

The childcare benefit after five years: 500 plus how much?

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A childcare benefit of 500 PLN/month (approx. 110 EUR/month) has been paid to Polish families with children up to the age of 18 under the Family 500+ programme since 1 April 2016. Initially granted for every second and subsequent child in the family and for the first child in families meeting the income criterion, since July 2019 the benefit has been made universal and is payable to every child up to the age of 18. Over the last five years, a number of analyses of the consequences of the introduction of the 500+ benefit have been conducted, encompassing a variety of socio-economic outcomes for Polish families with children - from a comprehensive assessment of these consequences in their entirety (Magda et al. 2019) to analyses focused on specific effects of the programme, such as the impact on women's economic activity (Magda et al. 2018, Myck 2016, Myck and Trzciński 2019) or on poverty levels (Brzeziński and Najsztub 2017, Szarfenberg 2017, 2018). Although detailed analyses of the consequences resulting from the introduction of the 500+ benefit have been regularly presented as part of a series of previous CenEA reports (e.g. Myck et al. 2016, 2019a, 2019b, 2020b), the five-year anniversary of the programme's implementation provides a good opportunity to summarise and update previous evaluations. At the same time, the anniversary of the expansion of the system of financial support for families through the 500+ benefit has revived the discussion regarding the manner of its indexation. Therefore, this Commentary presents updated calculations of the distributional consequences and financial gains for households resulting from the 500+ benefit and assesses the costs of hypothetical approaches to its indexation for the public finance sector.

Analyses were conducted using the SIMPL model on data from the 2019 CSO Household Budget Survey, which was appropriately reweighted and indexed for microsimulation purposes (see e.g. Myck and Najsztub 2015; Myck et al. 2013, 2015; details of the microsimulation approach used are presented in, among others, Myck 2009, Morawski and Myck 2010, Domitrz et al. 2013, Myck et al. 2015a, 2015b). It should be emphasised that although the simulations were based on the latest available information on the situation of Polish households, this data was collected before the outbreak of the COVID-19 pandemic. Consequently, the data does not take into account the consequences of the pandemic for the material situation of individual households, including its impact on the relative position of households in the income distribution. Changes in the distribution of household incomes associated with the pandemic are a product of, on the one hand, the impact of the introduction of social restrictions on the employment and earnings of household members and, on the other hand, possible state interventions to support households affected by these restrictions. As suggested by the results presented, among others, in Myck et al. (2020a), the impact of the pandemic on the material situation of households varied greatly depending on the sources of

income, the sector and form of employment of their members, and their ability to remain economically active despite the restrictions imposed on their socio-economic life. At the beginning of the pandemic, households in the middle of the income distribution were exposed to the highest risk of deterioration in their material situation as a direct result of the preventative restrictions that were introduced. However, due to continuous changes in the severity of restrictions in the successive stages of the pandemic, the impact on households is currently impossible to estimate precisely. The distributional calculations presented in this Commentary are therefore based on the most recent pre-pandemic data on Polish households from 2019.

The childcare benefit in household incomes

As of July 2019, the childcare benefit under the Family 500+ programme is universal, meaning that the parents of every child under the age of 18 are entitled to it regardless of their income. Thus, the distributive consequences resulting from childcare benefit payments are directly related to the position of households with children aged 0-17 in the income distribution, relative to other households. As families with children are more likely to be among households in the upper half of the income distribution, out of the total budget expenditure on the 500+ benefit, amounting to PLN 40.2 billion annually, a proportionally greater share goes to families with high incomes. The detailed distribution of the total childcare benefits received in relation to income decile groups are presented in Table 1.¹ For example, families with children in the two highest income decile groups (i.e. belonging to the 20% of households with the highest income) currently receive 9.9 billion PLN annually, or 24.6% of the total expenditure on the childcare benefit. On the other hand, families with children among the 20% of households with the lowest incomes receive PLN 4.7 billion annually, which amounts to only 11.7% of the total cost of the Family 500+ programme. Compared to the poorest 10% of households, in total families with children from the highest income decile group receive 2.5 times more of the funds allocated to the 500+ benefit. At the same time, looking at the average gain from the 500+ benefit by income decile groups presented in Figure 1, households with children from the highest decile group receive about 760 PLN per month on average, approximately 45 PLN more than those from the lowest group. Moreover, it is worth noting that after taking into account all households in a given decile group (with and without children), even on a proportional basis (in relation to disposable income) the 500+ benefit is relatively evenly distributed. The proportional benefits in the first nine income groups are in the range of 3.4% and 5.3%, and only in the highest group do they fall to 1.9%. A significant differentiation of the benefit in proportional terms can only be seen when looking at the proportional effect on households with children under the age of 18. The benefit accounts for as much as 26.9% of the disposable income of households with children in the first decile group. The proportional effect falls in subsequent groups - to 18.9% and 16.4% in the second and third groups, and amounts to only 4.1% of the disposable income of households with children in the tenth decile group.

