Working Tax Credit and £116.38 per week in Child Tax Credit, while a single earner on the average A8 wage with two dependent children can claim £11.29 per week in Working Tax Credit and £116.38 per week in Child Tax Credit.

Child Benefit is paid at a flat rate of £20.50 for the first child and £13.55 for the second child²⁹ (providing neither the primary recipient nor their partner if they have one earns over £50,000 per annum) so for a single earner with two dependent children on both the minimum wage and the average A8 wage the total amount will be £34.05 per week.

The level of Housing Benefit depends on a number of factors such as income, rent and family size. As our baseline we have used the average rent for a single bedroom property (£724 per calendar month) for the single worker and a two bedroom property (£825 per calendar month) for the single

²⁷ Council Tax levels set by local authorities in England: 2013 to 2014 (revised)
<https://www.gov.uk/government/statistics/council-tax-levels-set-by-local-authorities-in-england-2013-to-2014#history>

²⁸ Available here <http://www.entitledto.co.uk/benefits-calculator/entitlementcalculator.aspx>

²⁹ Child Benefit: What you'll get <https://www.gov.uk/child-benefit/what-youll-get>

earner with two dependent children in the private rented sector according to October 2014 figures from Countrywide, the UK's largest estate agency and lettings network. According the Housing Benefit calculator³⁰, a single worker on minimum wage is eligible for £83.90 per week while a single worker on the average A8 wage is not eligible for any Housing Benefit. The single earner with two dependent children on the minimum wage is eligible for £131.89 per week while the single earner with two dependent children on the minimum wage is eligible for £112.58 per week.

Spain

Income and deductions

The Spanish statutory minimum wage is €9,034.2 per annum which works out as €173.73 per week or £178.07 per week. The average Spanish wage is €22,000 which works out as €423.07 per week or £433.65 per week.

People earning the minimum wage do not have to pay any income tax, but they still have to contribute to the social security system. The total rate is 6.35% (4.7% for 'common contingencies' + 1.55% for unemployment + 0.1% for occupational training). Therefore, a worker earning the minimum wage in Spain pays an annual €573.67 towards the country's social security system. This works out as €11.03 per week or £11.31 per week.

This gives us a weekly post-deductions income of €162.7 per week (9,034.2 – 573.67/52) or £166.77 per week. This is an average, although in Spain workers have their annual salary paid in 14 tranches – twelve monthly payments plus two 'extra' payments (one during the summer and one during the Christmas period).³¹

Someone earning the average Spanish wage will pay income tax of €61.16 per week and insurance contributions of €26.86 per week – total deductions of €88.02 per week. This leaves a post-deductions income of €335.05 per week or £343.43 per week.

Due to the way the Spanish tax system works, people living in Spain may be subject to other levies set at the local level (e.g. garbage collection tax) – but these are more difficult to take into account as they can vary significantly depending on the city.

Benefits and tax credits

Anyone earning below €11,519.16 per annum are entitled to child benefit of €291 per child per year³² which for two dependent children works out as €11.29 per week or £11.57 per week.

Last year, the Spanish government launched a plan to help low earners pay their rent.³³ The plan is due to end on 31 December 2016. The scheme is potentially accessible to workers/families whose

³⁰ Available here <http://www.quickcalc.co.uk/nihe/pc/>

³¹ *Gobierno de España, Ministerio de Empleo y Seguridad Social, 'Régimen general de la seguridad social – Bases y tipos de cotización 2014':* http://www.seg-social.es/Internet_1/Trabajadores/CotizacionRecaudaci10777/Basesytiposdecotiza36537/index.htm

³² *Gobierno de España, Ministerio de Empleo y Seguridad Social, 'Prestación económica por hijo o menor acogido a cargo – Hijos o menores acogidos menores de 18 sin discapacidad':* http://www.seg-social.es/Internet_1/Trabajadores/PrestacionesPension10935/Prestacionesfamilia10967/Prestacioneconomica27924/Cuantias/index.htm#42185

income does not exceed €19,170.39 per year, and whose rent does not exceed €600 per month. The maximum amount of the benefit is set at 40% of the annual rent, and in no case can it exceed €2,400 per year. The money can be claimed for a maximum of twelve months, although it is possible to extend the period by a further twelve months.

