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MISSOC_Info

Social security & social integration

Financing of social security

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European Commission
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ABOUT THIS EDITION

Expenditure and revenue on social security have considerable economic significance because of their volume: the total expenditure is equivalent to more than a quarter of European GDP.

Moreover, in the light of the latest demographic trends, the future development of this expenditure and revenue arouses intense political interest.

In addition, on the revenue front, concern has been voiced that too great a strain on the employment factor adversely affects the employment market situation on account of the various kinds of charges levied and above all the additional wage costs. An example of this viewpoint is to be found in the employment guidelines under the European Employment Strategy which call for cuts in / reduction of the tax and contribution burden as a whole, particularly on low-skilled and poorly-paid work.

As the question of financing concerns all sectors of social security, an illustration in the form of a Missoc-Info is simply offered – such a sectional survey would not be given in the annual Missoc tables.

The purpose of this Missoc-Info issue is to give an overview of the financing systems and the recent political development. Following the given overview, the Member States each will introduce their system.[1]

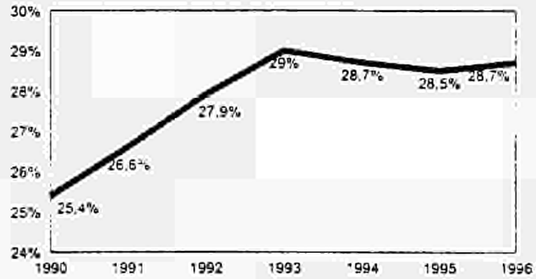
Overview of the Development of Expenditure and Revenue

Since the question of *financing* can not be analysed separately from the development of expenditures, it seems suitable to first outline some trends within the section of *expenditures*.

In addition to the *level and structure* of the expenditure for social protection, which have been adequately analysed elsewhere [2], their *development* is of particular political interest: In the European union they grew from an average of 25.5% of GDP in 1990 to 28.7% of GDP in 1996 [3]. This corresponds to an increase of 18% over a period of six years.

In connection with this, it should also be stressed that there have evidently been some advances in the control of the growth of expenditure in recent years. The maximum level was reached in 1993 with 29% of the GDP. Some stabilization has been observed since then.

Diagram 1: Growth in the social protection expenditure in the EU Member States as a % of the GDP [4]:



Source: Eurostat - ESSPROS

The reduction in expenditure in relation to the GDP from 1993-1995 of 0.5% can also be attributed to a slight recovery in the growth in GDP. In addition to this, the increase in expenditure in all social protection sectors has slowed down; the expenditure for unemployment dropped from 1993 to 1995 by 11.3%, after it had increased by 51% from 1990 to 1993.[5]

The growth in the fields of old age, health and invalidity insurance is to be regarded as being linked to the emerging demographic changes. The slight increase in expenditure is to be attributed to the fact that in some Member States the corresponding reforms have already taken place.

On the revenue side, the following trends contrast with growth in expenditure: deductions made from earned income (taxes and social insurance contributions) grew by an average of 6.8% during the period from 1980 to 1997 (from

1. The contributions of the Member States were concluded at the end of 1999.
2. Report on social security in Europe 1999 (COM (2000) 163 final 21 March 2000).
3. See Eurostat (1999): Population and Social Conditions, subject 3-5/1999, p.2.
4. See Eurostat (1999): Population and Social Conditions, subject 3-5/1999, p. 2.
5. See Eurostat (1999): Population and Social Conditions, subject 3-5/1999, p. 5.

35.1% in 1980 to 41.9% in 1997), whilst during the same period the taxation burden for other production factors (first of which is capital), dropped from 36.6% to 31.1%.[6]

The consequence of this displacement, to the disadvantage of the employment factor, is that in recent years Member States whose systems are financed mainly by contributions have increasingly undertaken measures to lower social insurance contributions. This policy is reflected against the change in the social contribution conditions and State allocations. Thus the proportion of social contributions in relation to the total financing, as a European average, dropped from 65% in 1990 to 63.5% (1996), whilst the proportion of State allocations grew in this period from an average of 28.8% to 31.4%.[7]

Financing structures in the Member States and their development

The lay out and organization of social security systems in the Member States are very varied, which again is reflected in the structure of the corresponding budgetary systems. An overview of the situation in the individual *States* followed by a comprehensive description of the significant *trends* in recent years in these countries is presented below.

Overview of the financing systems

In *Belgium* the financing of social protection is based on the principle of overall administration, whereby the contributions, as well as the State allocations, are shared, depending on need, over the individual social security areas. Furthermore, specific contributions are levied in the welfare sectors – with the exception of employment injuries and occupational diseases, as well as family benefits. These range from contributions on specific insurance premiums, to contributions on specific pharmaceutical products and the turnover of the national pharmaceutical industry, to deductions from invalidity and early retirement pensions. Furthermore, a crisis tax, and special contribution for social insurance, a share of the VAT and, under certain circumstances, an additional employer's contribution, are included in the general financing of the social security system.

In *Denmark* social security is financed mainly from taxation. Parts of the health and maternity, invalidity and unemployment sectors are financed from the additional contributions of employees and the self-employed amounting to 8% of earned income or profit. Further social security areas, which are financed by other contributions, are the additional pensions in the old age and survivors' sectors as well as the industrial illness and industrial disease sectors. The State has no involvement here. Contributions are paid by employers and employees for the unemployment sector of the welfare system, and State subsidies are granted only if necessary to cover a deficit. The provision of benefits in kind in the area of health, maternity and care comes within the competence of the local authorities.

In *Germany*, because of the comprehensive insurance principle, the financing principle is based, in comparison with Denmark, on contributions in practically all sectors of the social security system – apart from unemployment assistance, social assistance benefits and family benefits. Contributions at varying rates are levied for the individual welfare sectors, whereby employer and employee are involved, each at 50% (exceptions in particular in the area of injuries' insurance: there the employer bears the full cost of the contribution). State subsidies are to a great extent provided mainly for the invalidity, old age and survivors' sectors. Moreover, if there are any deficits in the employment insurance they are covered by taxation means.

Greece changed from contribution financing in all social security sectors to a three-party financing (employer, employee and State), in the health and maternity, invalidity and old age and survivors' sectors, on 1.1.1993. Where insurance commences prior to 1.1.1993, the pure contribution principle is still relevant in these areas, so that currently there are two models in evidence. In addition to the introduction of regular State involvement in the financing of the areas in ques-

6. Structures of Taxation Systems in the European Union 1970-1997, Luxembourg 2000
7. See Eurostat (1999): Population and Social Conditions, subject 3-5/1999, p. 7 (Sweden's data is not included in the calculation of the EU average.)

tion, State means are used, where appropriate, to cover any deficit.

In *Spain* benefits in kind for health and maternity and family benefits are financed from taxation. All other areas are primarily subject to the contribution principle, whereby a global contribution is levied – financed mainly by the employers – for the health and maternity (cash benefits), invalidity and old age and survivors' sectors and the unemployment sectors levy their own contributions. The social security sectors financed by contributions are, with the exception of industrial accidents and industrial diseases, subsidized by the State: So, for example, the State regularly finances minimum pensions and non-contributory pensions in the invalidity and old age/survivors' sectors. In addition to this, the State covers the part of the unemployment benefits which are not financed through contributions.

In *France* financing relies for almost all the social security schemes on a mixed system based on social contributions and taxes solely allocated to this funding, the most important being the General social security contribution. This tax applies on all earnings and its return is higher than the receipts used to finance the State budget. Only the employment injuries and occupational diseases insurance benefits are financed exclusively by contributions. In France as in Belgium, special contributions on investment earnings and unearned incomes (capital, property) as well as on car insurance premiums, on cigarettes, on alcoholic drinks and on royalties related to the advertising of pharmaceutical products are recovered. The State budget only participates to balance some special pension schemes or to compensate the payment of social contribution exemption for employment measures. The unemployment assistance scheme (an extension of the unemployment insurance scheme) represents though an exception being exclusively financed by the State budget.

The financing principle in *Ireland* is as a rule based on a combined system of contributions and taxation, with the family benefits' sector financed exclusively from taxation. The contributions for the remaining social security sectors are levied as a global contribution, and an additional contribution is levied from the employee's side for benefits in kind in the event of illness and maternity. The State covers any deficits which occur in the sectors which are financed by the combined system. An exception to this is in benefits in kind in the event of illness and maternity, where the State regularly bears 90% of the costs.

In *Italy* the financing principle is based on contributions for all welfare sectors, whereby a joint contribution is levied only for the invalidity and old age/survivors' sectors, whilst the remaining sectors are organised independently of each other, each with their own contributions. On the State's side, it bears a share of the total amount for invalidity, old age and survivors' pensions, as well as the costs for social pensions, early pensions and for the building up of the minimum pension. Furthermore, there are annual subsidies for the unemployment and family benefits' sectors.

In *Luxembourg*, the various welfare sectors are financed on the one hand from contributions, special contributions (in the case of care), premiums (in the case of industrial accidents and industrial diseases), and on the other from taxation. There is a combination of both these types of financing in all areas of social security, with the exception of the unemployment sector. The contributions are levied separately for the individual insurance sectors, whereby, as for example in Germany, Greece and Italy, invalidity and old age/survivors' sectors are brought together. Contributions of equal proportions are levied from employers and employees for the health and maternity sectors, whilst the contribution for invalidity/old age/survivors is financed respectively by one third each from employers, employees and the State. Family benefits are financed by employers' contributions, which nevertheless are covered by the State. The insurance of long-term care, which is introduced in Luxembourg as a new sector of social security, is financed from a special contribution from income (earned and capital income), an energy tax and from State means. Parts of the personnel and administrative costs in the invalidity/old age/survivors' sectors and the industrial accident and industrial diseases' sectors are financed by the State.

The *Netherlands* differentiate between the national insurance system and the employment insurance system. With the exception of the General Child Allowance Act, that provides for child allowance to be financed from taxation, the national insurance systems are financed by contributions, which – together with income tax – are deducted as set amounts. In connection with this, the integration allowance for disabled persons is paid by the employer's contributions, whilst benefits in the event of illness and maternity, on the birth of a child and on unemployment, on contributions from the employee as well as the employer. Further benefits under the Health Act are paid by employers' contributions. All employees are compulsorily insured under the employees' insurance scheme. However, since 1.1.1998, the self-employed have been obliged to arrange insurance for incapacity for work (law on benefits in the event of incapacity for work for the self-employed). This law is financed from contributions paid by the self-employed.

In *Austria* the financing of social protection is mainly through contributions, and, in addition to this, there is State involvement in some sectors. The health and maternity sectors, benefits in kind (not hospitals and self-retention), and cash benefits, as well as industrial accidents and industrial diseases, are financed exclusively by contributions, whilst the care sector and family benefits are financed by taxation. Both types of financing are used in the other welfare sectors. Global contributions are levied respectively for the welfare sectors 'health and maternity: cash benefits and benefits in kind' as well as 'invalidity and old age and survivors'.

The contributions for the various sectors are at varying rates, whereby they are borne in equal parts by employees and employers. The exception here is the industrial accident and industrial disease sector, in which the contributions are met exclusively by the employers. State involvement for the individual welfare sectors varies, and extends from involvement in hospital financing, testing young people and to the costs for the weekly allowance relating to loss liability, to a regulation Federal contribution to the unemployment insurance scheme.

In *Portugal* the financing principle is based on the contribution principle with the exception of benefits in kind in the event of sickness and maternity, which is financed by State means and the event of employment injuries financed by insurance premiums. The contributions are levied in the form of a global contribution (with the exception of employment injuries and occupational diseases), and the employers bear about two thirds of the contribution. The protection for employment injuries and occupational diseases is paid for by employers alone. The State's involvement in the welfare sectors financed by contributions is limited only the financing of the minimum pension. Furthermore, VAT revenue is used for the social security scheme in general.

There are various basic principles in *Finland* for the individual social protection sectors: the health and maternity sector (benefits in kind) unemployment (basic benefits) and family benefits are financed from taxation alone; the health and maternity sector (cash benefits), invalidity, old age/survivors and earnings' dependent protection in the case of unemployment is financed from taxation as well as from contributions; the financing of the industrial accident and industrial disease insurance sector is provided by premiums from the employer alone. The individual sectors are organized independently, which is why global contributions are not levied.

In *Sweden* the individual welfare sectors are also organized independently, and various respective basic principle are applied: The health and maternity sector (benefits in kind), care and family benefits are financed from taxation, whilst both types of financing are used for invalidity, old age/survivors and unemployment (financing by taxation and financing by contributions). The protection in the health and maternity sector (cash benefits) and industrial illnesses and industrial diseases is financed exclusively by contributions, no State subsidies are granted here.

In the *United Kingdom*, social protection is financed through a combination of National Insurance contributions and taxes. The cost of all contributory cash benefits (for old age, widowhood, invalidity, unemployment and maternity) is covered by a global rate of contribution paid by insured persons. Other cash benefits (non-contributory) for industrial injuries and diseases, severe disability as well as universal child benefit and social assistance benefits are financed from taxation. Health care through the National Health Service (NHS) is primarily financed from taxation, though a small proportion of funding comes from contributions.

Development of the financing structure

The financing structures in the individual Member States are set out above. If one examines the development of these structures in recent years, the following trends can be noted.[8]

Table 1: Subdivision of revenue for social protection (as a % of the total amount) in 1996

Member States	State allocations	Contributions	Other revenue
F	20.2%	77.9%	1.9%
B	20.4%	70.4%	9.2%
E	27.8%	69.6%	2.6%
D	30.0%	67.6%	2.4%
NL	16.4%	67.6%	16.0%
I	29.6%	67.3%	3.1%
A	35.7%	63.8%	0.6%
GR	30.3%	61.4%	8.3%
L	46.7%	48.7%	4.6%
FIN	44.6%	48.3%	7.2%
S	45.3%	46.8%	7.9%
P	42.2%	42.8%	15.0%
UK	48.5%	39.1%	12.3%
IRL	63.0%	36.1%	0.9%
DK	68.9%	24.9%	6.2%
EU-15*	31.4%	63.5%	5.1%

** The data from Sweden is not included*
(Source: Eurostat-ESSPROS)

Thus the EU country with the highest proportion of contributions used to finance social protection is France with 77.9%, followed by Belgium with a good 70%. In six other Member States (Spain, Germany, The Netherlands, Italy, Austria, and Greece), the proportion is over 60%.

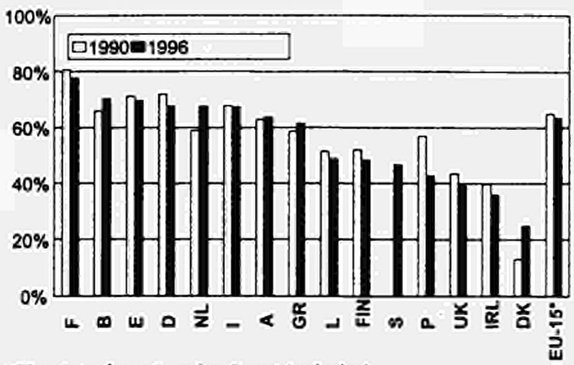
In Luxembourg, Finland, Sweden and Portugal, less than 50% of welfare expenditure is financed by social contributions, and in the United Kingdom and Ireland the proportion of contributions for social welfare is under 40%, and in Denmark – the Member State with the most far-reaching financing by taxation – only 24.9% of the social welfare system is financed by social contributions.

As Table 1 shows, the Member States differ also with regard to the proportion of other revenue used in the financing of social welfare. This extends from 0.6% in Austria to 16% in The Netherlands.

The proportion of contribution used for financing social welfare has indeed dropped within the European average in recent years, but there has been a reverse trend in some Member States. The following diagram shows that even within the group of countries where financing is based mainly on contributions (France, Belgium, Spain, Germany, The Netherlands, Italy, Austria and Greece), varying developments have taken place. The proportion in France, Spain, Germany and Italy dropped from 1990 to 1996, whereas in the other Member States with predominant financing by contributions, the proportion related to contributions increased during that period.

In the Member States where about 50% or less of social welfare is financed by social contributions, there has, in comparison, been a decrease in the proportion, with the exception of Denmark, where the share of financing by contributions has increased considerably during the period in question.[9]

Diagram 2: Developments in the proportion of social contributions used to finance social welfare in 1990 in comparison with 1996



** The data from Sweden is not included*
(Source: Eurostat-ESSPROS)

8. See Eurostat (1999): Population and Social Conditions, subject 3-5/1999, p. 7.
9. No statements about Sweden can be made here, because no data was available from 1990.

A division of the social contributions into the employer's share and the share paid by the protected group (employees, the self-employed, pensioners and other persons), shows, that in most Member States – with the exception of Denmark – the employer's share in the financing has decreased.
The extent of these structural changes varies considerably in the period in question from 1990 to 1996 and goes from a minimum of 0.7% (Austria) to a maximum of 11.1 (Portugal).

