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Evolution of social protection in the European Member States and the European Economic Area

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European Commission
Directorate-General for Employment and Social Affairs
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There were a number of developments worth citing in the year 2000. Firstly, the upturn in employment figures and correlative improvement in social security finances reported in most countries undoubtedly helped to guide most reforms away from short-term measures and state disengagement towards a more structural adaptation of social welfare mechanisms to new forms of work and lifestyles. The trend towards improvements in certain benefits identified last year, which has continued in certain areas this year, can also be explained by the improved financial situation. In fact, a number of the approaches adopted and choices made are remarkably similar from one country to another.

This year, even more than in the past, it is important to outline the European context which has a considerable influence on developments in the Member States even though, in an interesting paradox, responsibility for social security still remains with the individual Member States. In 2000 the context forming the backdrop to the actions of the individual states was characterised by a slight financial upturn, increased co-operation between States, the prospect of a framework of fundamental rights and the improvement of the information for the scheme managers.

The fundamental trends

Numerous signs of convergence

A certain number of common themes are now clearly visible. In fact, it is remarkable to see just how far the systems have converged. There is certainly no shortage of illustrations.

Firstly, there are the changes to pension systems, some planned, others completed. The reforms are marked by the promotion of capitalisation-style supplementary pensions and the setting up of mechanisms designed to compensate for the increased charges of the distribution regimes and to absorb the expected demographic "shock". For example, the notion of reserve funds has been introduced in an attempt to ensure the sustainability of pay-as-you-go systems.

Efforts to encourage older people to remain at work have become an ever-present aspect of social policy. This reversed trend, first seen in certain specific countries, has now been confirmed. States are not simply turning their backs on policies which exclude older workers from the labour market, they are actually putting in place various incentives designed to keep this category of the working population at work.

Similarly, there has also been an increase in the number of incentives aimed at enticing back to work the unemployed and those with a partial incapacity for work. More and more legislators are choosing, firstly, to tighten up the mechanisms which provide access to social benefits and assess individual situations more closely and, secondly, to create ways of combining social benefits with income from work. These trends, once evident in just a handful of States, are now widespread and as such represent a very strong convergence of systems.

In addition to the greater diversity of measures, there is also a greater desire to tailor benefits more closely to individual needs. Various States are endeavouring to target the groups affected by social security measures more accurately. This trend is strong in the field of unemployment insurance, but can also be identified in other areas including, for example, invalidity benefits. This approach comes in response to demands for greater efficiency in social security systems and is sometimes supported by campaigns designed to combat benefit fraud or claw back of unjustified benefit payments.

Many of the cash payments made under the basic systems designed to guarantee minimum levels of income have been increased or seen a relaxation in eligibility criteria irrespective of whether these minimum social incomes are paid out on the grounds of family, old age or unemployment. There is also a resurgence of interest in supporting measures, particularly in the form of housing benefit and heating payments. There have, however, been few reforms in other areas of social security systems including, for example, (with the exception of the Belgian reform improving benefits) industrial accident and occupational disease insurance mechanisms where they exist.

This year, spurred on by European guidelines, the phenomenon of convergence amongst policies designed to help the unemployed has once again increased. For example, the number of States which use exemptions from social security contributions to support job retention and creation continues to grow. As a result, the reduction of labour costs by the selective reduction of social contributions and their total or partial transfer to the State budget has become a necessary element of employment policies.

Other convergence: after a list of other countries, Ireland also adopted a legislation on Carer's Benefit. This could be a consequence of the recommendation 98(9) of the Council of Europe on long-term care, which deals specifically with this matter.

During the period under review, the status of the self-employed worker continued to be more clearly defined.

Finally, tax incentives are more and more frequently used in support of social policy measures. Tax credits are used predominantly as part of employment and anti-poverty policies and as a measure to help families.

Innovative reforms

Other reforms are more original. These include, by way of illustration, the decision taken in the Netherlands to hand over back-to-work programmes for job seekers to private agencies through a process of invitation to tender, and the Portuguese framework law reforming the basic social welfare system which is designed to redefine choice of organisation and areas of financial responsibility. This new Portuguese law divides the social welfare system into three categories: the minimum living income, family protection and welfare sub-systems. This reorganisation represents a remarkable attempt at systematisation at a time when in many European countries social welfare reforms are coming one on top of another, forming an extricable mass of rules and regulations. It is also interesting to note that today certain reforms are preceded by small-scale trials as was true of the job seekers' back-to-work programme in the United Kingdom and the specific dependency benefit in France, and is still the case with the measures designed to help long-term recipients of unemployment benefit in Norway.

The year 2000: innovations risk by risk

Changes in social insurance legislation vary in intensity and significance depending on the risks covered and the countries involved. Some countries have engaged in a process of global reshaping on long-term solutions. This is the case in Spain where a tri-partite conference between State, trade unions and employers' organisations is reviewing the "Toledo Pact" and in Norway where a commission made up of representatives of private sector employers, the civil service and public health specialists is considering a reform of the sickness and invalidity insurance systems.

Sickness and health care coverage

Few States have modified legislation on sickness insurance. The reforms which have been made are designed to extend the scope of application of the dominant regime to include people adjudged to merit protection but previously excluded from the system such as, for example, with the French system of universal sickness cover or the inclusion of certain poorly protected groups as in Belgium. In Finland, individual contributions to hospital costs have been reduced or abolished completely over a certain limit. These measures are designed to guarantee better protection in case of illness.

These extensions of the scope of personal application of sickness schemes reflect a desire to guarantee their funding, as in Luxembourg, and even to enlarge the funding basis by increasing deductions as in Liechtenstein, or by including previously exempted categories as in Austria.

Furthermore, traditional methods of reducing health spending through the withdrawal of the state are being replaced by more complex methods. Some countries have seen a significant increase in absenteeism at work. Norway, Denmark and Sweden, in particular, are endeavouring to check an increase in health spending by better patient monitoring, improved physiotherapy provision to encourage a speedier return to work and better linking of sickness and invalidity insurance. In Liechtenstein, the mechanism of a single general practitioner, designed to reduce expenses, is encouraged for those who opt for this solution by releases of health-care contributions. But the question is complex and the discussion goes beyond sickness insurance in the strict sense and covers working conditions in particular. In addition, this reform process has only just started and the first task is to assess the current situation and identify reform options. Thoughts are being concentrated in particular on prevention and a more sophisticated system for monitoring recipients of sickness benefits. Denmark for its part has also chosen to broaden the remit of the decentralised agency to the detriment of the State and to relax the conditions of eligibility for sickness payments. Norway is also looking to improve the range of publicly available hospital treatments.

Finally, Iceland has restructured its treatment risk guarantee insurance system which is now managed by the social security agency.

Invalidity insurance

Invalidity insurance is the central concern of a number of states. The facts are simple: absences due to incapacity for work are constantly increasing due in part to the overall increase of people in work and in part to falling standards of working conditions.

The routes for reform are largely similar in all the states. Ideas currently under consideration in Norway, in particular, and those already in place in the United Kingdom and Denmark are based on a new approach to the assessment of incapacity levels. In the future, this will no longer simply be an element used in determining the amount of benefit payable, but should constitute the first stage in a process designed to encourage the individual back to work. It is striking to see that many governments have announced a sea change in their approach to invalidity benefits. The aim is to assess capacity for work as a basis for opening up employment opportunities rather than paying benefits. Where necessary, jobs will be subsidised by tax credits as in the United Kingdom. The final aim is, in fact, to make returning to work a financially attractive option. On the model of Liechtenstein,state grants for disabled persons are also on the agenda. Prevention should also be encouraged. Partial invalidity pensions granted in preference to full-rate pensions are backed up by mechanisms for reviewing benefits at regular intervals.

It is also evident that alongside these measures designed to restructure the rules of invalidity insurance, certain countries are also improving benefit levels and access to benefits for previously excluded categories. These countries include, in particular, Belgium and France.

Old-age insurance

Once again this year, some countries have modified their old-age pension systems whilst others have continued to discuss the subject[1]. The question of the sustainability of pension systems has also been addressed at Community level by the Social Welfare Committee. The debates and reforms are generally designed to endeavour to predict future financial difficulties caused by demographic changes. Various countries hold the view that action is needed as a matter of urgency and that this action must bring about a considerable change in the system. It is quite remarkable that the controversies surrounding the appropriateness of intervention have all but been quashed. The agenda has moved on to major structural reforms such as those already implemented in Sweden, Italy and Austria and announced in Norway, Germany and Spain. For its part, Luxembourg, having transformed its civil service old-age pension scheme, is now adapting the system which co-ordinates private and public sector pensions whilst at the same time starting an examination of future reforms of the private sector system.

Certain States, such as the United Kingdom and Denmark which operate a minimum basic pension whether means tested or not, have improved it. Frequently, as in Belgium, the income allowances for minimum pension schemes have been modified.

Three major elements have been under discussion this year. Firstly, the reserve funds created in certain countries to deal with future increases in charges have been built up as in France and Ireland. Secondly, the development of capitalisation as a complement to basic pensions has been mooted in other countries such as Germany

1 On this subject, Missoc Info 1/2001 provides an analysis and a more detailed description of old-age pension systems and the ongoing debates in the Member States.

and Italy. The United Kingdom has completed discussions on the implementation of the reform of its second pillar of pensions insurance with the primary aim of improving savings investment guarantees and encouraging those without savings pension cover to invest. Tax breaks, in particular tax exemptions for premiums paid under these second and third pillar regimes, are now widely used in the countries of Europe. Thirdly, systems have been relaxed to permit early retirement, although this always brings with it a system of pension reductions which means that early retirement is characterised by lower pensions. Reforms of this type have been announced in Austria, Liechtenstein and Portugal. Similarly, early retirement pensions granted at the full rate under certain conditions (such as invalidity and unemployment) have largely disappeared.

Midway between old-age policy and employment policy, Greece has chosen to allow workers who have paid contributions for a certain period of time and done unhealthy and hazardous occupations to take retirement at the age of 55 at the full rate and 53 at a reduced rate. These mechanisms are funded by the Fund for the Employment and Professional Training (LAEK). These early retirements should not necessarily be seen as running counter to the trend towards longer working lives as they relate to specific categories of the population only. Undoubtedly, other countries are also going to have to address the issue of older workers having worked in difficult conditions.

Unemployment and jobs

Once again this year the regulations relating to unemployment and employment have seen the greatest level of government intervention. It is now clear that the guidelines on employment, based on the provisions of the Treaty, result in the introduction of a series of very similar mechanisms in the various countries of the European Union. Thus discussions about the links between unemployment benefit and back-to-work programmes are taking place in most European countries. The Greek initiative to help the long-term unemployed working on a part-time basis illustrates this trend. The payment of benefits alone is no longer sufficient. More and more frequently in numerous EU countries the period following the loss of a job is used as an opportunity for training or retraining. For example, the principle of a more "personalised" regime of support for the unemployed in their search for work is now widespread across Europe. The new Belgian legislation, which allows individuals to attend certain courses of study whilst collecting unemployment benefits, illustrates this trend.

This new activity has led to reflection on the respective functions of the state and the agencies responsible for managing unemployment. For example, a wide-ranging debate on this question has taken place in France. However, changes in the Netherlands, the United Kingdom and Sweden have been the most fundamental. The benefits agencies have been restructured to improve efficiency and the task of supporting the unemployed in their search for jobs has been sub-contracted to the private sector. Moreover, various tools for assessing "distance from the labour market" have been implemented to facilitate the "return to work". This type of assessment can lead to an individual undertaking on the part of the unemployed person to undergo training or to accept a given job or activity, thus creating new categories of unemployed. There are, however, certain perceptible differences. Some countries are matching individual programmes with sanctions reducing or cancelling unemployment benefits while others are moving away from this approach. Sweden, for example, has just reformed its system by relaxing eligibility conditions and financial sanctions. It is also proposing a guaranteed activity for the long-term unemployed.

There is a clear improvement in category-based measures for certain job seekers. In Germany, for example, priority has been given to subsidised apprenticeships rather than general reintegration measures in the case of young job seekers. In Denmark, the position of the long-term unemployed has been ameliorated.

In general terms, all the countries of Europe today have subsidised jobs and/or activities for certain categories of unemployed workers. Liechtenstein has also reported a law passed in December 2000 which introduced job seekers' support for disabled workers.

There is also some piecemeal promotion of measures designed to prevent unemployment, in particular further education and re-training initiatives. Unemployment benefit law now includes mechanisms designed to encourage workers to take part in training initiatives. This trend is illustrated by new legislation in Austria which extends the period of entitlement to unemployment benefit by the length of time a worker over 45 spent in vocational training prior to losing his/her job.

Maternity insurance

The benefits payable during maternity or adoption leave have been improved in some countries. Maternity insurance, traditionally directed to mothers, is nowadays completed by a parental leave offered indistinctively to the mother or the father. Iceland has implemented a far-reaching reform of its maternity benefit system, simplifying it and paying a contribution to the pension system which ensures that this period now counts towards a pension. Greece has increased the length of paid maternity leave after birth from 8 to 9 weeks and the United Kingdom from 14 to 18 weeks. In Portugal, in the framework of the improvement of social protection in case of maternity, two new benefits were created in the year 2000: a parental leave allowance, for fathers, during the first 15 days of parental leave (3 months) if directly following the maternity or paternity leave; and a grandparents allowance, which is granted during a maximum period of 30 continuous days, after the granchildren birth, with the condition that the teenager parents are under 16 years old and that they all live in the same household.

Family benefits

The year 2000 saw a number of family benefit reforms which show the vitality of family-oriented policies in Europe. The trend towards improved family benefits can be seen more or less across the board with improvements not only in the form of increases in the levels of benefit paid and the relaxation of eligibility criteria as has been the case in a good many of the countries studied, but also via the introduction of new measures targeting situations in which cover is poor. This last category includes French and Italian benefits which allow a parent to look after a seriously ill child, Spanish and Swedish benefits paid on the birth of a third child and the Danish allowance to parents undertaking courses of study. In the United Kingdom and Belgium the improvement in benefits has been accompanied by a simplification of administrative procedures. In the United Kingdom, cash benefits to single parents are now complemented by jobseekers' allowances.

Finally, funding for family benefits is now increasingly based on taxation or on an extended contribution which goes beyond salary and takes in other types of income.

Funding

There are three major facts to highlight in this area.

The Member States have increased the number of initiatives aimed at managing the sums of money allocated to funding social security benefits more effectively.

Exemption from and reductions in social security contributions have become a major element of national employment policies. Various countries have confirmed their choice of a targeted and periodic reduction in contributions on salaries to help young job seekers, workers with few qualifications and older workers in particular, as instanced by the various adjustment measures identified in the various countries during the period under examination. This policy is matched by social welfare provision for the self-employed who are exempted from contributions when setting up in business either totally or partially depending on the country. Thus employment policies are leading to growing complexity in the calculation and collection of contributions.

A number of Member States have announced a reduction in contributions on salaries. Although they are targeted rather than general, it would appear that in certain countries the practice of increasing contributions is no longer acceptable. Thus most European countries are seeing a slight increase in fiscal or para-fiscal funding for their basic system of social welfare. This phenomenon is due both to the increased need for funding and to the extension of cover of certain risks to new categories of the population. The techniques used are many and varied. Fiscal instruments are becoming more and more important. This is illustrated by the mini debate in France on negative taxation on low salaries, christened the "employment subsidy", as well as other examples. Since 1 January 1996, the majority of German family benefits have been funded through monthly advances on tax allowances verified after the event by the German treasury. In 2000, tax credits have multiplied and developed in the United Kingdom and the Netherlands in particular. In the same vein, the optional capitalisation-style pension mechanisms which complement compulsory distribution systems are often "subsidised" by the state through tax reductions. The reforms of the last two decades of UK, Italian and Portuguese pension fund law and the optional French "additional complementary" pension are examples of this type. Tax benefits have now become a major characteristic of redistribution and incentives in the social welfare system and taxation is therefore assuming a new role.

A dynamic European context

The European Union has contributed to the transformation of the context in which the national legislators operate in relation to social welfare. Encouraged by the success of co-operation on the issue of employment which is now exerting a direct influence on national policy, in its communication of 14 July 1999 entitled "A concerted strategy for modernising social welfare", the Commission launched the idea of greater co-operation between States. This was put into practice with the introduction by the Council of Ministers of Employment and Social Affairs meeting under the Finnish presidency at the end of 1999 of a "group of high-level civil servants"[2]. The Extraordinary European Council of Lisbon, which brought together heads of state and government, confirmed and recognised the activities of this inter-governmental working group in March 2000 and at the same time decided to apply the "open method of co-ordination" in relation to the fight against social exclusion by assigning a key role to the *ad hoc* group. This process marks the involvement of the European Council in social welfare matters. Under the terms of the conclusions of the Lisbon conference, social welfare policy must now "constitute the third element of a triangle alongside macro-economic policy and employment policy".

The group, rechristened the "the high-level group on social welfare", has become the Social Welfare Committee and acts as a mechanism for increased co-operation between Member States in this field[3]. The remit of the committee is to follow the development of social welfare policy in the Member States of the Community, to facilitate the exchange of information, experiences and good practice between Member States and with the Commission and to prepare an annual report on social welfare for submission to the Council relating to the measures taken to achieve the targets it sets itself. At the behest of the Council or the Commission or on its own initiative, the committee can also prepare other reports or opinions or undertake other activities in the various areas within its remit. This committee has chosen two priority tasks from the four initially proposed by the Commission: "promoting social inclusion" and "ensuring the viability and sustainability of pension regimes". The high-level group will have to draw up a series of parameters and indicators with which to compare the results obtained by the various national polices in this field and deduce the best practices. These best practices should then serve as means of structuring national programmes which the Member States will then be bound to develop further. This function exceeds the traditional framework of social security. For example, based on the open co-operation method, the Welfare Protection Committee submitted to the European Council of Nice a list of objectives for the fight against social exclusion which should form the basis for the National Plans for social exclusion to be drawn up by the various Member States with effect from June 2001.

This procedure may also lead to the harmonisation of Community standards. Article 137 of the Treaty of Amsterdam allows the Council to adopt measures designed to encourage co-operation between Member States in order to fight social exclusion. The high-level group will also examine the strategies behind the recent national reforms of retirement pensions and tease out the "fundamental objectives of the pension regimes". In this area, increased co-operation takes the form of an exchange of experiences which will

2 Conclusions of the Council of 17 December 2000 on increased co-operation with a view to modernising and improving social welfare (2000/C 8/05).

3 Decision of the Council of 29 June 2000 introducing a social welfare committee, OJEC No. L 172 of 12/07/2000 pp. 0026 – 0027.

include elements such as proposals to encourage workers to remain in the labour market after the normal retirement age and reflections on the excessive importance of the cost to the public purse of the tax advantages granted to so-called "second pillar" capitalisation pensions.