It is important to bear in mind that, under this scheme, not everyone who meets the requirements is guaranteed to get the subsidy. This depends on a ranking of claimants and on the money allocated to the scheme every year. The amount of money beneficiaries get also varies depending on the economic situation of claimants and the rent they have to pay. In our calculations, we assumed that a worker on the minimum wage would get the highest amount made available; €46.15 per week (€2,400/52) or £47.30 per week – although this may not always be the case.

Unemployment benefit

In Spain, people who have never worked (as in ‘worked legally’, thereby paying into the social security system) cannot claim unemployment benefits of any kind. Therefore, the choice for them would be between relying on their families and moving abroad.

The unemployment subsidy (*subsídio por desempleo*) can be claimed by people who have worked for at least six months (or three months if you have ‘family responsibilities’ – dependent partner or children). The amount is €426 per month, and it can only be claimed for a maximum of six months. This works out as €98.31 per week or £100.77 per week.

A separate contribution-based unemployment benefit scheme is proportional to the number of days worked in the past six years.³⁴

Number of days worked in the past six years	Duration of contribution-based unemployment benefit (days)
From 360 to 539	120
From 540 to 719	180
From 720 to 899	240
From 900 to 1,079	300
From 1,080 to 1,259	360
From 1,260 to 1,439	420
From 1,440 to 1,619	480
From 1,620 to 1,799	540
From 1,800 to 1,979	600
From 1,980 to 2,159	660
2,160 or more	720

The amount varies depending on a number of factors, but for a person without children the minimum is €497 per month and the maximum is €1,087.2 per month.³⁵

³³ *Gobierno de España, Ministerio de Fomento, ‘Programa de ayudas al alquiler de vivienda’:* http://www.fomento.gob.es/MFOM/LANG_CASTELLANO/DIRECCIONES_GENERALES/ARQ_VIVIENDA/APOYO_EMANCIPACION/PRGM2.htm

³⁴ *Gobierno de España, Ministerio de Empleo y Seguridad Social ‘Prestaciones por desempleo de nivel contributivo’* http://www.empleo.gob.es/es/guia/texto/guia_9/contenidos/guia_9_20_1.htm

³⁵ *Gobierno de España, Ministerio de Empleo y Seguridad Social ‘Prestaciones: Datos 2014’* http://www.sepe.es/contenidos/personas/prestaciones/datos_2014.html

Poland

Income and deductions

The minimum salary is 1,750zł per month (as of 1 January 2015)³⁶ which works out as 403.85zł per week or £174.06 per week. The average salary in the private sector is 3,900zł per month³⁷ which works out as 900zł per week or £387.90 per week.

Poland has an annual tax free allowance of 3,091zł³⁸ or £1329.13 (PPP adjusted). The basic rate of income tax is 18% but 7.75% is offset against health insurance contributions, resulting in an effective tax rate of 10.25%. A worker on the minimum wage will pay £15.21 per week in income tax while someone on the average wage will pay £37.13 per week.

Below is a breakdown of the national insurance rates in Poland³⁹

Retirement pension insurance (*ubezpieczenie emerytalne*): 19.52% (50% paid by employer and 50% by employee)

Incapacity pension insurance (*ubezpieczenie rentowe*): 8% (75% paid by employer and 25% by employee)

Sickness and maternity insurance (*ubezpieczenie chorobowe*): 2.45% (100% paid by employee)

Accident insurance (*ubezpieczenie wypadkowe*): 1.93% (100% paid by employer)

Employment fund (*fundusz pracy*): 2.45% (100% paid by employee)

Guaranteed employee benefits fund: (*fundusz gwarantowanych świadczeń pracowniczych*): 0.10% (100% paid by employee)

As such, a single worker on the minimum wage will pay £29.17 per week in insurance contributions while someone on the average wage will pay £64.62 per week.