In the same period in most Member States the share of the protected group in financing has increased. Exceptions are Ireland, France, Portugal and United Kingdom.

Table 2: Developments in the shares of employer's and the protected group contributions in financing the social welfare

	Employer		Protected group	
	1996	since 1990	1996	since 1990
F	49.9%	-2.1%	27.9%	-0.9%
B	44.5%	+3.6%	25.9%	+0.7%
E	52%	-2.4%	17.6%	+0.7%
D	39.1%	-4.5%	28.5%	+0.1%
NL	23.2%	+3.2%	44.4%	+5.3%
I	49.3%	-3.6%	18%	+3.0%
A	37.4%	-0.7%	26.4%	+1.3%
GR	38%	-0.8%	23.4%	+3.4%
L	25.8%	-3.1%	22.9%	+0.3%
FIN	34.9%	-9.2%	13.3%	+5.3%
S	40%	---	6.8%	---
P	26%	-11.1%	16.8%	- 3.2%
UK	24.7%	-2.5%	14.5%	- 1.8%
IRL	21.9%	-2.4%	14.2%	- 1.4%
DK	9.6%	+1.8%	15.3%	+10.0%
EU-15*	39.2%	-2.8%	24.3%	+1.3%

** The data from Sweden is not included*
Source: Eurostat-ESSPROS and our calculations

Measures

The following is a summary of measures and their effects on the contribution rates.

General measures for the avoidance of an increase in the contribution rates

The avoidance of an increase in the contribution is mainly of interest to every country where the predominant financing is by contributions. Thus, for example, no measures have been undertaken in Denmark and Sweden, to keep the contribution rates constant or to reduce them. At present the contribution-related insurance principle is being strengthened in Finland.

If, in comparison, the declared policy aim is to keep the contributions constant, or to reduce them, then this can be achieved by two different types of measures:
1. the expenditure could be kept constant or reduced,
2. a restructuring could be undertaken, which involves a transfer from financing through contributions to financing by taxation.

With regard to 1), a limitation in expenditure can be achieved either by
- reducing benefits or
- rationalising administration.

Thus, for example, benefits are reduced in Germany and Austria. If appropriate, benefit reductions (as in Germany) could be considered or carried out even indirectly by raising age limits or by a modification related to the uprating of old age pensions.

On the other hand, in the United Kingdom, they are endeavouring to undertake rationalisation measures by a simplification and thereby a slimming down of administration.

With regard to 2), restructuring of contribution financing to financing by taxation can be achieved either by
- increasing an existing tax or
- by introducing a new tax.

Thus, for example, in Germany, the pension system is being supported by an increase in the Federal subsidies (financed by an increase in VAT). Furthermore, contributions to the pensions' insurance scheme could be reduced by the introduction of the ecological tax reform.

In France, by comparison, a general social security contribution (contribution sociale generalisée – CSG) has been introduced in stages in the form of a levy which is used exclusively to finance social security. Also, in Belgium, various special levies have been applied to avoid a further increase in the social welfare contributions.

In Luxembourg as well they have introduced a tax for the purposes of a newly introduced sector of the social security system (care insurance).

Measures for specific groups

In nearly all Member States there are various measures for reducing employment costs for specific groups or to create new jobs. We can differentiate here between
- a reduction in the contribution rates and
- State subsidies.

Thus, for example, in Greece and Italy the employer's contribution rates have been reduced if new jobs are created: in Greece the employer's contributions have been reduced by 50% whilst in Italy there is a complete exemption from contributions for three years.

State subsidies affect the social welfare financing system indirectly, because a subsidy linked to people also reduces the actual wage costs, not, however, to the detriment of the revenue side of social insurance. For example, Denmark, The Netherlands and Greece award State subsidies.

Older persons
Reductions in contributions or subsidies have been made in a total of six Member States (Belgium, Greece, Spain, France, Luxembourg and Austria), if older unemployed persons are taken on. The age from which an employee is said to be 'older' has been set at different limits. Thus, in Spain, this relates to employees over the age of 40, in Austria over 45, in Belgium, France and Luxembourg over the age of 50, and in Greece from the age of 58.

Firstly the contributions can be partially or completely reduced. Secondly, they can affect either only the employer's side or the total contribution (from employee and employer). The reductions and subsidies are thereby usually linked to certain conditions and have time limits.

The reduction in Belgium and Spain is global for the employer's contributions. In Luxembourg and France, it is also possible to have exemptions from the employer's contributions.

In Greece they have gone a step further in this: if an unemployed person over the age of 58 is taken on, the employer's, as well as the employee's, contributions are met.

In Austria they have gone down the route of wage subsidies, whereby the employer receives a maximum of two thirds of the calculation basis (gross pay plus 50% payment for ancillary wage costs) for a maximum of two years.

People starting a new job and young people
People starting new jobs and unemployed young people without any job experience make up another group which are also being given special encouragement in some Member States (Belgium, Spain, France, Luxembourg, Austria and Portugal). The aim of all these measures is to reduce the employer's contributions.

Thus it is possible to get a reduction in the employer's contributions in Belgium if a young trainee is taken on.

In France and Luxembourg the employer's contributions are met to a large extent, or in full, for young people starting in jobs.

In Spain and Portugal limited contribution rate reductions, or exemption, are granted for employers, if unlimited employment contracts are concluded.

In Austria the employer's contribution towards health insurance for trainees has lapsed since 1.7.1997, in addition to other measures. Moreover, the contribution to be met by the trainee lapses for the first two years of the apprenticeship.

The long-term unemployed
There are special measures for the long-term unemployed in Belgium, Spain, France, Luxembourg and Portugal.

In Belgium and Luxembourg a limited exemption from the employer's contributions is possible, under certain conditions, whilst in France the employer's contributions are reduced as a rule.

In Spain and Portugal the limited reduction in, or exemption from, the employer's contributions is again linked to the concluding of an unlimited contract.

The low paid
In addition to Belgium and France, Ireland, Italy and the United Kingdom grant a reduction in the contribution for the low paid, whereby the following specific factors should be mentioned;
- in Italy the reduction in the employer's contributions is regional and limited to the south of the country,
- in France the contribution reduction is degressive and
- in the United Kingdom, the contribution burden on the low paid as well as their employers was reduced in 1999 and with a further reduction planned for 2000 and 2001.

The disabled
Contribution reductions for the employer's share can be granted in Belgium, Spain, France and Portugal; in France contribution exemptions are even possible and in Spain additional bonuses are paid out.

In Portugal and Spain the granting of preferential treatment is again linked to the conclusion of unlimited contracts.

Special measures for small and medium businesses

There are measures for small and medium businesses in Belgium, Greece, France, Portugal and Finland. These can be divided into three categories.
- in Portugal and Finland small and medium businesses are generally supported by contribution reductions (Portugal) or by the rule that small and medium businesses have, in principle, to pay the lowest legally set contribution.
- in Belgium and France limited contribution reductions on the part of the employer are possible under certain conditions when they take on their first employees.
- in Greece a special arrangement has been created for the problem of contribution arrears; they can be spread over 24 months, and reductions are offered, which lie between 85 and 12%.

Special measures for new businesses

In Belgium, Germany, Greece, France, Austria, Portugal and the United Kingdom preferential arrangements have been introduced for new businesses. These measures can be divided into
- State subsidies
- a reduction in contributions and
- a lowering of the minimum income from which contributions must be paid.

State subsidies are granted to those setting up businesses in Belgium and Greece. In Belgium these subsidies are limited to three years, in the subsequent fourth year the contributions are reduced. In Greece unemployed persons who become self-employed receive subsidies. In Finland there is State subsidization of the pension contributions.

A reduction in the contributions is granted in Germany, France, Austria, Portugal and Finland. The measures in Germany and Finland are aimed at the pensions' insurance scheme. Thus, people under the age of 43 in Finland who commence self-employment pay 50% of the contribution rate to the pensions' insurance scheme for the first three years. In Germany a claim to halve the usual amount towards the pensions' insurance scheme can be made during the first year in which work is commenced and in the subsequent three years.

In France, Austria and Portugal limited contribution reductions are possible to some extent, in addition to other measures, whereby in Austria this reduction is achieved by a reduction in the calculation basis.

In the United Kingdom a fairer distribution of self-employed contributions is planned from the year 2000. In connection with this, the minimum contribution is to be reduced by 65%, the income-related contribution rate increased by 1% and the minimum income from which contributions must be paid, reduced.

Concluding remarks

To summarize, it can be noted that some measures have been taken, as a priority, by those Member States where contributions are the main form of financing the social welfare, whether to keep the contributions level constant, or to reduce it. In relation to this, however, measures have been taken in nearly all Member States, to reduce wage costs and to create new jobs, which however only partly affect a lowering of contribution rates.

Measures for certain groups – which primarily include older persons, persons starting new jobs and young people, the long-term unemployed, the low paid and the disabled – are being undertaken to varying degrees in the Member States. At the head of this are Belgium and France, which have planned special measures for all the groups mentioned here, followed by Spain, Luxembourg and Portugal. In the other Member States measures for the financing of social welfare have been undertaken for fewer groups, or there are no such measures.

In addition to these groups small and medium size businesses have frequently been given preferential treatment. In Belgium, Germany, Greece, France, Austria, Portugal, Finland and the United Kingdom, there are special measures for at least one of these two groups.

In the course of the following the individual Member States have shown, each in detail, the measures which have been taken in the field of social security, in order to keep the contribution rates constant, or to lower them, in order to provide special encouragement to special groups and for small and medium businesses and new businesses.

A. General measures

In Belgium, measures have been taken to curb the increase in social security contributions.

This includes the State subsidy (BEF 188.2 billion in 1997) and a percentage of VAT, which is set annually by Royal Decree. For 1998, this percentage was fixed at 20.24%, allocated on the basis of 94.46% for the benefit of the salaried workers' scheme and 5.54% for the benefit of the self-employed workers' scheme. There are also various special contributions to help fund the social security of salaried workers, such as the 0.03% supplementary crisis contribution *(contribution complémentaire de crise)*; the special social security contribution *(cotisation spéciale pour la sécurité sociale)*, which is proportional to household income and can attain BEF 29,500 per year; the 8.86% contribution on the payments made by employers for allocating extra-legal benefits for retirement or early death; the 5% mutual aid contribution *(cotisation de solidarité)* payable by employers and the 2.5% payable by students (for employing students who are not liable for salaried workers' social security contributions); the 33% mutual aid contribution payable by the employer on the benefit of the private use of a company car; the 0.05% employer's contribution for the plan to support the unemployed *(plan d'accompagnement des chômeurs)*; the 0.05% employer's contribution for child care, etc.

B. Measures for special groups

Specially designed financial measures have been adopted to reduce the financial burden of target groups via the employment policy.

There is a measure aimed at **encouraging the recruitment of young trainees** under an indefinite employment contract.

Enterprises employing at least 50 workers are required to recruit trainees, the total number of whom must equal at least 3% of the total staff.

During the work placement, the trainee is entitled to an allowance equal to at least 90% of the remuneration to which a worker carrying out the same activities is entitled in accordance with the wage scale applicable in the enterprise. This allowance is considered as remuneration which is subject to social security contributions. For one year following the work placement, the employer has to pay the young worker only 90% of the remuneration to which a worker carrying out the same activities under the same conditions in the enterprise, is entitled. Upon expiration of this first year of the indefinite employment contract, the worker is entitled to 100% of the wage scale applicable in the enterprise, but, for four consecutive quarters, the employer is entitled to a fixed-rate reduction in employers' social security contributions equal to 10% of the worker's gross remuneration.

Specific measures have been taken for **categories of salaried workers who occupy the least skilled or least well-paid jobs.**

For those on low incomes, there is a reduction in employers' social security contributions established as a percentage of social security contributions; the reduction is inversely proportional to the amount of the salary. Depending on where the remuneration is situated between two daily or hourly maximum amounts, there is a reduction of 50%, 35%, 20% or 10% in the employers' social security contributions for the following branches:

- pensions;
- sickness and disablement insurance (sector of allowances and health care);
- unemployment;
- family allowances;
- occupational diseases;
- occupational accidents.

Maribel operation

Employers employing manual workers who are subject to all of the retirement and survivors' pension schemes for salaried workers, the compulsory insurance against sickness and disablement, family allowances for salaried workers, occupational diseases and occupational accidents, benefit, for each such manual worker, from a reduction of BEF 5,000 per quarter in contributions to all of the above-mentioned schemes. Where this involves an employer who had fewer than 10 workers in his employ on 30 June of the preceding calendar year, or on the last day of the quarter during which the first manual worker was employed, provided that this was after 30 June of the reference year, the reduction is raised to BEF 8,500 per quarter for five manual workers. The manual workers must work, per quarter, at least 51% of the number of working hours or working days stipulated in the applicable collective bargaining agreement.

In addition to this reduction, employers benefiting from the fixed-rate reduction of BEF 5,000, receive, per quarter, for the same manual workers, a variable reduction in the above-mentioned contributions of BEF 5,000, multiplied by the percentage of manual workers out of the total number of salaried workers who were declared and employed by the employer over the preceding quarter (or over the quarter in question if no worker was declared during the preceding quarter). However, this percentage may not exceed 66%.

Measures have been taken to assist the **long-term unemployed.**

People on full-time unemployment who, at the time of recruitment, have received unemployment benefit for at least 60 months, are entitled, for a maximum period of three years, to a return-to-work allowance (*allocation de réinsertion*) payable by the national employment office *(Office national de l'emploi)*. This allowance forms part of the gross salary and the employer benefits from an exemption from employers' social security contributions for the following schemes: retirement and survivors' pensions, sickness and disablement insurance (sector of health care and allowances), unemployment, family allowances, occupational diseases, occupational accidents, annual holidays.

The aim of the jobs proposed by employers must be to create supplementary jobs in functions that are generally not, or no longer, exercised and which increase the quality of customer service, improve the working conditions of all of an employer's workers, or involve the environmental protection of an enterprise. The application which the employer must establish in order to hire workers under the vocational integration project must be communicated to the local employment agency (*agence locale pour l'emploi*) or, for certain larger-scale projects, the national employment office.

The *"+2,+3 plan"* grants a reduction in employers' social security contributions to private-sector employers hiring a second or third worker who meets certain requirements, especially where the latter has, for the 18 months prior to recruitment, benefited without interruption from an unemployment or waiting allowance, or where the worker is aged 40 or over and has benefited without interruption from unemployment benefits during the 12 months preceding recruitment.

For both the second and third worker, the reduction consists of an exemption from employers' social security contributions relating to the following schemes:
- pensions;
- sickness and disablement insurance (sector of allowances and health care);
- unemployment;
- family allowances;
- occupational diseases;
- occupational accidents.

For the second worker, this exemption represents:
- 75% for the quarter of entry into service and the four subsequent quarters;
- 50% for the period from the fifth to the eighth quarter inclusive, following the quarter of entry into service;
- 25% for the period from the ninth to the twelfth quarter inclusive, following the quarter of entry into service.

For the third worker, this reduction in employers' contributions represents:
- 50% for the quarter of entry into service and the subsequent four quarters;
- 25% for the period from the fifth to the eighth quarter inclusive, following the quarter of entry into service.

Measures have been taken to promote the employment of **disabled people**.

Disabled people benefiting from a replacement earnings allowance *(allocation de remplacement de revenus)* can be hired to work in public services, to make up for the hours not worked as a result of full time staff members exercising their entitlement to work 4/5ths time.

There is an exemption from employers' social security contributions for the following schemes:

- pensions;
- sickness and disablement insurance (sector of health care and allowances);
- unemployment;
- family allowances;
- occupational accidents;
- occupational diseases.

For the job-seekers' recruitment plan (*plan d'embauche des demandeurs d'emploi)*, at the time of recruitment, the job-seeker must fulfil certain requirements; disabled people are specially targeted by the measure. The employer benefits from the following reductions in social security contributions: 75% for the quarter of entry into service and the subsequent four quarters, and 50% for the period from the fifth to the eighth quarter inclusive.

The aforesaid reduction is valid for the following branches:

- sickness and disablement insurance (sector of health care and allowances);
- pensions;
- unemployment;
- family allowances;
- occupational accidents;
- occupational diseases.

Measures have been taken to promote the recruitment of **older workers**.

Job-seekers' recruitment plan: at the time of recruitment, the job-seeker must fulfil certain requirements. Employers of job-seekers older than 50 years of age benefit from a reduction in social security contributions equal to 50% for the quarter of entry into service and the four subsequent quarters and to 25% as from the fifth quarter of entry into service. The aforesaid reduction is valid for the following branches:

- sickness and disablement insurance (sector of health care and allowances)
- pensions;
- unemployment;
- family allowances;
- occupational accidents;
- occupational diseases.