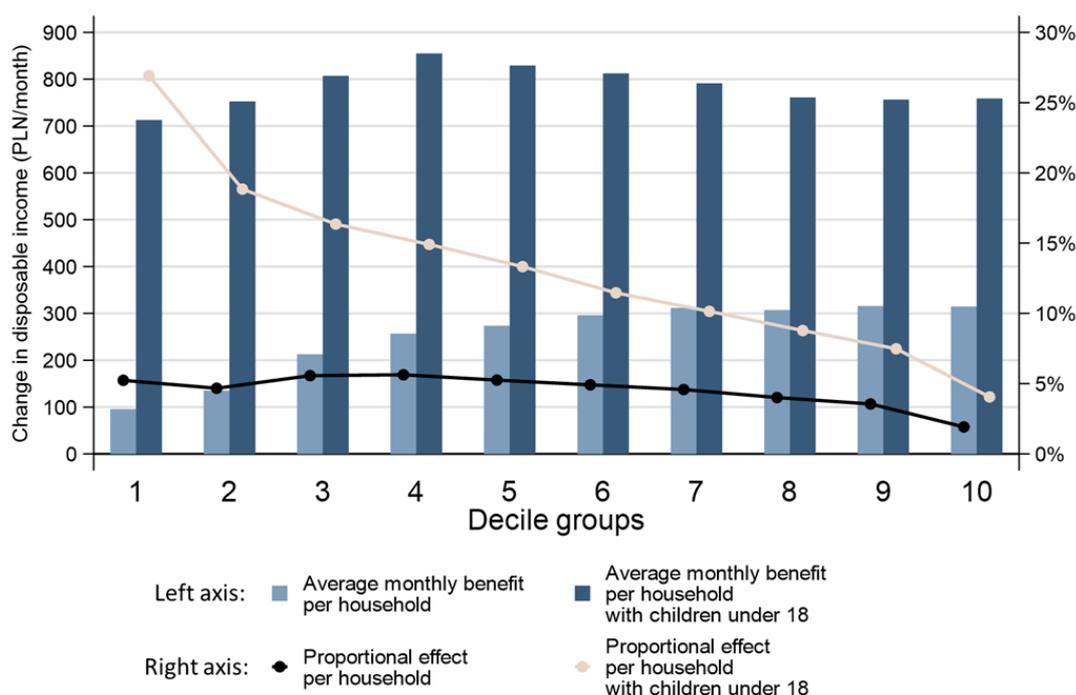
¹ Income decile groups - ten groups each covering 10% of the population, from households with the lowest disposable income to the most affluent households, calculated on the basis of so-called equivalised incomes, i.e. taking into account differences in household size using the modified OECD equivalence scale.

Table 1. Gains of households resulting from the 500+ childcare benefit by income decile groups

Total gains from the 500+ benefit:	Income decile groups										Total
	1	2	3	4	5	6	7	8	9	10	
- in billion PLN per year	2.03	2.68	3.63	4.10	4.27	4.43	4.59	4.60	4.90	5.00	40.22
- in %	5.05%	6.66%	9.03%	10.19%	10.62%	11.01%	11.41%	11.44%	12.18%	12.43%	100%

Source: CenEA - own calculations using the SIMPL model based on BBGD 2019 data (reweighted for simulation purposes and indexed to 2021).

Figure 1. Average gains of households resulting from the 500+ parental benefit by income decile groups



Source: see Table 1.

