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MISSOC

Mutual Information System on Social Protection in the European Union  
Système d'information mutuelle sur la protection sociale dans l'Union européenne  
Gegenseitiges Informationssystem zur sozialen Sicherheit in der Europäischen Union

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## EDITORIAL

Dear Reader,

As you can see we have given MISSOC-Info a face lift for 1996. We hope that this new design will make our bulletin look better and more attractive - also in terms of content. For 1996 we are intending to provide better and more up-to-date information about the most important developments in the field of social protection in the member states of the European Union.

Over the last few months important changes in the legislation on social protection have been undertaken in several member states. In the current bulletin we would like to inform you, inter alia, about the changes in Spain, France and the Netherlands.

At Union level there is much discussion about the problems and challenges which all member states are facing at present, as well as about the possibilities of adaption of the social protection systems to the

changing conditions. The Commission's communication „The future of social protection. A framework for a european debate“ (COM (95) 466 final) to the Council of 31.10.95 forms a framework for the more intensive exchange of opinion and experience. In view of the significance of this document for the current debate the secretariat has decided to publish an abridged version of the paper in the bulletin.

Surely our readers are expecting the 1995 version of our annual MISSOC publication. The editorial work was completed at the beginning of March and at present the documentation is being printed as a publication of the Office for Official Publications of the European Communities in Luxembourg. In a few weeks the new edition will be available.

MISSOC Secretariat

Dr. Wilhelm Breuer

## NEWS AND TRENDS

### BELGIUM

#### **Creation of employment incentives through reductions in social insurance**

In order to promote the employment of unemployed young persons difficult to place the Belgian Government has implemented a new concept which is to facilitate the entry or reentry of employees into the labour force with the support of "integration enterprises". The share of the employer's social insurance contributions will be reduced in order to create an incentive for the employer to recruit new staff. The reduction or remission of the employer's contributions amounts to:

- 100 per cent for the duration of one year;
- 75 per cent for the fifth to the eighth quarter after recruitment of the employee;
- 50 per cent for the ninth to the twelfth quarter after recruitment of the employee;
- 25 per cent for the thirteenth to the sixteenth quarter after recruitment of the employee.

Enterprises and societies are deemed integration enterprises if they are recognised and subsidised companies and associations with separate legal personality whose business purposes focus on the vocational and social integration of unemployed persons who are difficult to place through the production of goods or the provision of services.

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MISSOC is the Mutual Information System on Social Protection in the member states of the European Union and has been established upon the initiative of the European Commission, Directorate-General V. Its aim is to provide an exchange of information between the member states as well as to provide information for all relevant institutions responsible for the administration of social protection, the social partners and the interested public.

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## GERMANY

### Principal lines of a legislation in favour of part-time work for elder employees and against early retirement

On 14 February 1996, the Federal Government adopted the basic features of a law to encourage part-time work for older employees and discourage early retirement. Thus, the date set in the regulation aiming at protecting the confidence of the concerned persons in the law as well as their legal claims (*Vertrauensschutzregelung* - compare subparagraph II, 5) is relevant:

#### I. Encouraging part-time work of older employees

1. Establishment of a regulation to promote part-time work of older employees (old-age part-time work) from over 55 years of age onwards; this permanent regulation will be the basis on which the qualifying conditions for the new old-age pension due to unemployment and after old-age part-time work may be fulfilled.

2. With regard to workers entering old-age part-time work within the next five years, the Federal Labour Office will provide means to refund the following benefits to the employer:

- 20 per cent increase of the remuneration paid for part-time work. (This increase is exempted from taxes and social contributions, so that most employees in old-age part-time work draw at least 70 per cent of the net earnings they received in their former full-time employment. If the pay in the lower wage groups remains below this 70 per cent, a correspondingly higher increase is refunded.)
- increase in the contributions to the pension scheme, calculated on the basis of at least 90 per cent of the net earnings from full-time employment.