C. Measures targeted at small and medium-sized enterprises

There is a temporary reduction in employers' social security contributions for promoting employment, in cases where enterprises **hire a first worker** who meets certain requirements (unemployed person, apprentice, job-seeker receiving income support, etc.); the reduction in employers' social security contributions is granted for 13 quarters.

The amounts of the reduction are: 100% for the quarter of entry into service and the subsequent four quarters; 75% for the period from the fifth to the eighth quarter inclusive, following the quarter of entry into service; 50% for the period from the ninth to the twelfth quarter inclusive, following the quarter of entry into service.

The aforesaid reduction is valid for the following branches:

- sickness and disablement insurance (sector of health care and allowances);
- pensions;
- unemployment;
- family allowances;
- occupational accidents;
- occupational diseases.

The *+2, +3 plan* (see above).

The extension in 1997 of the **Maribel operation** (see above) to certain highly labour-intensive SME sectors such as construction, retailing and hotel and catering.

Redistribution of social security contributions among employers: on 1 July of each year, employers are granted a 11.5% reduction in the amount of contributions due quarterly (both employers' and workers' contributions) for each of the quarters in the past calendar year. However, the reduction does not apply to the contribution to the annual holiday scheme for manual workers, to the contribution for the occupational accidents scheme, to the wage restraint contribution *(cotisation de modération salariale)* or to special contributions.

The amount of the credit is limited to BEF 14,500 per quarter where the total of contributions taken into consideration ranges between BEF 220,000 and 1,050,000, and to BEF 11,000 per quarter where the total of contributions taken into consideration for this quarter exceeds BEF 1,050,000.

In exchange for the aforesaid contribution, the national social security office *(l'Office national de sécurité sociale)* charges an annual compensation contribution to employers who are liable for more than BEF 1,050,000 in contributions for one or more quarters of the past year.

The aforesaid contribution represents 1.55% of the portion of the contributions which exceeds BEF 1,050,000 per quarter.

The credit amount is allocated to discharging contributions due for the second quarter of the current year, with the exclusion of contributions due for any other quarter. If no social security contribution is due for the second quarter of the current year, the amount of the aforesaid credit is therefore lost to the interested party.

D. Special measures aimed at the creation of small businesses

When a new employer becomes a member of an approved social security fund, the national social security office participates in the membership costs to the tune of BEF 490 per month, up until the twelfth quarter inclusive following the quarter of entry into service. This assistance is also given for the second worker hired under an indefinite employment contract. The workers recruited must, however, meet certain requirements (job-seeker receiving benefit, disabled person, etc.).

On 1 January 1998, a measure was adopted to reduce the contributions payable by registered self-employed workers setting up in business for the first time. Thanks to this measure, the definitive contributions payable for the four quarters of the year following the third full year of business are reduced by an amount of 15%, up to a maximum of BEF 5,000 per quarter. This measure is particularly useful since in Belgium, the year which follows the third full year of liability for contributions is often the source of financial difficulties for the newly self-employed worker. Indeed, during the course of this fourth year, he is asked to pay not only the social security contributions for the year in question but also the adjustment contributions for the first full calendar year of business and any quarters which may have preceded it.

Since in Denmark social protection is financed primarily through taxation, its cost constitutes only an indirect burden on employers. Contributions to social security schemes, which employers deduct from salary, represent but a small part of their total wage costs.

A. General measures

The only social security schemes financed entirely or in part by employers are the following:

1. The complementary pension scheme (Arbejdsmarkedets Tillægspension, ATP), the only scheme financed by contributions.

There are three contribution rates, based solely on the number of hours worked by each employee. Those who work at least 117 hours per month (or 27 hours per week) pay the highest rate of DKK 223.35 per month. Those who work at least 78 hours per month (or 18 hours per week) pay a medium rate and those who work 39 hours per month (or 9 hours per week pay the lowest contribution rate).

Employers pay two-thirds of the contribution and employees pay one-third. Employers are responsible for deducting employee contributions from salary.

2. Insurance against employment injuries and occupation diseases.

Employers pay the insurance premium, the amount of which varies depending on the risk covered.

3. Unemployment insurance.

Employers pay a small contribution to this insurance.

In addition, employers cover daily benefits in the event of sickness (first two weeks of a sickness period) and unemployment (first two days not worked).

Instead of reducing contributions to ease the burden on the income tax system, a new contribution – the Employment Market Fund contribution – has been introduced for all working persons.

The Employment Market Fund was established in 1993 in the form of three different funds, which were then merged in 1998.

Employees and self-employed persons contribute 8% of their gross earnings or gross profit to the Fund.

The Employment Market Fund helps to finance various measures in favour of disadvantaged groups, such as the employed and the disabled. In this way, the Fund finances the State's share for the costs of:
- unemployment insurance;
- activation measures for insured and uninsured parties;
- daily benefits for sickness and maternity;
- holiday allowance;
- invalidity pension;
- re-education and retraining;
- "flexible" work and other forms of subsidised employment;
- work tools, facilities and refurbishing.

Measures in favour of employers include the elimination of Employment Market Fund regulations stipulating that, as of 1999, employers pay contributions to the Fund (0.6% of wage costs).

B. Measures for special groups

Following modifications to social legislation, people who are temporarily out of work (e.g. the unemployed, sick persons who receive daily benefits and individuals taking part in subsidised vocational training programmes) remain insured with the ATP and continue to pay their contributions to this scheme.

The same applies for those who live on income support or receive retraining allocations, those who participate in individual job-training measures or those who benefit from any other measure aimed at promoting professional integration. Local authorities are responsible for paying their contributions to the ATP.

Measures in favour of disadvantaged groups include different types of subsidised employment schemes where the State pays part of the salary of the beneficiaries, pensioners or others, who are unable to work under normal conditions.

C. Complementary pension

The special pension savings plan (SP) became a permanent structure in 1999. First entering into force on 1 January 1998, this scheme was introduced in 1997 as an interim measure based on a budget compromise under the auspices of the ATP.

Those contributing to this scheme include not only those who pay into the Employment Market Fund – i.e. employees and self-employed persons – but also those who receive daily benefits due to illness or unemployment as well as those who receive income support. Contributions amount to 1% of gross earnings.

The ATP institution deposits the contributions in a special account, paying out to each contributor who reaches the age of retirement an amount calculated on the basis of contributions paid into the scheme, with a ceiling corresponding to the average contribution received from all contributors. Pensions are paid out in instalments staggered over ten years. In a rather short period of time, payments from this special pension savings plan reach an amount equal to that of the regular complementary pension of the ATP.

A. General measures

In Germany the following measures have been taken to reduce or stabilise general social security contributions or to limit any possible increases:

1. With the Act to Finance an Additional Federal Subsidy for the Statutory Pension Insurance (which went into effect on 1 April 1999), the increase in social insurance contribution rates was stemmed appreciably. This additional subsidy is financed through an increase in the value-added tax.

2. Thanks to the Act to Amend Social Insurance and Secure Employee Rights, a decrease in the pension insurance contribution by 0.8 percentage points was possible since the 1 April 1999 through,
   - pension insurance real contributions for periods spent raising children being covered by the Federal budget and
   - expenditures being covered out of the Federal budget for pension replenishments in the new Federal states, and for benefits under the second act to resolve Socialist Union Party injustices.

These additional Federal expenditures will be financed through the first phase of the ecological tax reform. During the current legislative period, it is planned to further reduce employment costs considerably by means of two further steps in the ecological tax and contributions reform.

B. Measures for special groups

Regulations to subsidise social insurance contributions for special groups targeted by Labour Market policy do not yet exist in Germany. Accordingly, models for promoting a low-wage sector are currently being discussed in various committees within the Federal Government as well as in the coalition factions. Concrete arrangements for special measures have not yet been made.

C. Special measures for small and medium-sized enterprises

Here the same applies as above. Special regulations for subsidising social insurance contributions do not exist.

D. Special measures for new companies

In this case as well, no special regulations have been made to subsidise the social insurance contributions of those starting up a new company. However, self-employed persons can apply for permission to pay only half of the usual pension insurance contribution for the year that they first take up a self-employed enterprise and the following 3 calendar years (this comes to € 220 in the old Federal states and € 185 in the new states).

A. General measures

In Greece, the level of contributions to the general social security scheme has not been reduced but, according to a recent government declaration, an advantageous tax system is due to enter into application, aimed at encouraging businesses to create new jobs. This means that, for each new recruit, the employer will be able to deduct as supplementary costs, 50% of the employer's contributions which have been paid. The aim of this policy is two-fold:

a) to create a climate favourable to business development to enable enterprises to bear the cost of new jobs. This should lead to an increase the overall employment rate and a drop in the unemployment rate.
b) to increase demand for jobs through an indirect "tax subsidy" for legal work which would contribute to the effort for resolving the problem of moonlighting, undeclared labour and jobs not subject to social security contributions.

These regulations apply to employers who had hired between 10 and 1,500 employees on 1 January 1999 and who fulfilled a number of requirements: they had made no staff cuts in 1998 and had been in business for at least two years.

B. Measures for special groups

The national strategy for employment is based on new principles modelled on the basic provisions contained in the European measures.

The suggested approach is designed to gradually evolve from a passive policy of unemployment benefits to a policy of prevention, development and creation of new jobs.

Various efforts must be made to create new jobs to enable those hardest hit by unemployment (the long term unemployed, young people and women) to improve their prospects for finding jobs and their adaptability.

Basically, the training programmes which form the backbone of the initiatives provide for a series of positive measures for 1999 to assist the target categories.

In particular, energetic support is planned to **improve the job prospects of women.** This consists, firstly, of reinforcing child care services by setting up 100 new nurseries, which will create new jobs, and secondly, of giving women job-seekers more availability to look for work. In this respect, the "Young people into working life" and "Back to work" programmes have been particularly well received by women. Furthermore, the efforts to bring women back into the labour market have been linked with the "Help at home" mutual aid programmes, which have certainly helped to create new jobs for women.

The other main plank of the national action plan involves programmes to give **unemployed people access to vocational and continuing training.** "Work placement" is a project that aims to provide unemployed people who have graduated from university, technical college, etc., with support for a period of 11 months, to enable them to acquire the necessary experience by attending work placements in a variety of enterprises.

Numerous programmes have been introduced to help young unemployed people to benefit from extensive support: job possibilities on archaeological sites, in public works, recruitment in institutions created at local administration level.

The projects also provide for a support measure in the case of mass redundancies, as well as activities that institutionalise continuing training to a certain extent and make it more attractive, especially to young people.

As part of the programme "Young people into working life", more than 40,000 **young unemployed people** aged between 18 and 29 will be recruited by interested firms during the course of 1999 with a view to giving them jobs.

For each young unemployed person, the employer will be paid a daily subsidy of GRD 4,000 for a period of 18 to 24 months.

In order for an unemployed person to be registered for at least one month with the Labour Organisation (OAED), the following requirements must be fulfilled:

- unemployed persons attending vocational training programmes subsidised by the European Social Fund must be affiliated to the IKA in order to benefit from health benefits;
- a recent law provides for young unemployed persons up to the age of 29 to be affiliated to the IKA as beneficiaries of benefits in kind in the event of illness. Not covered are young unemployed persons who are insured in their own right, as a family member, or as students.

The contributions for young unemployed persons are paid to the IKA by the Employment and Vocational Training Account (LAEK) which comes under the Labour Organisation.

As part of the "Back to work" programme, some 1,000 **long-term unemployed people**, aged between 30 and 60, will be recruited by interested firms during the course of 1999, for a maximum period of 22 months, in the hope that at least of some of them will be recruited and take up new jobs.

For each new job, the employer will receive a subsidy of GRD 4,000 per day.

For the unemployed person to be registered for at least one month with the Labour Organisation, the following requirements must be fulfilled:
- long-term unemployed persons, aged over 55, may be affiliated to the IKA, as beneficiaries of benefits in kind in the event of illness, provided they have been insured for 3,000 days prior to being made unemployed;.
- in the coming months the government would like to subsidise firms which recruit unemployed persons aged over 58 who are on the retirement threshold (provided that they lack 600 days of insurance). The subsidy rate will cover the total cost of the employer's and employee's contributions.

Enterprises employing more than 50 employees are obliged to recruit 2% of their staff from among **disadvantaged people**. Employers are subsidised by the OAED in order to cover part of the salaries paid to such people.
Furthermore, the OAED covers the costs declared by firms for the ergonomic conversion of the workplace to accommodate disabled people.

According to the statistical data from business firms, and in order to promote social integration, the OAED implements an adaptation programme for disabled people every year by establishing vocational training programmes for them that meet the needs of business. During the course of 1999 it is planned for 10,000 disabled people to benefit.

Another initiative, aimed at people wishing to set up their own business, also focuses on disadvantaged people. It is planned to provide subsidies for an amount of between GRD 2,800,000 and 3,400,000.

On 1 July 1996, a new regulation came into force concerning minimum pension amounts. This measure provides for the payment of a monthly **"mutual aid for retired people"** allowance, presently totalling GRD 18,000.

Prerequisite: the amount of the pension received must be less than GRD 130,000 per month. As of 1 January 1999, 360,000 pensioners were covered.

Furthermore, participation in pharmaceutical costs for this category of pensioners has been reduced by 10% as of 1 January 99.

C. Measures targeted at SME's

According to recent legislation (Law 2676/99), business firms have the possibility of advantageously settling their overdue contributions to the Insurance Organisations. They are allowed to pay in instalments spread over 24 months, whilst benefiting from a reduction of between 8% and 12%.

These provisions for settling debts have been introduced to boost business, in particular SMEs, in anticipation of Greece's future integration into EMU.

D. Measures aimed at the creation of small businesses

As part of the "Young people into working life" and "Back to work" programmes, in 1999 subsidies of up to GRD 2,200,000 are planned to enable around 10,000 unemployed people to set up their own business.

In Spain, the set of measures proposed by social partners to improve labour market operation under the *Acuerdo Interconfederal para la Estabilidad del Empleo* is a response to the wide social demand to reduce the unemployment rate, specially among those groups disadvantaged when trying to access the labour market.

The 1999 employment promotion program includes rebates and incentives referring basically to indefinite hiring of unemployed workers registered at Employment Offices who are among the following groups: young workers under 30 years old, unemployed persons (job seekers) for at least 12 months and unemployed workers over 45 years old. The hiring can be done on a full-time or a part-time basis, including the hiring of workers under a regular discontinuous contract. It is also promoted the conversion into indefinite duration contracts of the following: those of fixed or temporal duration, whatever the contracting modality may be; apprenticeship contracts; training contracts; substitution contracts in case of early retirement, provided that the workers belong to any of the groups already mentioned.

As far as incentives are concerned, these adopt the form of social contributions rebates and depend on the contract's nature and formalisation date: indefinite contracts signed between 17 May and 3 December 1999, and the initially indefinite part-time contracts (regular discontinuous contracts included) signed during 1999.

These rebates have a duration of 24 months according to the following percentages that vary according to the type of worker hired:

- Women registered as job seekers for at least the last 12 months, hired in sectors or activities with a low women's employment rate; 45% the first year of operation and 40% the second year.
- Young people under 30 years old: 35% during the first year and 25% during the second (if the contracted worker is a woman and it is a full-time contract the former percentages are 40% and 30% respectively).
- Unemployed workers registered as job-seekers for a minimum period of 12 months: 40% during the first year and 30% during the second (if the worker is a woman and the contract is full-time the former percentages are 45% and 35% respectively).
- People over 45 years old: 45% during the first year and 40% during the second (if the hired worker is a woman contracted on a full-time basis the former percentages are 50% and 45% respectively).

The conversion of full-time/part-time temporary contracts into full-time indefinite contracts: 25% rebate (in employer's contributions for common illness/accident) during the 24 months after the conversion, except when this affects a contract signed with a worker over 45 years old, in which case the 25% rebate will be extended during the period of effect of the transformed contract.

The conversion of full-time/ part-time training/ substitution contracts into open-ended full-time contracts due to the early retirement of a worker will entail a 50% rebate on the contributions during the 24 months after their conversion.

The conversion of part-time temporary contracts into part-time open-ended contracts: 25% rebate (on the employer's contributions for common illness/ accident) during the 24 months after the conversion, although the rebate is subject to the working day being, at least, equivalent to that of the contract which is being transformed. Also, rebates are proportional to the effective duration of part-time work and they are applied to the corresponding contribution bases.

The initially open-ended time contracts and the conversion of temporary contracts into indefinite contracts carried out in the period between 17 May 1997 and 17 May 1999: 20% rebate on social security employer contributions for common illness/ accident, for the period of 12 months after the month in which the initial contract or the indefinite temporary contract conversion are 24 months old.

Firms contracting disabled workers on a full-time and indefinite, time basis will be entitled to a bonus of ESP 650,000 for each contract and to the following rebates on employer social security contributions - employment injuries and occupational diseases included - as well as on joint collection contributions: 70% for each worker under 45 years old and 90% if the worker is older than that.