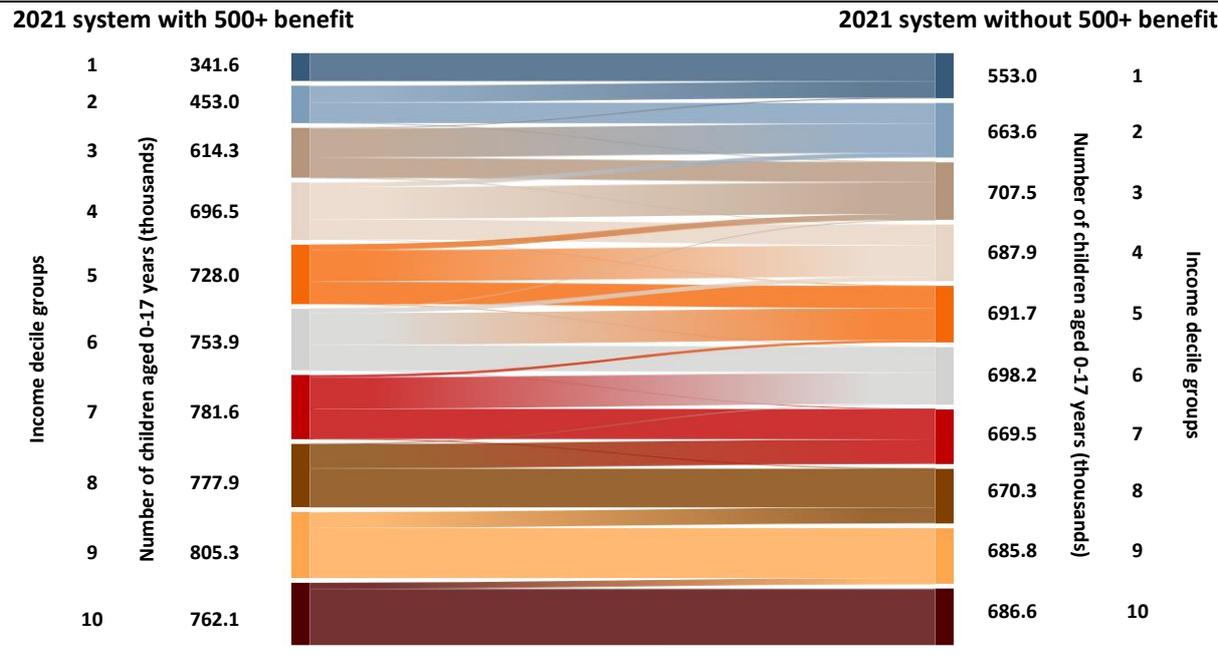
The childcare benefit and the position of families with children in the income distribution

The current universal character of the 500+ benefit means that the distribution of budget expenditures associated with it (and, at the same time, of benefits to households), is solely a result of the relative position of families with children in the income distribution of all households. The lower share of the poorest households in the overall gains from the 500+ benefit is therefore a result of the fact that the incomes of most families with children place them in higher segments of the distribution (despite taking into account the demographic structure of households when calculating the income taken into account in determining the relative position in the income distribution, i.e. the so-called income equivalence). Taking into account the cost of the programme, this relative position of families with children in the income distribution may, to some extent, be the result of receiving the 500+

benefit. It is therefore reasonable to ask what role the childcare benefit plays in shaping the relative position of families with children in the income distribution.

In order to assess the scale of the effect of the 500+ benefit on the standing of families with children in the income distribution, Figure 2 presents the number of children under 18 in households by decile income groups in the current system (including the 500+ benefit) and in a simulated, hypothetical variant of the system in which the childcare benefit payment was withdrawn.

Figure 2. 500+ childcare benefit and its impact on the position of families with children in the income distribution



Source: see Table 1.

As shown in Figure 2, the withdrawal of the 500+ benefit would cause a substantial change in the relative position of families with children in the income distribution, significantly increasing the number of children in the lowest income groups. While in the current system the poorest 20% of households include 795,000 children aged 0-17, in a system without the 500+ benefit this number would be 1,216,000. Significant changes in the relative position of households with children in the income distribution would also occur in the higher decile groups. For example, as a result of the childcare benefit payments, 72 thousand children who are currently in the fifth decile group would be in the third decile group after the withdrawal of the benefit, and another 384 thousand children from the fifth group would be in the fourth decile group. The 500+ benefit also changes the relative position of high-income households with children. In the current system, the richest 20% of households include 1,567 thousand children. Subtracting the 500+ benefit from their household income would reduce this number to 1,372 thousand. Thus, even taking into account the income distribution without the 500+ benefit, the number of children among the richest 20% of households is higher than the number of children in the poorest 20% of households by almost 15%. Looking at the income distribution after including the 500+ benefit, there are twice as many children in the richest 20% of households than among the poorest 20%. This in turn means that any form of simple indexation of the childcare benefit will constitute a transfer of twice as much money to households from the two highest decile groups as compared to the funds transferred to families from the poorest 20% of households.

Cost and distributional consequences of the indexation of the childcare benefit

Since the introduction of the childcare benefit in April 2016, its nominal value has not changed. Taking into account the steady increase in prices, the real value of the benefit is therefore decreasing year by year. Consequently, the impact of the programme on the material situation of families with children, and thus on reducing poverty and exclusion, is getting smaller and smaller. From the very beginning of the childcare benefit's implementation there were questions about the correct approach to its indexation, which have so far remained unaddressed in any definitive manner.