The solemn proclamation of the European Union Community Charter of Fundamental Rights at the Nice summit in December 2000[4] marked an important stage in social welfare law. National social security policies must be measured against the chapters on dignity, equality and solidarity or indeed against the provisions on the protection of personal data, even if the legal scope of the Community Charter remains uncertain at the time of writing.

In the year 2000, the European Court of Justice continued its work on defining the "principle of solidarity", a key concept in determining the application – or non-application – of the rules on competition to the activities of the social welfare agencies and the pivot on which the justification of the membership monopolies of these agencies balances. We know that in the Albany et al rulings of 1999[5] it considered that a Dutch sector-based pension fund set up by a collective agreement between social partners and which managed pensions by capitalisation was a business. However, for the Court of Justice, the restrictions on the fund resulting from the collective agreement, including the lack of connection between contributions and risk, the obligation to accept all workers without a medical examination, the acquisition of pension rights without contributions in cases of incapacity for work, the fact that the fund takes into account outstanding contributions due by the employer in case of its bankruptcy and the pensions indexation mechanism all constitute elements which characterise the purpose of general economic interest attributed to this fund. That being the case, according to the court, the membership obligation is justified as Community law allows these activities of general economic interest to escape the rules on competition. The ECJ also deduced from the social provisions of the Treaty that "a useful and coherent interpretation of the provisions of the Treaty taken as a whole shows that agreements concluded within the framework of collective bargaining negotiations between social partners in view of such objectives must be considered due to their nature and their purpose" as not falling within the scope of the rules on competition. In 2000, the Court was called upon to rule on similar pension funds set up in this case by independent doctors. In the cases of Pavlov et al[6] the obligation to pay contributions is analysed as a restraint of trade and the contribution is regarded exclusively as a component of the production costs of these doctors. Furthermore, the elements of solidarity were adjudged insufficient to constitute an activity of general economic interest. In the final result, however, the contribution obligation is reinforced because the restraint of trade is minimal and not therefore subject to Community law. This brief review of the jurisprudence of the Court would be incomplete if it did not mention the Banks et al ruling[7]. The Court pronounced that an individual covered under the self-employed regime in the United Kingdom, who had voluntarily moved to Belgium for a short period retains this status, even though his colleagues working on the same stage, at the same times and under the same working conditions were considered to be employees by the Belgian legislator. This ruling gives considerable support to the free mobility of the self-employed.

Francis Kessler

4 European Union Charter of Fundamental Rights, OJEC C 364/1 of 18.12.2000.
5 Ruling C-67/96 of 21.09.1999.
6 Ruling C-180/98 of 12.09.2000.
7 Ruling C-178/97 of 30.03.2000.

1. Changes to the employees' regime

Organisation and funding

Plans have been made to reduce the personal contributions made by certain workers on low incomes. This reduction depends on the income of the worker and the type of work in which they are engaged. The upper limit for the year 2000 has been set at BEF 37,500.

An increase in the structural reduction in charges has also been implemented. The King can increase the amount of the reduction in contributions for 2000 to a maximum of BEF 37,706.

The *first job contract* has replaced the *young person's training placement*. In principle, this scheme covers young people under the age of 25 who have left school within the last six months, but may be extended if an insufficient number of young people fulfil the relevant conditions. The terms of the *first job contract* are defined by law. The contract may stipulate that 10% of the salary be devoted to training the new worker. The worker is therefore entitled to 90% of the salary with the guaranteed minimum average monthly income being the absolute lower limit. An employer who offers a young person a permanent contract of employment at the end of the *first job contract* may under certain circumstances take advantage of a temporary reduction in social security contributions of 10%. Employers in the private sector with a workforce of 50 or more must take on a number of workers equal to 3% of their total workforce under the terms of the *first job contract*. In this context, "workforce" is defined as being the number of workers employed during the second quarter of the preceding year. In addition, all these employers together must take on a number of new workers equal to 1% of the total workforces of those companies employing at least 50 workers.

Employers in the public sector who employ at least 50 workers must also take on new workers under the terms of a *first job contract*. The number is set by the King. Certain sectors, such as education, are exempted from this obligation.

Elsewhere, a reduction in contributions is also planned for the employment of young people with few qualifications. This reduction in contributions is equivalent to BEF 20,000 per quarter of the total amount of employers' contributions paid if the employer takes on a number of new workers equal to 3% of its workforce, and to BEF 45,000 for each young person with few qualifications which the employer employs on a full-time basis above this figure of 3%. An employer which takes on additional young people with few qualifications will receive a reduction in employers' contributions of BEF 45,000 per quarter on condition that the number of new workers taken is equal to 5% of the workforce.

The limited liability of occasional workers in the horticulture sector has been extended to those in the agricultural sector. Occasional workers may be employed for no more than 30 days per calendar year during the 45-day high season period. Employers who are members of the Joint Agricultural Commission must keep an attendance register for these occasional workers.

A special social status has been introduced for local elected representatives who are currently without protection. Where burgomasters and deputy burgomasters are neither covered under social security legislation nor have self-employed status, and if they have been receiving health benefits only in consideration of the payment of additional personal contributions, they are now registered by the commune under the mandatory insurance regimes for health care and benefits, unemployment benefit and family benefits. In addition, social security protection has also be offered to former burgomasters and deputy burgomasters who would not otherwise qualify for cover at the ends of their periods of office.

Health care

With retroactive effect to 1 January 1998, the right to preferential reimbursement has been guaranteed to beneficiaries who were entitled to preferential reimbursement as a disabled person or a person without social protection as at 31 December 1997 under the terms of the compulsory health care insurance scheme.

The mechanism for awarding and monitoring the right to higher rate health care insurance cover has been improved in that:

- the notion of the "household" for which the gross income is taken into account has been formally defined;
- the dependants of a qualifying spouse or cohabitant of the recipient in question trigger an increase in the upper limit for entitlement to the higher rate of cover;
- the definition of a person described as "cohabiting with the recipient" has been improved by excluding from this category certain persons who are not the partner of the recipient, in particular relatives up to and including first cousins and economic dependants of the recipient's household.

With effect from 1 January 2000, the third-party assistance allowance has been extended to employees [and self-employed workers with primary incapacity] and is granted with effect from the fourth month of incapacity irrespective of the situation of beneficiaries in terms of family responsibilities and on condition that they fulfil certain conditions with regard to independence.

With effect from 1 June 2000, the target group defined in relation to the global medical file of persons aged 60 and over has been extended to patients aged 75 and over and to patients who fulfil the care dependency criteria specified in the regulations on the granting of the one-off payment to the chronically ill. With regard to these categories, a "global medical file" may be opened either on the occasion of a home visit or at a consultation and a 30% reduction in the patient's contribution is granted for both the home visit and the consultation.

With effect from 5 December 2000, the amount of the one-off incontinence payment was raised from BEF 10,000 to 15,000.

Incapacity for work

The following changes have been made:

- the placement exemption has been extended to young people who at the end of their studies are beneficiaries of the general health care insurance regime;
- the exemption has also been extended to young people who, although they do not fulfil the conditions required to be regarded as financially dependent at the end of their studies, may be registered as beneficiaries under the general health care insurance regime;
- the allowance for funeral expenses is granted to pensioners entitled to claim health benefits as beneficiaries irrespective of the contributions regime applicable within the framework of the health care insurance.

Pensions

During the last parliament, the legislator increased the minimum employees' [self-employed] retirement and survivors' pensions and the income guarantee for the elderly, and therefore focussed on those people who have worked very little or not at all and who, having no other means of income, receive the income guarantee for the elderly, and on workers who have worked for significant periods (at least two thirds of a normal working life) but who have very small pensions.

He also decided that in the case of the death of the beneficiary of an employees' [self-employed] pension or the income guarantee for the elderly, the surviving dependants would be entitled to the payment of arrears, including the benefit for the month of the death, if the recipient died between the date of maturity of the benefit to which he/she was entitled and the day following its actual payment irrespective of the chosen method of payment (bank account or post office). In relation to the income guarantee for the elderly, the allowance made for the pension in determining the level of resources has been changed.

Industrial injury – Occupational diseases

The major change in the legislation on industrial injuries relates to *employer's fault*.

During 1998, at the initiative of the CSC and FGTB trade union delegations, the social partners effectively negotiated a bill designed (along the same lines as the law on occupational diseases) to offer victims the possibility of obtaining full compensation under common law where the employers is guilty of a serious offence. Following this bill, with effect from 10 January 2000, the legislation provided for the lifting of the civil law immunity of employers ignorant of the legal and statutory provisions on health and safety at work. This provision will in all probability form an important additional incentive to employers to take preventive measures and enforce security standards.

The regulations on the *calculation of the salaries of working minors,* who reach majority during a period of temporary incapacity for work, has been adjusted to avoid discriminatory effects in the calculation of the benefit resulting from the temporary incapacity for work of an apprentice who has already reached majority at the time of an accident.

Family benefits

Certain provisions of the co-ordinated laws on family benefits for employees stipulated explicitly that a household should be taken into account in establishing entitlements to family benefits where this household was made up of persons of different sex. The development of ideas within society has led to this narrow definition being challenged. The legislator has therefore introduced the notion of the *de facto* household. A *de facto* household exists where persons, irrespective of their sex, who are neither parents nor relatives up to and including first cousins, cohabit, settle their domestic problems by agreement and combine their respective resources whether fully or in part. In the provisions under which the formation of a *de facto* household results in the creation of rights, the beneficiaries and their partners must make a declaration to the effect that they form a de facto household. In the provisions under which the formation of a de facto household results in the abolition of rights, the mechanisms put in place in the past remain (the family benefit organisations must prove cohabitation) if only in that the notion of a *de facto* household replaces the notion of a household comprising persons of different sex.

With the aim of both stabilising and simplifying the awarding of additional social security benefits (additional payments for the children of recipients of old age or retirement pensions, of long-term unemployed people receiving benefit with effect from the seventh month of unemployment, of a beneficiary receiving a dependant's pension resulting from the professional occupation of the deceased spouse or of a worker who is ill or has had an industrial injury or a worker on maternity leave from the seventh month of a period made up of primary incapacity and possibly maternity leave or during the period made up of incapacity and possible maternity leave), since 1 October 2000 these additional payments have been made on a quarterly basis. Thus, in the case of an entitlement to a supplementary benefit on the grounds that all the necessary legal and statutory conditions are fulfilled in one month, the supplementary benefit will be paid on the first day of the following month for the remainder of the quarter and the following quarter. Entitlement to the supplementary benefit will then be maintained on a quarter by quarter basis whenever the statutory conditions are fulfilled at any time in the second month in the preceding quarter as is the case for the basic rate.

Various modifications have been made to the guaranteed family benefits regime introduced by the Law of 20 July 1971. Guaranteed family benefits are paid for a child who is exclusively or primarily dependent upon a physical person resident in Belgium. Unless proven otherwise, the physical person is presumed to meet this condition if the child is shown as being part of his/her household in the population register, the register of foreign residents or the National Register of Physical Persons. Henceforth, this presumption cannot be reversed on the grounds that the child is in receipt of a minimum subsistence income. Finally, royal decrees passed in May and November 2000 respectively set the amount of the special allowance introduced by the Law of 22 February 1998 for children placed in institutions run by a public authority and determine that the monthly rates of family allowances shall be those specified for orphans falling under the employees' family allowances regime payable to an orphan whose father or mother was claiming guaranteed family benefits as long as the conditions set out in the law, in particular in relation to resources, were fulfilled at the moment of death.

Unemployment

The measures implemented in 2000 were designed primarily to:

- adjust the amount of certain categories of benefits and particularly to increase the transitional benefits for persons over the age of 21 not falling automatically into any particular benefit category in line with the minimum subsistence income ("minimex");

- allow young people in part-time education or on part-time training courses beyond the age of 18 (end of compulsory school attendance) to continue studies they have started and to continue receiving transitional benefits;
- at the request of the social partners to prolong the payment of certain benefits or certain specific regimes within the unemployment insurance system to older workers (over 45), and permit the payment of additional mobility and/or childcare allowances to workers who accept a job far from their homes and/or are single parents;
- change – with effect from 1 January 2001 – the rules governing employment benefit (and its terms of application) for artists in order to better tailor them to their particular situation;
- change the methods of checking the family situations of those covered under the unemployment insurance system by strengthening respect for the rights of the individual.

2. Changes to the self-employed regime

Health care

The scope of application of the health care benefits payable to the self-employed has been broadened to permit the payment of two one-off benefits of BEF 19,500 for palliative care at home for patients suffering from incurable diseases who are expected to die within a fairly short time-scale and have chosen to die at home.

See also the changes to the employees regime.

Family allowances

The legislation relating to family allowances has been broadened to include the notion of "joint parental authority" in the case of separated parents. This means that where parents are separated, entitlement to family allowances is based on the principle that both of them are supposed to bring up the children and that therefore, in terms of the designation of the priority beneficiary, the parents and the children form one fictitious household irrespective of the fact that the children are actually being brought up either by the father or by the mother.

Pensions

See the changes to the employees regime.
Early retirement pensions for the self-employed were reduced by 5% per annum. When calculating resources, however, they were still considered as not having been reduced. This is no longer the case and it is now the actual amount of the pension which is taken into account.

During the 1990s Denmark underwent a period of significant economic growth, particularly in the services and new technologies sectors.

Between 1994 and 1999 the number of people in work grew by 200,000 units and unemployment fell by almost 60%.

In consequence, job opportunities for the unemployed and for other groups experiencing difficulties in entering the labour market (due to illness or incapacity) were good.

However, the number of people living permanently on one of the various categories of transitional income remained high. For example, the number of people in receipt of the income guarantee remained almost unchanged between 1994 and 1998 and the number receiving cash sickness or unemployment benefits for more than one year actually rose in 1996.

Given that over the coming years the number of people leaving the jobs market will be greater than that entering it, there are good reasons for endeavouring to create an "enlarged" labour market which encourages those groups, who are or are likely to be excluded from it, to get back to work.

It is with precisely this goal in mind that the campaign for "social responsibility" at work, which has been running for several years in Denmark, has been extended.

Within the overall context, the year 2000 brought few changes in terms of social welfare legislation. A compromise agreed by the government and its coalition parties during the negotiations on the 2001 budget led to minor amendments to several laws which improve services and compensate for a small increase in taxes.

Thus personal allowances allied to the state pension (in particular the heating allowance) were increased and a new health allowance was introduced. The supplementary pension and the income guarantee were also raised.

In addition, there was a general reduction in contributions to the various unemployment insurance schemes and the law on cash sickness benefits was amended to increase the length of time for which they can be paid.

Cash sickness benefits

Since 1 January 2001, local authorities have been able to extend the period over which daily allowances can be paid and to exceed the maximum payment period.

Where a local authority is unable to rule on an applicant's capacity for work or the outcome of a case within the normal period of payment of the benefit, it may extend this period for two additional periods of three months in order to complete its examination of their capacity for work, implement job seekers' initiatives, etc., thereby preventing the applicant from remaining inactive.

It is also stipulated that, if the applicant is unable to work and their incapacity is believed to be permanent, the local authority must initiate the procedure which leads to the awarding of an invalidity pension.

The part played by the state in financing these benefits has been reduced, once again with effect from 1 January 2001. Henceforth, the state will refund local authorities 100% of the cost of benefits for the first four weeks of the period of sickness only. Previously they were reimbursed for a longer period of eight weeks.

Social pension

At the annual review of pension levels, the supplementary pension was increased by an amount proportionally greater than the increase in the basic pension.

This change was designed to provide additional assistance for pensioners on low incomes.

The method of calculating the supplementary pension was changed with effect from 1 April 2001. The income of a working spouse or cohabitant not in receipt of a pension of a pensioner is no longer taken into account in full.

A special health benefit will be introduced into the legislation with effect from 1 March 2001. This benefit, which can be awarded to pensioners with cash savings not in excess of a certain limit, covers 85% of the pensioner's contribution to the cost of services covered by Danish public health insurance.

The heating allowance, one of the personal pension-related allowances, has increased (with effect from 1 January 2001) in light of the fact that the cost of hot water is to be introduced into the calculation model. In future, this allowance will be reviewed on the basis of changes in the price of liquid fuels and collective heating.

Family allowances

A new family allowance was introduced with effect from 1 January 2001. This is an allowance paid to parents following a course of education or training.

This allowance is DKK 5,000 per year for each child under the age of 18. Where the parents are not living together the allowance is paid to the parent with whom the child lives. One allowance only is payable per child and per student parent. The allowances are based on the income of the parents.

Unemployment

There has been a general reduction in the level of contributions paid by members to unemployment insurance schemes. This reduction corresponds to 1.2 times the rate of daily allowances paid by the scheme.

Particular efforts have been made to assist the long term unemployed who are in danger of losing their entitlement to daily allowances after a long period of unemployment.

The income guarantee

New provisions which come into effect on 1 January 2001 have been introduced into the Law Promoting an Active Social Policy and relate, in particular, to two groups of unemployed people without insurance, those who receive the benefit and are not seeking work and those who are involved in job seekers' initiatives, i.e. who are available for and actively seeking work.

The law gives a complete list of the grounds on which a job offer or a place on a job seekers' scheme may be legitimately refused. This list applies to those individuals receiving the benefit whose only difficulty is that of unemployment. The local authority may use its discretion in dealing with other groups.

Elsewhere, the regulations relating to sanctions have been tightened up.

If a benefit recipient whose only difficulty is unemployment (or the unemployment of their spouse) fails to attend a job seekers' initiative or any other scheme designed to improve his/her chances of finding employment on even one occasion, in future the local authority will be obliged to reduce his/her benefit. If a benefit recipient who has other difficulties (or whose spouse has other difficulties) fails to attend, the local authority may decide whether or not to reduce the benefit at its own discretion.

The amount by which the benefit may be reduced has increased from 20% to 30% of the amount payable.

Benefit is stopped for any period in which a benefit recipient or his/her spouse refuses to take part in a job seekers' scheme without good reason and in the future this will also be the rule where recipients fail to attend more than one session.

New legislation

The long-awaited reform of the early retirement/invalidity pension has finally taken shape. The bill is to be adopted by the Danish parliament in the spring of 2001, and the law will come into force on 1 January 2003.

The reform is designed first and foremost to simplify the law.

There will be only one rate of early retirement pension.

The various elements which make up the current early retirement/invalidity pension will be amalgamated to form one single benefit and will be equal in amount to the total of the daily allowances paid in case of sickness or unemployment to single pensioners (85% for married pensioners).

Under the law on social services, the various additional allowances designed to compensate for incapacity may be awarded to pensioners. They will no longer be considered as part of the pension.