A. General Measures

The method of funding social security almost exclusively from deductions from earned income (a proportion of these contributions is payable by the employee and another by the employer) is unjust and unfavourable to employment, as well as being socially and economically inefficient.

By extending the benefit of social security to virtually the entire population resident on French territory, and to reduce the contributions payable out of earned income, a new funding instrument has progressively been introduced since 1 February 1991: the general social security contribution, *Contribution Sociale Généralisée (CSG)*. This is a social security deduction with the legal status of a tax on all earnings. It is allocated exclusively to funding social security (and is therefore not linked with the receipts used to finance the State budget and the budgets of France's various local, regional and inter-municipal authorities, collectively referred to as the territorial authorities) and partially replaces the employees' contributions. The CSG is therefore a "type three" deduction, positioned between traditional social security contributions and direct or indirect taxes which no less traditionally are used to fund the public authorities.

The basis for this deduction encompasses not only the income from salaried or unsalaried employment, but also virtually all types of replacement earnings (retirement and disability pensions, daily allowances, etc.), investment earnings, unearned income and also gambling revenue. The CSG is a proportional deduction applied, except in rare cases, to the first franc, that is usually deducted at source by the social security organisations, in the same way as social security contributions.

Since 1 January 1998, the CSG rate has been 7.5% on earned income, investment earnings, unearned income and gambling revenue, and 6.2% on replacement earnings.

As from that date:
- 1 point of the contribution is used to fund a part of the family allowance scheme (which covers the entire resident population);
- 1.3 points of the contribution is used to fund part of the non-contributory old-age benefits (which since 1 January 1994 have been brought together into the mutual aid fund for the elderly (Fonds de solidarité vieillesse - FSV), a social security institution financing solely this type of benefit);
- 4.1 points of the contribution in the case of earned income, unearned income and investment earnings, and 3.8 points of the contribution in the case of replacement earnings, is used to fund the basic sickness insurance.

This has led to the virtual disappearance of the employee's sickness insurance contribution or its equivalent for replacement earnings and for non-wage income.

One CSG point, i.e., FRF 50 billion, can be broken down into FRF 34 billion on earned income, 9 billion on replacement earnings and 5 billion on investment, unearned income and gambling revenue. The proceeds from the contribution represented 15% of the receipts of the compulsory basic schemes in 1998. The total amount - representing FRF 316 billion in 1998 and an anticipated FRF 352 billion in 1999 (nearly four per cent of GDP) - now outstrips the global amount of the income tax allocated to funding the State budget - FRF 304 billion in 1998 and an expected FRF 322 billion in 1999.

Substituting the CSG for the sickness contribution has made it possible to considerably reduce the share of earned-income-based social security contributions as a proportion of total compulsory deductions: from a little less than 43% in 1996 to around 38% in 1998, bringing France more into line with other industrialised countries (the European average in 1995 was 29.5%, with 25.1% in the United States and 36.3% in Japan).

In parallel, to further reduce the deductions from earned income:
- other deductions from investment earnings and unearned income allocated to funding social security have been extended (1% for financing the family allowance scheme and 1% for financing the basic old-age pension insurance scheme for employees).
  In total these two categories of earnings, CSG included, currently support a total

deduction of 10% for the benefit of social security (FRF 28.4 billion in 1998, or 1.5% of the receipts from the basic compulsory schemes);
- virtually all duties on drinks have been allocated to funding non-contributory old age pension insurance benefits, in addition to the CSG (within the mutual aid fund for the elderly (FSV) mentioned earlier), and some of the duties on tobacco are used to fund the general sickness insurance scheme.

Furthermore, a possible, albeit very tricky, reform of the basis of employers' contributions has been under study for several months which could, for example, lead to the substitution of all or part of the cost added to the wage bill.

B. Measures for special groups

1. There are numerous employment subsidies to assist young people (chiefly those under the age of 26).

They receive assistance on two counts:
- as a group in difficulty;
- as young people arriving on the labour market.

It is only the latter case which is dealt with in this section (for subsidies to recruit groups in difficulty, see below);

Several types of contract are offered to young people to help them find their first job. They are accompanied by benefits for the employer, nearly always including exemptions from social security contributions. The remuneration of young people under the age of 28 is fixed as a percentage of the minimum wage (between 30% and 80% of the guaranteed minimum wage *(SMIC)*, depending on age).

a. The apprenticeship contract

The apprenticeship contract *(contrat d'apprentissage)*, aimed at young people of between 16 and 26 years of age (under 27 years of age for certain disabled people) with no qualifications, provides for the acquisition of alternating theoretical and practical training with a view to a recognised vocational qualification.

Apart from fixed rate subsidies for recruitment and training, the employer benefits from exemptions from contributions:
- for craftsmen and enterprises employing no more than 10 employees, exemption from employers' and employees' contributions, except for supplementary "occupational accident" contributions;
- for others, exemption from employers' and employees' contributions, except for supplementary "occupational accident" contributions, supplementary retirement pensions and the employer's share of unemployment insurance.

b. The «professional qualification» contract (contrat de qualification)

This *contract* is a fixed-term training contract lasting between six and 24 months, to allow the acquisition of a recognised vocational qualification through alternating training. It is aimed at young people of between 16 and 26 years of age without qualifications, as well as those over the age of 26 who have been looking for a job for 12 months (see below for measures to assist the long-term unemployed).

The employer receives recruitment and training subsidies and is exempted from paying employers' contributions (social security, occupational accidents, family allowances), for the share of remuneration corresponding to the *SMIC* (FRF 6,797.18 per month, or € 1,036.22 in 1999) and up to the end of the fixed term contract.

c. The Guidance contract (Contrat d'orientation)

It is a short-term vocational guidance contract (six or nine months) for promoting the vocational guidance of a young person under the age of 22 years with no qualifications, or under the age of 25 years if he has dropped out of higher education.

The employer benefits from an exemption from employers' contributions (social security, occupational accidents, family allowances) up to the end of the contract.

d. Employing young people in new jobs in the non-commercial sector

In the autumn of 1997 a plan was launched for employing young people in new jobs in the non-commercial sector (voluntary and civic associations, local authorities) (=*Emplois jeunes dans le secteur non-marchand).* The recruitment of young people, paid at least the *SMIC* minimum wage, on a fixed-term contract of at least 12 months, renewable within five years, gives entitlement to a fixed rate State subsidy of FRF 92,000 per year and per job. By the end of the first quarter of 1999, nearly 130,000 jobs for young people in new services had been concluded since the programme was launched.

2. Reducing social security deductions on the salaries of the least skilled

Most of these reductions are financed out of the State budget, i.e., through conventional direct and indirect taxation (VAT, income tax, etc.).

a. Reduction in contributions from low salaries

This reduction has taken a variety of forms since 1993, stabilising on 1 October into **a reduction in employers' social security contributions** (sickness, old-age pension, occupational accidents and diseases, and family allowances).

This graduated reduction concerns employees whose monthly remuneration is less than 130% of the monthly minimum wage (FRF 8,836.33 gross in 1999). It is capped and represents up to FRF 1,237 per month for the employer of an employee working full time who is paid at the *SMIC* rate. It is calculated on a pro-rata basis for a part-time job. Nearly five million of the total number of 14.5 million private-sector employees benefit to the tune of FRF 40 billion.

b. Reduction in deductions to facilitate the development of personal-service jobs

This basically consists of:

- a reduction in income tax up to a maximum of FRF 22,500 per year and per taxable household;
- allowances to offset a part of the cost of social security contributions for child care jobs: the home child care allowance (allocation de garde des enfants à domicile) and the allowance for employing a registered mother's help (allocation pour l'emploi d'une assistance maternelle agréée);
- an exemption from employers' social security contributions for the benefit of private employers who are aged over 70 or are severely disabled, as well as for associations providing home care to dependent persons.

3. Measures to assist the long-term unemployed

The long-term unemployed, that is to say, either people who have been seeking work for at least 12 months, or the beneficiaries of the special mutual aid allowance (*allocation de solidarité spécifique* - welfare allowance for the unemployed), form part of the **group in difficulty**, for which four types of government-assisted contract have been developed, with consequences on the funding of social security. These contracts are as follows:

a. The Employment initiative contract (200,000 recruits in 1998)

The Employment initiative contract (*Contrat initiative emploi - CIE)* which came into force on 1 July 1995, is aimed at groups in difficulty (the long-term unemployed, beneficiaries of income support *(revenu minimum d'insertion)*, young people without qualifications, disabled people), and can either be indefinite or fixed-term (between 12 and 24 months).

For the employer this is accompanied by a subsidy for recruiting the longest-term unemployed or groups in the greatest difficulty, as well as an exemption from employers' contributions (social security, occupational accidents and family allowances) for the share of the remuneration corresponding to the *SMIC* and for the term of the contract, for a maximum of 24 months.

b. The access-to-work contract (7,000 recruits in 1998)

The access-to-work contract (*Contrat d'accès à l'emploi - CAE)* is the *CIE* equivalent in the French overseas departments and in the semi-autonomous regions of Saint-Pierre-et-Miquelon and Mayotte.

c. The employment solidarity contract (440,000 contracts in 1998)

Introduced by the law of 19 December 1989, the employment solidarity contract (*Contrat emploi solidarité CES)*, permits the part-time recruitment of people in difficulty (for a maximum of 20 hours per week), by public sector employers (except the

State) or the voluntary and civic sector, for activities which meet unsatisfied collective needs. Its equivalent, the *contrat d'insertion par l'activité*, was introduced in the French overseas departments in 1994.

Apart from a participation by the State in the remuneration (65% to 95% where the beneficiary is either long-term unemployed or disabled), the employer benefits from an exemption from employers' contributions (social security, occupational accidents and family allowances), as well as from other statutory or contractual charges; this exemption is made on the basis of the *SMIC* (for a maximum of 20 hours, representing FRF 722.60 per week in 1999) and for the entire term of the *CES*. Not covered by this exemption are: employees' contributions, unemployment contributions, the general social security contribution and the contribution for reimbursing the social security debt.

d. The consolidated work contract (100,000 contracts in 1998)

The consolidated work contract *(Contrat emploi consolidé CEC)*, involves the recruitment, on a 12-month fixed-term contract renewable for a maximum of five years, of persons who are unable to find work or to benefit from training, especially after finishing a *CES*. The *CEC* concerns, inter alia, people who have been looking for work for more than three years and beneficiaries of the special mutual aid allowance.

As with the *CES*, the employer must be from the public sector or from the voluntary and civic sector and the State participates in the remuneration (between 20% and 80%). The exemption from employers' contributions (social security, occupational accidents and family allowances) is for a maximum of 120% of the *SMIC* and for 30 hours per week (representing FRF 1,300.68 in 1999) for the entire term of the *CEC*.

Finally, the long-term unemployed can benefit from a *contrat de qualification,* even if they are more than 26 years of age (see above). This possibility has been introduced on an experimental basis up until the end of the year 2000.

4. Measures to assist disabled people

Since they are considered as a group in difficulty, disabled people benefit from the measures already described for the long-term unemployed (*CIE, CAE, CES, CEC)*.

Certain disabled people are also concerned by the *contract d'apprentissage*: for them the age limit is raised by one year (to 27 years of age).

5. Measures to assist older employees

Older employees (aged over 50 years) benefit from certain contracts designed for groups in difficulty, namely:

- the CIE (for recruiting an employee aged over 50, the employer benefits from an exemption from employers' contributions up until the retirement of the said employee, and not for a maximum of 24 months;
- the CAE;
- the CES (the beneficiary aged over 50 years of age must be jobless);
- the CEC (idem CES).

Summary table:

TARGETED MEASURES AND MAIN TARGET GROUPS

	Young people	Longterm un-employed	Disabled people	50+ years of age
Apprentice-ship Contract	- as from 26 years of age, without qualifications		27 years of age, in certain cases	
Professional qualification Contract	- as from 26 years of age, without qualifications	For the past 12 months		
Guidance Contract	- as from 22 years of age, without qualifications - as from 25 years of age, *baccalauréat* level			
Employment initiative Contract	- as from 26 years of age	For the past 12 months	Yes	Job-less
Access to work Contract	- as from 26 years of age	For the past 12 months	Yes	Job-less
Employment solidarity Contract	- as from 26 years of age	For the past 12 months	Yes	Job-less
Employment solidarity Contract		For the past 12 months	Yes	Job-less

C. Measures targeted at small and medium-sized enterprises

Self-employed workers (manufacturers and traders, craftsmen, farmers, liberal professions), companies with an unsalaried manager, minority or equal partners in limited liability companies, as well as certain associations and mutual benefit societies are allowed to benefit from an **exemption for the recruitment of a first employee** (recruitment under an indefinite contract or under a fixed-term contract of at least 12 months).

The employer is exempted from paying employers' social security contributions, occupational accident contributions and family allowances, for 24 months (indefinite contract) or for a maximum of the term of the contract.

- the exemption is capped at the fraction of remuneration equal to the SMIC per hour of work paid (up to a maximum of the statutory or contractual working hours), for people recruited after 1 January 1999;
- for people recruited before 1 January 1999 the exemption covers the entire remuneration paid.

D. Policy to promote self-employment

France's social security policy to foster the development of self-employment has taken a three-pronged approach: reduction in social security deductions, harmonisation of allowances, and simplification of administrative formalities.

1. Measures to reduce social security deductions

From 1994 there was a 30% reduction in sickness insurance contributions during the first two years of work for unsalaried workers not in the agricultural professions. On 1 January 1998, this reduction was abolished in favour of a general and permanent measure to transfer a significant portion of the sickness insurance contribution to the general social security contribution (*CSG*). This contribution has been increased by 4.1 points to offset a drop of 5.5 points in the contribution on the earnings of unsalaried non-agricultural workers who come under the social security threshold (FRF 173,640 per year in 1999) and of 3.7 points on earnings of between one and five times this threshold.

This new measure is particularly advantageous for self-employed workers who are liable for the minimum sickness insurance contribution, which is reduced by half. For any earnings not exceeding 40% of the threshold (FRF 69,456 per year in 1999), the minimum contribution was set at FRF 3,990 in 1998 instead of, as previously, FRF 5,397 for the first two years in business, on account of the 30% reduction, and FRF 7,710 beyond this.

In addition, self-employed workers whose annual earnings are under FRF 25,000 are exempted from paying the *CSG* and the contribution for reimbursing the social security debt *(CRDS)*.

The business start-up grant for young and unemployed people (*aide aux jeunes et aux chômeurs créateurs d'entreprise, ACCRE*) essentially takes the form of a twelve-month exemption from social security contributions associated with the new business and is aimed at all job-seekers, whether or not they receive benefit, at recipients of income support (*RMI*) and, since 1 January 1998, at young people who meet the requirements for "emploi-jeunes" contracts. The exemption covers sickness insurance, maternity, widows', disablement, death and family allowance contributions, up to a maximum of the income ceiling corresponding to 120% of the gross *SMIC* (FRF 8,156 in 1999). Since 1999 it has been accompanied by a reimbursable advance payable by the State.

2. Measures to standardise and harmonise benefits for salaried and unsalaried workers

At the request of their representatives in the sickness insurance funds, unsalaried workers are able to set up supplementary benefits in addition to the basic benefits in kind, by paying an extra contribution. Since 1991 the daily disablement allowance has figured among these supplementary benefits, but only the craftsmen's group has availed itself of this possibility since 1 July 1995.

With respect to benefits in kind, the difference between the general salaried workers' scheme and the unsalaried workers scheme lies only in lower reimbursement of ordinary medical costs for unsalaried workers than for salaried workers. However, more extensive care, in particular hospital treatment, is reimbursed on the same basis for both schemes. This difference is due notably to the disparity in the level of contributions paid into the two schemes.

3. Simplification of administrative formalities

Unsalaried workers are required to submit statements of income to several tax and social security bodies. With respect to social security organisations, a first simplification has been introduced, requiring a single statement to the sickness insurance fund, with the latter then being responsible for passing on the information to the body managing social security payments and funds, the *URSSAF* (which covers the family allowance contributions of self-employed workers) and the old age pension insurance fund. A new phase will shortly be introduced: unsalaried workers will then only have to send one statement of income to the tax administration, with the latter being responsible for passing on the elements required to determine contributions and entitlements directly to the social security organisations.

A. General

The purpose of Ireland's social insurance system is to provide an income support system to cover insured workers for a variety of contingencies for which they would otherwise find it difficult, if not impossible, to provide on an individual basis. In Ireland, there are two sources of finance for the social security system. Contributory benefits are financed by Pay Related Social Insurance *(PRSI)* contributions by employers, employees and the self-employed. Non-contributory schemes are financed from general taxation.

See Appendices 1 and 2 for details of contributory and non-contributory payments.