Two potential approaches to the indexation of the 500+ benefit are presented below. In the first case, the increase in the benefit reflects the average increase in prices over the period from the second quarter of 2016 to the second quarter of 2021, amounting to 13.3%. In this case, restoring the real value of the childcare benefit would require an adjustment from PLN 500 to PLN 567 per month. In the second approach, the scale of indexation takes into account the value of the basket of goods necessary to provide families with children with the so-called minimum subsistence level. This second approach to indexing the benefit would mean an increase of almost 23%, to PLN 615 per month. As presented in Table 2, the total annual cost of these two variants of the indexation of the 500+ benefit would amount to PLN 5.4 billion and PLN 9.3 billion, respectively. Taking into account the distribution of families with children across the income decile groups, depending on the indexation approach, households from the highest income group would receive PLN 0.7 billion and PLN 1.2 billion, respectively. Additional support for the poorest 10% of households would amount to PLN 0.3 billion and PLN 0.5 billion, respectively.

Table 2. Gains for households resulting from different forms of indexation of the childcare benefit 500+ by income decile groups

Indexation for the period Q2 2016 - Q2 2021 in accordance with:	Benefit amount (PLN/month)	Total annual benefit from indexation (PLN billion)											
		by income decile groups											Total
		1	2	3	4	5	6	7	8	9	10		
- CPI inflation (13.3%)*	567	0.27	0.36	0.49	0.55	0.57	0.59	0.62	0.62	0.66	0.67	5.39	
- the minimum subsistence level (22.9%)**	615	0.47	0.62	0.83	0.94	0.98	1.02	1.06	1.06	1.13	1.15	9.25	

Source: see Table 1.

* CPI inflation index calculated for the period Q2 2016 - Q2 2021, adopting the NBP inflation projection (www.nbp.pl);

** IPISS minimum subsistence level increase for the period Q3.2016 - Q3 2020 (www.ipiss.com.pl), extended by indexation with the CPI inflation projection for the period Q4 2020 - Q2 2021 (NBP, www.nbp.pl).

Summary

The introduction of the 500+ childcare benefit in April 2016 raised the level of direct financial support for families with children in Poland by over 140% (Myck et al. 2016). The expansion of the programme in July 2019 further increased the level of support, raising its annual cost from PLN 21.9 billion to PLN 40.2 billion. This means that the government spends around 1.7% of GDP annually on the family 500+ programme alone. As shown in this Commentary, in its current form the childcare benefit reaches the parents of 6.7 million children aged 0-17 and significantly affects the position of these families in the income distribution. In a hypothetical system without the 500+ benefit, 553 thousand children would belong to the poorest 10% of the population, while the distribution of the benefit results in over 200 thousand fewer children in the lowest decile group. This confirms that the child-rearing benefit contributes to a significant improvement in the material conditions of families with children and to a significant reduction in poverty (cf. Brzezinski and Najsztub, 2017). However, a large proportion of families with children aged 0-17 have such high incomes that even without support in the form of the 500+ benefit they would be in the highest income groups. In a hypothetical system without the 500+ benefit, there would be around 690 thousand children in each of the two highest decile groups. In the current system, in which PLN 500 per month is paid for each child, the ninth decile group includes 805 thousand children, and among the richest 10% of the population there are 762 thousand children aged 0-17. As a result, families from the top half of the income distribution receive 58% of the total expenditure on the Family 500+ programme, while the poorer half of the population receives 42%.

The position of families with children in the general distribution of income determines, on the one hand, the distributional consequences of the Family 500+ programme and, on the other hand, the effects of all potential reforms, starting with the indexation of its nominal amount. In the five years since the introduction of the Family 500+ programme, the general price level in Poland increased by about 13.3%. This means that restoring the real value of the 500+ benefit from April 2016 would require raising it to PLN 567 per month. In turn, maintaining its real value in line with the growth of the minimum subsistence level would require raising the amount of the child-rearing benefit to PLN 615 per month. For the public finance sector, the indexation of the 500+ benefit according to these two approaches would entail respective additional costs of PLN 5.4 and 9.3 billion annually. However, regardless of the scale of indexation, a universal increase in the value of the 500+ benefit would result in a transfer of a significant part of the funds to families with high incomes. Almost 25% of the costs of indexation would go to families from the top 20% of the income distribution, and only about 12% to families falling into the poorest 20% of the population.