In order to be refunded for these benefits, the employer must:

- reduce the older worker's working hours by 50 per cent of those undertaken in full-time employment, while the older worker has to work for at least 18 hours per week (the so-called *Kurzzeitigkeitsgrenze* = short-time limit of the unemployment insurance)
- refill the vacancy with an unemployed or by taking over persons having completed their training.

The benefits paid by the Federal Labour Office will cease after five years at the latest. They are granted from the beginning of old-age part-time work (not before the full age of 55) until the date on which the old-age pension due to unemployment and after old-age part-time work or another old-age pension is drawn either as a partial or as a full pension. However, the benefit payments will - at the latest - cease on the ear-

liest possible date on which an unreduced old-age pension may be drawn.

#### II. Regulations concerning the statutory pension scheme

1. The old-age pension due to unemployment will be transformed into an „old-age pension due to unemployment and after old-age part-time work“.

The qualifying conditions are fulfilled either in the case of being unemployed (as under the law in force) or after having performed old-age part-time work as defined by the Law to promote part-time work of older employees for at least 24 months and irrespective of the question whether the Federal Labour Office has paid benefits during this period or not.

2. Like all other types of old-age pension, this new old-age pension may be claimed either as a full pension or as a partial pension.

During the period from 1997 to 1999, the age limit for an old-age pension due to unemployment and after old-age part-time work will be raised in monthly steps from the age of 60 to the age of 63 (the so-called 1-year-model).

This rise in the pensionable age will have the following consequences:

Insured persons (month year of birth):	Year in which the age of 60 is reached:	Age limit raised to:	Pension reduction applicable if pension is drawn from 60 years onwards:
December 1937	End of 1997	61	3.6%
December 1938	End of 1998	62	7.2%
December 1939	End of 1999	63	10.8%

3. During the period of raising the age limit and afterwards, it is possible to claim the pension due to unemployment and after old-age part-time work as soon as the age of 60 is reached in order to ensure a smooth transition from unemployment/part-time work to retirement. To compensate for the longer duration of pension payments, the monthly pension actually drawn will be reduced by 3.6 % for each year the pension is drawn earlier.

4. The reduction in the monthly pension amount caused by the longer period of pension payments may be mitigated or balanced by additional contribution payments. Among other things, the means of the social plan could and should be used for this aim.

Additional contribution payments may be effected even before the age of 60, while this is not possible

after having reached the age of 65. As soon as the pension is recalculated (first pension payment, change of pension type, change from partial to full pension), the relevant additional payments are taken into account, i.e. at the age of 65, when a regular old-age pension is paid, at the latest.

5. For reasons concerning the protection of the confidence of the concerned persons in the law as well as their legal claims, the rise in the age limits for the old-age pension due to unemployment and after old-age part-time work does not apply to the following groups of persons:

- insured persons having reached the age of 55 before 14 February 1996 and who are already registered unemployed on this day or receive adjustment payments for dismissed workers of the mining industry,
- insured persons having reached the age of 55 before 14 February 1996 and who will leave employment due to dismissal or because of an agreement concluded before 14 February 1996, provided that they will be unemployed or granted adjustment payments for dismissed workers of the mining industry afterwards.
- insured persons having reached the age of 52 before 14 February 1996 and who have retired or will retire from a company of the coal, iron and steel industry because of a measure in accordance with the Treaty on the Creation of the European Coal and Steel Community (ECSC), Article 56 § 2, subparagraph b, provided that this measure was approved before the 14 February 1996.

The regulations on the duration of the claim, the deduction of compensation payments and the reimbursement of benefits are still applicable to the persons being covered by the regulation concerning pension scheme and aiming at protecting their confidence in the law as well as their legal claims.



## SPAIN

### **Administration of social security: evolution of the legislation in the second half of 1995**

#### **Competence and procedure of determining permanent invalidity**

According to article 143.1 of the General Law on Social Security in the version adopted by Royal Statutory Order 1/1994 of 20 June and the formulation given by article 34 of Law 42/94 of 30 December on fiscal, administrative and social order measures, the „Institu-

to Nacional de la Seguridad Social“ has the responsibility for the whole procedure and is authorised to declare the permanent invalidity through fixed bodies in order to allocate the corresponding benefits.