Social insurance contributions are paid in the first instance into a Social Insurance Fund. This consists of a current and an investment account. The Minister for Social, Community and Family Affairs manages the current account and the Minister for Finance manages the investment account. Social insurance contributions are paid into the current account and pension payments and other Social Insurance based benefits are paid from the current account. If there is a surplus in the current account which is not required to meet Fund liabilities such as the payments of pensions etc., the surplus is transferred to the investment account and invested by the Minister for Finance. The income arising from such an investment (and in due course, the capital) is returned to the Social Insurance Fund. These arrangements are provided for in legislation as per sections 6,7 and 8 of the Social Welfare (Consolidation) Act, 1993. Any shortfall in the income of the Social Insurance Fund on a year to year basis is made up from general taxation.

The Social Insurance Fund operates on a "Pay As You Go" basis, with contributions made in a given year being applied to making payments to beneficiaries in that year.

See Appendices 3 and 4 for details of social welfare expenditure and components of the Social Insurance Fund in 1997.

Employees are covered for the full range of internationally recognised contingencies, including unemployment. The self-employed are covered for Old Age Pension, Widows/Widowers Pension and Maternity Benefit only. Workers who are not covered for social insurance benefits may be eligible for corresponding payments under social assistance, entitlement to which is subject to a means test.

B. Employment Creation

1. Measures Taken

a. PRSI contribution rates

PRSI is calculated as a percentage of gross weekly earnings less superannuation contributions.

During the 1990s there have been a number of changes to the PRSI contribution system.

b. Changes in PRSI rates

<u>Employer PRSI</u>

In 1994, a reduced employer's rate of PRSI of 9% was introduced, in respect of employees on low incomes (IEP 173 per week, increasing to IEP 231 in 1995), to help those in labour intensive industries.

In 1996, this rate was further reduced to 8.5% with the earnings ceiling for this low rate also increasing from IEP 231 to IEP 250 per week. The earnings ceiling was further increased in 1997, 1998 and 1999 and now stands at IEP 280 per week.

The employer's standard rate of PRSI was reduced from 12.20% to 12% in 1996, and this rate currently applies to earnings in excess of IEP 280 per week.

<u>Employee PRSI</u>

From April 1990, employees insurable for all benefits and pensions on low earnings (IEP 60 or less per week), excluding Class J contributors, were exempt from paying social insurance without any effect on their benefit entitlements.

From 6 April 1991, full social insurance cover was extended to all employees, including part-time workers, earning IEP 25 per week (IEP 30 from April 1994), previously required to work 18 hours per week (formerly Class J contributors).

In 1997, the social insurance rate for employees was reduced from 5.5% to 4.5%.

In April 1995, a new PRSI Free Allowance of IEP 50 per week was introduced for all employees, increasing to IEP 80 in 1996 and increased further to IEP 100 in 1998. This applies to contribution classes A-H (it does not effect social welfare entitlements of those on low pay).

Self-employed PRSI

In April 1995 the self-employed were given a PRSI-Free Allowance of IEP 520 per annum increasing to IEP 1,040 per annum in 1996.

The minimum annual PRSI payment was reduced from IEP 250 to IEP 230 in 1995 and further reduced to IEP 215 in 1996.

2. Reduction in ancillary wage costs for groups targeted by labour market policy

PRSI Exemption Scheme: this scheme was introduced in 1990 with the aim of providing employer's with an incentive to take on additional employees by reducing their payroll costs associated with social insurance contributions. Under the terms of the scheme, an employer employing extra workers does not have to pay the employers share of the PRSI contributions for those additional employees for the first two years of the employment.

In order to avoid a displacement effect occurring, the new employees must represent a net increase in the number of workers employed. In order to qualify for the scheme the new jobs must also be full-time, i.e., at least four days per week and a minimum of twenty hours per week. The net increase in the overall number of workers must be retained throughout the exemption period. In 1998, 7,657 new jobs benefited from this incentive.

3. Measures for those new in the labour market

Student Summer Job Scheme allows third level students and students in Post Leaving Certificate courses of more than one years duration to undertake part-time employment useful to the community with sponsors, (voluntary/community organisations and public bodies with special projects) registered with the Dept. of Social, Community and Family Affairs.

Under the scheme students are permitted to work 200 hours over a 6-17 week period at the rate of IEP 3 per hour. The maximum hours worked per week cannot exceed 35. The total of 200 hours cannot be completed in less than 6 weeks.

The type of work offered under the scheme must:
- be additional work of a temporary nature;
- not replace or displace existing employment;
- be beneficial to the community and the student.

The work being offered cannot:
- be commercially oriented;
- enhance private property;
- result in private gain;
- involve fundraising.

4. Measures for workers with lower qualifications and wages

a. Back to Education Programme

The Dept. of Social, Community & Family Affairs administers a range of second chance education programmes to assist people in improving their skills and qualifications.

The study options are:
- Back to Education Allowance
- Education, Training and Development Courses
- Vocational Training Opportunities Scheme

The **Back to Education Allowance** (BTEA) is an educational opportunities scheme for unemployed people, lone parents and people receiving a Disability Allowance and Blind Person's Pension.

In order to qualify for the BTEA, the employed person:
- must be at least 21 years of age (24 in the case of a third level postgraduate course);

  and
- must be in receipt of one of the following payments from the Dept. of Social, Community & Family Affairs for at least 6 months:
  - Unemployment Assistance or Benefit
  - One Parent Family Payment

- Blind Person's Pension
- Disability Allowance

Participants are permitted to work part-time while in receipt of BTEA, but this will effect their entitlement to Rent or Mortgage Interest Supplement. Secondary benefits may also be retained. Recipients may also be entitled to an annual Cost of Education Allowance of IEP 150 to assist with the cost of textbooks and other materials.

The BTEA is payable for the duration of the course, including holiday periods.

Education, Training and Development Courses: If a course is not covered by the BTEA, social welfare payments may be retained in relation to certain education, training and development courses ranging from personal development to the acquisition of specific job skills.

A person must be at least 21 years of age and be in receipt of an unemployment payment or otherwise registered as unemployed for at least 6 months.

The **Vocational Training Opportunities Scheme (VTOS)** is operated by the Vocational Education Committees in conjunction with the Dept. of Social, Community & Family Affairs. It is aimed at people who have been out of school for some time. It takes the form of a weekly allowance which is equivalent to the maximum rate of the previous social welfare entitlement, including increases for a qualified adult and dependent children, where appropriate. To qualify for VTOS a person must be at least 21 years of age and be in receipt of an unemployment payment for at least 6 months.

Courses offered are full time and may last for up to 2 years. They can lead to a qualification such as Junior Certificate, Leaving Certificate, Post Leaving Certificate and City & Guilds Certificates. There are no fees for the courses and materials are also provided free of charge.

It is not a means tested allowance so earnings from part time work or summer holiday work are not taken into account. Secondary benefits such as the Medical Card may be retained while on a VTOS course. Payment is made for the duration of the course including holiday periods.

b. Family Income Supplement

Family Income Supplement (FIS), introduced in 1984, is designed to provide financial support for employees on low earnings with dependent children and thereby preserve the incentive to remain in employment in circumstances where they might be only marginally better off than claiming social welfare payments.

In order to qualify for FIS, the employed person must:

- be in paid employment which is expected to last for 3 months and be working for least 38 hours per fortnight. Hours worked by a spouse or partner can be combined;
- have at least one qualified child normally living and being supported by the claimant. (A qualified child is any child under age 18 or aged 18 to 22 if in full-time education.)
- have an average family income below a fixed amount for their family size. Payment of the allowance is 60% of the difference between weekly income and the income limit for the family size.

The scheme's initial take-up did not meet expectations, perhaps because of the stigma associated with claiming income support or a reluctance to furnish information about personal income. However, the emergence of a new marketing strategy in 1993 aiming to raise awareness of the employment incentive aspect of the scheme and the benefits of the scheme, has improved take up significantly from a low of 7,221 families in May 1993 to a high of 13,143 in 1998.

A number of improvements made to the scheme since its inception may have also contributed to improve take-up. These include:

- reducing the threshold for participation to 38 hours per fortnight (in 1984 full employment meant 30 hours each week);
- making the scheme available to job-sharers;
- reducing the qualifying period in employment for entitlement to FIS from six to three months;
- increasing the income limits on a regular basis and abolishing the concept of maximum amounts. (The level of FIS is determined by reference to a percentage (currently 60%) of the difference between the income threshold and the amount of weekly earnings. Previously, the amount paid could

not exceed a certain maximum which was related to the number of child dependants). From June 1997 the weekly income threshold was raised by IEP 10, and from June 1998 by IEP 7.

An important measure was introduced in October 1998 whereby entitlement was calculated on earnings net of Pay-Related Social Insurance *(PRSI)* contributions, income tax, superannuation and levies. (Calculations were previously made on the amount of gross weekly earnings less PRSI contributions.)

5. Measures for the long-term unemployed

In addition to the schemes outlined at 3. and 4. above there are a number of other schemes available to facilitate and encourage the long-term unemployed back into the labour market.

a. Employment Support Services

During the 1990s the Dept. of Social, Community and Family Affairs has moved away from a passive, mainly income maintenance approach to dealing with unemployment, to a more active approach combining income maintenance and employment support measures. A key development in this respect was the establishment of the Employment Support Services *(ESS)* in July 1993. The ESS programme is delivered by Job Facilitators based in all of the main Social Welfare offices. They are active in facilitating the transition back to work by encouraging long-term welfare dependants to avail of an enhanced range of work, training, development and education options delivered by either the Department or other agencies.

b. Back to Work Allowance

The Back to Work Allowance Scheme *(BTWA)*, introduced in October 1993 with the new Employment Support Service, is a major new option for the long-term unemployed. The main aim of the BTWA is to allow and encourage people who have been long-term welfare dependants to test employment options and regain a foothold in the labour market while retaining some degree of financial security during the early years of employment or self-employment.

The BTWA allows the long-term unemployed to retain 100%, 75%, 50% and 25% respectively of their existing social welfare payments over 3 years (4 years if they undertake self-employment). The allowance is not subject to PRSI or tax, but wages paid by the employer are. They also retain their existing secondary benefits, e.g., Medical Card, Fuel Allowance, Christmas Bonus, Butter Vouchers, Back to School Clothing and Footwear Allowances, Diet Supplements, variable local authority rent and Rent/Mortgage Interest Supplements, (subject to a maximum supplement of IEP 250 per month).

In order to qualify for the BTWA a person must:
- be aged 23 years or over and have been unemployed for 12 months and have an entitlement to Unemployment Assistance of at least IEP 40 per week (if single) or IEP 62 (if in receipt of an increase for a qualified adult dependant);

<u>or</u>

- be in receipt of a One Parent Family Payment, Disability Allowance or Blind Person's Pension from 12 months (no age limit applies to people in receipt of these payments for BTWA purposes).

There are restrictions on the type of work which can be taken up under the scheme. The job must be:
- new or additional employment;
- likely to develop into a lasting job;
- for a minimum of 20 hours per week.

The job must not displace existing employment. A feature of the BTWA is that an employer who takes on an additional employee under the scheme qualifies for the PRSI Exemption Scheme for the first 2 years of the employment (see above).

c. BTWA Supports for the Self-Employed

There are additional supports for those taking up self-employment under the Back to Work Allowance scheme.

These are:
- First Step Joint Loan Fund
- Technical Assistance Fund
- Employment Grant

First Step Joint Loan Fund: In recognition of the difficulties faced by unemployed people in starting a business in gaining access to funding, a joint loan fund of IEP 0.5m was set up by the Department with First Step in 1995 to provide interest free loans to BTWA recipients. (First Step is a non-profit company limited by guarantee, with charitable status which aims to promote the awareness of enterprise amongst unemployed people and assist them to start their own businesses). The loans, which average about IEP 3,000 are repaid by deductions from the BTWA. Customers are notified about this facility by the Jobs Facilitators and the final decision on granting the loan rests with First Step. A condition of the loan is the acceptance by the BTWA recipient of the services (free of charge) of a designated business mentor.

Technical Assistance Fund: Also in 1995, a Technical Assistance Fund was put in place (currently amounting to IEP 1.2 million per annum) for use in the assistance of BTWA recipients in the following areas:

- bookkeeping and accounts work;
- help with business plans;
- assistance with marketing;
- purchase of small items of support for business.

This money is disbursed at local level by the Jobs Facilitators who make an assessment of the proposal and, if approved, ensure that the service is delivered to the customer. A further IEP 0.5 million has been provided towards provision of a Loan Guarantee to enable Credit Unions provide low interest loans to recipients of the Back to Work Allowance. This fund acts as collateral in the event of the borrower defaulting.

Employment Grant to Self-Employed: A special small Employment Grant is available to self-employed people on the Back to Work Allowance scheme to encourage them to take on employees who would also qualify for an allowance under the scheme.

d. Evaluation of BTWA

An independent evaluation of the Back-to-Work Allowance scheme carried out by a team of social and economic consultants was published in October 1997. The Report found that the scheme had played a significant role in encouraging the long-term unemployed to take up employment or self-employment. It activated those who:

- were unsuccessful in their work seeking activities; and/ or,
- had become discouraged and were no longer seeking work.

The Report found that over one quarter (29%) of participants had not made a single job application and a further one fifth (19%) had just made between two and five applications in the 6 months prior to receipt of the Allowance. In 15% of cases, the scheme resulted in the regularisation of work previously undertaken in the informal economy. The Report also found that the scheme acted as an incentive to between 40 - 60% of employers to recruit from among the ranks of the long-term unemployed. Furthermore, in 95% of cases the jobs on offer were new jobs and about 74% of employees believed that the job would continue when support under the scheme ceased. In the case of those who were self employed the post scheme survival rate was estimated by the consultants to be about 60%.

e. Area Enterprise Allowance (now Back to Work Enterprise Allowance)

The Area Allowance Enterprise *(AAE)* was introduced in 1992. It is payable to long term unemployed people who engage in self-employment in specially designated areas of disadvantage called Partnership Areas. (There are currently 38 such areas designated covering approximately 60% of the country.) Under the AAE scheme, participants retain 100% of their unemployment payment for the initial year of the enterprise and then transfer automatically to the Back to Work Allowance scheme for a further 3 years. This scheme is not capped. There was an increase of 163.5% in the number of recipients in 1997, from 1,627 recipients in 1996 to 4,287. 7,431 people were in receipt of the Allowance in 1998, an increase of 42.3% over 1997.

An independent evaluation of the Area Allowance Enterprise Scheme published in October 1997 recommended that as both this scheme and the self-employment strand of the Back to Work Allowance shared the same objectives but differed in aspects of the support provided and the way in which they were implemented, they be consolidated into a single new programme. For example, in localities in which an Area Based

Partnership Company (ABPC) had been established the AAE and the BTWA schemes operated back-to-back while in localities not covered by an ABPC the BTWA was the sole programme in operation.

From January 1998, the availability of AAE was extended to those starting a business who reside in non-partnership areas.

Following on the recommendations of the 1997 evaluation, from April 1999, the AAE was renamed as the Back to Work Enterprise Allowance and extends the existing Back to Work Allowance to 4 years for self-employed people. Individuals qualifying for the scheme retain 100% of social welfare payment in the first year, 75% in the second year, 50% in the third and 25% in the fourth year.

f. Community Employment Scheme

This scheme is run by FAS and operates throughout the country. The aim of the scheme is to provide the long term unemployed and those in receipt of One Parent Family Payment with part time work together with personal and skill development opportunities.

There are 2 options available under the scheme.

- Part Time Integration Option
- Part time Job Option

Part Time Integration Option: Unemployed persons and lone parents aged 21 or over can take up employment with a sponsor for one year.

Part Time Job Option: Unemployed persons and lone parents aged 35 years or over have an annual contract with a sponsor which can be renewed for up to 3 years.