Wherever possible, an appropriate position will be found for disabled people able to perform a "flexible job" following physiotherapy or other reintegration measures.

Secondly, there has been a fundamental change in the criteria for determining the existence of incapacity. Under the terms of the law currently in force, incapacity is assessed on the basis of an individual's loss of capacity for work. The new law pays special attention to what a disabled person is able to achieve despite their disability. The criteria therefore assesses the residual capacity for work of the applicant. The use of this criteria is intended to improve the possibility of keeping disabled people at work.

1. Pensions insurance

On 1 July 2000, pensions were adjusted in line with the rate of price increases for the previous year. They rose by a uniform figure of 0.6% across Germany.

The pension adjustment resulted in higher rates for women, in particular, as the allowance made for bringing up children was further increased with effect from 1 July 2000, rising from 90% to 100% of average earnings.

Between January 2000 and 2004, the pensionable retirement age for women will increase from 60 to 65 in monthly stages. The pensionable retirement age for long-term contributors will also increase from January 2000, rising from 63 to 65 in monthly stages by 2001. Safeguard measures of vested rights linked to age and number of contribution years will effectively reduce or negate this increase in the age limit.

In the future it will also be possible to draw pensions from the age of 60 or 63 subject to a certain reduction in payments. This reduction will amount to 0.3% of the pension for each month for which the pension is drawn early. Any decrease in monthly pension payments resulting from the longer drawing period may be reduced or evened out by the payment of additional contributions.

The following additional provisions have been introduced to deal with the problems of pseudo self-employment:
A person is described as being a pseudo self-employed worker if he/she is in actual fact carrying on an employed occupation but appears from the outside to be self-employed and therefore avoids liability to pay social insurance contributions. The person is thus deprived of both protection under the social insurance system and all rights designed to protect the health and safety at work of employees.

The regulations in this area have been further developed in the "Law on the Promotion of Self-Employment". The law was enacted with retroactive effect to 1 January 1999. It distinguishes between:

- pseudo self-employed employees (liable to pay social insurance contributions in all sectors of the social insurance system),
- and self-employed workers who do not employ staff and who work for one client only (liable to pay pensions insurance contributions only).
  There are now special provisions for self-employed workers who do not employ staff and who work for one client only. They may claim exemption from the obligation to pay pensions insurance contributions under the circumstances detailed below:
- In the case of a new business start-up, for two periods of three years each for a total of two new business start-ups.
- In the case of self-employed workers over 58 years of age not previously liable to pay social insurance contributions who become liable to pay social contributions for the first time under the new regulations.,

Where exemption is possible, additional forms of private old-age provision have now been recognised for pseudo self-employed workers. This applies to individuals who were already working on a self-employed basis prior to 1 January 1999. Previously only employee pension schemes, life and pensions insurance schemes were taken into account. In addition, the closing date for applications for exemption has been extended until 30 June 2000. Consequently, greater emphasis is now placed on the safeguard of vested rights than was previously the case.

There have been no changes in respect of the regulations on the level of pensions insurance contributions. However, in the first three years of work it is now possible to request that contributions be calculated on 50% of the basic amount (= average pay).

Other important new regulations include:

- Clarification that the principles developed in case law to differentiate between employment and self-employment and the principle of official investigation used in the social insurance system continue to apply unchanged and that the rule of presumption – now tightened up and amplified – designed to help insurance institutions differentiate between employment and self-employment applies only in cases where both the principal/employer and agent/employee refuse to assist the insurer in clarifying the situation.

- To avoid inconsistent rulings on self-employed vs. employed status, in the future and at the request of the principal/ employer or the agent/ employee, the Federal Insurance Office for Salaried Employees will be able to make a definitive ruling, thereby encouraging collaboration between the social insurance system and its insured members.
- Principals/employers making an application for a status ruling before mid 2000 will be protected against subsequent unreasonable demands for contributions under the terms of a so-called amnesty.
- The provision of provisional legal protection.

2. Unemployment insurance

The emergency programme launched to reduce unemployment amongst young people has been extended by a further year. As of 1 January 2000, the guidelines were adjusted to make its various schemes more efficient and better targeted. For example, in parallel with the acquisition of qualifications there will be a more targeted focus on integration in the labour market accompanied by wage cost subsidies. Wherever possible, young people still eligible for initial vocational training should be offered places in the formal education system rather than on vocational training or job seekers' schemes. A minimum participation quota is being introduced for the children of foreign workers based on their percentage of total youth unemployment and youth job-seekers' figures in order to increase the number of children of foreign workers taking part in the "emergency" programme.

Various improvements to the rules applying to partial retirement for older workers were introduced on 1 July 2000. The Law on Partial Retirement was extended in four essential respects:

- The period of validity of the Law on Partial Retirement was extended until 31 December 2009 (previously 31.07.2004) in an attempt to create greater planning security for trade unions and employers.
- The maximum subsidy period was increased by one year to six years. This will help to increase the level of acceptance of partial retirement for older workers among both employers and employees.
- At the request of employers, there has been a simplification of administrative procedures.
- A more user-friendly rule for calculating the length of the working week has been introduced for partial retirement agreements signed after 1 July 2000. The new rule stipulates simply that the length of the working week agreed before the start of partial retirement may not exceed the average over the last 24 months.

In terms of social security protection, the year 2000 could be characterised as a year of small but significant corrective interventions.

At the same time, it was a year of thorough study regarding indispensable and radical changes to the social security scheme.

In particular, the recently published Law No 2874/2000 introduces several modifications to the social security legislation.

- The employers' contribution has been reduced by 2%, regarding the pension branch of the Institute for Social Insurance (IKA) referring to employees working on a full-time basis on condition that their monthly compensation (salary/wages) does not exceed 200,000 GRD – overtime not included. The above-mentioned reduction refers to the employment period from 1 April 2001 until 31 December 2003. This reduction does not apply to employees who are insured with IKA through special regulations (e.g. newspaper sellers, builders) or to persons working after retirement. Surcharges incurred by IKA are paid by the public sector. Public sector, legal entities of the public sector and public sector companies are not included in this modification.
- Insured persons who have a contribution record of 10,500 working days, of which at least 7,500 are in unhealthy and hazardous occupations, can retire at the age of 55. They are entitled to a reduced pension at the age of 53. The amount of benefit is reduced by 1/200 for each month until the age of 55. Until 31 December 2004, the Fund for Employment and Professional Training (LAEK) will cover the incurred charge to IKA for granting the above benefits. LAEK will also pay to IKA and the IKA team (main and auxiliary pension branch) for the same period both employer's and employee's contributions for pensioners who are entitled to old-age benefits in accordance with the above conditions. The contribution rate amounts to 31.6% of the pensionable income.
- Persons who have been unemployed for at least 12 continuous months, who are 60 years old (men) or 55 (women) and who still require five working years (at least 4,500 working days) before becoming entitled to their full old-age benefit can ask for a voluntary continuation of their insurance with IKA and the auxiliary branch until they can complete the required period. Payment of the contributions is reimbursed by LAEK.
- Unemployed persons who have been jobless for at least 12 continuous months, who are insured by IKA for unhealthy and hazardous occupations, who are 55 years old (men) or 50 (women) and who still require five working years before becoming entitled to their full old-age benefit may voluntarily continue their insurance with IKA and the auxiliary branch. However, this period of voluntary insurance for the above persons is not recognised as working time for unhealthy and hazardous occupations. Payment of the contributions is reimbursed by LAEK.
- Long-term unemployed persons engaged in a part-time contract (at least four hours working time daily) are to be paid 30,000 GRD monthly from the Office for Employment (OAED), plus their salary. The duration of this payment is up to 12 months. The amount is paid as a reintegration employment incentive.
- Unemployed persons who take part in training programmes, enabling them to acquire working experience and be insured by IKA (health branch, only for benefit in kind), are covered for employment injuries.
- Paid maternity leave after birth is increased to nine weeks instead of eight (a total of 17 weeks including before and after birth leave), such as the maternity allowance.

Additionally, a heating allowance has been granted to pensioners entitled to the special solidarity allowance (EKAS) as well as to unemployed persons, retired farmers and low-income workers.

In the forthcoming months, proposals on the viability of the social security system in Greece are to be presented by the British House "Government Actuary's". In this context, a debate will take place between Government and social partners, aiming at the realisation of the required reforms in the social security system. The debate will address such issues as the calculation of pension amounts, age conditions for entitlement to old-age pensions and the financing of the system.

Throughout the year 2000, developments in the field of Spanish social protection have been scarce though relevant, due to the holding of general elections in March. In this year, Spain also commemorated the first centennial of the social protection system, whose origin goes back to approval of the Act on Employment Injuries of 30 January 1900.

Firstly, the General Budget Act established a 2% increase for public pensions, equal to the assumed CPI growth for 2000, so as to guarantee the pensions' purchasing power and the coverage and protection levels procured by social expenditure.

Act 55/1999 of 29 December on Tax, Administrative and Social Order Measures also introduced several changes. The first change modifies the prescription period in respect of the mandatory refunding to the social protection system of benefits unduly received, which is reduced from five to four years, so as to put it on the same level as the term applicable in this respect by fiscal ordinance. This Act also modified some specific aspects of the Social Protection Special Schemes and regulated in detail the Employment Promotion Programme for the year 2000.

This programme is aimed at enterprises that indefinitely contract unemployed workers, registered at the Unemployment Agency, who belong to any of the following groups: young people under the age of 30; unemployed persons registered at an employment agency as job-seekers for 12 months or more; unemployed persons over 45 years; unemployed women when hired to render services in occupations or sectors with a low female participation rate; and beneficiaries of the unemployment benefit under the Special Agricultural Scheme who are also included in one of the former groups.

As a novelty with respect to former employment programmes, these benefits are also available to those people who have been working on a self-employed basis since at least 1 January 1999, who have not hired other wage-earners for the performance of their professional activity in the 12-month period prior to the contracting and who contract indefinitely their first worker from among the above-mentioned groups. Lastly, enterprises and non-profit-making entities which sign indefinite or temporary contracts with unemployed workers in a situation of social exclusion in respect of which the relevant Social Services will certify that they are beneficiaries of the minimum income for social rehabilitation or any other benefit of similar nature; persons who are not eligible to receive this kind of benefit because they lack periods of residence or inclusion in the census or because they have exhausted the maximum period legally established to receive such benefits; young people between the ages of 18 and 30; individuals coming from institutions devoted to the protection of minors; addicts to drugs or alcohol engaged in medical treatment or social rehabilitation; prisoners whose penitentiary situation enables them to take on employment, as well as persons released on parole and ex-prisoners. Furthermore, the transformation of contracts of apprenticeship, training contracts into indefinite ones will be promoted.

As regards to incentives, initial indefinite full-time or part-time contracts, fixed discontinuous contracts included, celebrated in the year 2000, gave rise – during the 24-month period after the contracting date – to the following rebates on the employers' contribution for common contingencies to social protection:

a) Recruiting of people under 30 years: 20% during the 24-month period following the contract's commencement date.
b) Recruiting of unemployed persons registered without interruption in the Unemployment Agency for a minimum period of 12 months: 50% during the first year of contract validity and 45% during the remainder of the contract's validity period.
c) People over 45 years: 50% during the first year of contract validity and 45% during the remainder of the contract's validity period.
d) Women, either unemployed or over 45 years, who are contracted to render services in occupations or sectors with a low women's participation rate: 60% during the first year of contract validity and 55% during the second year. If they do not comply with any of the requirements mentioned before, this rebate falls to 35% during the first 12 months of con-

tract validity and to 30% during the second year.

e) Hiring of unemployed persons benefiting from the unemployment benefit targeted to workers included under the special Agricultural Scheme: 90% during the first year of contract validity and 85% during the second year.

f) The indefinite hiring of a self-employed worker will entail the following rebates:
   - if the contracted worker is unemployed and over 45 years, or if he/she has been registered without interruption with the Unemployment Agency for a minimum period of 12 months: 60% during the first year of contract validity and 55% during the second;
   - if the contracted worker is unemployed and under 30 or a woman rendering services in a sector with a low female participation rate: 35% during the first year of contract validity and 30% during the second year.

g) Enterprises and non-profit-making entities contracting indefinitely or temporarily, through full-time or temporary arrangements, unemployed workers in a situation of social exclusion are allowed to apply a 65% rebate on contributions during a maximum period of 24 months.

h) The conversion of apprenticeship, training and substitution contracts into full-time and long-term contracts will give raise to a 20% rebate during a period of 24 months after the new contract enters into force.
   The same rebate will apply to the conversion of training and substitution contracts initially concluded as part-time contracts, also including discontinuous fixed contracts.

Act 55/1999 also regulates the rebates' competition and incompatibilities scheme as well as the financing of the incentives, which fall upon the relevant budgetary share of the National Employment Institute. The control of these rebates will be a responsibility shared by this Institute, the Social protection General Treasury and the Labour Inspectorate.

Nevertheless, the most noticeable reform introduced in the year 2000 is the adoption of certain measures to improve family protection under the social protection system, by means of Royal Decree Law 1/2000 of 14 January. Within the frame of family protection, present in the Spanish Constitution of 1978, the social protection scheme already included cash benefits for dependant children with an amount varying with the age and circumstances of the child. The new rule revises the social protection cash benefits for dependant children under 18 (the rest are automatically updated each year) and also modifies the protective action of social protection family benefits through the creation of two new benefits with the form of one-off payments payable for the birth of the third and subsequent children and in the event of multiple birth. These cash benefits are aimed to compensate in part the costs generated by the birth of a child in low-income families or when a multiple birth forces the family to look after several children at the same time. These new benefits, as the remainder of social protection cash benefits for dependant children, are non-contributory and financed by the State through the General Budget.

The consolidated text of the Act on Infringements and Penalties in the Social Order was passed in 2000, a text containing details on infringements related to social protection, whether committed by employers, self-employed workers and assimilated or by employees and assimilated or benefits' claimants and beneficiaries. The text also includes those infringements committed by the Social protection Mutual Societies for Employment Injuries and Occupational Diseases and by the enterprises cooperating voluntarily in the field of management.

Late in the year, discussions were held on the renewal of the Toledo Agreement. Government, employers' organisations and trade unions made significant progress on the reform of the social protection system. Though there are some matters on which positions differ considerably, the agreement is clear on the separation of funding sources, the reserve fund, benefits improvement and the treatment of dependency situations. The hot points are early retirement and the selective reduction of social contributions. The employers' organisation insists on reducing social protection contributions as a measure to create employment.

The debate on social welfare in France has focussed principally on the reduction of contributions payable on low salaries, the future of pensions and a review of the traditional systems of supplementary pensions and unemployment insurance. Most of the legislative changes have come from the *Law on the Funding of the Social Security System for 2001* (23 December 2000).

Funding

With the aim of encouraging job creation and retention, the Law on the Funding of the Social Security System for 2001 provided for a progressive reduction of the general social contribution and the contribution for the reimbursement of the social debt on low salaries. As the Constitutional Council rejected these provisions, a new bill is currently before parliament. Its purpose will be to award an employment premium in the form of a reduction in income tax or a payment by the Treasury depending on whether or not the beneficiaries are taxpayers. By balancing out some of the social security deductions and tax charges on low incomes, this measure will improve wage levels and encourage job seekers to return to the labour market.

The *Funding Law* also includes a raft of measures designed to adjust the income and expenditure of the *Fund to Finance the Reform of Employers' Social Security Contributions* set up in 1999 and determine the regime of social security contributions applicable to low salaries under the terms of the various laws on the reduction of the working week to 35 hours. It also contains provisions relating to charges and contributions, including one simplifying the rules for calculating social security contributions, the *general social contribution* and the *contribution for the reimbursement of the social debt* payable by farmers on professional income.

Finally, the *Finance Law for 2001* (20 December 2000) exempts pensioners in receipt of incapacity and old-age pensions, unemployment benefit and early retirement pensions from the *contribution for the reimbursement of the social debt* under the same conditions as the *general social contribution.*

Sickness

Universal sickness cover came into force on 1 January 2000. According to the latest estimates, the basic rate of *universal sickness cover* – a contributory mechanism which applies to all stable and regular residents who are not already covered by another basic regime – covers almost 2% of the population. In addition, almost 8% of the population benefit from the second part of *universal sickness cover* which provides additional free protection and exemption from paying costs in advance for those in certain income categories.

The *Law on the Funding of the Social Security System for 2001* brings the benefits in kind payable under the general sickness insurance regime for the self-employed in line with those paid under the general employees' regime. As a result, contributions have increased by 0.6%. This adjustment affects the nature of the benefits provided, allowance rates and exemptions from the patient's contribution. The measure relates primarily to the cost of basic care, since the costs of hospitalisation and high-cost care have already been adjusted. The regime relating to cash benefits remains unchanged.

Occupational illness

The *Law on the Funding of the Social Security System for 2001* has created a *Fund for the Compensation of Victims of Asbestos* to ensure the payment of complete compensation for any damage suffered by workers or beneficiaries who are recognised as suffering from an occupational illness caused by asbestos, but in future also by those who have suffered prejudice directly as a result of exposure to asbestos in France within a non-occupational context. This fund, the role of which will also include simplifying the procedures for those involved, will be financed by contributions from the state and the accidents at work and occupational diseases section of the general social security regime.

Elsewhere, the incapacity allowance introduced in 1999 for asbestos workers is excluded from the basis for the assessment of social security contributions, the *general social contribution* and the *contribution for the reimbursement of the social* *debt* by the *Rectifying Funding Law for 2000* (13 July 2000).

Family benefits

The same *Law on Funding* introduced a new system of parental leave combined with a new family benefit, the *parental presence allowance*. This benefit will be awarded to any person who stops work or reduces their number of working hours when a child for which he/she is caring suffers serious illness, accident or disability and needs constant attention or a restrictive degree of care confirmed by medical certificate. The aim of this benefit is to enable families to deal with severe accidents or illness, to give them the time and the means to organise themselves pending either an improvement in the health of the child or a decision on eligibility for a longer-term benefit (*special education allowance*).

Entitlement lasts for a maximum period of four months, which can be renewed twice on presentation of a medical certificate specifying the forecast duration of the need for care and/or constant presence of a parent. The amount of the allowance should be FRF 1,566, FRF 2,071 or FRF 3134 per month depending on whether the parent continues to works 50% of the time, 80% of the time or stops working altogether. It will be increased for parents who are caring for their child alone. Recipients of the *parental presence allowance* will retain their rights to sickness and maternity benefits in kind under their original regimes and, if their income is below a certain threshold, will also be covered under the old-age insurance regime.

In terms of family benefits to assist with childcare, the amount of the additional allowance paid in the event of the employment of an accredited maternity assistant *(family allowance for the employment of a maternal assistant*) will henceforth be set on the basis not only of the age of the child but also the resources of the household or the person employing the maternal assistant.