Concerning the determination of permanent invalidity this reform is aiming at three fundamental objectives:

1. Simplification. The procedure is carried out by only one body, namely the „Instituto Nacional de la Seguridad“ (INSS) (Ministry of Labour and Social Security), while it is excluded that the Ministry of Health and Consumer Affairs or the Ministry of Social Affairs intervene with the help of the „Instituto Nacional de la Salud“ (INSALUD) and the „Instituto Nacional de Servicios sociales“ (INSERSO) respectively.

2. More juridical reliability. With the new procedure adopted by the above mentioned Royal Statutory Order, the medical evaluation will be no longer carried out by only one physician, but by a multiprofessional team, the so-called Team for the Evaluation of Incapacities (EVI). This team, which is directly responsible to the „Instituto Nacional de la Seguridad social“, will have the task of establishing a rigorous and intensive study of the claimant's professional and medical antecedents and of proposing the preliminary degree of invalidity. The same team will fix the delay for a revision and control of the invalidity.

3. Participation of claimants who may intervene actively by putting forward their invalidity.

Some of the new determination bodies (E.V.I.) are already in place and have progressively started their work as from November 1995.

#### **Collection**

Royal Decree 1637/1995 of 6 October adopts the general Regulation on the collection of the resources for the social security system.

In the context of social security collection management has to be understood as describing the pursuit of administrative activity resulting in the realization of the social security's credits and claims, constituting its own resources.

The „Tesorería General de la Seguridad Social“ is exclusively responsible for the collection management and performs this task under the direction, control and supervision of the Ministry of Labour and Social Security. However, the „Tesorería General“ may consult the collection services of the public administrations or the special bodies set up to this end, when their intervention is considered to be necessary and in particular the collection bodies of the „Agencia Estatal de Administración Tributaria“ (State Agency of Tributary Administration). This applies until the State and the Social Security bodies are provided with a uniform collection system.

The legal amendments implemented in this area since the publication of the former Collection Regulation in 1991 and the experience gained with the collection management on the basis of this Regulation resulted in the need of certain reforms in order to strengthen the trend of moving towards a uniform collection procedure, which in Spain is carried out by administrative means and without the judicial state bodies having to intervene, particularly as far as coercive measures are concerned. The new General Collection Regulation responds to these needs, although it maintains the basic structure and fundamental content of the previous regulation published in 1991.

### **Financial management**

Royal Decree 1391/95 of 4 August adopts the General Regulation on the Financial Management of Social Security.

The General Law on Social Security itself and the Modernisation Plan for the management call for this new regulation which complements the legal provisions on revenues and payment orders of the social security system as well as on the financial cycle of these payments.

The Regulation determines the general functions of the General Treasury of Social Security with regard to the management of the system's financial resources and the procedure of managing the revenues and payments. It contains details on the relation between the General Treasury of Social Security and the totality of the financial institutions as well as on payment methods and instrumentation, providing for the validity and use of electronic, data processing and teleprocessing means.

### **Participation of Mutual Insurance Companies for Employment injuries and Occupational Diseases in Social Protection**

These private Mutual Insurance Companies with non-commercial aims have cooperated with the Social Security bodies in managing the risks of employment injuries and occupational diseases.

During the past few years, the regulation concerning this cooperation has seen a series of amendments. Royal Decree 1993/1994 of 7 December adopts a new Regulation on the Cooperation of the Mutual Insurance Companies, where these amendments are taken into account. It is necessary to point out that it is now possible to extend the framework of cooperation between Mutual Insurance Companies and Social Security bodies to the management of the cash benefits which are granted to workers covered in the case of temporary incapacity caused by non-occupational risks as well as to the management of compensations for temporary incapacity within the general system for

the self-employed and for the self-employed of the special system for farmers.