Secondary benefits are retained while on a Community Employment scheme, provided that the household income does not exceed IEP 250 per week. Participants receive a weekly allowance consisting of a personal payment and additional payments for any qualified adult and child dependants.

g. Retention of Entitlement to Allowances for Children

The Expert Working Group on the Integration of the Tax and Social Welfare Systems identified a number of obstacles confronting the long-term unemployed in taking up employment in its final report in 1996. In this context, the immediate loss of Child Dependent Allowances when an unemployed parent takes up employment was considered to be a significant impediment. In order to overcome this disincentive, provision was made in 1996 to allow long term unemployed people to retain entitlement to Child Dependent Allowances for a period of 13 weeks if they take up employment which is expected to last at least four weeks. The benefits of the latter measure was further maximised by providing that persons eligible for Family Income Supplement *(FIS)* can receive Child Dependent Allowance or FIS, whichever is the higher, with effect from commencement of employment.

h. Provision for Tapered Withdrawal of Adult Allowance

An aspect of the social welfare system, which had a negative impact on female participation in particular, centred on the sharp poverty trap created by the withdrawal of the Qualified Adult Allowance (QAA) and half of the Child Dependent Allowances, where the income of the spouse of a claimant exceeded IEP 60. For example, where the spouse of a person claiming Unemployment Assistance was working and earning IEP 60 a week, a IEP 1 increase in the spouse's earnings lead to a drop of IEP 40 in the weekly amount of UA payable to that household. This poverty trap was highlighted by many groups, including the Household Review Group, the Second Commission on the Status of Women and, more recently, by the Expert Working Group on the Integration of the Tax and Social Welfare Systems. With effect from November 1997, a tapered withdrawal of the QAA has been introduced where a spouse's weekly earnings are between IEP 60 and IEP 90.

i. Unemployment Assistance - Means Test

The method of assessing earnings from employment in the means test for Unemployment Assistance *(UA)* was identified by the Expert Working Group on the Integration of Tax and Social Welfare as a disincentive to people considering engaging in part-time or casual employment. Previously, the complexity of the means test made it difficult for a person to assess the degree of improvement to his financial circumstances if opting for part-time or casual employment. In order to enable people to more readily determine their financial position if taking up part-time or casual employment, and to ensure an improvement in financial circumstances in the event of pursuing that option, the method of assessing earnings was simplified. Formerly, Unemployment Assistance was only payable in respect of a day of unemployment. The new basis for assessment of entitlement is a week of unemployment rather than a day. A week of unemployment is defined as any 3 days of unemployment in a period of 6 consecutive days. This means that Unemployment Assistance can be paid in respect of a week in which there were both days of employment and unemployment thus providing for an improved level of income support for people opting for part-time or casual work. Just 60% of earnings are taken into account in the means test so as to ease the withdrawal of income support as earnings increase.

j. Part-time Job Incentive Scheme

In 1988 the Part-time Job Incentive scheme was introduced. This scheme encourages long-term unemployed people (15 months on the live register) to take up part-time paid employment which will help them make the transition to full employment. Participants receive a special income supplement which is payable by their Social Welfare Local Office. In order to qualify for the scheme the part-time work must:

- involve less than 24 hours work per week;
- be insurable at PRSI class A or J;
- be expected to last for at least 2 months.

k. One Parent Family Payment

The labour participation rates of lone parents are among the lowest of any category and they are also most likely to be out of the labour force for relatively long periods. A major step to address this was taken in January 1997 with the introduction of the One-Parent Family Payment. Under this scheme, the first IEP 6,000 earnings per year are disregarded in the assessment of means. Earnings in excess of this amount are assessed at 50% and the allowance only ceases to be payable where the annual earnings exceed IEP 12,000.

l. Jobstart

This is a recruitment subsidy operated by FAS (National Training Authority), whereby employers can recruit long term unemployed people, (those in receipt of an unemployment payment or One Parent Family Payment for at least 3 years) and receive a weekly subsidy of IEP 80 for 52 continuous weeks. The job created must be new or additional employment, and for not less than 5 days per week. Secondary benefits may be retained by an employee taken on under the programme, provided that household income does not exceed IEP 250 per week.

m. Job Assist

This scheme was introduced by the Revenue Commissioners in April 1998. Its aim is to help long-term unemployed and lone parents to take up employment.

Employees who qualify for the scheme receive special tax allowances over a three year period consisting of a personal tax allowance and an allowance in respect of each qualified child.

6. Measures for people with disabilities

a. Back to Work Allowance

In April 1997 a total of 1,000 places were allocated on the Back to Work Allowance scheme for people in receipt of Disability Allowance or the Blind Person's Pension. Prior to this initiative the BTWA had only been available to those in receipt of an unemployment payment or a One Parent Family Payment.

b. Back to Education Programme

People in receipt of Disability Allowance and Blind Person's Pension are eligible for participation on the Back to Education Programme (including the Cost of Education Allowance).

c. Disability Allowance

Disability Allowance is a weekly means tested payment paid to people with a disability who are aged between 16 and 66 years of age and who are resident in the State. The disability must be expected to last for at least one year. It is generally not paid to people in full-time residential care, but in certain circumstances where the person spends time outside of the care facility it can be paid at half rate.

In recognition of the difficulties that disabled people often experience in entering or returning to the workforce and the need to engage in work of a rehabilitative nature, the Disability Allowance scheme permits a person to earn up to IEP 60 per week from rehabilitative employment, without affecting their rate of Disability Allowance.

d. Blind Person's Pension

The Blind Person's Pension is a weekly payment to blind people and certain people with low levels of vision. To qualify, a person must be aged 18 years or over, be resident in the State and satisfy a means test.

To facilitate entry or re-entry to the labour market, people in receipt of the Blind Person's Pension can have any moneys received by way of a training allowance disregarded as means. In addition people in receipt of the pension may earn up to IEP 60 per week from rehabilitative employment.

7. Measures for older workers

There are no particular employment support measures in place for older workers. However, they are eligible for all of the schemes and programmes referred to above at 4.-5. inclusive.

Conclusion

The support measures indicated above are financed from general taxation, apart from the Area Enterprise Allowance (see point 5.e.), which is jointly financed by the EU Commission and from general taxation, and the reductions in PRSI contributions, the cost of which are absorbed by the Social Insurance Fund. If, however, there is a shortfall in the Fund in any year, this is made up from general taxation.

For statistics on the various employment support measures administered by the Dept. of Social, Community and Family Affairs, see Appendices 5 - 8.

APPENDICES

APPENDIX 1

PRSI contributions pay for the following contributory benefits:

- Old Age Contributory Pension
- Retirement Pension
- Contributory Widow's Pension
- Contributory Widower's Pension
- Deserted Wives Benefit*
- Maternity Benefit
- Health and Safety Benefit
- Adoptive Benefit
- Orphan's Contributory Allowance
- Disability Benefit
- Invalidity Pension
- Injury Benefit
- Disablement Benefit
- Death Benefit
- Unemployment Benefit
- Treatment Benefit

* This scheme is being gradually phased out with the introduction of One Parent Family Payment on 1 January 1997. Only those in receipt of Deserted Wife's Benefit prior to the introduction of One Parent Family Payment continue to receive it.

These are statutory schemes to which decisions on qualification are made by a deciding officer.
Payments under the Redundancy and Insolvency Acts, administered by the Dept. of Enterprise, Trade and Employment are made from the Social Insurance Fund.

APPENDIX 2

The non-contributory payments which are funded from general taxation are as follows:

Means tested *

- Non-Contributory Old Age Pension
- Non-Contributory Widow's Pension
- Non-Contributory Widowers Pension
- Unemployment Assistance
- Disability Allowance
- Supplementary Welfare Allowance
- One Parent Family Payment
- Family Income Supplement
- Blind Person's Pension
- Free Fuel Allowance
- Universal Benefits *
- Child Benefit

* These are statutory schemes on which decisions on qualification are made by a deciding officer.
The following schemes are non-statutory and do not require that decisions on qualification are made by a deciding officer.

- Employment Supports
- Back to Work Allowance
- Student Summer Job Scheme
- Back to Work Enterprise Allowance
- Back to Education Allowance
- Part-time Job Incentive Scheme

APPENDIX 3

Financing of Social Welfare expenditure in 1997 and 1998 was as follows;

Sources of Finance (*)	1997		1998 (i)	
	IEP 000	%	IEP 000	%
State	2,579,442	57.0	2,668,826	56.0
Social Insurance Fund	1,938,423	42.9	2,086,176	43.8
National Lottery	5,600	0.1	7,848	0.2
Other Receipts	797	0.0	232	0.0
Total	**4,524,262**	**100.0**	**4,763,082**	**100.0**

APPENDIX 4

Financing of the Social Insurance Fund, 1997 and 1998

Income	1997		1998 (i)	
	IEP 000	%	IEP 000	%
State	-	-	-	-
Employer PRSI	1,370,009	70.4	1,525,453	71.3
Employee PRSI	450,346	23.2	482,250	22.5
Self-Employed PRSI	124,389	6.4	130,555	6.1
Other Receipts	346	0.0	1,444	0.1
Total Income	**1,945,090**	**100.0**	**2,139,702**	**100.0**
Total Expenditure	**1,938,423**		**2,086,176**	
Surplus	**6,667**		**53,526**	

APPENDIX 5

Expenditure on Social Welfare by Programme, 1997 & 1998

Programme	1997	1998 (i)
	IEP 1,000	IEP 1,000
Old Age	1,035,349	1,122,766
Widows, Widowers & One Parent Families	787,603	857,603
Child Related Payments	435,530	460,599
Illness, Disability & Caring	624,191	673,916
Unemployment Support (ii)	923,886	843,155
Employment Support (iii)	123,389	157,737
Miscellaneous Payments	360,854	391,557
Equal Treatment Payments	4,765	7,131
Redundancy & Insolvency Payments	18,628	15,214
Administration	210,427	233,701
Total	**4,524,262**	**4,763,082**

Notes:

(i) 1998 figures are provisional

(ii) Payments in relation to Unemployment Supports (mainly income support payments) decreased by 8.7% from 1997 to 1998; as a% of overall Programme Expenditure, Unemployment Support payments decreased from 20.42% in 1997 to 17.7% in 1998

(iii) Payments in relation to Employment Supports increased by 27.8% from 1997 to 1998; as a% of overall Programme Expenditure, Employment Support payments increased from 2.72% in 1997 to 3.31% in 1998

APPENDIX 6

Expenditure on Employment Supports by Payment Type, 1997 & 1998

Type of Payment	1997	1998
	IEP 1,000	IEP 1,000
Back to Work Allowance	58,565	67,754
Family Income Supplement	25,989	28,656
Students Summer Job Scheme	9,018	7,992
Back to Work Enterprise Allowance	15,372	35,013
Back to Education Allowance	12,497	16,335
Part time Job Incentive Scheme	1,477	1,475
Total	**123,389**	**157,737**

APPENDIX 7

Number of Recipients of Employment Supports by Payment Type, 1997 & 1998

Type of Payment	1997	1998
Back to Work Allowance	21,082	24,250
Students Summer Job Scheme	15,542	13,251
Back to Work Enterprise Allowance	4,278	7,351
Back to Education Allowance	3,753	4,475
Part-time Job Incentive	585	568
Family Income Supplement	12,888	13,143
Total	**58,137**	**63,388**

APPENDIX 8

Recipients of Back to Work Allowance by Employment Status and Gender, 1998

Employment Status	Males	Females	Total
Employees	12,485	2,032	14,517
Self-employed	8,275	1,458	9,733
Total	**20,760**	**3,490**	**24,250**

(*) Source: Department of Social, Community & Family Affairs, 1998 annual statistical report, 'Statistical Information on Social Welfare Services'

A. General measures

One of the measures taken by the Government to contain increases in social charges was to transfer to the general tax scheme the health care allocation for employees. This measure enabled a reduction of non-wage costs. Nonetheless, in order to balance financing for the system, a regional tax on production activities was introduced.

In Italy, the tax burden was reduced by 1.2% in 1998, and the social charges for companies fell by 0.82%.

In accordance with the guidelines of the Kyoto Conference, a provision under the 1988 Finance Act stipulates the introduction of a coal tax (ITL 1,000 per ton of coal or other combustible material). This amount goes towards financing the reduction in social charges on employment.

B. Specific financing provisions to promote employment

Adding to measures already in force for some time, new provisions were recently adopted to promote employment policy aimed at certain categories of persons at risk of social exclusion.

Since there is a great number of measures and in order to create a more homogeneous instrument, a reform to prevent competition among these different measures is currently under study. A draft law has set out reorganisation plans, which will push the government to take action. The aim is to set up an efficient and organic system with various instruments to promote the integration of job seekers and unemployed persons in working life.

The guidelines contained in this reform are based on two key objectives:
a) first, to promote efforts to create new business, streamline administrative procedures and ease access to credit facilities;
b) second, to create a stronger link between vocational training and the social services.

In 1999, the following measures were taken:
1. Prolongation until December 2001 of reduced contributions, in capital, for employees of companies located in the South whose annual revenue is less than ITL 36 million.
2. Total exemption of social charges for new employees during a period of three years, on condition that companies create new jobs.
3. Reduction of contributions for three years amounting to 50% for young self-employed workers registered with the INPS during the 1999-2000 period.
4. Annual tax credit of ITL one million for three years with a maximum of ITL 50 million per annum for each new employee during the 1999-2001 period.
   This measure may be increased to ITL 3 million if the person hired is disabled. It applies only to small and medium-sized enterprises situated in regions where the unemployment rate is higher than the national average.
5. Tax advantages will be used to promote increases in personnel working in companies located in Objective 1, 2 and 5b zones, as defined by the European Social Fund.

The National Fund for Employment is to be refinanced with an amount of ITL 200 billion per year to promote the project of reducing working hours. This measure will help to cover the social charges arising from any reduction in working hours.

Funding for social security in Luxembourg is characterised by heavy State participation. Indeed, globally the public authorities pay around one third of the financial cost of social security schemes from the State budget. With regard to pension insurance, the 24% contribution rate is distributed at the rate of one third payable by the employer, one third payable by the employee and one third payable from the State budget. With regard to sickness insurance, the State pays an additional premium of 250% of the contribution rate on the total contributions from pension beneficiaries and an additional premium corresponding to 10% of the same rate on the total contributions from the other insured persons. The dependency insurance provides for the State to pay a contribution of 45% of total expenditure. Family benefits are funded almost entirely from the State budget. The funding for unemployment comes from taxation.

A. General Measures

In view of the above, the contribution rates payable by insured persons and employers in Luxembourg are relatively low compared with neighbouring countries. We are even seeing a certain trend for companies to relocate to Luxembourg.

Nevertheless, a sustained effort has been made to keep social security contributions at a constant level: although contribution increases have proved necessary in a specific branch (e.g., cash benefits in the event of illness), these have been offset by a corresponding reduction in another branch (e.g., accident insurance).

Notwithstanding this, a 1% contribution from professional earnings, replacement earnings and unearned income has been levied since 1 January 1999, in order to finance the new dependency insurance. No direct social security contribution is payable by employers to fund this dependency insurance. Employers participate in this new social security branch via a tax on electricity.

B. Measures for special groups

Like other European countries, Luxembourg has introduced specific incentives for the recruitment of groups that are difficult to place on the labour market.

In various cases the State itself pays the social security contributions for employers hiring either older unemployed people or the long-term unemployed. Furthermore, identical provisions are being planned in order to boost youth employment.

The law provides for a number of grants for the recruitment of older unemployed people and the long-term unemployed. Under these provisions, the employment fund reimburses private-sector employers for both the employer's share and insured person's share of social security contributions, for those unemployed people who are recruited, whether or not they receive benefits, provided that they are 50 years of age or over and have, for at least one month, been registered as seeking work with a placement bureau belonging to the employment administration. Reimbursement of these contributions is maintained for a period of no more than seven years.

Notwithstanding these provisions, reimbursement of the contributions for fixed-term contacts is maintained for only 18 months.

Likewise, the employment fund reimburses private sector employers both the employer's share and the insured person's share of social security contributions, for those unemployed people who are recruited, whether or not they receive benefits, provided that they are 30 years old or over and have, for at least 12 months, been registered as seeking work with a placement bureau belonging to the employment administration. Reimbursement of the contributions is maintained for a period not exceeding two years, for unemployed people aged 30, and three years for unemployed people aged over 40. With respect to fixed-term contracts, the maximum reimbursement period of 18 months also applies to the long-term unemployed.

Reimbursement of social security contributions is subject to the proviso that the unemployed person is recruited on an indefinite employment contract or a 24-month fixed-term contract for a job entailing at least 20 working hours a week. Any employer wishing to benefit from reimbursement of social security contributions must, on pain of debarment, send the required application to the director of the employment administration within two months following recruitment.

As part of the legislative measures established to promote *youth employment*, it is planned that an employer recruiting a trainee under a work placement/induction contract *(contrat de stage- initiation)*, must pay him a training allowance equal to 85% of the guaranteed minimum wage. The employment fund reimburses the employer 25% of the training allowance. The training allowance is subject to the social security and tax contributions payable for salaries. However, the employer's share of the social security contributions is paid out of the employment fund.

The promoter of a temporary employment programme *(programme de mise au travail temporaire)* must pay the young person an allowance equal to either the guaranteed minimum wage for a skilled worker or the guaranteed minimum wage for an unskilled worker, depending on whether the young person is under or over the age of 25. The employment fund reimburses 25% of the allowance to the organisations. The allowance is subject to the social security and tax contributions payable for salaries. However, the employer's share of the social security contributions is paid out of the employment fund.

Within this context, the law also provides for an income tax rebate for recruiting unemployed people.

This tax rebate is allocated as from the financial year ending on 30 June 1996, for unemployed people who are recruited for the period from 1 July 1996 to 31 December 1999.