Finally, in order to encourage more people back to work, the possibility of cumulating certain allowances or minimum social incomes with income from work for a short period has been extended to recipients of the *parental education allowance*. The period of this accumulation will be two months.

Old age

In March 2000, the French government opened a wide-ranging dialogue on the future of the pensions system. It defined a series of directions for development which would permit the continued existence of the French distribution-style pension system and within this framework put forward a number of suggested reforms. These directions for development are based on consultation during the design phase, a progressive timetable of implementation, respect for the diversity and identity of the various regimes, the search for greater equity and stronger solidarity between regimes and the introduction of greater flexibility designed to better accommodate individual choice and plan for demographic changes in order to balance the burden between the generations. These directions for development are intended:

- through discussion to achieve solutions tailored to each regime designed to consolidate the French pension system until 2020;
- to strengthen the *pension reserve fund* in order to address the imbalances for the period 2020-2040 (the fund should total approximately FRF 1,000 billion (not taking account of inflation) by 2020);
- and to set up a *Pensions Steering Committee* made up of representatives of the various social partners, parliamentarians and experts to organise a long-term programme of consultation on the future of pensions and charged with describing the current and future financial situation of the various regimes taking into account economic, social and demographic changes, assessing the conditions required to ensure their long-term financial viability and maintaining the cohesion of the distribution pension system by ensuring solidarity between the regimes and respect for equity between both pensioners and the different generations.

Elsewhere, the year 2000 saw some difficult negotiations between the social partners on complementary pensions for employees, particularly on the renewal of the traditional mechanism used to compensate for the additional cost of lowering the retirement age to 60, with employers' representatives challenging this starting age. An agreement is now taking shape designed to extend the mechanism for a further two years and to link the adjustment of the supplementary regimes to a reform of the basic regime of old-age insurance.

In order to improve statistical information on the number of pensioners and the levels of pension they receive and to facilitate co-ordination between the regimes in terms of the delivery of payments, the *Law on the Funding of the Social Security System for 2001* set up a *National Register of Annuities and Pensions.* A summary of the data included in the register will be submitted to parliament and to the *Pensions Steering Committee* every two years.

Finally, this law also extended entitlement to the *widows' allowance* to cover childless widows and widowers. It is therefore no longer necessary to be or to have been responsible for at least one child for at least nine years prior to his/her 16th birthday in order to qualify for this allowance.

Unemployment

A new agreement on unemployment insurance was finally signed by the social partners and approved by the state in the year 2000 after a long and difficult process of negotiation. The aims of the process were to make the regime more favourable to those returning to work whilst at the same time using the surpluses generated over a period of favourable economic conditions marked by a strong drop in the number of job seekers, without jeopardising its financial stability. The process was marked, on one hand, by employers' representatives calling for a reduction in contributions and, on the other, by employees' organisations demanding an improvement in benefits, with the state for its part seeking the repayment of a loan granted during a period of deficit.

The new agreement was concluded for a period of three years ending on 31 December 2003 and will be implemented progressively throughout the course of 2001. The principal changes relate to benefit payments and monitoring requirements for job seekers registering after 1 January 2001, the nature of benefits awarded and the reduction in contributions. A deal was also brokered with the state which will receive a payment of FRF 20 billion in respect of the loan.

The rules on benefit levels have been improved. The qualifying period for entitlement to benefit has been reduced to four months' contributions over the previous 18 months rather than 8 months as was formerly the case. The waiting period applicable before benefits are paid, now reduced from 8 to 7 days, no longer applies in certain circumstances. The sliding scale of benefits has been abandoned and a new benefit, the *back to work allowance* will progressively replace its predecessors (the *single sliding allowance*, the *training and re-training allowance* and the *older unemployed persons' allowance*).

There is now a greater link between the payment of benefits and the provision of assistance in returning to work. The reciprocal commitments entered into by the job seeker and the benefits regime have been formalised in a *back to work support plan* under which the job seeker undertakes to seek work in return for practical support, formalised by the signature of a *personal action plan* which is updated after 6 and 12 months of unemployment. In return for this entitlement to *back to work allowance*, other travel and training allowances and a professional skills analysis, an in-depth skills analysis and the training measures set out in the *personal action plan*, the job seeker has a number of obligations. He or she may not refuse to accept a job, attend a training course or undergo a medical examination without good reason, he/she must attend interviews and provide any documents requested, must not make false statements or commit fraud. Progressive sanctions up to and including the suspension or cancellation of benefits apply in the event of a failure to meet these obligations.

Employers who agree to take on individuals with particular difficulties in reintegrating may receive decreasing allowances (40%, 30% and then 20% of the total starting salary) for a period of between one and three years.

Finally, the new unemployment insurance agreement provides for a progressive reduction in contributions which will drop from 6.18% on 1 January 1997 to 5.80% by 1 January 2001 and finally 5.40% by 1 July 2002 if the financial balance of the regime allows. The additional contribution of 0.50% payable by has been abolished with effect from 1 July 2001.

1. Policy developments

1.1 National Pensions Reserve Fund

A statutory National Pensions Reserve Fund was established in 2000. The purpose of the new Fund is to set aside some of the revenues generated by the strength of the economy and favourable demographics, invest them and draw them down in future when growth rates are likely to be slower and the age dependancy burden very much increased.

The Fund will be used to part pre-fund both social security and public service pension costs from 2025 onwards. The social welfare pension issue was considered in the National Pensions Policy Initiative - a report by the Pensions Board to the Minister for Social, Community and Family Affairs in May 1998. That report recommended the partial pre-funding of the projected growth in social welfare pensions.

An annual provision of 1% of GNP will be paid into the new Fund. In addition, the Government may also make further contributions into the Fund. In this regard, the bulk of the proceeds from the recent sale of the largely State owned telecommunications company (EIRCOM), amounting to some IEP 3 billion, has already been invested in the Fund. In total, approximately IEP 5.05 billion has been invested in the Fund at the end of December 2000.

An independent Commission consisting of 7 Commissioners will control and manage the fund. The Commission will have discretionary authority to determine and implement an investment strategy for the Fund. The investment mandate is based on strictly commercial basis with the objective of securing the optimal return over the long term subject to prudent risk management. This Commission will be accountable to the Minister for Finance and to Parliament, and there is provision for detailed annual reports and for the appearance of the Chairperson of the Commission before a Parliamentary Committee. Annual audits of the Fund will be made by the Comptroller and Auditor General.

Drawdowns are prohibited before 2025, with drawdowns thereafter to be determined under rules to be made by the Minister for Finance in consultation with the Minister for Social, Community and Family Affairs. The rules will provide that payments from the Fund to the Exchequer must be calculated by reference to projected increases in the number of persons over 65 in the population at that time, while avoiding large year to year fluctuations in the net Exchequer balance arising from payments to and receipts from the Fund. The National Treasury Management Agency will be the Manager of the Fund for an initial period of 10 years. Following that period, the Commission may re-appoint the Agency for a further five year period or appoint an alternative Manager.

1.2 Personal Retirement Savings Accounts

Following the National Pensions Policy Initiative report, published by the Pensions Board in 1998, a working group was established to progress its recommendation to increase Second Pillar (occupational) coverage and the mechanism suggested for achieving this – namely the Personal Retirement Savings Accounts (PRSAs). The board envisaged that this would be a low-cost, easy access personal investment account designed to allow people, regardless of their employment status, to save for retirement in a flexible manner. It further envisaged that the PRSAs will be the major vehicle for growth of pension provision. The working group has finalised the legislative framework for the PRSAs and this framework will be a key component of a Pensions Bill, to be published in the Spring of 2001.

1.3 Review of Old Age Pensions

The Government launched the report on Phase 1 of a fundamental reform of the qualifying conditions for the Old Age (Contributory) and Retirement Pensions.

The main issues explored in the Review are:

- allowing women who take time of work for family reasons to qualify for pensions
- a shift from a complicated approach to qualifying for pensions to a more equitable one based on the total contributions over one's lifetime.

Phase 1 of the Review identifies the key issues in relation to qualification conditions. It also sets out suggested Guiding Principles and outlines a framework for reform. Detailed proposals will be developed in Phase 2 of the Review.

1.4 Review of the One-Parent Family Payment

A review was published of the One Parent Family Payment (OPFP). The main conclusions and proposals of this review were:

- A more pro-active approach to this group, especially in the information, training and employment areas, needs to be taken.
- Training and education must be tailored to meet the needs of lone parents with due regard being paid to the diverse nature of this group.
- The OPFP should not facilitate or encourage long-term social welfare dependency.
- Making receipt of OPFP conditional on seeking employment is not proposed at this stage. However, the review acknowledges that the increasing cost of the scheme, changing attitudes towards parents working outside the home and the fact that the current arrangements are increasingly out of step with the international experience makes it almost inevitable that some conditionality on claiming may be introduced at some stage in the future. The pressure for such change will increase as the cost of the OPFP rises and the infrastructure to support working parents improves.
- A balance has to be struck in examining OPFP arrangements between economic and social considerations and personal choice,
- The increasing cost of the scheme will place more focus on the arrangements for maintenance provisions and the way society views parents who do not take financial responsibility for their children at the State's expense. Proposals are made to improve the OPFP recipient's incentive to seek maintenance.

1.5 White Paper on The Community & Voluntary sector

The Government published a White Paper on a Framework for Supporting Voluntary Activity and for Developing the Relationship between the State and the Community.

The main features of the White Paper are:

- Formal recognition of the role of the Community and Voluntary sector in contributing to the creation of a vibrant, participative democracy and civil society.
- Introduction of mechanisms in all relevant public service areas for consultation with the Community and Voluntary sector groups and to allow the communities they represent have an input to policy making.
- Multi-annual funding to become the norm for agreed priority services and community development activities.
- promised legislation on regulation of charities
- Designation of Voluntary Activity Units in relevant Government Departments to support the relationship with the Community and Voluntary sector.
- Holding of regular policy fora by relevant Departments and agencies to allow for wider consultation and participation process.
- 'Best practice' guidelines in relation to consultation by statutory agencies with the Community and Voluntary sector and in relation to funding mechanisms and systems, to which all Government Departments and statutory agencies will be expected to adhere.
- An Implementation and Advisory Group, drawn from relevant Departments, statutory agencies and the Community and Voluntary sector itself is being established to oversee the implementation of the White Paper decisions and to pursue other issues that arise.
- An ongoing review of funding programmes and schemes, to be carried out by the Implementation and Advisory Group working under the aegis of the Cabinet subcommittee on Social Inclusion
- An immediate cash injection of IEP 7 million for:
  - national networks and other federations and for Community and Voluntary infrastructure and supports:
  - a Research Programme which will include quantifying the full extent of voluntary and community activity in Ireland, its contribution to social development, to the economy and to employment.

The paper also funded the establishment of the National Committee on Volunteering. The objective of the Committee is to devise strategies and actions for supporting and developing volunteering.

The membership of the Committee comprises representatives from relevant Departments, universities with related research or training roles, business and industry, foundations, leading NGOs and community and voluntary groups together with some individuals.

1.6 Launch of the new report on the National Anti-Poverty Strategy

The second annual progress report on the National Anti-Poverty Strategy (NAPS) was launched in September 2000. The report notes that the level of unemployment has been reduced to 4.3%, while the level of long-term unemployment has been reduced from 3.1% (September - November 1998) to 1.6%.

An ESRI working paper on the results of the 1998 Living in Ireland Survey, shows that the number of people in consistent poverty has almost halved falling from 9 - 15% when the NAPS was launched (1994 data) to approximately 6 - 8% in 1998.

1.7 Long-term care study

A consultancy study on the future financing of long term care was initiated in 2000. One of the key priorities set was to develop a partnership model to facilitate the development, by the State in conjunction with the private sector, of an improved system for meeting long-term care costs. The study will examine the strategic issues involved in financing long term care. This will involve an assessment of alternative financing/ funding approaches and their feasibility in the Irish context. The study will encompass the financing of personal long term care needs both in the community and in institutional care and the potential of the private sector or a combined public/private sector approach to develop new initiatives in this area.

The study will examine a number of approaches, each of which will be assessed against the following criteria:

- meeting long term care needs in the medium and long term
- reducing unnecessary recourse to institutional care
- widening consumer choice.

The study will be undertaken in consultation with the Department of Health & Children and the Department of Finance and it is expected that it will be completed by the middle of 2001.

The consultants will assess alternative financing/ funding approaches and their feasibility in the Irish context. The study will examine the financing/funding of personal long-term care needs both in the community and in institutional care. The three broad areas that the consultants will be examining are:

- The potential of the private sector or a combined public/private sector approach to assist in financing/funding long term care;
- The potential of the PRSI system to finance/ fund long term care;
- Whether the current system of long term care financing (through taxation) should remain the status quo.

2. Organisational and administrative developments

2.1 Budget increases to be aligned with the commencement of the income tax year

The Irish government has decided to align the income tax and calendar years with effect from 1 January 2002. Currently, the income tax year commences on 6 April each year. As a result of the alignment decision, there will be a once-off transitional tax year covering the period from 6 April 2001 to 31 December 2001 inclusive.

The Government has also decided to align the date of application of Budgetary increases in the weekly rates of social security payments with the commencement of the income tax year. Accordingly, increases in these rates will be paid with effect from early April in 2001 and from early January in 2002. This decision will mean that weekly increases will take effect in 2002 a total of 23 weeks prior to the date they were implemented in 1997.

2.2 Comhairle

2000 saw the establishment of the new 'Comhairle' agency, which will operate under the auspices of the Department of Social, Community & Family Affairs.

The new agency has replaced the National Social Services Board and the information service provided by the National Rehabilitation Board with a new mainstream information and support service from a network of local centres for people with disabilities.

2.3 REACH initiative

2000 saw the launch of the new Reach Agency, which will report to Government through the Department of Social, Community & Family Affairs. Reach involves a national framework for an integrated service delivery across the public service, at an estimated cost of IEP 11.3m.

'Reach' develops of a national framework for integrating services to the citizen across the various public service agencies and signifies convenience and ease of access to members of the public in dealing with public service bodies. In developing the integration of information and services around the needs of the citizen through the most convenient point of access, REACH has also developed the use of the Personal Public Services Number as the common customer identifier across the Public Service, and the development of the Public Services card as the citizen's key to his or her own personal data.

Local Offices and Branch Offices at the Department of Social, Community and Family Affairs, will now be able to provide citizens with their number.

2.4 Memorandum of Understanding with the United Kingdom

Ireland and the United Kingdom signed a Memorandum of Understanding in October 2000. The memorandum provides a framework for mutual administrative assistance and exchange of information between the United Kingdom of Great Britain and Northern Ireland and Ireland in their efforts to combat fraud. The assistance to be provided will include:

- the exchange of data as permitted under the respective national law of the participants;
- co-operation and assistance in administering national legislation;
- the provision of assistance with specific investigations and enquiries.

The administrative assistance outlined in the framework and the procedures to be employed in providing it will be set out in more detail in appendices to be agreed by the Management Committee set up under the terms of the Memorandum of Understanding.

3. Pro-employment measures Enhancement of the Back to Work Scheme

The scheme now features:

- A six week training programme tailored to the needs of the client
- A meal/travel allowance of IEP 35 per week during training
- A further cash bonus of IEP 200 after six months in work

4. Social welfare payments and other measures

4.1 Carer's Benefit introduced

A new social insurance based Carer's Benefit was introduced in October 2000. It allows workers who satisfy certain contribution conditions to receive a weekly payment if they have to give up work in order to care for persons who require full time care and attention. The new benefit can be payable for up to 15 months in respect of each care recipient. A flat rate of IEP 88.50 is payable with additions for any child dependants.

It was also announced that a new statutory right to Carer's Leave will be introduced. This will complement the Carer's Benefit scheme and will allow employees to take up to 15 months job protected leave of absence from work. Legislation to give effect to Carer's Leave is expected to be enacted in early 2001.

4.2 PRSI and Health Contribution Changes

A number of changes designed to aid lower paid workers were introduced with effect from 6 April 2000. All employees who earn less than IEP 226 per week are now exempt from making an employee social security contribution. All employees and self-employed who earn IEP 280 per week or less are exempt from making a Health Contribution.

4.3 Extension of pension payments for 6 weeks after death to the spouse

The government introduced the extension of continued payment of full pension for six weeks in the following situations where a spouse dies:

- Where both parties are receiving Old Age contributory or Retirement Pension.
- Where a person receiving an Old Age (non-contributory) Pension or Blind Pension dies and his/her spouse/partner receives an Old Age (Contributory) or Retirement Pension, payment of the (Non-Contributory) Old Age Pension or Blind Pension will continue for 6 weeks following the death.
- Where people are receiving One-Parent Family payments by virtue of having one child.

4.4 Free Schemes

All persons who have reached the age of 75 now qualify for an Electricity/Gas Allowance, a Free TV Licence and a Telephone Allowance regardless of level or source of income or household composition. Under previous arrangements, these schemes are available only to those aged 75 or over provided they were receiving a social welfare payment or satisfy a means test. The new measure abolished these conditions.

4.5 Budget increases

Payments were increased across the board in the 2000 budget, which took effect in May and which cost approximately IEP 400 million in a full year. Pensions were increased for those over 65 by between 8% and 9%, with other payments being increased by between 5.2% and 5.6%. Qualified Adult Allowances were increased by between 8% and 17%.

4.6 Christmas bonus improved

The annual 'Christmas bonus', paid to 716,000 long-term Social Welfare recipients was increased from 70% to 100% of their regular payment.

1. Act on Maternity/Paternity and Parental Leave

A paper on the changes in Iceland during 1999 includes a chapter on future policy. This chapter stipulates that the policy of the Government, which was elected in May 1999, is to ensure equality between men and women by increasing maternity/paternity benefits and by encouraging men to take leave at the birth of their children.

Three ministries in Iceland, the Ministry of Health and Social Security, the Ministry of Social Affairs and the Ministry of Finance, established a committee to draft a bill on maternity/paternity leave and parental leave. The committee prepared a draft that was passed as law by the Parliament in Iceland on 9 May 2000. The law entered into force on 1 January 2001 but the provisions on parental leave enter into force retroactively from 1 January 1998.

The Act on Maternity/Paternity Leave and Parental Leave makes fundamental changes in the rights of parents to a paid leave of absence. One system is now for all working parents, but according to former legislation there was a system with two sets of rules: one for those who worked for the State and another one for all other workers. According to the new Act, parents enjoy equal rights to maternity/paternity leave and the length of the leave is nine months instead of the six months previously. Each parent has an individual right to three months leave and they can take three extra months together. One of the improvements is that working fathers have an individual right to a three months leave when their child is born. According to the former legislation, fathers were entitled to two weeks leave. The new Act has given increased flexibility. Parents can now take leave for an 18-month period after their child's birth. Payments amount to 80% of gross average salary of the parent, mother or father. The salaries that are taken into account are salaries over a 12-month period ending two months before the birth. There is a minimum payment of benefits and no maximum.