With health insurance contributions levied at 9% of income, a worker on the minimum wage will pay £15.67 per week while someone on the average wage will pay £34.91 per week.

Total deductions therefore amount to £60.05 per week on the minimum wage and £136.67 per week on the average wage resulting in a post-deductions income of £114.01 per week on the minimum wage and £251.23 per week on the average wage.

Benefits and tax credits

The Polish state offers no fixed benefits for single workers on low incomes – such as Working Tax Credit or Housing Benefit - although some discretionary funding may be available for individuals in difficult circumstances. Parents can however qualify for both child tax credits and/or child benefit.

Child tax credit (*ulga na dzieci*) adds up to a total 2,224.08zł per annum for the first two children up to an income threshold of 56,000zł for a single parent/guardian or 112,000zł for a couple⁴⁰ which works out as 42.77zł per week or £18.43 per week.

³⁶ Rozporządzenie Rady Ministrów z dnia 11 września 2014 r. w sprawie wysokości minimalnego wynagrodzenia za pracę w 2015 r. <http://isap.sejm.gov.pl/DetailsServlet?id=WDU20140001220>

³⁷ Wynagrodzenia w Polsce według GUS: Wrzesień 2014 http://www.wynagrodzenia.pl/dane_gus.php

³⁸ Pit.pl 'Kwota wolna od podatku' <http://www.pit.pl/kwota-wolna-od-podatku/>

³⁹ Pit.pl 'Odliczenie ZUS' <http://www.pit.pl/odliczenie-zus/>

⁴⁰ Pit.pl 'Ulga Prorodzinna' <http://www.pit.pl/ulga-prorodzinna/>

Families on low incomes (where the net income per head does not exceed 579zł per month⁴¹ including child tax credits⁴²) can also claim 106zł per month in child benefit (*zasilek rodzinny*) for every child aged between 5 and 18 years old which works out as 48.92zł per week or £21.09 per week. In addition, single parents who do not receive child support payments are eligible for a further 340zł per month for two children.⁴³ This works out as 78.46zł per week or £33.82 per week.

In total therefore a single parent with two dependent children on the minimum wage is entitled to a total of £73.34 per week in combined child tax credit and child benefit while a single parent with two dependent children on the average wage is only entitled to £18.43 per week.

Bulgaria

Income and deductions

The minimum salary is 340лв per month⁴⁴ which works out as 78.46лв per week or £79.48 per week. The average salary is 820лв per month which works out as 198.23лв per week or £191.69 per week.

There is no tax free allowance as such although there can be a tax rebate in some very specific cases, for example when a person has worked less than 12 months in a calendar year on a minimum wage.⁴⁵ We have not included these in our calculations as we are considering the case of a person working throughout the whole year on a minimum or average wage respectively.

Bulgaria has a 10% flat tax so the weekly tax payment for someone on the minimum wage is £7.95 per week and £19.17 per week for someone on the average wage.

The Bulgarian national social insurance system distinguishes between persons born before and after 1 January 1960 and between several categories of work. The rates here are for 2014 and apply to persons born after 1 January 1960 who are employed on standard work contracts (3rd category of work). Below is a breakdown of the different insurance rates in Bulgaria⁴⁶

Retirement pension insurance (*фонд „Пенсию“*): 12.8% (of these 7.1% are paid by employer and 5.7% by the employee)

Additional compulsory pension insurance (*фонд „Допълнително задължително пенсионно осигуряване“*): 5% (of these 2.8 are paid by the employer and 2.2% by the employee)

Sickness and maternity insurance (*фонд „Общо заболяване и майчинство“*): 3.5% (60% paid by employer and 40% paid by employee)

⁴¹ Zwoliński, Andrzej 'Zmiany w prawie w 2014 roku. Sprawdź, jak odbiją się na twojej kieszeni', *Money.pl* 30 December 2013