If the government's approach to the distribution of the childcare benefit does not change and the principle of universal transfers that are irrespective of family income is maintained, each time the benefit amount is adjusted it will result in significant costs for the public finance sector and only a small part of the additional funds will reach the wallets of families with the lowest incomes. Such an approach will be difficult to justify especially in the situation when, as a result of the economic slowdown caused by the COVID-19 pandemic, the incomes of some families will fall and the group of households at risk of poverty will increase.

The distribution of the financial gains from the childcare benefit and the high cost of its universal indexation highlight the drawbacks of its current implementation, which we have been writing about in our Reports and Commentaries for over five years (a summary of publications on this topic is presented in the Appendix). Since April 2016, the three most important elements of the

financial support system for families with children in Poland - family benefits, tax credits and the childcare benefit - have been operating in parallel to one another. An example of unifying the system by merging two of these elements was presented before the childcare benefit was even implemented (Myck et al. 2016). Such a restructuring of the system seems all the more justified now, when many families may require additional support due to the difficult financial situation related to the COVID-19 pandemic. Therefore, instead of recurring deliberations about the level of indexation of the childcare benefit, it would be advisable to consider a comprehensive change to the entire system of family support, with clearly defined socio-economic policy goals in mind. Despite the radical increase in the level of financial support for families with children through the childcare benefit, the number of births in Poland in the period 2017-2020 does not differ from the forecasts of the Central Statistical Office from 2014.² Therefore, it is difficult to consider the Family 500+ programme as a success from the demographic point of view. The childcare benefit has certainly contributed to the reduction of poverty among families with children (Brzeziński and Najsztub 2017; Szarfenberg 2017, 2018). However, the scale of this reduction is modest given the size of the resources involved. As shown in Myck et al. (2020b) the additional resources allocated in 2019 to the expansion of the Family 500+ programme mainly benefited families in the upper half of the income distribution. Moreover, while the extension of the programme has largely eliminated negative disincentives to labour force participation (Myck and Trzeciński 2019), it is not clear that the current economic situation will allow for an increase in female labour force participation, which declined following the introduction of the benefit in 2016 (Magda et al. 2018).

The effects of every socio-economic programme should be assessed from the point of view of alternative solutions which could have been introduced at the same cost to the public finance sector. After five years of operation of the 500+ childcare benefit, with all the benefits it has brought to millions of families in Poland, the flagship programme of the ruling United Right does not fare well in this perspective.

² The difference between the 2014 CSO forecast, which best reflects the expected number of births before the 500+ benefit was introduced (CSO, 2014), and the actual number of births between 2017 and 2020 is only 1,600 births.

Annex

CenEA analysis on the consequences of the Family 500+ programme over its five years of operation- from analysis of the 2015 election pledges to an evaluation of the programme during the 2020 presidential election campaign.

Publication title	Date of publication
Programy wyborcze 2015: kto zyska, kto straci i ile to będzie kosztowało („2015 election programs: who will gain, who will lose and how much it will cost” in PL) (CenEA Report)	October 2015
Portfele gospodarstw domowych po exposé premier Beaty Szydło („Household wallets after Prime Minister Beata Szydło's exposé” in PL) (CenEA Commentary)	November 2015
25 miliardów złotych dla rodzin z dziećmi: projekt Rodzina 500+ i możliwości modyfikacji systemu wsparcia („25 billion PLN for families with children: the „Family 500+” project and possibilities to modify the support system” in PL) (CenEA Commentary)	January 2016
Estimating Labour Supply Response to the Introduction of the Family 500+ Programme (CenEA Working Paper)	September 2016
The impact of „Family 500+” programme on household incomes, poverty and inequality (Social Policy)	December 2017
Pakiet podatkowo-świadczeniowych rozwiązań rządu Zjednoczonej Prawicy („The package of tax and benefit solutions of the United Right” in PL) (CenEA Report)	April 2019
Rodzina 500+: ocena programu i propozycje zmian („Family 500+” - program evaluation and proposed changes” in PL) (FOR/IBS Report)	May 2019
Polityka podatkowo-świadczeniowa rządu Zjednoczonej Prawicy: program wyborczy i jego realizacja w latach 2015-2019 („Tax-benefit policy of the government of the United Right: the election program and its implementation in 2015-2019” in PL) (CenEA Report)	October 2019
From Partial to Full Universality: The Family 500+ Programme in Poland and its Labor Supply Implications (ifo DICE Report)	October 2019
Kwota wolna od podatku i świadczenie wychowawcze 500+ po pięciu latach od prezydenckich deklaracji („Tax-free amount and 500+ child benefit five years after the presidential declarations” in PL) (CenEA Commentary)	June 2020

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