Employers pay contributions to a new maternity/paternity leave fund and the benefits will be paid from the State Social Security Institute.

A parent on a maternity/paternity leave keeps her/his employment rights and pays 4% of the benefits into a pension fund. Employers pay their share of 6% into a pension fund. According to the former legislation, no payments were made to pension funds. The new Act ensures that parents can return to their workplace after their leave of absence.

Parents who are students and parents not on the employment market are entitled to a certain monthly allowance at the birth of their child for a period nine months. This allowance is financed through taxes.

2. Changes in the Act on Social Security

A new law was passed by the Parliament in the year 2000 that increases the rights of parents of children that are chronically sick. The goal was to change the legislation so that health care services and social security benefits would take notice of the needs of parents with chronically sick children.

The changes in the Act on Social Security relate to benefits to cover costs for parents who live outside the area where a hospital is situated while their chronically sick children receive in-hospital treatment. A certain amount is paid for one parent to be near the child, but if the child is in hospital because of difficult treatment for a terminal illness, a certain amount is paid for both parents. This is paid until the child reaches the age of 18 years.

3. Family benefits

The provisions on child benefits in the tax legislation were changed in the year 2000 with effect as of 2001. According to former legislation, child benefits were income and property related. In the new legislation, child benefits are paid to all parents of children up to seven years. A supplement is paid to parents if their income does not exceed a certain amount. Reduction of child benefits because of ownership of taxable property has been abolished.

4. Voluntary occupational pension

The 0.2% reduction of the pay-roll-tax for savings in the third pillar pension scheme was changed to 0.4%. The contributions that can be deducted from salaries of employed and self-employed persons in the third pillar pension scheme increased from 2% to 4%.

5. Act on Patient Insurance

This Act is linked to social security legislation as it increases the rights of patients. A special act on patient insurance has only been passed by parliaments of the Nordic countries (Denmark, Finland, Iceland, Norway and Sweden). Former legislation in Iceland was a part of the occupational injury insurance chapter of the Act on Social Security. Now, Iceland has special legislation on patient insurance, and the State Social Security Institute manages the administration of this insurance.

The aim of the new Act is to reduce the number of court cases and to help the patient who has suffered injuries in hospital or in any other branch of the health services to receive some benefits for these injuries. A fault on the part of the health services does not have to be established to give entitlement to these benefits.

The 2000 Financial Law contains a number of social security measures taken to deal with the reform of the retirement pension system (adopted in 1995). This reform addresses the demographic question of the constant ageing of the population, the fight against unemployment and efforts towards a complete reorganisation of the new welfare state model.

The Solidarity Contribution *(Contributo di solidarietà)* is a 2% contribution applied to pension benefits exceeding the ceiling established under the 1995 Pension Reform. It has been in effect as from 1 January 2000 and will be applied for three years (from 2000 to 2002). Each year, the ceiling is adjusted on the basis of the average annual inflation rate. The contribution is applied only to mandatory benefits, not to supplementary schemes. The social security institutions collecting the contribution pay it into the temporary employment fund, which was established by the Ministry of Labour (under Law No. 196/97) and is funded by enterprises for employee training purposes. Part of the total contributions is set aside to assist workers with paying social security contributions for periods in between jobs. By restoring the fund with the solidarity contributions, the 2000 Financial Law also extends the benefits especially to young people, all workers in temporary employment, in particular the self-employed and those with insecure jobs and the "para-subordinate" workers. According to this measure, workers without steady employment – who are "not covered" in respect of social security contribution payments for several months in the course of a year – may be helped to build up a full pension. The measure was thus devised to counteract employment flexibility according to principles of solidarity by requiring the payment of a (modest) contribution, limited in time, to benefits well above the average pension. Moreover, the fund has also avoided the creation of a new special fund by INPS (National Institute of Social Security).

Authorities: The different benefits related to pensions received during a person's career by one of the national authorities will no longer be taken into account when determining the pension base. According to the new mechanism, it will no longer be possible for these new benefits to produce pensions higher than those the same beneficiaries would otherwise have received.

Transparency: All public and private organisations paying pension benefits or life annuities are obliged to inform INPS of the benefits paid. All data are then entered into the social security institution's database, making it possible to cross-check combined benefits.

Special funds: The special funds of electrical and telephone workers have been abolished and, as of 2000, they have been merged with the general employee pension funds. A special fund has been set up by INPS for the State Railways (*Ferrovie dello Stato*, FS), given the necessity to abolish the railway workers' special fund.

Measures have also been enacted to favour and promote the spreading of ***complementary pension schemes***, with a view both to re-balancing the overall social security system and to revitalising the financial markets, allowing a more efficient use of the resources of the future severance indemnity fund allocations, with higher yields than those currently offered.

While awaiting the reform of the ***social security benefit system***, the Decree Law No. 346/2000 envisages social measures under Law No. 144/99. There are two important innovations:

- a partial increase in the level of coverage of ordinary unemployment benefits, as well as the extension of the period for which they are granted, from six to nine months (as from September 2000) in the case of persons over 50 years of age;
- the prohibition for successors of victims of accidents at work to combine reversible INPS and INAIL benefits has been abolished.

On 2 June 2000, the Government approved the ***National Action Plan for 2000***, proposed by Minister for Labour Cesare Salvi. The Plan, which is one of the commitments undertaken by the 15 Member States of the European Union as from 1997, will be presented in Brussels. The primary aim of the 2000 NAP is to continue implementation of the structural reforms in respect of employment and training and to increase the efforts made to create jobs in Southern Italy, one of the country's major priorities. There are four fields of action or mainstreaming objectives characterising the Italian Government's approach to labour and employment policies: social dialogue and institutional partnership, equal opportunities, intervention of the European Social Fund, the information and knowledge society.

One of the principal institutional innovations, also a part of the 2000 NAP, is the National Committee for *the **surfacing of irregular employment***. The Committee's aim is to study, monitor and coordinate the initiatives and measures to be undertaken to promote the surfacing of irregular employment. The regulatory instrument involves so-called "Realignment Contracts", which are already in use. These are local and corporate agreements, whereby enterprises are given three years' time to comply with employment legislation in exchange for considerable cuts in the social security payments due for the same period. From the point of view of the employees concerned, they receive lower wages during the same period – compared to wages under collective agreements – in exchange for a secure position with regard to social security payments, in view of future pension benefits.

Social policy measures

Law No. 53/2000 on parental leave promotes a balance between working time, care, training and relations, by:

- introducing leave for both parents with one or more children, up to the age of eight years;
- maternity benefits as from July 2000;
- the extension of the benefits to the parents of disabled children and the introduction of parental leave for serious family reasons, such as the loss of a close relative;
- the introduction of leave for continuous training purposes (the leave is unpaid up to 11 months) for those employed for at least five years in the same position, and the extension of training leave;
- the co-ordination of working times (commuting times) in urban areas and the promotion of the use of this time for social solidarity purposes.

Lastly, further benefits are granted under Law no. 328/200 (*Framework Law implementing an integrated system of social services and benefits*), aiming at the local reorganization of the welfare sector and abrogation of the old "Crispi Law", dating from 1890.

The objective of the reform is to prevent social unease, contrast poverty, support those who are in difficult situations and generally improve the quality of life for all citizens. It is characterised by customised welfare measures, tailored to the needs of individuals and families who are in precarious situations, by putting in place an integrated welfare network and a range of services, also in collaboration with the private sector.

The key points are:

- The creation of an integrated network of social services and welfare benefits, composed of home care services, family communities, family centres, day centres for the disabled, rehabilitation centres, day centres for elderly. These social services are delivered in addition to the welfare benefits, such as invalidity benefits, invalid care allowances, social pensions.
- The main beneficiaries are the persons in need (as defined by article 38 of the Italian Constitution). However, all Italian citizens and families as well as foreigners must be regularly residing in this country.
- The integrated network is operated by central and local autorithies, whose task it is to promote and implement it, also acting in partnership with the volunteer organisations and associations.

1. Revision of the Law on Health Insurance

In September 1999, parliament passed a partial revision of the Law on Health Insurance. The new provisions came into effect on 01.04.2000 and 01.01.2001 and their central focus is on:

- supervision of health insurance institutions,
- reduction of costs (introduction of the voluntary family doctor model alongside the free choice of doctor model),
- funding.

2. Retirement age and early retirement

In 1996 parliament passed a bill introducing identical retirement ages for men and women. As of 01.01.2001 the pensionable retirement age for men was reduced from 65 to 64 years of age and that for women was increased from 62 to 63 years of age. At the same time parliament also introduced the possibility of an early retirement.

In the field of old age, disability and survivors' pensions insurance (first pillar - old age, disability and survivors' social security provision), parliament recently passed an improvement to the terms of the early retirement option. In the past, a pension could only be drawn one or two years in advance of the standard pensionable age of 64, giving rise to an actuarial reduction in pension payments (a reduction of 6.8% for each year for which the pension is drawn in advance). The statutory standard retirement age remains at 64. With effect from 01.01.2001, however, after the age of 60 the date of retirement can be brought forward by any number of months with reduction rates ranging from 0.25% (advanced by one month) and 16.5% (advanced by four years) depending on the length of the advance. At the same time, the period by which retirement can be delayed was also extended so that a pension can now be drawn at any time between the ages of 60 and 70.

Another recent introduction is the possibility of advancing (or delaying) half rather than the entire old-age pension.

The option of bringing forward or delaying the date of retirement is not linked in any way to whether or not the individual in question is still engaged in gainful employment. However, persons still in gainful employment must continue to pay contributions until the standard pensionable retirement age of 64.

Under health insurance law, a further regulation stipulates that employees taking partial early retirement must continue to contract insurance cover for daily sickness benefit (as long as they are in gainful employment). As a result, their entitlement to daily sickness benefit does not lapse until they are in receipt of a full old-age pension. Under the Law on Unemployment Insurance, the end of entitlement to daily benefit now no longer comes at a given age (standard pensionable retirement age), but rather depends on whether an individual is entitled to a full old-age pension. Where an individual has taken partial early retirement (whether half or another percentage of the old-age pension as is also possible under certain specific circumstances), daily unemployment benefit is reduced by the amount of any pension payable.

The second pillar (compulsory employee pension provision) also offers the option of taking full or partial early retirement from the age of 60 (in this case the reduction in pension is calculated in accordance with actuarial principles).

The increased costs expected as a result of the improvement in the terms of early retirement in the first pillar (old-age, disability and survivors' social security provision) result essentially from an increase in both employees' and employers' contributions and an increase in the state subsidy for old-age, disability and survivors' social security provision. In a parallel amendment, however, the increases in employees' and employers' contributions were reversed and are now covered by additional funding raised from the introduction of the so-called output-related heavy goods vehicle tax. Two thirds of the proceeds from the heavy goods vehicle tax are channelled into old-age, disability and survivors' social security provision, while the other third is used for traffic and environmental measures.

3. Cost of living adjustment

In various areas the government has implemented a scheduled cost of living-related adjustment of benefits set at 2.5%. The areas affected are old age, disability and survivors' pensions insurance (first pillar), other benefits related to the level of pension payments, income- and asset-related supplementary benefits for pensioners, blindness allowances and payments made to the infirm. This adjustment came into effect on 01.01.2001.

At the same time the cost of living supplements payable to pensioners under accident insurance schemes were adjusted in line with current increases for the first time since 1996.

In the field of supplementary benefits (income- and asset-related payments for pensioners on low incomes), in addition to the general cost of living adjustment, one-off payments for additional living expenses were also doubled (primarily due to the drastic increases in the price of fuel oil).

4. Daily benefits

Some insurance schemes (unemployment, health, accident (temporary benefits) and disability (integration measures) insurance schemes) pay so-called daily benefits. They cover only a certain percentage of annual income. The government has increased this limit for the health, accident and disability insurance schemes from CHF 97,200 to CHF 106,800 with effect from 01.01.2000. In the case of the unemployment insurance scheme, adjustments of this type can only be made by parliament and this limit as it applies to unemployment insurance will be reviewed in the course of the forthcoming comprehensive revision of the law.

5. Family allowances

Parliament has passed an increase in the various types of family allowance payable with effect from 01.01.2001 (family allowances are not automatically subject to cost of living adjustments as any such adjustments require legislation).

6. Aids

The disability and old age and survivors' insurance schemes also dispense physical aids. The list of available aids was amended on 01.03.2000. The amendments relate essentially to new techniques and new terminology in the field of orthopaedic footwear.

7. Amendments to contributions law

In terms of the contributions payable to the old-age and survivors' pension, disability pension and family allowance funds, administration cost contributions were increased with effect from 01.01.2000 and as a balance contributions to the family allowance fund (which has over two years expenditure in reserves) were lowered. The change has no effect on employees' contributions. Only employers, the self-employed and those not in gainful unemployment are affected (see the more comprehensive report produced last year[1]).

The rates for accident insurance have been reset and the first steps towards liberalisation have been taken. The rates laid down by the government for the period 2001 to 2003 are restricted to a common net premium rate. This abolishes the need for uniform administration cost supplements which can now be set on a company by company basis. However, in order to maintain the solidarity principle to some extent at least, an upper and a lower administration cost supplement limit have been set (12% and 22% of the net premium rate respectively).

	Previous in CHF	New in CHF
Monthly child allowance per child for families with one or two children	230.00	260.00
Monthly family allowance per child for families with three or more children	280.00	310.00
Monthly child allowance for each child over the age of ten	280.00	310.00
Additional monthly single parent allowance per child	70.00	100.00
One-off birth payment on the birth of a child (also paid in the case of adoption)	1,900.00	2,100.00
One-off birth payment per child in the event of multiple births (also paid in the case of adoption)	2,400.00	2,600.00

[1] MISSOC-Info 01/2000.

The uniform employers' contribution to the compulsory health care insurance scheme was reset for the period from 01.01.2001. The employers' contribution is now CHF 86.00 for adults and CHF 43.00 for young people. This change was necessary because the uniform employers' contribution is based on the national average of premiums for compulsory health care insurance and all health insurance providers increased their contributions from 01.01.2001.

8. Improved financial position for part-time workers

Under previous Liechtenstein law, only those employees engaged by an employer for more than 12 hours per week were liable to pay contributions for daily sickness benefit and non-industrial accidents. In order to improve the financial position of part-time workers this figures was reduced to eight hours per week with effect from 01.01.2001.

9. Employee pension provision (or second pillar)

The so-called limit figures for employee pension provision are intended to determine the minimum income limit for compulsory liability and the lower and upper limits of the relevant reference annual income. These limit figures are regularly adjusted in line with the old-age pensions payable under old-age, disability and survivors' social security provision in order to guarantee consistency between the first and second pillars. As the old-age pension was increased on 01.01.2001, the limit figures for employee pension provision were also adjusted at the same time.

The starting date for the payment of compulsory old-age pension contributions was brought forward by a year to coincide with the reduction in the pensionable retirement age for men to 64.

Where employees leave a pension scheme without the occurrence of an insured event (age limit, disability or death), the pension institution makes a withdrawal payment. Now, in the case of divorce, each spouse is entitled to half of the withdrawal payment earned by the other spouse during the marriage until the point of dissolution of the common household. Similarly, cash payments can now only be made to married claimants where the spouse gives written consent.

10. Prospects

In the field of disability insurance (first pillar), in December 2000 parliament passed comprehensive amendments to the law which focussed on "improving integration measures". This amendment will come into effect on 01.05.2001. New benefits will include the subsidising of jobs for the disabled (payroll subsidies to companies which take on disabled employees). It will also be possible to suspend payment of an individual's disability pension for a limited period of time (for example during a trial period of employment). In addition, a number of organisational changes and system rectifications will also be introduced. For example, the External Disability Insurance Commission (previously the decision-making body responsible for pension applications, etc.) is being disbanded, the Training Agency is assuming overall control of special training measures with effect from 01.01.2002 (although the Disability Insurance Fund will retain its current level of financial involvement) and medical measures are being transferred from the Disability Insurance Law to the Law on Supplementary Benefits (and as a result will cease to be funded from employers' contributions but will instead be financed by the state).

In the field of the Law on Supplementary Benefits (domicile-related, means-tested benefits for pensioners) work continues on a comprehensive review although no draft proposals have been put to the government as yet.

Co-ordination Law

The principal legislative change that took place in 2000 relates to the national co-ordination of statutory pension regimes.

This new law which replaces a previous provision is designed to organise the co-ordination between the public and private sector pension regimes.

There are three distinct categories of pension regime: the general private sector regime, the special transitional regimes applicable to public servants who entered the civil service before 1 January 1999 and the special regimes which apply to public servants who entered the civil service after 1 January 1999.

The mechanisms of co-ordination between the general regime and the special transitional regimes can be described as follows.

When an individual moves from a transitional special regime to the general regime without a pension entitlement under the transitional special regime, he/she is covered retroactively by the private employees' pension fund for the periods worked in the public sector. The institution responsible for the transitional special regime transfers an amount of contributions calculated by applying the contribution rate applicable to the general regime to the remuneration actually received and increasing the nominal amount determined in this way using compound interest at a rate of four percent per annum. If a risk event occurs, the general regime will be responsible for paying the pension in accordance with the rules set out in the Social Insurance Code.

When an individual moves from the general regime to a transitional special regime, the institution responsible for the general regime transfers the contributions it has received to the institution running the transitional special regime as long as the computation conditions for the periods in question are fulfilled under the transitional special regime. Where applicable, the amount of the contributions is increased using compound interest at a rate of four percent per annum. If a risk event occurs, the transitional special regime must pay the pension in accordance with the legislation that governs it.

In the case of concomitant membership of both the general regime and a transitional special regime, the beneficiary receives a pension entitlement under both regimes. Subject to fulfilment of the eligibility conditions, the transitional special regime pension is paid in full whilst the general regime pension is used only to calculate any proportional increases. The accumulation of the two pensions cannot lead to an increase in the total amount of payments made above either the maximum pension specified in the transitional special regime or the maximum pension provided for in the Social Insurance Code, whichever is higher. Any surplus is retained in the transitional special regime pension.

The co-ordinating mechanisms between the general regime and the various special regimes differ considerably from those above due to the similarity between the general regime and the special regimes. For example, when transferring from the general regime to a special regime or from a special regime to the general regime or in the case of concomitant eligibility under both the general and special regimes, the responsible institution is deemed to be that operating the regime under which the individual was most recently covered in relation to his/her main occupation. It is the task of this institution to assess the eligibility conditions and, where appropriate, to calculate and pay the pension in accordance with the provisions of the relevant legislation. Finally, the allocation of costs between the various regimes is carried out on a pro rata basis in line with the proportional increases relative to the insurance periods under the respective regimes.

