



EUROPEAN COMMISSION

Brussels, 5.2.2010
COM(2010)25 final

**COMMUNICATION FROM THE COMMISSION TO THE COUNCIL, THE
EUROPEAN PARLIAMENT, THE EUROPEAN ECONOMIC AND SOCIAL
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

Proposal for the Joint Report on Social Protection and Social Inclusion 2010

SEC(2010)98
SEC(2010)99

COMMUNICATION FROM THE COMMISSION TO THE COUNCIL, THE EUROPEAN PARLIAMENT, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

Proposal for the Joint Report on Social Protection and Social Inclusion 2010

Key Messages

Firm policy intervention and the automatic stabilizers embedded in European welfare systems have limited the economic and social impact of the worst recession in decades. However, the human cost of the crisis is difficult to evaluate fully as yet. The impact on labour markets and on the population, notably the most vulnerable, is still unfolding. Investing in regular monitoring of social trends and enhancing social statistics is crucial for designing early and effective policy responses and assessing their impact.

The crisis has highlighted great diversity within the EU. Its scope, magnitude and effects vary as does the capacity of national welfare systems to provide adequate protection. *Not all Member States have the financial means to meet rising demand and some have large gaps in their safety nets. Narrowing these gaps is now a priority.*

At the same time, the need to contain the rise in public spending calls for enhancing the quality of intervention, and in some cases setting clear priorities. *This means more effective and efficient social inclusion and social protection, in line with the principles of access for all, adequacy and sustainability.*

Unemployment may remain high for some time, with risks of long-term exclusion. Fighting unemployment and promoting inclusive labour markets should go hand in hand. With recovery underway, policies need to prepare people to grasp job opportunities, promote quality jobs and avoid long-term dependency. *Active inclusion can reconcile the goals of fighting poverty, increasing labour market participation, and enhancing efficiency of social spending.*

Renewed attention shall be paid to old and new forms of poverty and exclusion, in ageing and rapidly changing societies, opened to globalisation and population flows. *Preventing and tackling poverty, child poverty in particular, is crucial to prepare Europe for the future, avoiding a waste of the human potential, of both women and men.*

The crisis has aggravated poverty in its multiple aspects, for instance housing exclusion. Over the last decade, affordability, homelessness, social and housing polarisation and new forms of housing deprivation have been an increasing concern for public policy, which in this field often lacks adequate information and evaluation systems. *Integrated strategies to address housing exclusion and homelessness have an important role to play in post-crisis policies, with a view to build cohesive and environmentally sustainable societies.*

Economic distress undermines mental and physical health and threatens to deepen health inequalities. The impact of the crisis will vary with the initial health situations and the

capacities of Member States to address the challenges. *Increasing demand coupled with severe budget pressure gives new urgency to the efficiency of health care systems. The challenge is to improve efficiency while ensuring access for all to quality healthcare.*

Pensioners have been relatively little affected so far, although cuts in payments in some countries with high poverty rates among the elderly are a cause of concern. *Still, the crisis and lower growth prospects are likely to impact on all types of pension schemes and aggravate the ageing challenge.* As pensions increasingly depend on life-time earnings-related contributions, pension adequacy will depend on the ability of labour markets to deliver opportunities for longer and more complete contributory careers.

A marked shift towards funded provision brings forward some of the costs of future pensions in an ageing society. It also increases the exposure of pension systems to financial markets. *Variations in the ability of funded schemes to weather the crisis show that differences in design, regulation and investment strategy matter.* Better balancing security for savers and affordability against potential gains and losses will be important.

The crisis has emphasised the added value of policy co-ordination through the Open Method of Coordination on Social Protection and Social Inclusion (Social OMC) and provided further incentive to exploit its potential fully. The joint monitoring of the social impact of the crisis has emphasized the value of mutual learning and exchange of good practice. It has increased awareness and helped facing common challenges.

Drawing on the lessons of the crisis and of ten years of the Lisbon strategy, there will be a need to foster sustainable growth along with job creation and social cohesion and systematically assess progress of social outcomes, including gender equality. The European Year 2010 for combating poverty and social exclusion offers a timely opportunity to strongly reaffirm the commitment, made by the EU ten years ago, for a decisive impact on the eradication of poverty and social exclusion.