These regulatory amendments, the experience gathered after the publication of the previous Regulation (1976) and the changes not only in the sector but also in the system of social security resulted in the publication of this new regulation, which reviews definite aspects of the administration of the relevant bodies in order to adapt it as required for cooperation, and adjusts this administration to the current features of the sector.



## **FRANCE**

### **Reform of social protection**

Following the regional forums held in October 1995 and having allowed a broad agreement on the subject of social protection between the members of parliament, representatives elected at local level, representatives of the social protection bodies and of the members of the health professions, a plan for a social protection reform was presented by the Government on 15 November 1995.

The social security accounts presented on 31 October have shown the need to permanently improve the system's financial situation.

The deficit of the general scheme was estimated at more than 64 billion francs in 1995 and it was established that the economic growth will not allow more than the stabilisation of the deficits in the health branch (-36 million francs, i.e. 58 per cent of the overall deficit of the general scheme) and in the retirement branch (-14 million francs), while the family branch will slowly improve because of the demographic situation.

The burden of the interest expenditure (8.2 million francs) in respect of the cumulated deficit (120 million francs in '94 and '95) aggravated this situation.

The strong growth of health care expenditure, which is exceeding the objective negotiated between all the contracting parties in the health sector and the appropriate ministry, was of special concern.

More generally, different elements tended to aggravate this situation: the demographic development which is alarming because of the increasingly ageing population and due to the falling birth rates; the confrontation of public health with two fundamental challenges, namely the growing demand for medical care on the one hand, and the quick progress in medical science and with regard to expensive medical techniques on

the other hand; the growing phenomenon of social exclusion, particularly giving rise to problems concerning the eligibility for benefits and the access to care.

Thus, the structural reduction of the deficits and the consolidation of the principles of justice and of efficiency of the system have proved to be essential.

In this context, the plan for a social protection reform presented by the Prime Minister on 15 November and approved by the members of the national assembly, aims at rendering the social security system more equitable and at strengthening the responsibility of all persons involved. Besides the structural reforms, this plan also provides for immediate measures to safeguard the system.

The plan shall be implemented in three stages:

- before 30 April 1996: establishment of five ordinances reforming social protection;
- beginning of 1996: revision of the constitution with the aim to authorise the parliament to comment on how to finance the social accounts;
- until summer 1996: presentation of several bills constituting the legislative basis of the reforms.

Some measures have already been implemented:

### **I - Ordinances reforming social protection**

Referring to article 38 of the constitution, law no. 95-1348 of 30 December 1995 authorises the Government to reform social protection by means of ordinances until 30 April 1996.

The bill on the ratification of these ordinances must be presented to the parliament on 31 May 1996 at the latest.

#### **Ordinance of 24 January 1996 concerning the repayment of the social debt**

The ordinance of 24 January institutes a Social Debt Redemption Fund (caisse d'amortissement de la dette sociale/CADES) for a period of 13 years and one month as from 1 January 1996. The mission of this fund is to ensure the management and the amortisation of the social security's capital and the interests of its debt (loan of 137 million francs the Central Deposit and Consignment Fund consented to the Central Office of the Social Security Organisations (ACOSS) in view of covering the accounting deficit 94-95 and the deficit expected in 96), to effect the payments (within the limit of 3 million francs) necessary to settle the deficits (95 and the expected deficit for 96) of the sickness and maternity insurance fund for non-salaried workers of the non-agricultural occupations, and to pay the Government over a period of 13 years an annual amount (12.5 million francs) in compensation for the cessation of the payment formerly to be effected by the Old-age Solidarity Fund (Fonds de

Solidarité Vieillesse/FSV), which in future will exclusively be responsible for non-contributory solidarity benefits to the aged.

The revenues allocated to the fund consist of the contributions collected to repay the social debt and of the repayment of the debts receivable from the social security bodies from abroad as a result of Community regulations and bilateral social security agreements.