Alongside the provisions on co-ordination between the various statutory pension regimes, the law also contains various changes to:

- the review of affiliation and contribution payment conditions for certain occupations carried on a principal or accessory basis (e.g. insurance agents);
- the age limit for cover for children in terms of accident insurance following the introduction of pre-school education;

- the revision of the rules for allocating the costs of the payment of accident and pension insurance payments and family allowances;
- the calculation of the relevant contributory earnings in the case of parental leave;
- the extension of the measures designed to restore contributions refunded with the introduction of an age limit set at 65 and the abolition of the need to pass a medical examination;
- the adjustment of conditions within the framework of the retroactive purchase of insurance periods abolishing the need to pass a medical examination and increasing the age limit from 60 to 65 years of age;
- the affiliation of individuals employed by Luxembourg diplomatic missions abroad;
- the introduction of a new method of designating the members of the steering committee of the joint centre for the social security system.

Funding of health insurance

The statutory obligation to balance the budget of the health insurance system (annual distribution system) was achieved in 2000 and according to the forecasts will also be achieved in 2001. However, the general meeting of the Union of Health Insurance Funds did not cancel the measures designed to restrict spending introduced at the end of 1999. Elsewhere, the contribution rate for health care remained at 5.2%. The rate for cash benefits once a salary is no longer paid remained at 4.7%.

Reform of the legislation on the minimum income guarantee

A law dealing with the minimum income guarantee was passed in 1999 but did not come into effect until 1 March 2000. The principal changes in relation to the previous legislation are as follows:
- reduction of the age limit from 30 to 25 years
- reduction of the length of residence from 10 to 5 of the last 20 years
- simplification of allowances for the maintenance obligation
- strengthening of the aims and objectives of the national social action department in relation to the job and social integration of beneficiaries capable of working
- abolition of the ban on parents bringing up a child under the age of six taking part in jobseekers' schemes (which proved a poverty trap for women in particular).

An important change was the restructuring of the minimum income guarantee which now consists of two elements:
- on one hand, the guarantee of an adequate level of income through the payment of an additional benefit designed to bridge the gap between the maximum level of minimum income guarantee and the total resources at the disposal of the domestic household;
- on the other, the implementation of job and social integration measures and the payment of a job seekers allowance.

This reform of the minimum income guarantee is part of the European policy on social welfare designed, amongst other things, to counter social exclusion. It is intended to turn social welfare policy into an active policy based on integration through work which requires the active participation of those concerned. This law therefore marks a departure from the traditional idea of a system of social welfare designed first and foremost to provide a minimum living income. It distinguishes between those who are capable of work and those who are not with specific payments, procedures and responsible institutions for each group.

Changes to benefits

With effect from 1 January 2001, certain social benefits were increased with a linear rise of 3.1%. The law adjusted pensions and annuities in line with 1999 salaries because a study on the development of the average level of wages and salaries showed a progression of 3.1% between 1997 and 1999. Thus the adjustment factor (i.e. the calculation factor which adjusts pensions in line with salaries) was raised from 1.219 to 1.257.

With a view to maintaining the gap already in existence between social security benefits and social welfare benefits, the various thresholds applicable to the minimum income guarantee were increased by the same percentage. In the same spirit of maintaining the existing balance, the minimum social salary was also increased by 3.1%.

Elsewhere, on 1 July 2000 the next stage of the automatic indexation mechanism linking benefits to changes in the cost of living was triggered. As a result, all social security benefits were increased by 2.5% on this date.

Study on the future development of the Luxembourg pension regime

The August 1999 coalition agreement contains a commitment by the government to commission a new study on the future of the general pensions regime:

> "The government intends to commission a study to be carried out by Luxembourg and foreign experts who will be charged with analysing our pensions insurance system with a view to determining a future policy designed to guarantee the services of the pension insurance fund. This study will cover the structure of pensions, funding methods (distribution/capitalisation), the structuring of reserves, investment policy and an analysis of the possibility of using alternative sources of funding. The study will be completed by 31 December 2000 and conclusions will be drawn from it by the end of the year 2001."
> *(Coalition agreement, chapter 16. Social Security Ministry)*

On 4 February 2000 the cabinet decided to split the report into two sub-reports as follows:
- An actuarial report on the general pensions regime to be carried out by the BIT.
- A report on the investment policy for reserves to be carried out, following a call for tenders, to consultants based in Luxembourg.

Aims and objectives of the study

The project is designed to support the Luxembourg government in designing and implementing a reform of the pension insurance system thanks to a detailed and impartial actuarial and financial review of the general pensions insurance regime in Luxembourg. This review should set out the quantitative bases required to define a policy for the reform of the general pensions insurance scheme.

The first aims will be to submit:
- an actuarial review of the general pensions regime;
- a simulation of the financial effects of alternative methods of paying benefits and/or relating to the funding system.

Results of the study

The BIT's financial and actuarial department will supply the government with an actuarial review comprising:
- an analysis of the current financial situation and the performance of the general; pensions regime, an analysis of the relations between the various different branches of the regime (invalidity, old-age, survivors), an analysis of the levels of service by branch and by sex. This analysis will provide the basis for comparisons with the performance achieved in the pension systems operating in other European countries;
- a projection of the income and expenditure of the general pensions regime under the current legislation and for alternative financial and demographic scenarios over a period of approximately 60 years. This projection will include:
  - projections of the numbers of beneficiaries and the average pension levels in each pension category;
  - projections or the number and taxable earnings of the those insured for the alternative demographic and economic scenarios envisaged;
  - an evaluation of the appropriateness of the current contribution rate;
  - financial recommendations based on an analysis of the current legislative framework;
- simulations of the short- and long-term impact of the alternative formulae for calculating pensions or alternative funding systems;
- a discussion of the advantages and disadvantages of alternative pension insurance policies.

BIT will submit its conclusions at the start of 2001.

Social security

Developments in social security in the Netherlands have been mixed. The number of people receiving unemployment and national assistance benefit is falling, whereas the number of people on invalidity benefit is increasing. On balance, however, the picture is favourable: the expectation is that there will be 154,000 benefit recipients fewer than had been estimated in the Government Coalition Agreement of 1998. The number of people with an incapacity for work has been rising steeply again since 1997; the number of people receiving invalidity benefit in 2000 is estimated at an average of 912,000. This figure is expected to rise even further in the coming years, to reach around 947,000 in 2002. Earlier estimates had already allowed for an increase in the number of people with an incapacity for work because of the growth in the size of the labour force, the ageing of the population and the entry of women to the labour market. The rise in sickness absenteeism and incapacity for work is proving to be stronger than anticipated, however. Sickness absenteeism (excluding pregnancy) increased from 4.6% in 1997 to 5.4% in 1999. This increase is largely related to the tightness of the labour market, which leads to an increase in pressure of work, more people with a higher health risk go to work and employees adopt a more relaxed attitude to sickness absenteeism. In addition, the labour force – and thus also the number of people insured against incapacity for work – is increasing more rapidly than forecast.

There were an estimated 110,000 applications for invalidity benefits in 1998, in 1999 the figure was almost 140,000 and more than 166,000 applications are expected in 2000. The number of applications being accepted, however, is declining. In practice many people have recovered before they are examined (18 percent of applicants in 1998 and 1999). In addition, relatively more benefit applications are being refused. Around 21% were refused in 1998; the figure is 23 % in 1999, and almost 25% in the first quarter of 2000. Partial invalidity benefit is also being awarded more often than full benefit. In 1998 and 1999, full invalidity benefit was awarded in 67% of cases, compared with 62% in the first quarter of 2000. New applicants for invalidity benefit are increasingly coming from younger age groups and lower income categories.

The net outcome of these developments is that the price of an invalidity benefit year is reducing. These effects are so considerable that the disappointing development in the number of invalidity benefit recipients is not leading to an increase in benefit costs compared with what is laid down in the Coalition Agreement of 1998. Despite the growth in the number of benefits, the number of people receiving benefit as a percentage of the labour force remains fairly stable at around 12.2%.

56% of new invalidity benefit claimants are women; a third of these are aged under 35. This is the more striking because women account for less than 40% of the working labour force. There is no evidence that women are more likely than men to become incapacitated for work because of their double role (combining work with caring for the family). Another explanation is the difference in the labour market position of men and women. Women are often employed in sectors with a high risk of incapacity for work, such as the care sector. In addition, they generally have a more junior position, with a lower salary, and are more frequently employed on the basis of a flexible employment contract. Studies are still under way to ascertain whether women and those around them, such as employers, safety, health and welfare services and the home setting, treat sickness absenteeism and incapacity for work differently from men and their setting. The possibility of differences in the physical capacities of men and women is also being studied.

A sector performance comparison shows that 10 of the total of 66 sectors accounted for 86% of the growth in the number of benefits in 1999. The care and the temporary employment sectors caused the largest number of new invalidity benefit claimants, together accounting for 51% of the growth in the number of invalidity benefits. In the temporary employment sector, which is increasingly making use of the long-term unemployed, the risk of incapacity for work was 1.44 times as great in 1999 as the average for all other sectors. The sector with the greatest risk (more than twice the average) is the contract catering industry.

The present labour market offers opportunities for helping disabled people back into work. The recent Progress Report on incapacity for work schemes contains a large number of measures aimed at halting the increase in the number of invalidity benefit claimants. The main lines of the policy are early intervention during the first year of illness, improved medical examinations and more attention for prevention.

In order to prevent sickness absenteeism and incapacity for work as far as possible, agreements are being concluded with a large number of sectors in order to improve working conditions. In addition, 120 million guilders are being made available for the care, public service and education sectors to make possible a more intensive approach to prevention, absenteeism supervision and early reintegration. Finally, before 2001 an analysis will be carried out for the government and subsidised sectors of the limited success of the financial incentives employed to prevent sickness absenteeism and incapacity for work in these sectors.

In addition, the new social security implementation structure is intended to lead to better and more rapid integration of job-seekers (who are currently receiving benefit) into the employment process. A reduction in the number of benefits agencies is intended to lead to a clear division of responsibilities, qualitatively better examinations and greater efficiency. The task of helping people (back) into work will be contracted out to private-sector reintegration companies. Public tenders are already taking place on a large scale. Mutual competition is intended to lead to better results. The Cabinet plans for the new Work and Income Implementation Structure (SUWI) are currently being worked up into actual legislative proposals.

The worrying trend in the number of invalidity benefits does not apply for unemployment benefit and national assistance benefit. Here, the number of benefits is actually falling sharply, even when compared with the estimates in the Coalition Agreement of 1998. In 1999 there were 489,000 national assistance benefit claimants (including the Act on Income Provisions for Older or Partially Disabled, Formerly Unemployed Persons (IOAW) and the Act on Income Provisions for Older or Partially Disabled, Formerly Self-employed Persons (IOAZ). The figure for 2000 is expected to be 456,000, falling further to 442,000 in 2001. The target for the coming years is to make the implementation of the National Assistance Act more effective and more efficient. The Minister for Social Affairs and Employment is hoping to arrive at concrete administrative agreements with the Association of Dutch Municipalities on promoting outflow from these benefits, curtailing the poverty trap and combating fraud. Local authorities must obtain a better insight into the individual situation of national assistance benefit claimants in order to be able to offer customised reintegration services. A bill was tabled in July 2000 aimed at relieving national assistance benefit claimants who are participating in social activation programmes from the requirement to apply for jobs. In addition, the Cabinet is working on measures to provide more support to and promote the active integration of single parents.

The effectiveness of the implementation of benefit regulations is also being increased through the introduction of the Fund for Work and Income (FWI) in 2001, provided the Upper House of the Dutch parliament consents to the bill. This will increase the financial responsibility of local authorities for the costs of national assistance and other benefits, and will also give them greater freedom to use the money for reintegration. The minister of Social Affairs and Employment has made available 7 million guilders to fund the building of a system which can be used to compare the performance of different local authorities, so that they can learn from each other. An important aid for local authorities here is the Information Bureau, which helps municipalities in gathering and comparing data on national assistance benefit claimants, enabling them to ascertain more quickly whether the benefits system is being abused. The Information Bureau will be in place in 2001.

The number of unemployment benefits has also fallen more than anticipated. In 1999 there were 235,000 unemployment benefit recipients; the figure for 2000 is estimated at 211,000, and a further decline is projected for 2001, to 199,000. The reason for this is the strong rise in employment. The number of new unemployment benefit recipients fell from around 600,000 in the mid-1990s to 300,000 in 1999. The proportion of long-term unemployed in the total jobless figure has increased steadily since 1987. The Unemployment Benefit Act has created the possibility for offering reintegration opportunities on an experimental basis to unemployed people who are difficult to place. Two experiments got under way in 2000: an experiment aimed at allowing unemployed people to work on a trial basis for three months without loss of benefit, and an experiment whereby unemployed people who accept a job with a wage that is lower than their benefit receive a top-up to bring their wages back up to the same level. Two further experiments will begin in 2001 which are designed to make it easier for unemployment benefit recipients to become self-employed.

A new measure for both unemployment and invalidity benefit is the replacement of the 'imputed' employment history by the actual employment history as a criterion in deciding whether to award benefit. A bill regulating this is in preparation. The creation of a sufficiently reliable administration of insured persons means it is now possible to establish a person's employment history on the basis of periods actually worked. To date this has only been done for the five years preceding the period of unemployment or incapacity for work. For the years prior to that, an 'imputed' employment history was used because of a lack of data. The intention is that a person's employment history should now be established factually from 1995 onwards. The actual employment history will then the increased by one year each year, and the imputed employment history correspondingly shortened. On balance, the measure will lead to a saving.

Income policy

People who come off benefit and take up a job generally see a rise in their gross income. If they see little or no increase in their net income, however, because they have a reduced entitlement to income-dependent benefits, they may fall into the poverty trap. International comparison indicates that the problem of the poverty trap is relatively large in the Netherlands. There is virtually no other country where a person whose gross income increases sees a decline in their net income. This is because benefits in the Netherlands are relatively high, the difference between benefit levels and the minimum wage is relatively small, and because there are a large number of income-dependent benefits. Reducing the poverty trap offers opportunities for increasing the employment participation of the low-skilled. The Cabinet proposes a long-term approach to the poverty trap. The 'employment discount' (a reduction in the amount of tax payable by people with a job) is being increased in the new tax system. In addition, people coming off benefit or leaving a Job-seekers Employment Act job in order to take a job will receive a one-off tax-free bonus amounting to 4,000 guilders, payable in four instalments of 1,000 guilders at six months, one year, 18 months and two years, respectively, after the acceptance of the job.

Employment and the labour market

The Cabinet is committed to increase the labour market participation of older people by 0.75% per annum over the coming decade, so that in 2030 half of all people aged between 55 and 65 will be working for at least 12 hours per week. In 1999, roughly 31% of older people were in paid employment for at least 12 hours a week. One is working towards an age-conscious personnel policy and towards improving the incentives in pension schemes. For example, in time the fiscal support for early retirement schemes will be scrapped. Early retirement schemes will be converted into flexible retirement schemes, for which people pay individually. In addition, it must be possible to take a step back in one's career, without this having major negative consequences for pension entitlements. To encourage employers to recruit older people, the Reduced employer's contribution scheme for the long-term unemployed will be extended from 1 January 2001 to include older workers. Employers will then receive a deduction on their wage tax and social security premium contributions if they take on an unemployed person who is aged 50 or over and who does not earn more than 150% of the minimum wage (for people aged under 50, the limit is 130% of the minimum wage). Furthermore, the present requirement of a minimum length of unemployment will not apply for older workers. The Cabinet has also proposed that employers who dismiss an employee aged 57.5 or older should bear a proportion of the costs of unemployment benefit.

The effective age of retirement in Norway has fallen over the past decade. This has been encouraged by the implementation of the early retirement scheme AFP, and by a considerable growth in the inflow into the disability pension scheme. At the same time there has been a strong growth in the sickness absence scheme. Measures to reduce the strong growth of early retirement, disability pension and sickness leave are the most urgent political priorities in Norway now. In addition to this, the government is also dealing with important pension policy issues and strategies to promote social inclusion and to reduce poverty.

1. Reducing sickness absence and the number of persons receiving disability pension

The authorities are concerned about the large and growing number of new disability pensioners. There has been a significant increase in expenditure on disability pension from the National Insurance Scheme during the last years. The rising number of disability pensioners not only increases the expenditure but also reduces the working population and thus the capacity to finance public welfare. It is a main political objective to reduce the high level of sickness absence and the increasing number of disability pensioners.

Due to strong growth in the disability pension scheme and in the sickness cash benefit scheme during the last years, the Norwegian government set up a commission including members from the largest employers and employees organisations, civil servants and scientists. The commission was asked to propose measures to reduce sickness absence and the number of persons receiving disability pension. The commission was also asked to evaluate reforms and actions that previously had been taken to reduce the duration of absence and early retirement related to disability. The commission's report was issued in autumn 2000. In it, the commission proposed early intervention, more rehabilitation, a more flexible benefit scheme and changes to the incentive structure.

To **reduce sickness absence**, the commission proposed an entire "package" of reforms imposing more responsibility on the employer and employee:

- earlier intervention and better methods for following up people with sickness benefits;
- use of a work-ability index to measure what the employee is able to do in spite of sickness;
- use of self-reported notification in case of sickness for employees up to eight days;
- follow-up plan for each employee made before eight weeks;
- strengthening of the National Insurance's system of buying medical treatment for people on sickness benefit;
- changes to the current system of benefits in the case of sickness.

The following changes to the current system of benefits in the case of sickness were proposed:

- The employer has to finance 20% of the benefits in case of sickness after the first 16 days (employer's period) and up to one year.
- The employee has to contribute with 20% reduction of wages for the first 16 days.

The commission has proposed extending today's practice of shielding employers with employees suffering from chronic illness who are at higher risk of frequent or increased sickness absence. For these employees, the reduction of sickness benefits will be limited to 12 working days a year. The reforms will be neutral in cost compared to today's average sickness absence.

To **reduce the number of persons receiving disability pension**, the commission proposed:

- to increase the supply for vocational rehabilitation before disability pension can be granted;
- to divide the disability pension into a temporary disability benefit and permanent pension. The temporary benefit can be granted for a limited period of four years. The permanent disability pension will be granted only to those who have a 100% disability.
- In relation to the introduction of a temporary disability benefit, the commission also proposes a reconsideration of the disability pension benefit. This reconsideration, which should be compulsory, is primarily proposed for pensioners under 50 years of age with a partial disability pension.