1. INTRODUCTION

Strong policy intervention and automatic stabilisers played a major role in mitigating the social consequences of the crisis. However, the full impact of the crisis on people is yet to be faced. The Commission forecasts that **unemployment** could exceed 10% in 2010, with social expenditure rising from 27.5% to 30.8% of GDP between 2007 and 2010.

With 5 million more unemployed than at the outset of the crisis, income has dropped for many households, exposing them to poverty and over indebtedness, and some have lost their homes. Migrants, younger and older workers, and those on temporary contracts, especially women, were affected early on, but unemployment is touching other categories, hitherto fairly safe. Unemployment rates may stay high for some time, with the attendant **risks of long-term unemployment and exclusion.**

The nature, size and effects of the crisis differ within EU. Unemployment rose from 2.7% to 3.9% in one country and from 6.0% to 20.9% in another. Also, Member States started with different social situations. In 2008, **at-risk-of poverty rates** ranged from 9% to 26%. The

coverage and level of support provided by social protection also varied across countries and social groups. Public perceptions echo these disparities: in June 09 while the majority felt the crisis had increased poverty, those who sensed a profound impact ranged from 10% to 69%.

Policy responses also vary in scale and emphasis. The Commission estimates that **spending on discretionary measures** varies from less than 1% of GDP in some countries to more than 3.5% in others. The Commission forecasts that between 2007 and 2010 social spending will rise, by less than 1 pp in three countries and up to 6 pp or more in another four.

Member States used the **European Social Funds** to enhance support to the unemployed, to keep workers in employment and to help the most vulnerable facing structural barriers to labour market integration. They used flexibility in the ESF adjusting operational programmes, modifying them where necessary, and used the simplifications proposed by the Commission to improve the effectiveness of the fund. ESF programmes also provide financial support for long-term EU social inclusion objectives, underpinning the recovery and social cohesion.

The crisis emphasises the need to support citizens at a time of major budget constraint. This highlights the EU agenda for **more effective and efficient social inclusion and social protection**, pursuing access for all, adequacy and sustainability; which is a long term concern of the Social OMC. Short-term responses should be consistent with structural reforms needed to modernise social policy, prevent lasting damage to the economy and society and prepare for long-term challenges, such as ageing.

2. EFFECTIVE AND EFFICIENT SOCIAL INCLUSION POLICIES IN AND AFTER THE CRISIS

Unemployment in the EU is now at 9.1%, and could reach 10.3% in 2010. The rate is more than double for **young workers** (20.7%) and **migrants** (19.1%). The loss of earnings affects all family members, and especially **children and other dependants**. **Young people** are also affected by the lack of job opportunities. The maturing of pensions systems has helped reduce poverty risks for the **elderly** in many countries. However, the crisis threatens the development of adequate pensions where elderly poverty remains very high.

The crisis is also likely to affect **those furthest from the labour market**, either inactive or long-term unemployed. Even beforehand, the low skilled, people with disabilities or mental health problems, migrant – particularly women - had limited access to training and other enabling services. Recent efforts to boost employability for all may be undermined by lack of jobs and increased pressure on training and employment services.

Maintaining decent living standards for all is both crucial to ensure that people live in dignity, and to sustain their employability and learning capacity. Overall, most Europeans can rely on some of the most **effective safety nets** in the world. However, there are gaps.

The effectiveness of **unemployment benefits** vary greatly depending on the coverage, duration, conditionality and replacement rate of the benefits. Young workers with short contributory records and some of the self-employed may not be entitled to unemployment benefits, while workers on part-time or temporary contracts often receive lower benefits than other workers.

Reforms to **strengthen work incentives** have tightened eligibility criteria, or reduced the level or duration of entitlements. Together with a greater emphasis on **activation measures**, these reforms contributed to a reduction in long-term unemployment. However, they have not always reduced **long-term welfare dependency**. In addition, even though several Member States prolonged benefit duration and relaxed eligibility rules in response to the crisis, the pressure on **last-resort schemes** has started to increase, as unemployment benefits run out for more and more people. This underlines the need to prepare comprehensive exit strategies based on **active inclusion principles**.