Those entitled to obtain a tax rebate are taxpayers hiring unemployed people:
- for a commercial, industrial, mining or craft enterprise;
- for a business that is of benefit to agriculture or forestry;
- for a liberal profession.

Contractors of temporary staff are not entitled to benefit from the tax rebate.

Unemployed people who are entitled to a tax rebate must be job-seekers without employment who are subject to social security insurance in Luxembourg and have been registered for at least three months with the employment administration.

Recruitment must be via an indefinite or fixed-term employment contract of no fewer than 16 hours per week. In the case of a fixed-term contract, the term of the contract must be 24 months.

For a period of thirty-six months starting from the month of recruitment, and under the proviso that the employment contract continues during that period, the monthly tax rebate per unemployed person is 10% of the amount of the gross monthly remuneration, deductible as an operating expense.

C. Specific measure assist small and medium-sized enterprises

No specific measure has been introduced to assist small and medium-sized enterprises by reducing social security contributions.

A "formalities centre" has been created in order to help those wishing to create or take over an independent business. Apart from providing information and advice, this centre acts as an interlocutor for completing the administrative formalities with regard to social security liability, contribution collection, taxes and securing various licences to operate.

D. Special measures aimed at the creation of small businesses

For the recruitment of domestic staff and of people to provide care and assistance to dependent people, a simplified procedure of affiliation and contribution collection has been introduced. In this particular context, the complex and tortuous common law procedures which consist of determining the gross salary, calculating social security contributions, calculating tax deductions, sending in a tax form, submitting a monthly statement of working hours and salaries, sending an application for reimbursement of financial benefits in the event of the illness of the person employed, and so on and so forth, have been repealed. From now on, a single declaration of the net salary paid to the employee is required. The competent institution takes care of the rest. Based on the statement received, it registers the affiliation of the persons employed in the household. It converts the stated net salary into a gross salary. It calculates the contributions payable by the employer.

A. General Measures

In the last few years many instruments have been used to limit the inflow into the social security system, to promote outflow from the system and to increase the chances of work for the low-skilled and long-term unemployed. In this context I would like to state that the Dutch social security system is a pay-as-you-go system. This means that contributions collected in a particular year more or less equal the expenses for that year.

The common theme in the many legislative amendments was to place greater financial responsibility on employers. This applies in particular for the introduction of the obligation on employers to continue paying sickness cash benefit during an employee's illness, the differentiation in invalidity benefits contributions, and the lengthening of the standby period in the Unemployment Benefits Act (the period during which the employer continues to pay a tide-over allowance before the employee begins receiving benefit) and the Working Conditions Act.

A large number of initiatives has also been taken in the area of specific labour market policy. Temporary subsidised jobs have been created in the private sector and permanent jobs for the employers at the lower end of the labour market.

In August last year the second Kok government took office after May's general election. The new Coalition Agreement contains measures to improve the operation of the labour market, to reduce the inflow into the social security system and to promote the reintegration of benefit claimants into work. The main accents here are on a review of the tax system reducing the costs of labour and promoting integration into the labour market, investments in enabling work and care to be better combined; addressing long-term unemployment as comprehensively as possible; and a new delivery system for social security and the employment service, with reintegration as its key theme.

The prevention of long-term unemployment was one of the high priorities on the agenda of the new government. At the Luxembourg Summit, the Netherlands and other EU Member States agreed on a commitment to achieve a comprehensive approach to long-term unemployment. The ambition is that, within a period of eight years, all young job seekers will be offered a new start before they have been unemployed for six months, and unemployed adults within twelve months.

Increasing the participation of older people in the employment process is also an important objective of the government. The changes taking place on the labour market (which is becoming increasingly tight) combined with demographic trend ('maturing' and ageing) mean it is vital to retain older workers in the labour process. In consultation with the business community, the conditions are being created to make it attractive and possible for older people to continue working. Improve retirement via the unemployment benefits system will be combated. Depending on the degree to which a switch towards a more age-conscious personnel policy is achieved, and to which more demand arises on the labour market for older workers, consideration will be given to a (phased) reintroduction of the job application duty for people aged over 57,5 years.

An other important objective of government policy is to create more and better opportunities for combining work and care. Improving the ability to combine paid work and family tasks serves the interests of both the individual and society as a whole. It will enable better use to be made of as yet untapped talents of women in paid work and of men in bringing up and caring for families. This is also important for the labour market. Given the ageing of the population and the affordability of social provisions in the future, there is a need to increase the participation in paid work further, particularly by women. The government will table a Framework Act on Employment & Care in the Lower House, possibly in phases. This Act will harmonise and combine the existing statutory forms of leave and will create a framework to allow workers to save up for leave in time and/or money. A statutory right to part-time working will also be established and the possibility will be explored of creating a statutory right to care leave. Particular account will be taken here of the interests of small and medium-sized businesses.

The structure of the new delivery system for social security and the employment service must be finalised in the coming government period. The conclusions of the parliamentary inquiry into he delivery of the social security system will continue to be the guiding themes hers: active integration, regional implementation, independent assessment of the right to benefit and independent supervision.

Before the end of 2000 so called Centres for Work and Income *(CWI)* have to be set up throughout the whole country. These CWIs will be given the assignment in the forthcoming government term of fulfilling the public gatekeeper function, independently of market influences or the direct influence of vested interests. All job seekers will be able to go to these Centres for -in the first place- help in finding work and secondly, to apply for benefit.

Scope will be created for the introduction of market forces in the actual implementation of the reintegration programmes and the payment of benefits. In the government's view, competition could enable more people on benefit to be helped into work and make implementation of the benefits system cheaper. An as yet unspecified proportion of the reintegration projects will have to be purchased from the (public-sector). Employment Service, in order to guarantee that a good public employment placement service remains intact.

To encourage the entry of new providers, the criteria for approval as a benefits agency or employment placement service will be relaxed. It will also become possible to delegate these tasks to third parties, such as temporary employment agencies.

Healthy competition presupposes not only a sufficient number of providers, but also of clients. The government proposes that sectors and large companies (with more than 100 employees) should enter into contracts with benefits agencies and employment placement services. The commitment of employers and unions remains important, particularly when it comes to arrangements regarding the choice of delivery agency and the contents of the contract. Further consultations will be held with employers and unions and local authorities on the detailing of the revamping of the implementation of the social security system. Local authorities will be able to contract out their benefit-paying tasks, on the condition that the Municipal Executive will at all times remain responsible for the implementation of the system and that the scope given to local authorities in implementing their reintegration task must not lead to higher implementation costs. In this connection, the resources for the National Assistance Act and the Job seekers Employment Act will be combined in a "Fund for Work and Income" and the contribution of local authorities to the funding will be increased.

B. Measures for special groups

The following measures have been taken:

(Re)integration of the Work Disabled Act
On 1 July 1998 the (Re) integration of the Work Disabled Act *(Wet op de (re)integratie arbeidsgehandicapten, "REA")* came into force. It provides among other things for instruments and guarantees for employers who want to employ disabled persons or want to rehabilitate disabled employees. The scope of already existing instruments has been extended and the possibility has been created to award a budget to an employer to compensate the costs of adjustment of the working place in order to facilitate the employment or rehabilitation of disabled persons. Because of all these measures it will become easier to re-employ a person at an early stage. The major measures are:

If an employer hires a disabled worker, he is entitled to an employment budget to finance all costs this may involve. This budget has been set to NLG 12,000 for the first year of the disabled worker's employment. In the second year, the budget will amount to NLG 8,000 and for the third year a budget of NLG 4,000 will be available. This budget can equally be used if an employee is re-employed in another position with his old employer. If the costs of reintegration are higher than what can be financed by the re-employment budget, the employer may choose for an alternative subsidy based on an estimate: a so-called "tailor-made package". All expenses that the employer has to make have to be included. In principle, there is no maximum limit to these costs, but should they involve major adjustments to his own company, the employer has to participate in the costs. To all the various subsidies the rule applies that the money must be paid back if the object is not achieved.

There is a risk for the employer that a work disabled person who has been taken into service falls ill again. This risk is reduced: in the first period of five years the employee will receive a sickness benefit from the implementation body; the employer does not have to pay the wages during sickness.

If the employer spends more that a certain percentage of their labour costs on work disabled employees, he can get a reduction of disablement contributions.

Act on Reduction of Employer's Tax and Social Security Contributions

The Act on Reduction of Employer's Tax and Social Security Contributions *(Wet Vermindering Afdracht loonbelasting en premie volksverzekeringen, "WVA")* givens among other things employers the opportunity from 1 January 1996 on to receive reductions in wage costs for low-paid employees (via the Specific reduction of employer's tax for the low-paid-SPAK) and for the long-term unemployed (via the Reduction for the long-term unemployed-VLW).

From 1 January 1998 on, the SPAK has been doubled to NGL 3,660 for jobs of 36 hours or more (this was NLG 1,830 for jobs of 32 hours or more). The wage maximum here is 115% of the minimum wage for a 36-hour workweek (previously 32 hours). The reduction of Employer's Tax for the flow through low-wage employment (since 1 January 1997) has been raised from NLG 915 to NLG 1,830. The total fiscal advantage to the employer, in combination with the VO, may increase to a maximum of NLG 6,250.

The maximisation in combination with the SPAK and the VIW has been abolished (thus the maximum in combination is now NLG 8,160).

Within the frame of the total tax reduction of 1 January 1996, the SPAK is oriented towards the lower end of the labour market. The target group of the SPAK consists of persons who earn no more than 115% of the statutory minimum wage in a 36-hour work week (i.e. for younger employees, the minimum youth wage). Since 1 January 1997, the Reduction of Employer's tax for the flow through low-wage employment is added in order to prevent the wage ceiling of the SPAK-reduction from becoming a hindrance to the increase of wages (marginal tax wedge). The aim is to prevent a situation whereby, with a wage of more than 115% of the minimum wage, the advantage of the reduction for low wages (i.e. SPAK) diminishes.

The SPAK and the VLW can be combined for the long-term unemployed who do not earn more than 115% of the minimum wage. The total allowance for the engagement of a long-term unemployed person can come to more than NLG 8,160 per annum. Per saldo, employers no longer have to pay the collective employer's contributions for the employees at the minimum wage level.

The target group of the VLW are persons who have been registered as a job-seeker in the employment office for longer than 12 months in a row (for persons aged 57,5 and over, there is no duration requirement) and who will not earn more than 130% of the minimum wage for adults. For regions with high unemployment, the act provides for a relaxation of the restrictions on registration from 12 to 6 months.

Job-seekers Employment Act

On 1 January 1998, the "Job-seekers Employment Act" *(Wet Inschakeling Werkzoekenden, "WIW")* came into force. The WIW is one regulation for subsidised work: the "Youth Employment Guarantee Act" *(JWG)*, the regulation on "Labour Pools", the financial resources of the National Assistance Act *(Algemene bijstandswet, "ABW")*, and regulation on child care are all be combined in this Act. Resources are available for municipalities via the "municipal Work fund". With these resources, municipalities can activate beneficiaries, the long-term unemployed and unemployed youth under 23, as well as offer training and/ or work experience. The WIW enables municipalities to use more effectively available resources, and can offer more "tailored" employment measures.

The instruments of the WIW are many: they vary from social activation and training to work experience positions in enterprises and detachment places (WIW-employment contracts). The municipality is free to develop its own variants; it can also use different instruments simultaneously or one after another. In this way, as long as conditions of the Act are met, "tailored" measures for a particular target group can be implemented.

Municipalities must implement the Act in co-operation with the Public Employment Service *(ARBVOd)* and the Social Security Agencies (*Uvi's*). The Public Employment Service is responsible for the categorisation of persons belonging to the target group. The Public Employment Service decides if a long-term unemployed person will belong to a target group for a WIW-work experience position or for a WIW-employment contract. The municipality decides upon a trajectory for unemployed youth, once again in co-operation with the Public Employment Service. The Public Employment Service remains responsible for placement into work. Co-operation with the Social Security Agencies is important when unemployment benefit recipients *(WW)* apply for WIW measures. The Social Security Agencies can buy WIW instruments with the support of resources from the General Unemployment Fund *(AWF)*; Municipalities can assign the implementation of the WIW to a separate organisation.

A. General measures

In general it must be pointed out that, due to prevailing conditions (for example, demographic developments) a contribution increase would undoubtedly have been necessary in the absence of measures to supplement the financing of the system in the long term, especially with regard to pension insurance. In order to avoid placing this unreasonable burden on the insured, the pension reforms in the last few years endeavoured to limit the expenditures of the social security schemes. Especially notable in this connection are those measures with the objective of raising the actual age at which a pension is first claimed (by making the conditions for entitlement to an early pension more stringent, as well as by changing the pension calculation).

For further details, the MISSOC Bulletin n°2/96 may be referred to with regard to the pension reform, as well as the MISSOC Bulletin n°1/97, in which supplementary measures in the field of sickness benefits were covered. Please see in addition the summary representation which forms the introduction to the MISSOC Tables as of 1 January 1998. These measure packages made it possible to ensure that contributions to the Austrian branches of social protection need not be increased, at least for the medium term.

B. Measures for special groups

Special allowances or promotion measures offered by the Labour Market Service, with the objective of easing the integration of specific target groups into the Labour Market, are not intended only to finance ancillary wage costs, but rather are considered wage subsidies and usually are in an amount far greater than the social insurance contributions alone. These allowances can be granted to companies that employ target group members under certain conditions (with full social insurance, wage according to collective labour agreements, regulated minimum extent and period of work, etc.). The allowance amount usually covers a good portion of the wage costs and ancillary wage costs ("Integration allowance" and "Special integration allowance" cover 66.7% of wage and ancillary wage costs) for a specific period. An allowance which covered only the employer's share of the social insurance had to be discontinued after a pilot phase due to lack of interest on the part of eligible companies.

As a part of the **"Apprenticeship Package"** (i.e. to promote additional training positions in companies), from 1 July 1997 the employer's contribution to health insurance for the first three years of the apprenticeship period, and that of the apprentices for the first two years of the apprenticeship are to be directly financed out of health insurance funds (exemption from compulsory contributions). As an additional measure, for apprenticeships beginning between 20 June 1998 and 1 January 2000, the employer need not pay his contribution to accident insurance.

Furthermore, there is also a measure package offered by the Labour Market Service for the promotion of training positions for apprentices:

Target group:
- Young women in vocational training for occupations in which few women are represented;
- Youth who are considered disadvantaged;
- Apprentices who have lost their training position;
- Youth who receive unemployment benefits;
- Youth over 19 years of age;
- Apprentices who undertake a course of training going beyond the usual job profile.

The allowance is considered to be a subsidy of the costs of the apprenticeship training (including social insurance) and amounts to ATS 4,000/month for young men and women under 19 years of age working in companies, ATS 6,000 for young men and women under 19 years of age in training institutions; uniformly ATS 10,000 for those over 19 years old. The allowance is uniformly regulated for the first apprenticeship year and can be granted further for the entire period – usually 3 years – according to the regulations in the particular state. ATS 947.80 million was spent for special measures for youth in 1998.

"Integration allowances" and **"Special integration allowances"** target wage subsidies for **(long-term) unemployed persons** (if under 25 and over 45 years of age, unemployed for at least 6 months, for those 25 to 45 years old, unemployed for at least 12 months). The employer receives a maximum of 66,7% of the assessment basis (current gross salary + 50% lump sum for ancillary wage costs) for the duration of the working relationship, for a maximum of 2 years. For persons who receive benefits from unemployment insurance, the allowance can be financed out of the integration allowance budget up to the amount of the unemployment benefit or unemployment assistance. These allowances are granted regardless of age, education, wage group, handicap, etc. In 1998 ATS 449.34 million was spent on wage subsidies in the form of integration allowances and ATS 475.21 million for the "Special integration allowances".

Under the Equalisation-of-Burdens for Families Act (a law dealing with family benefits), it is designated that all employers who engage employees within Federal territory must pay the "employer contribution" in accordance with this law; this is calculated based on the total of all wages paid monthly by the employer to his employees. Excepted from this calculation are those wages paid by the employer to persons employed as beneficiaries under the Handicapped Employment Act. Under this law, Austrian enterprises – over a certain size – are obligated to hire certain handicapped persons.

In the field of unemployment insurance, the following special regulation was introduced for **older workers**: if a person who has completed his 50[th] year of life is hired, the employer's share of unemployment insurance is reduced by half (thus 1.5 rather than 3%). If the person is already 55 years of age when hired, the employer's contribution is dropped in its entirety (see in addition the MISSOC Bulletin of 2/96 – Bonus Malus System).

C. Special Regulations for Small to Medium-Sized Enterprises and for Self-employed Persons and New Enterprises

As a measure to facilitate the creation of independent enterprises, as of 1 January 1999 the minimum contribution basis for commercially self-employed persons who are taking up a self-employed activity for the first time was reduced from ATS 13,761 per month to ATS 7,400. This minimum contribution basis applies – as a lump sum contribution basis irrespective of the actual income of each self-employed enterprise – for the respective beginning year and the two following years of first-time self-employment. This reduction is financed through restructuring within the framework of the overall solidarity of insurance contributors in the commercial economy.