- New regulations to curtail the disability pension against earned income were also proposed. Disability pensioners must be motivated to work. The new regulations ensure that it is profitable for disability pensioners to increase their participation in the labour market.

The Government is now working on the commission's proposals. A White Paper is expected to be submitted to the Parliament in 2001.

Change in the sickness cash benefit scheme

From 1 May 2000, the minimum earnings for entitlement to sickness benefit from the National Insurance Scheme was reversed from 1 ¼ of the basic amount (NOK 61,362) to ½ basic amount (NOK 24,545) as before 1999.

Measures to purchase health services (surgery) abroad

The National Insurance Board is allowed to purchase health services for working people incapable of working due to sickness. The purpose of this measure is to reduce waiting periods for surgery, and hence contribute to a faster return to work. Because this measure reduces the waiting period, it also contributes to lower sickness benefit expenses. A new plan was introduced at the end of 2000. The National Insurance Board can now buy health services abroad as well. The aim of the new plan is to reduce waiting lists for surgery in Norwegian hospitals.

2. Measures on pension policy issues

In 1998, two official reports dealing with pension policy issues were submitted. The main topics dealt with in the reports relate to the challenges resulting from demographic changes. An increasing share of elderly in the population, combined with higher average pension benefits, will cause an increasing dependency ratio over the next decades. This problem is enhanced by the growing trend towards early retirement.

The Government has been working on these important pension policy issues. In the Long-term Programme, which will be presented at the end of March this year, the Government announces that it will set up a Parliamentary commission including members from all political parties in the Parliament. The commission is being asked to:

- clarify principles and objectives for a total pension system in Norway;
- consider the development in early retirement and the need of early retirement schemes in the future;
- consider whether funding the pension benefits will contribute to a more sustainable pension system in the future.

The commission is expected to submit its report in October 2003.

New guidelines for adjusting the basic amount

The basic amount is changed by the Parliament once a year, in accordance with changes in the general level of income. The guidelines state that pensioners should have about the same annual growth in income as the working population. Historically the annual growth in the basic amount has been less than the growth in income of the working population. New guidelines for the adjustment of the basic amount were introduced in 2000. In order to obtain a more similar development in pensions compared to income for the working population, both expected and historical changes in income should be considered whenever the basic amount is adjusted. Thus, the new guidelines imply changes that are close to indexation. The adjustment takes place on 1 May each year, and in 2000 the new guidelines were implemented for the first time.

3. Measures to promote social inclusion and to reduce poverty

A government White Paper on "Equitable Redistribution" was discussed in the Parliament in spring 2000. The political parties agreed upon the following strategies to promote social inclusion and to reduce poverty:

- more flexible labour market measures
- a more socially-oriented housing policy
- improved public health and social services
- a more finely-meshed social safety-net
- fair and effective taxation.

The Government will set up an action plan for following up on the White Paper and the recommendations from Parliament. The action plan will be presented in the Government's Long-term Programme at the end of March this year.

The Government has already implemented some of the proposals from the White Paper. On a trial basis, some municipalities are being given responsibility for offering active programmes for long-term social assistance beneficiaries. The aim of these active programmes is to move beneficiaries into ordinary jobs.

1. Social insurance

2000 pension reform

The year 2000 was characterised by a comprehensive pension reform, the principal elements of which came into force on 1 October. They included the following notable measures:

a) Revision of the pension adjustment system:
The Austrian system of pension increases is based on the principle of net adjustment which is intended to ensure that the average net pension (before tax) rises in proportion to average net wages and salaries (also before tax). Until 2000 the adjustment was based on a report issued by the Advisory Council on Annuity and Pension Adjustment which included an allowance for the rate of inflation.

With effect from 2001, any allowance for the (higher) rate of inflation will be made in the form of one-off payments as a "top up". The pension adjustment system now no longer contains any political factor (in particular no range of variation), it simply represents the result of certain calculations. The Advisory Council on Annuity and Pension Adjustment has been turned into a committee of experts and is now known as the "Commission on Long-term Pension Protection".

b) Increase in statutory pensionable age for early retirement pensions:
As a measure to ensure the sustained protection of the statutory pension insurance system, the pensionable age for early retirement pensions for the unemployed and long-term contribution payers as well as for supplementary pensions has been increased. Starting on 1 October 2000, the pensionable age will be increased by two months at the start of each quarter in nine equal stages until an increase of 18 months is achieved on 1 October 2002.

c) Stronger emphasis on the reward/penalty system in the pension insurance system:
Under the equity of contributions model, an individual drawing a pension before reaching statutory pensionable age can expect to receive a reduced pension (calculated according to actuarial principles), whilst an individual drawing it after this date can expect to receive an increased pension.

Under the previous legislation, two additional scale points (or 2% of the basis of assessment) towards the old age pension were accrued for each year in which insurance contributions were made.

With effect from 1 October 2000, the penalty – while retaining its linear structure – was increased to three additional scale points per year up to a ceiling of 10.5 additional scale points or 15% of the pension. The increase will be introduced at the same time and in the same stages as the increase in the pensionable age for early retirement.

Individuals who delay drawing their pension beyond the statutory pensionable age (60/65 years) will, on the other hand, receive an annual reward of four additional scale points.

d) Changes to widows' (widowers') pensions:
Under the previous legislation, the level of widows' (widowers') pensions varied between 40% and 60% of the pension of the deceased spouse. This calculation was based on the joint income of the married couple.

With effect from 1 October 2000, this variation now ranges from 0% to 60%. At the same time the highly complex formula used to calculate the level of pension was replaced by a more comprehensible procedure under which the widows' (widowers') pension is now 40% where the basis of calculation is the same for both the surviving and the deceased spouse.

In order to avoid any socially undesirable effects, the "protected amount" was increased to ATS 20,000 with effect from 1 October 2000.

e) With effect from 1 July 2000, the early retirement pension payable in the case of reduced capacity to work was abolished and access to the invalidity and incapacity pensions was made easier.

f) With effect from 1 October 2000 the reduction rule applied in the case of the cumulation of the (normal) old age pension and income from employment was abolished in order to increase the employment rate amongst older people. Previously cumulation was possible only where the level of income was below ATS 8,312 per month or the individual in question had been paying contributions for at least 420 months. The reduction in the pension was capped at 15%.

Measures designed to ensure the financial security of the health insurance system

a) Restriction of non-contributory insurance for family members:

As a measure designed to increase the accuracy of the social security system, in the future family members – with the exception of children and grandchildren – will be co-insured under the social health insurance system on a non-contributory basis only in special circumstances, for example where the co-insured person is bringing up children. Individuals who do not meet these conditions will be required to pay an additional contribution of 3.4% to the health insurance fund.

b) Inclusion of certain supplementary pension benefits in the health insurance system:

Supplementary pensions paid by bodies which are regularly funded from the public purse – in particular those bodies that are regulated by the Audit Office – are now subject to the payment of mandatory contributions to the health insurance fund.

Social insurance for the self-employed

The minimum contribution basis for the self-employed was lowered by ATS 500 with effect from 1 January 2001 to ATS 13,789 and, following the annual adjustment, now stands at ATS 14,134.

With effect from 1 January 2001 the rate of contributions to the self-employed workers' health insurance scheme was reduced from 8.6% to 8.4% and the rate of contributions to the self-employed pension insurance scheme was increased from 14.5% to 15%.

A range of financial measures designed to consolidate the farmers' health insurance fund and increase the level of capital resources of the farmers' pension insurance fund also came into effect on 1 January 2001.

Direct measures designed to increase the level of capital resources in the pension insurance fund include an increase in the rate of contributions to the farmers' pensions insurance fund from 14% to 14.5% and an increase in the minimum contribution basis from the current ATS 50,000 to an insurance value of ATS 55,000, both with effect from 1 January 2001.

In order to consolidate the farmers' health insurance fund and to increase the level of capital resources in the farmers' pensions insurance fund, with effect from 1 January 2001 the contribution basis for children with their main employment on the family farm was brought down to the level of the monthly low income limit stipulated in the General Social Insurance Law. With effect from 1 January 2001, the head of a family farm is now able to hand the business over to his children before the statutory pensionable retirement age and to plug the resulting "hole" in contributions payment under a new family members insurance scheme calculated on half the contribution basis.

In order to compensate for the weakness in the structure of the farmers' health insurance scheme, since 1 January 2001 a solidarity contribution of 0.5% has been levied from all those in receipt of benefits under the farmers' pension insurance scheme.

2. Unemployment insurance

In conjunction with the pension reform and with effect from 1 July 2000, the maximum period for receipt of unemployment benefit for older unemployed persons in the years affected by the pension reform in the transitional phase was extended to 78 weeks. With effect from 1 October 2000, provision was also made for entitlement to the protection of contribution-equivalent periods in the pensions insurance scheme where no emergency relief is payable because there is no financial need.

With effect from 1 October 2000 access to the partial retirement pension was made easier by abolishing the requirement to appoint a replacement worker, permitting a reduction in hours from 40 to 60% of the normal working week and by extending the early retirement period to up to six and a half years. In order to promote the further education of older workers over the age of 45, the further education allowance has been increased to the level of unemployment benefit during the qualifying training period and the period for which unemployment benefit can be drawn has been extended by the length of any training course being undertaken. (Limited effective period for applications made until the end of 2003.) Where unemployed people over the age of 45 have switched repeatedly between employment and unemployment over a relatively short period, the longest period in receipt of unemployment benefit is now used (without limit) to calculate the level of emergency relief.

With effect from 1 January 2001, a uniform net replacement system (55% of former net pay) with a minimum guarantee equal to the top-up reference rate for single people and an upper limit of 60% of the former net pay for unemployed people not eligible for family allowances and 80% of the former net pay for unemployed people eligible for family allowances was introduced in place of the previous wage class system. As a disproportionate number of those claiming unemployment benefit are in short-term temporary and seasonal jobs, the minimum period of employment required for eligibility for a second or further claim has been increased from 26 weeks to 28 weeks. The right to continue to draw unemployment benefit has been restricted to cases in which there is no renewed eligibility. The preferential eligibility criteria for young people, which stipulate a minimum period of employment of 26 weeks, now apply only in cases where the Job Centre is unable to find the individual a job within four weeks. After receipt of a qualifying period allowance, the further education allowance can be drawn only after at least 28 weeks employment with liability to pay unemployment insurance contributions. Because they are temporary benefits, unemployment benefit and emergency relief are no longer adjusted or indexed in line with inflation.

The most important development in the field of social security in the year 2000 was the reform of the system which took shape with the publication of the new Framework Law 17/2000 of 8 August which was finally adopted by parliament after lengthy discussions.

The new framework law on the solidarity and social security system, which came into force on 2 February 2000 and is still in the transitional phase[1], is both innovative and formative in several respects.

In terms of the basic welfare system[2] (the first pillar of public welfare), the law defines three fundamental objectives:

- improving the conditions and level of social welfare and strengthening the principles of solidarity and equity,
- effectiveness of the system and management efficiency,
- and finally the financial balance of the system.

The system consists of three main elements of social welfare:

1. Social welfare and citizenship sub-system

This system provides for the basic rights of social welfare by guaranteeing equality of opportunity and the right to a minimum living income and seeks to prevent and eradicate poverty and exclusion. All individuals are covered, particularly those in need, those with particular difficulties and those threatened by social marginalisation. The following programmes have been set up to achieve these objectives:

- **The solidarity regime** which includes, in practical terms, benefits such as the minimum income guarantee, the state incapacity, old-age and survivors' pensions and additional allowances to cover situations in which benefits designed to replace earned income fall below certain established minimum levels.
- **The social action programme** which includes the following benefits: periodic cash benefits paid in exceptional circumstances, benefits in kind, use and funding of the social services and equipment network, subsidies for programmes designed to prevent and combat poverty, dysfunctionality, marginalisation and social exclusion.

This sub-system is funded exclusively from payments from the state budget.

2. Family protection sub-system

This system guarantees cash benefits designed to protect the family. It covers all citizens and its scope of application includes eventualities such as financial family responsibilities, disability and dependency. The law also provides for the awarding of benefits in kind within this sub-system. The payment of benefits may be made conditional upon the amount of contributions paid by the citizens in question.

This sub-system is funded by payments from the state budget (with the exception of benefits awarded, subject to the amount of contributions paid by the citizens in question).

3. Welfare sub-system

This system covers several social security regimes and is designed primarily to guarantee the right to compensation for loss of or reduction in earned income in the case of illness, maternity, paternity, adoption, unemployment, accidents at work and occupational illness, incapacity, old age and death. It covers both employees and the self-employed. This sub-system is open to individuals of working age who are not in work or who even though they are working are not necessarily covered by this regime on an optional basis and under the conditions stipulated in the law. All those covered by this sub-system are under a legal obligation to pay contributions.

This sub-system is funded by employees' and employers' contributions.

1 The provisions of the previous framework law, Law 24/84 of 14 August, remain temporarily in force.

2 The framework law provides for the possibility of developing supplementary regimes alongside the benefits of the contributory regimes in the public sector which are voluntary, offer specific benefits, are managed by capitalisation and are subject to conditions to be set out in law.

The main funding principles

Funding for the solidarity system is governed by the following basic principles:

- Dual responsibility: on one hand, of the individual irrespective of their location, occupation or age; on the other, of the state subject to the conditions laid down by law.

- The legal obligation incumbent upon both employees and employers to pay contributions.
  - the value of charges and contributions is determined by the application of the rates laid down by law which are indexed to real or agreed levels of income from work,
  - contribution levels to fund the social security system may be distinct from earned income,
  - contribution rates are set according to actuarial principles on the basis of the cost of social welfare and the cases provided for by law;
  - employers are responsible for paying both their contributions and those of the employees working for them which they must deduct from the salaries/wages that they pay.

- The system is funded according to two basic principles:
  - the principle of the diversification of funding sources or the use of a wide range of methods of obtaining financial resources with a view in particular to reducing non-salary wage costs;
  - the principle of selected appropriateness which consists of determining the sources of funding and allocating financial resources to them in accordance with the nature and purpose of the various forms of welfare provided for by the law and special situations and measures, in particular those relating to active employment and training policies.

- The earmarking of tax receipts is designed, in particular, to apply the principle of positive discrimination in relation to benefits in accordance with the needs and specific social characteristics of groups of citizens and the risks for which it is necessary to provide protection under the terms laid down in the law.
- Between two and four percent of the contributions payable by employees are paid into a reserve fund managed by capitalisation in order to cover forecast pension spending for a minimum period of two years;

- end of year credit balances from the welfare sub-system, receipts from the assignment of assets and gains from financial apportionments are also managed by capitalisation.

- The principal receipts of the system are:
  - the contributions paid by employees and employers,
  - monies transferred by the state and other public bodies and the tax receipts stipulated by law,
  - income from private and state assets earmarked to strengthen the capitalisation reserves,
  - other receipts as stipulated by law.

- The financial regime, previously a distribution-based system under the terms of Law 28/84, is now required to combine elements of both distribution and capitalisation whilst also taking into account economic, social and demographic changes.

Pensions

The new law contains the following provisions in relation to pensions:

- The gradual adjustment of pensions to social conditions in order to guarantee greater equity and social justice in the manner in which they are awarded.
- The possibility of introducing a degree of flexibility in relation to the statutory retirement age by means of mechanisms designed to reduce or increase pensions for individuals below or above the statutory age.
- The calculation of old-age pensions must gradually and progressively move towards a system based on earnings from work adjusted in line with inflation and based on all the contributions paid over an individual's working life.
- Positive discrimination of contribution-equivalent rates for recipients having paid contributions on lower incomes.
- The adjustment of the value of pay levels which are taken into account in calculating pensions is based on criteria stipulated by law, notably inflation.

Conservation of rights and export of benefits

The principle of the conservation of established and new rights applies to pensions paid under the social security regime. The law gives the following definitions:

- established rights: rights already recognised by the system or which can be recognised because the legal conditions have already been fulfilled,
- new rights: rights corresponding to contribution periods and earnings registered in the name of the beneficiary.
- Rights to benefits under the social security regimes are maintained where beneficiaries transfer their place of residence outside Portugal unless otherwise stipulated in the relevant international legislation.

The framework law is currently undergoing a process of refinement. The Refinement Commission, created by a resolution of the Council of Ministers and co-ordinated by a representative of the Ministry of Employment and Solidarity, is charged with drawing up and submitting to the government legislative measures designed to develop this transitional period. The Commission includes representatives from their various departments and institutions of the Ministry of Employment and Solidarity and a representative of the Ministry of State Reform and Public Administration. The government considers funding and pensions to be its priority themes.

The resolution passed by the Council of Ministers which created the Commission for the Refinement of the Framework Laws, requires the active participation of the various parties involved from the social field in this process, in particular the social partners. In its work the Commission must therefore take into account and report on the progress achieved in this area, in particular in terms of social consultation, to the "social welfare" negotiating group set up within the framework of the Standing Commission on Social Consultation.

Further measures have also been taken within the framework of the reform of the social security system. These include the institutional reform of the system, the development of a new information system and finally the development of links between the system and its beneficiaries and contributors.

In 2000 there were no major changes in social protection in Finland. The government programme stresses the need to continue economic, labour market and social policies that promote employment, permit stable state finances, enhance equality in working life and society, promote life-long learning and longer working careers and fight social exclusion. In social policy, special focus was on active social measures and social security structures that encourage working and sustainable financing of benefits.

Social protection expenditure in 2000

In 2000 social protection expenditure is estimated to have been 193 billion FIM, i.e. 24.5% of GDP (compared to 26.3% in 1999). Health care expenditure continues to rise but is now approximately at the same level as it was before the recession of the early 1990s. Also, pension expenditure continues to rise as the population gets older and the pension system matures.

Focus on increasing employment and reducing early retirement

The strong economic growth has a favourable impact on the employment situation. The unemployment rate has dropped to about 9%. Especially the unemployment of young people has decreased. The main target, apart from decreasing unemployment, is to increase the employment rate. The employment rate for persons aged 55 or over has been very low.

The National Programme for Ageing Workers (1998–2002) has been initiated to promote the continued employment of ageing employees. The chief goals of the programme are to maintain working capacity, to have an impact on attitudes and atmosphere at workplaces and to revise legislation so as to be more favourable for the participation in work of ageing employees. Some changes have been made in pensions in order to promote coping with work and postponing retirement. Among others, the age limit for entitlement to part-time pension will remain at 56 years to the end of 2002 and that for individual early retirement pension has been raised from 58 to 60. To make rehabilitation more effective, the pension institutions are obliged to carry out a rehabilitation assessment for all those applying for a disability pension. Furthermore, unemployed persons aged over 55 years are now better able to accept short-time jobs without risking a weaker pension cover.