The coverage and adequacy of **minimum income provisions** vary greatly across EU. In most countries, social assistance alone is not sufficient to lift people out of poverty, but in general it reduces its intensity. Recent efforts to modernise social assistance have focused on financial incentives to work; but, the lack of clear mechanisms to up-rate minimum incomes has often led to **deterioration in benefit adequacy** over time. In all countries, **non-take-up** significantly affects the effectiveness of the schemes, though to various degrees. Complex rules, lack of information, discretionary assessment, administrative errors and fear of stigma are some of the multiple reasons that explain non-take up. There is therefore room for increasing the effectiveness and efficiency of minimum income schemes.

Adequate income support is crucial for people in time of need, but policies must also help them to participate in the labour market. Both spending and participation in **active labour market measures, including life long learning**, have improved overall in recent years. However, more needs to be done to ensure that all are reached, including the low skilled, the young and the elderly, lone parents and those returning from caring breaks, migrants, and people with disabilities. Experience shows that long-term unemployment and inactivity tend to persist long after recovery. Modern social security schemes are an important tool to prevent people moving on to long-term sickness and disability benefits, or early retirement schemes.

Adequate and individualised **social and employment services** are also essential to overcome structural barriers to participation in the labour market and in society. The personal, family and social hurdles people face need to be addressed by quality social and health services.

3. HOMELESSNESS AND HOUSING EXCLUSION

Shortage of adequate housing is a long-standing problem in most European countries. Over the last decade, worsening affordability, homelessness, social and housing polarisation and new forms of housing deprivation have been an increasing concern for public policy. With the crisis and rise in unemployment, some countries report more **defaults on housing loans** and **repossessions**. Low incomes and high costs are also responsible for increased **evictions**. Member States have reacted with measures to protect mortgage holders, strengthen income support and improve the supply of social and public housing. In some cases, targeted measures have been introduced, such as accommodation for the homeless and plans for energy efficiency.

The **cost and quality of housing** is key to living standards and well-being. 38% of people at-risk of poverty spend more than 40% of their disposable income on housing – more than twice the average for the overall population (19%). They also tend to face worse housing conditions than the rest of the population with over 27% in overcrowded accommodation (EU average of

15%) and 38% suffering from at least one housing deprivation problem (against 22%). Recent national data on **rough sleepers** and on **people without accommodation** give a mixed picture, but show that the situation has worsened in a number of countries. Proper assessment of the problem, which also includes people living in insecure and inadequate accommodation, awaits a common EU agreed methodology.

Almost all Member States identify homelessness and housing exclusion as a concern and have adopted **national or local strategies** that help to raise awareness, improve policy coordination and implementation, and identify resources. However, housing strategies face multiple challenges. The sharing of responsibility for policy and delivery between national and local authorities, service providers and NGOs is often complex. The most successful strategies display **effective governance** with strong co-operation between all involved. There is also a need for thorough **information and evaluation**. Recently adopted EU indicators on housing costs and deprivation are important, but accurate and consistent data on homelessness is still lacking in most Member States. Strategies are generally made more effective with **targets** such as on the prevention of homelessness; a reduction in its duration; targeting the most severe homelessness; the improvement of the quality of services for homeless people or on the supply of affordable housing.

The causes of housing exclusion can be structural (joblessness, poverty or lack of adequate and affordable housing), personal (family breakdown, illness), institutional (leaving care or prison) or linked to discrimination. Policies also need to adapt to changing patterns of homelessness, and to new risk groups, such as people with low-paid, poor quality or intermittent jobs, including the young and migrant and mobile workers.

Tackling housing exclusion and homelessness therefore requires **integrated policies** combining **financial support to individuals, effective regulation and quality social services**, including housing, employment, health and welfare services. More attention needs to be paid to the quality standards of social services and the specific obstacles the homeless face in accessing them.

Social and public housing are a key element in housing policies, and often the main solution for homelessness. However, excess demand is widespread. In several cases, this is due to a policy shift towards private housing. The quality of housing stocks remains a challenge despite efforts to improve standards. The EU structural funds, in particular the ERDF, could play an important role in the convergence regions. Concentrations of housing exclusion and homelessness can only be addressed through housing and urban regeneration programmes to promote sustainable communities and social mix.