Moreover, private rental property that is not administratively used by the national funds of the general scheme and the ACOSS shall be sold, and the product of these alienations will be allocated to the CADES to repay the social debt.

As from 1 February 1996 and until 31 January 2009, the ordinance implements several exceptional contributions for the repayment of the social debt (contributions exceptionnelles pour le remboursement de la dette sociale/CRDS), which constitute the main resource of the CADES.

A flat-rate contribution was introduced, amounting to 0.5 per cent on the totality of those earned and replacement incomes liable to the generalised social contribution (CSG). It will be deducted at source and is not deductible from the taxable income.

The income which is CSG-free is also exempted from the CRDS. However, the following income types are included in the calculation basis of the CRDS:

- Regarding earned income: employers' contributions to the supplementary provision and retirement schemes; the compensations paid in the case of a modified employment contract or dismissal, provided that they exceed the legally or collectively agreed amounts; the additional parental allowances;
- among the replacement incomes: unemployment and pre-retirement allowances; retirement or invalidity pensions (the recipients of a non-contributory benefit granted after a means test excepted); allowances granted in case of sickness, maternity, industrial accidents and occupational diseases, and the personal housing benefit.
- Family benefits will be not be liable to the CRDS until 1 January 1997, provided that their calculation basis is not adapted in 1996.

Certain minimum incomes (integration allowance and solidarity allowance, old-age minimum) as well as industrial accident and occupational disease pensions are not liable to the CRDS.

Income from property which is liable to the CSG, earned income and replacement income from abroad are also subject to a contribution which in this case is collected together with the income tax.

Income from savings deposits, which is exempted from the income tax, is subject to a contribution as

well (with the exception of the savings book A and assimilated ones).

Various other contributions of minor consequences have also been introduced.

Thus, with the implementation of these contributions a third calculation basis for welfare charges (supplementary to the contributions and the CSG) is created which is the largest one ever set up.

### **Ordinance of 24 January 1996 relating to urgent measures to re-establish the financial balance of social security**

This ordinance refers to the management of the social security branches as well as to the benefits and modalities of financing. It aims at allowing the financial balance to be re-established within two years (1996 and 1997).

With regard to the recovery of the sickness branch, it provides for measures which are strictly necessary if the expenditure objectives fixed by the Government for 1996 shall be adhered to (+ 2.1 per cent for urban medicine expenditure, reimbursable by the sickness insurance fund).

The planned provisions shall provide a subsidiary supplement for the general law which is first and foremost the responsibility of the negotiating contracting parties (local health insurance funds and health professions). Only in the absence of an agreement the State will have to assume the tasks of the contracting parties concerning the following matters: estimate of costs, trends in expenditure, opposition of medical references, tariffs serving as a basis for the reimbursement of fees, remunerations and charges persons covered by social security have to pay to the specialists concerned.

As far as the return to a financial balance of the family branch is concerned, the monthly calculation basis for the family allowances was stabilised in 1996; the income limits applicable to certain benefits will be stabilised in 1996 as well and made subject to price indexation as from 1997; the young children allowance is again restricted to the advantage of the most vulnerable families (dependant on a means test from the first month of payment).

Other measures particularly refer to the financing. Thus, a tax of 6 per cent on the contributions of employers as well as on those of the personnel's collective representation bodies, aimed at financing supplementary welfare benefits in favour of salaried workers and which are paid as from 1 January 1996, is introduced. This new tax is and is to be. It is allocated to the Old-age Solidarity Fund, charged to the employer and collected and controlled by the URSSAF.

A new kind of indemnity has been introduced which is charged to third parties held responsible for accidents

causing social security costs. It aims at ensuring that a contribution is made to the financing of the managing costs within the sickness insurance and industrial accident insurance schemes. The amount of the indemnity may vary between FF 500 and FF 5000.

The expenses met by the sickness branch as long as a disease is not recognised to be an occupational disease will be reimputed to the industrial accident branch.

An exceptional contribution of companies ensuring the distribution of one or more special pharmaceutical products is planned to be introduced in 1996.