Under a new law for the promotion of new enterprises which is being prepared at this time, further measures are to be taken, including some in the field of social protection. Thus, it is planned to exempt employers from contributions under the Equalisation-of-Burdens for Families Act, housing promotion contributions, as well as accident insurance contributions in the first calendar month of the founding of the new enterprise.

A. General measures

In Portugal, the level of contributions to the general social security scheme, specifically with regard to the scheme for salaried workers, has not changed significantly in recent years. However, several measures have been adopted to alleviate the effects of non-wage costs on business competitiveness.

For instance, law 34-B/94, of 27 December (law on the 1995 national budget) established a 0.75% reduction in the employers' general rate of contributions.

The legislation in force provides for an exemption or a reduction in the employers' rate, in certain circumstances, to promote employment, under the terms described above.

B. Measures for hard-to-place groups in the labour market

The social security system has established active employment measures designed to create or maintain jobs for the recruitment of groups that are particularly difficult to place on the labour market.

In order to promote jobs for young first-time job seekers and the long-term unemployed, an Order in Council promulgated in 1995 provided for total exemption from payment of employers' contributions for a period of 36 months in the case of an indefinite employment contract.

For the purposes of applying this measure, young first-time job seekers are defined as people aged between 16 and 30 who have never worked under an indefinite employment contract.

The long-term unemployed are people who have been jobless for over twelve months and are registered in a job centre as looking for work.

If the employment contract is terminated by the employer on the grounds of unfair dismissal, mass redundancy, job termination or dismissal due to unsuitability for the job, the contributions concerning the exemption period are payable.

With regard to disabled people, the law provides for employers recruiting on an indefinite employment contract to benefit from around a 50% reduction in the social security contributions for such workers.

For the purposes of such a reduction, disabled workers are defined as individuals whose working capacity is less than 80% of the normal capacity required from an able-bodied worker.

For older workers, the law provides for possible entitlement to an old-age pension, provided that they are aged at least 60, have completed the waiting period, stopped work at the age of 55 or older and have received unemployment benefit for the statutory period.

The Order in Council 119/99 of 14 April came into force on 1 July 1999 also provides for the right to receive an early retirement pension at the age of 55 for workers who became unemployed at the age of 50 years or under and have paid contributions for at least 20 years. In this case, the amount of the pension is reduced.

The law also provides for the contribution rate for workers in the early retirement scheme to be specifically lowered.

Furthermore, as part of the active employment measures specially aimed at the most vulnerable groups on the labour market, there is the minimum income guarantee, a benefit from the non-contributory scheme, accompanied by a social integration programme, aimed at people of very reduced means who more often than not are excluded from the labour market.

C. Special measures for small and medium-sized enterprises

Since the above-mentioned exemption or reduction in employers' contributions helps to ease the burden of non-wage costs, it could be concluded that the Portuguese social security system offers a very significant body of measures aimed at encouraging employers to take on more staff, especially in small and medium-sized enterprises.

D. Special measures for new companies

Measures have been adopted under the general scheme of self-employed workers, aimed at removing any obstacles encountered by people wishing to set up in business for themselves or to promote self-employment. These include:

- Affiliation to the non-compulsory scheme for self-employed workers whose gross annual income is equal to or less than six times the amount of the national minimum wage (however, it is not compulsory for such workers to join the scheme and, in order to do so, they must make an application).
- Exemption from paying contributions for the first twelve months after starting up in business, in the case of a first affiliation to the scheme.
- For the purposes of establishing the basis of contributions, workers whose annual working income is less than twelve times the national minimum wage, have the possibility of choosing the sum corresponding to 1/12 of the said income, up to a maximum of 50% of the minimum wage.

Finally, it is important to point out that the law establishes the possibility for unemployed people to receive in one lump-sum the total amount of the unemployment benefits to which they are entitled, in order to help them to set themselves up in business.

In Finland social security is provided by an integration of residence-based schemes and insurance schemes. Schemes based on residence complement the insurance-based schemes to provide guaranteed minimum benefits. Insurance schemes generally provide earnings-related benefits.

Social security is financed by employer premiums based on payroll, employee premiums/ premiums paid by the insured and tax financed. The structure varies between different schemes. In 1999 the main financing structure of different schemes is as follows:

Scheme	Share of financing in 1999			Basic principle
	Employers	Employees insured	State	
Pensions [1]				
National pension	71%	-	29%	PAYG
Employment pension (TEL)	78%	22%	-	Actuarial risk
Unemployment [3]				
Basic allowance and labour market support	-	8%	92%	PAYG
Earnings-+related scheme	44%	20%	36%	Shares according to agreed financial responsabilities
Health Care [4]				
Sickness insurance (3% other income ; such as interest, payments from accident and traffic insurance schemes)	49%	35%	13%	PAYG annually fixed premiums for employers/ insured
Employment				
Accident insurance	100%	-	-	Actuarial risk

1) National pension is paid only as a guarantee amount to persons with small or no employment pensions. National pension is reduced by 50% of the amount of employment pensions paid in access over FIM 3024 per annum.

2) The percentages vary slightly for different employment pension schemes. The TEL-scheme covers 59% of all employees (the public sector schemes 34% and other private sector schemes 7%)

3) The earnings-related unemployment scheme is voluntary. The state covers the cost equalling the cost for basic daily allowances also within the earnings-related scheme. The earnings-related part of daily allowance and the cost for allowances paid to aged, long-term unemployed for the extended period are financed by employer and employee premiums only.

4) Basic Health Care is provided by local authorities and financed by tax revenue. The compulsory Sickness Insurance covers all residents. It provides sickness, maternity and parental daily allowances, subsidies for medicine costs in out-patient care, subsidies for travel expenses and also subsidies for private health care (at a fairly moderate level).

In financing earning-related schemes, general actuarial principles are used particularly for employment pensions and occupational health. National pensions, Sickness insurance and partly unemployment insurance are financed by a combination of tax revenue and annually fixed premium rates. All schemes set their premiums individually.

A. General measures

No changes in the premium structure or premium rates have been carried out with the sole purpose to affect the labour market. However, during the 1990's the financing structures have been revised. The basic principles have been to

a) increase the financial responsibility for employees by introducing employee premiums for earning-related and employment-related benefits and increased tax financing (employees' employment pension premium and salaried employees' unemployment premium introduced in 1993)

b) increased use of the 'insurance principle'. The linkage between premiums paid and benefits received as well as between premium rates and actual risk performance has been increased.

These are supposed to be favourable also for the labour market indirectly through increased financial awareness and better general cost control.

B. Measures for special groups

Employment of long-term unemployed is supported by labour market measures by granting employers a temporary employment grant.

Several studies have been carried out investigating the connection between unemployment and labour costs especially for lower wage groups. A working group studying the question gave its recommendations on 30 June 1999. According to the group, small reductions in employer premiums have little effect on employment. The best employment result can be reached by a combination of several measures that affect labour supply, labour demand and incentives. The group states that in social security financing the insurance principles should be used as far as possible. This goal would be supported by abolishing employer payments that are not directly linked to work. Gradually such premiums should be abolished in accordance with the economical possibilities of state finances. An effective way of diminishing the gap between total labour costs and net wage is tax deductions targeted at the lower wage levels. Introducing premium deductions based on age or wage levels would complicate the present system and increase administration costs.

In order to lower the threshold for new employment of especially older workers, the social partners have agreed to longer the pooling period for disability pension costs. The pooling has so far been voluntary and has comprised disability pensions starting during the first year after employment. This change affects only companies with more than 50 employees, where the company itself is responsible for a part of the disability pension cost. When pooled, all companies with more than 50 employees share the cost. The pooling period is agreed to be prolonged to three years for pensions payable to persons older than 50 years.

C. Measures for small and medium-sized enterprises

The employer premium for national pension is based on payroll and the proportion between depreciation and payroll, which means that small, labour-intensive enterprises in general always pay the lowest premium. Also the unemployment premium is graded according to the size of payroll. In other schemes premiums are calculated according to actuarial principles.

D. Measures for the founding of small enterprises

The social protection of self-employed is basically similar to that of employees, but the self-employed have their own pension scheme and (voluntary) unemployment scheme. Self-employed can on a voluntary basis take out employment accident insurance within the statutory scheme. The pension premium equals the average TEL-premium. As this is not enough the keep the pension scheme sustainable, the scheme is subsidised over the state budget. In addition the pension premium for the first three years is reduced by 50% for new self-employed who are younger than 43 years.

The employer pays a general contribution for social protection of 29.50% of the payroll. The insured person pays a certain amount himself, from 1 January 1999 the insured person pays 6.95% of his or her income to the National Pension Insurance scheme up to a certain limit (8,06 times the basic amount).

Of the general contribution 5.84% of the payroll are addressed for the labour market. These contributions cover the unemployment cash benefits and educational benefits from the labour market etc. and have not been used to finance special measures to promote employment.

No extra measures have directly been taken to lower the contribution for social protection with respect to the labour market. However there are measures where the total cost for labour has been lowered in order to facilitate employment.

Enforced support for employment, this support will enter into force from 1 October 1999. The aim with this support is to facilitate employment for long-term unemployed persons. The employer will have a tax credit up to 75% of the total wage costs up to maximum SEK 11,550 per month for the first 6 months and thereafter 25% of the wage costs for maximum a further 18 months. This will cut the employers costs for wages but will not directly reduce the contributions for social protection.

There are *regional supports* for the inner areas of the northern part of Sweden. For example the contribution for social protection in these areas is lowered with 8%.

Wage subsidies for employers who employs handicapped persons into regular employment. This support is financed through government funds. The legal basis is Wage Subsidies Ordinance of 1991. The wage is paid in accordance with collective agreements. The subsidies compensate for the reduction in work capacity caused by a disability. They are flexible and amount to maximum 80% of a monthly wage of SEK 13,700 payroll, taxes are also covered. The subsidy may cover up to 100% of the wage costs -and payroll taxes- for severely disabled persons.

A. General background

The UK has a comprehensive state administered cash benefit scheme which covers the entire population. This cover is provided through a compulsory contributory scheme complemented by a range of non-contributory measures.

Compulsory social insurance for the main contingencies such as sickness, unemployment, widowhood, and old age is provided through the National Insurance scheme. National Insurance (contributory) benefits are funded entirely from the National Insurance Fund. These benefits are predominantly flat rate: an earnings-related component can be paid with retirement and widow's pensions.

Non-contributory benefits - funded from general taxation - are available to certain groups based on contingency (e.g. benefits for disability and industrial injury or disease, and universal child benefits), or level of resources (e.g. Family Credit for working parents).

The National Insurance Fund

The National Insurance Fund operates on a "pay-as-you-go" basis. The rates of National Insurance Contributions are set at a level which, annually, should enable the fund to pay for contributory benefits and its own administration while retaining a prudent working balance. This is necessary because the Fund has no borrowing powers.

Employees National Insurance Contributions
(from April 1999)

Weekly Earnings	% of earnings
Below GBP 66 (lower earnings limit)	Nil
GBP 66.01 to GBP 500	10%
Over GBP 500 (Upper earnings limit)	No further contributions payable (apart from the 10% above)

Employers National Insurance Contributions
(from April 1999)

Weekly Earnings	% of earnings
Below GBP 83.00	Nil
GBP 83.01 to GBP 500	12.2%
Over GBP 500	12.2%

There are different rates of contributions in respect of those who are „contracted out" of the additional State Earnings Related Pension Scheme (SERPS). Such workers and their employers pay a slightly reduced rate of contributions. In 1996 about 75% of all employees were contracted out of SERPS by way of membership of an occupational pension scheme or an appropriate personal pension scheme.

Self-employed people have to pay a flat-rate contribution of GBP 6.55 a week if their annual earnings are more than GBP 3,770. In addition, those people with annual earnings between GBP 7,530 and GBP 26,000 also have to pay an earnings related contribution of 6%.

How social security is financed in the UK

The total cost of social security spending, including administration is projected to increase from GBP 95.8 billion in 1998/99 to GBP 100.9 billion in 2001/2002, accounting for around 30% of Government spending. The costs are met mainly by National Insurance Contributions (as described above) and from general Government revenue, mostly from taxation. Contributions are paid into the National Insurance Fund, together with a Treasury Grant, and this meets the cost both of National Insurance (contributory) benefits and of some non-contributory benefits. Other benefits are financed from taxation.

General taxation finances about 50% of the total expenditure on benefits, with employers' and employees' National Insurance contributions financing 25% and 20% respectively.

Organisational changes

Organisation
The Contributions Agency and responsibility for National Insurance (NI) policy was transferred from the Department of Social Security to the Inland Revenue in April 1999. The transfer will:
- Benefit businesses as they will be able to contact one organisation to deal with all matters relating to tax and National Insurance contributions;
- Introduce a new appeal system under which the majority of appeals will be heard by the

Tax Commissioners;

- Ensure that all necessary exchanges of information between the Department of Social Security and the Inland Revenue will be maintained to ensure timeous and accurate payment of benefits;
- Maintain the powers of Contributions Agency/Inland Revenue officers to inspect National Insurance contribution records; and
- Facilitate greater alignment of tax and National Insurance contribution rules in the longer term.

Following the transfer, the Department of Social Security and the Inland Revenue will continue to work closely together on the many areas of common interest.

Reform of Financing

The Social Security Act 1998 introduced the biggest reform to the National Insurance contribution system since the mid-1970s. The radical package of measures will improve work incentives, encourage job creation, and make it easier for employers to administer National Insurance contributions. The changes will reduce contribution revenue by around GBP 1.4 billion a year from 1999/2000.

Under the 1998/99 system, once someone earns at, or above, the lower earnings limit *(LEL)* they have to pay contributions on the whole of their earnings below the upper earnings limit *(UEL)*. From April 1999, employees will not pay National Insurance Contributions on the portion of their earnings below the LEL.

The point at which employers start to pay National Insurance contributions will be raised from the LEL (GBP 66 a week in 1999/2000) to the level of the single person's allowance for income tax (GBP 83 a week in 1999/2000). The changes also remove all employers' liability to pay National Insurance contributions on the portion of earnings below this allowance, and replace the system of multiple contribution rates for employers with a single rate. The changes took place from April 1999.

The 1999 Budget built upon the National Insurance reforms introduced by the 1998 Act. The Government announced that the starting point for employee National Insurance contributions would be increased by over 25% over two years, raising the threshold from GBP 64 a week in 1998/99 (GBP 66 a week in 1999/2000) to GBP 76 a week from April 2000 and would then be aligned with the employer threshold and the single person's tax allowance at around GBP 87 a week from April 2000. As a result, approximately 900,000 lower paid employees will no longer pay contributions, with no loss to their contributory benefit entitlement.

The UEL is to be increased to reflect the substantial increase in the starting point for employee contributions. This will maintain a fair base the contributions paid by employees.

National Insurance contributions paid by self-employed people will also be radically changed to bring closer tax and contribution alignment and to spread the contribution burden of the self-employed more fairly. From April 2000, there will be a lower rate of flat-rate self-employed contribution at GBP 2 a week, a reduction of over 65% on the GBP 6.55 rate for 1999/2000. The present earnings-related contribution rate will be increased from the present 6% to 7% and the starting point for this contribution will be reduced from around GBP 140 a week in 1998/1999 to GBP 85 a week from April 2000, bringing it in line with the single person's tax allowance. These new measures will encourage the start-up of new businesses.

B. Measures for special groups

The Working Families Tax Credit (*WFTC*)

Proposals to replace the current means-tested *Family Credit* (a cash benefit) by the WFTC from October 1999 were announced in the March 1998 Budget. The WFTC will be a payable "tax credit" which will provide GBP 4,200 million a year of help to around 1.4 million working families. The Inland Revenue will administer the WFTC and it will be payable through the employee's wage packet from April 2000.

The WFTC will make work pay for families with children. It will improve work incentives, encouraging people without work to move into employment, and helping people in relatively low-paid jobs to move up the earnings ladder.

The WFTC is central to the Government's major programme of tax and benefit reform and represents an important step towards greater integration of the tax and benefits systems. It is accompanied by radical changes to the National Insurance system (described above). The Government's strategy to help people move off welfare and into work is be supported by a minimum wage introduced in April 1999. The introduction of the WFTC will make work pay by:

- *Raising incomes:* a working family with two young children, earning GBP 200 a week (the average wage for someone moving from unemployment into full-time work), will be more than GBP 23 a week better off as a result of this measure;
- Providing a guaranteed minimum income for working families, over and above the minimum wage;
- Lowering the tax burden on working families by raising the point at which they effectively begin to pay income tax; and
- Reducing the stigma associated with in-work support and demonstrating the rewards of work.

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