Strategies to address housing exclusion and homelessness have an important role in building socially and environmentally sustainable economies, and they should be an integral part of post-crisis strategies.

4. IMPROVING THE EFFECTIVENESS AND EFFICIENCY OF HEALTHCARE SPENDING UNDER AGGRAVATED CONDITIONS AND TIGHTER BUDGET CONSTRAINTS

Data on the **health impacts of the crisis** are still sparse, but experience shows that downturns increase risks to mental and physical health and that negative effects can emerge over time.

Health status is influenced by the extent and duration of economic and social deterioration. Indirect effects may come as budget constraints make it difficult to respond to rising healthcare needs.

A sudden increase in insecurity is a stress factor affecting the population at large. Job uncertainty, restructuring and long-term unemployment significantly affect mental health, are linked to suicide, alcohol and drug abuse, increase the risk of cardiovascular disease and impacts on mortality. Moreover, lower household income can delay and inhibit recourse to care. This underlines the need to promote labour market inclusion in order to prevent health risks.

The pattern of health impacts across the EU is likely to vary with the depth of the downturn and with the strength of the health sector and welfare policies. Some of the Member States most affected by the crisis are also among those where the relative health situation is worst and social and health policies least developed. Differences are aggravated by **policy responses**. While some recovery packages include extra health spending, others have had to cut health budgets. Countries with lower overall health conditions and higher health inequalities also have less equity in access to care, and spend least on it. Budget pressure apart, these countries may not be investing enough to secure the health of their populations. In these countries, higher and more effective health care spending will be needed, including through greater promotion and prevention.

Large and widening **health inequalities within Member States** show that not all have benefited equally from the economic progress that delivers better health. Avoidable mortality and morbidity are a drain on society, reducing employment, productivity and growth, while increasing pressure on health budgets. Redressing health inequalities calls for attention to the social determinants of health in all policies, effective healthcare delivery, and a re-examination of priorities. Reducing **health inequalities between Member States** requires greater consideration of health impacts in the use of structural funds and all European policies.

In the face of increasing needs and tight budgets improving **effectiveness and efficiency** take on a new urgency. Public budgets in most Member States are likely to be pressed for years, calling for prioritisation, effectiveness and efficiency. Health expenditure is significant, averaging some 9% of GDP and ranging from 5% to 11%. Spending broadly correlates with GDP per capita but actual expenditure is driven by a complex set of factors. Key structural drivers include new technologies, rising expectations, population ageing and the increase in unhealthy behaviours.

The design, organisation and implementation of health care bears closely on the **cost/benefit ratio**, and similar levels of spending can lead to different outcomes. This suggests potential gains within the sector, as well as through improvement of the social determinants of health. Differences between schemes in terms of expenditure and relative prices prompt questions about financing and delivery structures and policy priorities (e.g. prevention versus treatment). The health sector also holds great potential for job creation, vital to strategies for returning to sustainable growth and employment. Along with long-term care it accounts for nearly 10% of total employment, and with population ageing demand for health and social services will grow.

5. LONGER TERM IMPLICATIONS OF THE FINANCIAL AND ECONOMIC CRISIS FOR PENSION SYSTEMS

Pensioners have been relatively little affected so far, cushioned by steady incomes and low inflation and thanks to improvements in minimum pensions in recent years. People retiring now or in the near future are unlikely to be strongly affected, with exceptions in a few Member States. This is because the bulk of pensioner income stems from public **pay-as-you-go** schemes which are quite resilient to short-term cyclical fluctuations even though they will come under increasing pressure as lower employment reduces contributions and the tax base. Moreover, in the few countries where retirement income from funded schemes is important, pensions in payment tend to be of defined-benefit type where the investment risk is borne by the scheme and not by the individual. In a few Member States cuts in already moderate benefits are a concern as poverty rates of older people were already high.

However, as pension systems and their economic context are changing, the longer-term implications of the crisis could, if not sufficiently addressed, be rather more serious for **future pensioners**.