The first results of 1999 show that the goals of the programme have partly been met, and the employment rate for persons aged 55-59 rose by four and for persons aged 60-64 by two percentage units.

The high rate of unemployment has made it more difficult for people with disabilities to find jobs. Legislative amendments have been prepared to eliminate obstacles and to improve their chances of finding jobs. Disabled persons are also encouraged to start enterprises of their own.

Measures against social exclusion

The deep recession at the beginning of the last decade together with cuts in social protection have increased the risk of being socially excluded. To combat social exclusion, the social and employment service authorities are working together to create action plans for those who are at risk of long-term unemployment. As of September 2001, special rehabilitative work will be introduced to activate the long-term unemployed for whom it has been difficult to find jobs. As part of the social services, the local authorities will arrange rehabilitative work in which unemployed persons under 25 are obliged to participate. For persons aged 25 or over, participation is voluntary.

Mental problems have increased in recent years. The target of the government is to enhance mental health services for children and young people and to guarantee that the waiting lists for treatment will not be too long. For these services the government has allocated special grants.

The present social assistance legislation does not always take into account the real situation of the persons concerned. In order to solve this problem, the yearly amount of preventive social assistance will be increased from FIM 20 million to FIM 80 million as of the beginning of April 2001. In addition, the legislation will be amended to take into account more comprehensively the needs, for instance, of those in receipt of long-term social assistance when granting this financial support. The purpose of the amendments is to increase people's own initiative and to inhibit social exclusion.

Annual maximum introduced in municipal health care

As of 1 January 2000, a ceiling of FIM 3,500 per year has been applied for certain outpatient fees and fees for short-term inpatient care. After reaching the ceiling, the patient will receive outpatient care mostly free of charge and short-term inpatient care at a lowered rate, i.e. FIM 70 per day instead of FIM 135 per day. The number of persons of whom the ceiling served in 2000 was approximately 50,000.

For medicine reimbursements from sickness insurance, a similar ceiling (FIM 3,320 in 2000) has been in use since 1986. When a patient's medicine costs in one year rise above the ceiling, all costs for the exceeding part are reimbursed.

Working groups on social protection expenditure and care insurance

In 2000, the Ministry of Social Affairs and Health set up a special working group to examine the future development of social protection expenditure and how to secure its financing. The group is working out what kind of reforms are probably needed to secure a sustainable social protection system in the future. The group has a broad representation including all parties involved, and it will give its report at the end of 2001.

There is also a working group that will investigate whether there is need for long-term care insurance, whether it would fit into the present Finnish system and how it should be financed. The committee will announce its results during the spring of 2001.

Changes in the financing of social security

Social insurance is financed by contributions paid by employers and insured persons as well as by public revenue. In 2000, the unemployment insurance premiums and sickness insurance premiums for pensioners were lowered.

Family allowance

For many years Sweden has expanded and adapted the support provided to families and children according to general needs. One of the best ways of economically supporting a family with children is to give both parents the possibility of gainful employment. In Sweden the majority of families with children have two incomes. It is therefore very important to develop benefits that encourage work and make it possible to combine professional and family life.

The decline in the Swedish birth rate, which was noted during the 1990s, continues apace. With a view to improving the economic situation for families, the amount of child allowance was raised as of 1 January 2001 and an additional child allowance provided for families with three or more children. The Government has also proposed another month of parental benefit. At the same time, a special investigator is preparing a report on the different types of economic support available for families with children. The aim is to give families better ways to improve their own economic situation. A high level of employment is needed to ensure a social security scheme that is economically sustainable. This is very important, especially for families with children.

Sickness benefit and rehabilitation

Absence from work caused by sickness has risen rapidly during the last few years. Intensified efforts have been made to achieve a better overall health situation in working life. Special reports on work-related rehabilitation and sickness insurance have been produced. These reports have been examined and different authorities and organizations have commented on the various proposals. The next step is to gather experience on how the working environment, health care, medical and working-life related rehabilitation and different social insurance schemes do function. A special investigator has been appointed to develop an action plan for ensuring better health during working life. Such a plan should be presented by the end of 2001.

As a result of the reformed old-age pension system, there is also work going on concerning how to reform the disability pension system. The aim is to connect the disability pension system closer to sickness insurance. A person who for a long time has been incapable of working should not lose contact with the labour market. If the link to sickness insurance is strengthened, the possibilities of going back to working life are likely to be better even for the long-term disabled.

For people under 30 who are today entitled to disability pensions, a new benefit called an "activity benefit" will be introduced. Young people will be entitled to this benefit at the earliest from 1 July of the year they turn 19, and they can receive the benefit for three years at a time. Depending on the reduction in their working capacity, they can receive full, three-quarters, half or one-quarter benefit.

A bill on this matter will be submitted to Parliament in March 2001.

Pensions

Old-age pensions in Sweden are still in the process of transformation. As described in previous reports, the necessary decisions have been taken to get the total system up and running as of 1 January 2003. The first payments under the new system are being made during 2001.

An important part of the pension system is the housing supplement, which is available to people with a disability pension, old-age pension and survivors pension. This benefit is income-tested and makes it possible even for pensioners with a small income to afford decent housing. The different reforms in the social security field require adjustments to be made to the rules on housing supplement.

In connection with the aim to make the old-age pension system financially stable, it was necessary to find a method to ensure that the system is always able to fulfil its obligations. A special report to the Government addressed this problem, indicating that the pension debt should never be allowed to exceed the assets of the system. Such a system becomes financially stable by ensuring that consolidation may not fall below 100%, while excluding deficits in the funding of the pay-as-you-go-system.

The report proposed that the relation between assets and debts should be determined yearly in the form of a balance coefficient. If this coefficient is less than 1.00, the system is unbalanced. In such a case, the Government should determine a balance index to be instead of the flexible index that is normally used to calculate pensions for each year. This method makes it possible to avoid financial instability within the pension system. Parliament is expected to decide upon a government bill on this matter in spring 2001.

The functioning of the present employment injury insurance has been called into question. In the current debate, it has been argued that it is too difficult to get an injury classified as an employment injury. A departmental group is preparing a report with new rules on how to prove that an injury is work related. These rules will make it easier to get an injury or sickness accepted as an employment injury. The indexation of life annuities is another area of concern. Today this indexation is linked to the development of the base amount, whereas a closer link to the development of income is being sought. A bill addressing changes to employment injury insurance is planned for autumn 2001.

Unemployment

A new law on unemployment insurance will come into force from 5 February 2001. The main changes concern the conditions for entitlement to unemployment benefit. Jobseekers are also given the right to limit their job-seeking geographically and occupationally during the first 100 days of unemployment. The sanctions for jobseekers who reject a job offered to them will also be lighter.

Working together with the unemployment agency, jobseekers will draw up an individual action plan to respond to their particular situation. As a rule, an unemployed person can receive unemployment benefit for a maximum of 300 days. To obtain a new unemployment benefit, the jobseeker must once again fulfil the employment condition for such a benefit. A jobseeker who is at risk of or is already subject to long-time unemployment will be offered a full-time activity within a new benefit system, the so-called activity guarantee. A detailed description of this new unemployment insurance will be given in the next edition of the MISSOC tables.

1. Introduction

The govemment is committed to reforming and modemising the social security system in a coherent and principled way that promotes faimess and opportunity. They are reforming the welfare state to make it fit for the 21st century, and to make opportunity a reality for all, not just the privileged few.

The reforms are designed to meet our overall welfare objectives to eradicate poverty – both in childhood and old age; to ensure work for those who can, and greater security for those who are unable to work.

They are overhauling the way services are delivered, so that for the first time welfare services will meet the different needs of our client groups: pensioners, working age people and children.

After years of under-investment, they are putting in the investment needed to deliver more streamlined services focused on the individual needs of our customers, making better use of technology, and reducing the amount of fraud and error in the system, and by controlling social security spending they are able to spend money on those who need it most.

2. Welfare Reform

ONE is a radical new welfare service which was first launched in June 1999. Under ONE all working age clients not in full-time work making new claims to benefit are allocated a personal adviser. The adviser works with clients to establish their individual needs and provide them with the help they need to become independent and move towards work where it is appropriate to do so.

Building on the success of the ONE pilots, a new and modem agency to provide a service to people of working age into the 21st century was announced in March 2000. It will put into practice a 'welfare to work' approach with jobs and benefit delivered through a single body, and will bring together the responsibilities of the Employment Service and the Benefits Agency sections who deal with people of working age. Information on job vacancies, training, services and benefits as well as childcare will be available at the touch of a button. It will also provide help and support to those who, for whatever reason, are not able to work, providing a more responsive service tailored to individual needs and asking the question, "What can we do to help you become more independent?"

The new agency will be established as soon as possible in 2001 so that alongside the new service for pensioners it can start to deliver a modern welfare state and contribute to reducing poverty and expanding opportunity.

3. Maternity

The Employment Relations Act 1999 increased maternity leave from 14 weeks to 18 weeks to match the period covered by Statutory Maternity Pay and Maternity Allowance. It also reduced the length of service to qualify for additional maternity leave from two years to one year. The government has also built on the improvements to maternity leave by extending entitlement to Maternity Allowance to the low paid.

4. Invalidity

The Incapacity Benefits All-Work Test (AWT) became the Personal Capability Assessment (PCA) from April 2000. It is intended that the change of name will correct the false impression that those who reach the threshold for benefit are incapable of any work.

In addition, a new element of the assessment is being tested in the ONE pilot areas. Under the PCA, the doctor who advises the decision maker will be able to provide a Capability Report, which will include positive and constructive advice on what the person can do despite their incapacity, and general advice on what is needed at the workplace to help people who want to work back into work. It is known that many sick and disabled people work, and that many more want to work and will be able to do so given the right kind of encouragement or equipment.

Financial support for carers has been reviewed, and increases will be paid to various recipients of carer benefits. Details include:

- GBP 2 per week rise in the carer premium paid with Income related benefits (such as income support);

- carers will be able to earn up to GBP 72 per week without it affecting their benefit and this limit will rise in line with the level of the lower eamings limit for contributions;
- carers who receive the benefit will be credited into the State Second Pension.

Disabled Person's Tax Credit (DPTC) was introduced in October 1999, and is administered by the Inland Revenue. This has replaced Disability Working Allowance (DWA) which was administered by the Department of Social Security. DPTC is tax credit available to people who are working at least 16 hours a week – whether as employee or self-employed person – and who have an illness or disability which puts them at a disadvantage in getting a job.

Since April 2000 employers who operate a Pay As You Earn (PAYE) scheme have been paying Tax Credits through the payroll. Self-employed applicants continue to receive their tax credits direct from the Inland Revenue. Employers now play a vital role in paying tax credits to their employees with their pay, which is intended to reinforce the link between tax credits and the rewards of work.

In October 2000, the Inland Revenue introduced a Disabled Person's Tax Credit (DPTC) Fast Track. This is a new route to DPTC, enabling employees and self-employed people who become sick or disabled while they are in work to stay in work with the help of DPTC.

The Fast Track is designed to make it financially possible for people who become sick or disabled while in work to stay in work. People can now apply to get DPTC via the Fast Track after a period of 20 weeks sickness in receipt of, for example, Statutory Sick Pay, Occupational Sick Pay or Income Support paid on the grounds of incapacity for work - DPTC can top up their eamings if their illness or disability means that they need a job with lower pay form reduced hours for example, although to be eligible people still need to be working an average of 16 hours a week or more.

5. Old-Age Pensions

The government is determined that all pensioners get a decent income on retirement, while concentrating help on those who need it most. The government is spending GBP 4 billion in the lifetime of this parliament to ensure today's pensioners share in the country's rising prosperity. The main means of doing this are:

- the Minimum Income Guarantee, to help pensioners on low incomes - which is to be uprated in line with earnings for the lifetime of this parliament;
- free TV licences for over-75s from Autumn 2000;
- free eye tests;
- cuts in VAT on fuel;
- concessionary travel for all pensioners;
- GBP 100 winter fuel payment for all people over 60 - every year from now on.

The govemment is currently working on a new pensioner credit in order to reward rather than penalise the thrift of those with modest occupational pensions. On top of the Minimum Income Guarantee, for every pound saved pensioners receiving the credit will get a cash top-up. It is expected that two thirds who will gain will be women who have on average smaller occupational pensions and who live longer than men. It is proposed to get rid of the weekly means test, which affects pensioners with the lowest incomes, and instead the pension credit will be based on an income assessment that is more like the tax system.

Stakeholder pensions

Government pension reforms mean that people can look forward to retirement after a lifetime's work. The new stakeholder pensions will give up to 5 million people the option of a funded pension for the first time.

Basis of stakeholder pensions

Advice: schemes must provide basic information and explanatory material, but will not be required to offer individual financial advice within the 1% charge. Schemes may provide advice within the charge, or they may charge a separate fee.

Employers: The requirement to provide access to a stakeholder pension scheme will be restricted to employers with 5 or more staff.

Group Personal Pensions: Employers who arrange group personal pensions will be exempt from access requirement, provided they offer a contribution of at least 3% of earnings.

Trustees: Schemes will have the option of being set up either with a board of trustees or by an authorised scheme manager.

The State Second Pension will give far more help to low eamers, carers, and disabled people with broken work records. This pension reform is designed to put Britains' pensions on a secure basis for 50 years.

Pension statement

The government is working in conjunction with private pension providers to provide all working age people with a combined pension statement, setting out in black and white exactly how much someone will receive when they retire including both private and state pensions. The ideas behind this are:

- that individual pension statements will play a key role in reminding people of the importance of saving for retirement;
- that working people who can afford to do so have a responsibility to save for their retirement; and
- that government has a duty to help them.

Up to 15 million people per year will be receiving combined annual pensions statements by 2005.

Pension sharing on divorce

Couples divorcing on or after 1 December 2000 now have the option of sharing their pension as a part of the matrimonial settlement. This provides an option to:

- achieve a fair division of assets;
- increase flexibility and choice for divorcing couples;
- give greater scope for divorcing couples to achieve a 'clean break'; and
- provide an opportunity for a better and more secure retirement income for those receiving a share of pension rights.

Pension sharing covers rights under the State Earnings Related Pension Scheme (SERPS) and the Stakeholder Pension and the State Second Pension when they are introduced, as well as occupational and personal pensions.

New Pensions Directorate

A new Pensions Directorate, distinct from the Benefits Agency and designed to deliver benefits and services to older people was announced the Social Security Secretary (Alistair Darling) in March 2000. The organisation is part of the root and branch reform to ensure that pensioners get a modem, integrated service designed to meet their needs, and will include everything from policy development to frontline service delivery. It will also have a responsibility to provide clear information to the public.

6. Survivors

Reforms are to be introduced in April 2001 to modernise the present outdated scheme to reflect changes in society. Reforms include:

- doubling the value of the lump sum to GBP 2000;
- paying a Widowed Parent's Allowance until the youngest child ceases full time further education;
- paying a time limited bereavement allowance where there are no dependent children. Widows and widowers aged 45 and over with no dependent children will receive a weekly benefit for one year;
- for the first time providing widowers with children help on an equal footing with widows.

7. Family Benefits

The govemment is committed to halving child poverty in 10 years and to eradicating it in a generation. Sure Start works with parents to improve access to family support, provide advice on nurturing, provide health services and also early leaming. It will extend and reshape existing services, as well as plugging gaps. There will be 250 programmes in disadvantaged areas by the end of this parliament.

Working families

Working Families' Tax Credit (WFTC) was introduced in October 1999 and is administered by the Inland Revenue. It has replaced Family Credit (FC) which was administered by the Department of Social Security.

WFTC tops up eaming of working families with children and can include a childcare tax credit to help with the childcare costs of a working parent.

Since April 2000 employers who operate a Pay As You Earn (PAYE) scheme have been paying tax credits to employees through the payroll. Non-working and self-employed applicants continue to receive their tax credit direct from the Inland Revenue. Employers now play a vital role in paying tax credits to their employees with their pay, which is intended to reinforce the link between tax credits and the rewards of work.

New Deal for Lone Parents

The New Deal for Lone Parents is a voluntary programme actively marketed among lone parents on Income Support whose youngest child is over 5 years and 3 months, but also available to those with children under 5. A national network of personal advisers offers comprehensive help and advice on job search, training, childcare, benefits, and financial support. A full national rollout of the scheme started in October 1998. The NDLP is creating a culture of work, making savings in benefits and lifting people out of dependence and into independence.

Lone Parents Benefit Run-on

Lone parents who have been getting Income Support or Income Support or income based Jobseeker's allowance for at least six months can be paid Income Support for their first two weeks in work provided that work is expected to last at least 5 weeks. Any wages they get for that work will be ignored. They also keep maximum Housing Benefit and Council Tax Benefit for their first 4 weeks in work.

Child Benefit

From April 1999, the government increased Child Benefit for the eldest child by GBP 2.95 per week, the biggest single increase ever. From April 2000, further above inflation increases for all children raised the rate to GBP 15.00 for the first child and GBP 10 for all other children. Further increases (in line with inflation) will bring the rate for the first child to GBP 15.50 a week and GBP 10.35 for all other children from April 2001.

The Child Support Agency

From 2002, the government is introducing a new simpler system of child support so that maintenance calculations can be made in days rather than months. The Agency is currently piloting two new services, "Face to Face" and "Taskforce" which will give parents the opportunity to discuss their case directly with CSA staff.

8. Unemployment (and non-employment)

Important new initiatives to help people move from welfare to work were announced in the Budget in March 2000. These include:

- a GBP 100 job grant for people who move from welfare to work after a year;
- a new four week run-on for Income Support Mortgage Interest (ISMI) so that this continues to be paid after starting work. The run-on is targeted at people who are returning to work;
- the introduction of a 52 week linking rule for Income Support Mortgage Interest (ISMI) payments for the majority of claimants who take up work.

This means that people whose new jobs don't work out, or who move about the workplace, or who take short term contracts will not have to wait nine months to qualify for the benefit.

9. Miscellaneous measures

The government believes that the tough action it has taken to combat benefit fraud is vindicated, and that the tide is turning against benefit cheats. The fraud strategy involves getting it right, keeping it right and putting it right when it comes to benefit payments.

Measures include:

- extending payment of benefits directly into bank accounts through Automated Credit Transfer (ACT);
- saving GBP 200 million in Income Support by strengthening checks on claimants before money is paid out.
- Cross checking DSS and local council records, saving GBP 20 million in bogus claims.
- A new scheme of faster data transfer between the Benefits Agency and local councils which has already saved GBP 1.8 billion in one borough alone.
- A new scheme stopping benefit cheques being forwarded to fraudsters using false addresses.
- An extra GBP 3.5 million in training fraud investigators in DSS agencies and in local authorities.
- Toughening the penalties against persistent offenders and increasing the powers available to investigators.

European Commission

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