<http://www.money.pl/gospodarka/raporty/artykul/zmiany:w;prawie:w;2014;roku;sprawdz;jak;odbija;sie;na;twojej;kieszeni,143,0,1443215.html>

⁴² *Polskie Radio* 'Nowe ulgi na dzieci: można sporo zyskać, ale i stracić, np. zasiłek rodzinny' 30 September 2014 <http://www.polskieradio.pl/42/276/Artykul/1246529,Nowe-ulgi-na-dzieci-mozna-sporo-zyskac-ale-i-stracic-np-zasilek-rodzinny>

⁴³ *Ministerstwo Pracy i Polityki Społecznej* 'Dodatek z tytułu samotnego wychowywania dziecka' <http://www.mpips.gov.pl/wsparcie-dla-rodzin-z-dziecmi/swiadczenia-rodzinne/rodzaje-i-wysokosc-swadczen-rodzinnych-kryteria-uzyskania/-test-zasilek-rodzinny-oraz-dodatki/dodatek-z-tytulu-samotnego-wychowywania-dziecka/>

⁴⁴ Minimum monthly wage in Bulgaria

<http://www.noi.bg/images/bg/users/infomaterials/aboutpensions/MRZ.pdf>

⁴⁵ Bulgarian Ministry of Finance, National Revenue Agency <http://www.nap.bg/page?id=192>

⁴⁶ Bulgarian Ministry of Finance, National Revenue Agency <http://www.nap.bg/page?id=188>

Accident insurance (*фонд „Трудова злополука и професионална болест“*): 0.4-0.11% (100% paid by employer)

Employment fund (*фонд „Безработица“*): 1% (60% paid by employer and 40% paid by employee)

Guaranteed employee benefits fund: (*фонд „Гарантирани вземания на работниците и служителите“*): not applicable for 2014

As such, a single worker on the minimum wage will pay £7.71 per week in insurance contributions while someone on the average wage will pay £18.59 per week.

The national health fund (*НЗОК*) is funded via an 8% income levy which is tax deductible. A worker on the minimum wage will pay £2.54 per week while someone on the average wage will pay £6.13 per week.

Total deductions therefore amount to £18.20 per week on the minimum wage and £43.90 per week on the average wage resulting in a post-deductions income of £61.28 per week on the minimum wage and £147.79 per week on the average wage.

Benefits and tax credits

Child benefit (*детски надбавки*) amounts to 35лв for the first child, 50лв for the second and 35лв per child for all other children who are still at school but not older than 20 years.⁴⁷ The benefit is only payable only if the family income per capita is lower than 350лв per month so for a single earner on minimum wage with two dependent children would get £1.66 per week.

Adjusting local values for PPP

Using simple exchange rates to compare the levels of income and benefits between the UK and Spain, Poland and Bulgaria would miss the substantial differences in living costs. Therefore in order to compensate for this, we converted the three national levels of income and benefits into UK GBP using a Purchasing Power Parity rate rather than the pure exchange rate which equalises the purchasing power in each country and evens out differences in living cost including factors such as housing costs. It therefore allows for a more real comparison about how someone could live on a certain income level in one country relative to another, and reflects for the fact that those considering migrating will compare potential living standards when making real-life decisions over whether to leave or stay.

In the cases of Spain and Poland we converted the local currencies into UK GBP adjusted for PPP in order to show the equivalent living standard they would have in the UK. The conversion rate is taken from the OECD and based off Actual Individual Consumption which comprises all the goods and services which people consume (including those provided by non-profit organisations and governments). In the case of Bulgaria which is not in the OECD, we used a similar measure from the World Bank based off of Private Consumption as a whole. Again this was a PPP adjustment and allowed for a better comparison between living standards in each country.

⁴⁷ State budget of the Republic of Bulgaria 2014
<http://www.lex.bg/bg/laws/ldoc/2136003154>