The crisis has exposed the vulnerability of **funded schemes** to volatility in financial markets and highlighted the need for policymakers, regulators and supervisors to promote more prudent management of people's retirement savings thus finding a balanced way of reaping the advantages of funded schemes. The large range in the losses incurred, and the even greater variation in capacities to absorb the shock, highlight that differences in pension fund designs and investment strategies matter.

From the variation in impacts across the Union, important lessons can be drawn about how funded schemes can be improved and **a better balance** for pension savers **be struck between security, affordability and returns**. Accordingly, a new agenda is emerging for changes to funded designs and for speedy completion of the unfinished parts of the new mandatory schemes (e.g. concerning more secure default options, life-styling, charge capping, rules for annuitisation and the pay-out phase). Achieving this will be an important part of rebuilding public confidence in funded pensions. The crisis has, furthermore, underlined how pension funds will have to be included in measures to stabilise financial markets. The need for **better regulation** would also have a European dimension.

Importantly, the longer-term challenge of **ageing** has been put into sharper focus. The balance between adequacy and sustainability - the object of a decade of pension reforms - is under further pressure from the financial and economic crisis. Increased employment rates for older workers and women must now be defended against rising unemployment. Recovery packages have secured the ground for economic growth, but they have also reduced the hard-won public finance improvements intended to provide room for extra expenditure to address ageing. This lost ground will have to be regained.

Future pensioners are likely to be more exposed to the fluctuations of financial and labour markets. The importance of funded provision, especially of the defined contribution type where investments risks are typically borne by pension savers, is set to increase markedly. Pensions from pay-as-you-go schemes will, likewise, increasingly be based on life-time earnings-related contributions, and on present trends only those with very long careers and largely unbroken contributory records will obtain rights to a full (maximum) pension. This

trend will have a particularly strong impact on women. Adequacy will not just depend on the ability of workers to respond positively to the new work incentives in pension systems. It will also be contingent on the ability of labour markets to deliver sufficient opportunities for **longer and less broken careers**.

The reform measures introduced by most Member States to ensure more sustainable pension systems represent a very important step but need to be broadened to ensure provision of adequate pension benefits. Attaining this will require that people work more and longer. Apart from pension reforms, this would entail further measures to boost labour market performance and a wider range of sources for retirement income.

In collaboration with the EPC, the SPC intends to re-assess the advances of the last decade of pension reforms in the light of crisis setbacks and the accentuated challenges of securing adequate and sustainable pensions in a context of lower growth and accelerating ageing.

6. GOVERNANCE

Since of the onset of the crisis, the Commission and the SPC have engaged in a **joint monitoring of the social impact of the crisis**, highlighting emerging social problems and new policy measures. This exercise was presented to the Council and entailed **in-depth examination of specific social policy challenges**, such as minimum income schemes and funded pensions. It has provided new opportunities for **mutual learning and exchange of good practice** and increased awareness and understanding of common challenges.

The need to react swiftly to the crisis has led many Member States to reinforce their capacity to detect social problems and intensify cooperation among social and institutional actors. They have **enlarged their knowledge base** on the social impact of the crisis, using administrative data or specific monitoring tools, including new surveys. Steps were taken to improve the timeliness of EU social surveys.

Countries with established **governance arrangements and practices** have benefited from the engagement and mobilisation of stakeholders. Social partners have often played a key role in designing and implementing short term labour market measures to maintain people in jobs. Local authorities and NGOs across Europe had to meet increased demand for social benefits and services while often seeing their own revenue squeezed. Cooperation and coordination among these actors has been a valuable asset.

In September 2009, the SPC adopted a **Report** – “*Growth Jobs and Social Progress*” – showing that in the last decade, the benefits of growth have not been evenly distributed and that poverty and social exclusion remain a major issue in most EU countries, although with substantial differences across Europe. This calls for a systematic assessment of progress on social outcomes, including gender equality. To this end, reinforcing the Social OMC by increasing its effectiveness and visibility is essential.

The **European Year 2010 for combating poverty and social exclusion** will help to generate new impetus by raising awareness, reinforcing partnerships and reaching out to new actors. It should lead the EU to strongly reaffirm the commitment made ten years ago to make a decisive impact on the eradication of poverty and social exclusion.