### **II - Other regulations**

Other measures to finance social security, applicable as from 1 January 1996, are not mentioned in the ordinances of 24 January 1996, but have been treated with through separate regulations. In this context, it was decided:

- to raise the sickness insurance contribution rates for all replacement incomes (old-age pensions subject to taxation and unemployment benefits exceeding the SMIC) by 1.2 points, both in 1996 and in 1997;
- to modify the method of calculating the daily allowances paid by the maternity insurance scheme, so as to exclude the amount of these allowances exceeding 100 per cent of the net salary;
- to increase the lump sum to be paid for hospitalisation, amounting to FF 70 from 1 January 1996 onwards;
- to reduce the amount taken over with regard to the family allowance contributions of physicians from the sector I.

These measures (the ordinances to be ratified before 31 May 1996 and the constitutional law) must be complemented by three further ordinances (architecture and management of the social security funds - control of expenditure for ambulatory medicine - hospital reform) before 31 April 1996, and by several bills on a reform of the global organisation of the system to be presented until summer 1996 at the latest.



## **NETHERLANDS**

### **Privatisation of the Sickness Benefits Insurance**

In the Netherlands the reform of the independent sickness benefits insurance (ZW) was introduced for 1 March 1996. From the point of view of the Government the new measures are to create an incentive for preventive behaviour and more health-awareness.

From now on the employers are obliged to pay the sickness benefits for their employees. The employees

who in the event of sickness have so far received sickness benefits after the continued payment of wages (two to six weeks) stopped, are now entitled to continued payment of wages from their employers to the amount of 70 per cent of their last wages or salaries for the duration of one year. However, the social partners may negotiate a higher percentage for the continued payment of wages.

The employers have the possibility to have the potential expenses covered by private insurance. Since the insurance premiums will depend on the times lost in each individual enterprise, critical observers fear that, on the basis of these measures, certain categories of persons, such as the chronically ill, persons with a weak constitution and in particular older employees, will become a risk for the enterprises in terms of cost, which could thus lead to exclusions.

However, the so far valid provisions of the Sickness Benefits Act are to remain in force for certain categories of persons. Amongst them are, inter alia, pregnant women and employees with fixed-term contracts that have already been terminated.



## PORTUGAL

### **Perspectives of the Government Programme**

In October 1995, a new government was chosen for the country.

According to the programme dealing with social protection, the goals to achieve during the current legislative period are to upgrade the role of social solidarity and to implement a fundamental reform of the social protection system without losing the guarantees already established.

This programme proposes the reinforcement of the protection granted by the non-contributory scheme through the introduction of a minimum income benefit, thought to facilitate social integration of the concerned persons.

In view of the difficulties existing in relation to the social protection schemes, the government intends to set up a Commission for the development of a White Paper on Social Protection in Portugal to analyse the existing problems as well as the problems expected to arise at mid-term and propose possible ways of solving these problems.

According to what is said in the programme, the present government does not intend to manage an instable social security system, but wants to overcome the system's crisis.

## UNITED KINGDOM

### **Social Protection Measures in the United Kingdom**

*In connection with the budget for 1996 the Government of the United Kingdom provides for an extensive number of social protection measures. For the information of our readers we publish an excerpt of the Social Security Statement delivered in front of Parliament by the Secretary of State of Social Security Peter Lilley on 29 November 1995.*

### **Social Security Statement by Peter Lilley, 29 November 1995**

When I became Secretary of State for Social Security expenditure on social security had been growing on average 5% a year faster than inflation since the welfare state was founded. As a result it has taken an ever growing share of national income. So it has been the engine for rising taxes.

Social security now costs the average working person £15 every working day. That is why, when I became Secretary of State for Social Security, I launched my programme of step-by-step reform. Those reforms are having an effect. Over the next three years spending should grow by little over 1% per annum, well below the growth in the economy. So it will be a declining share of national income. It will leave scope for sustainable reductions in taxes. That in turn is the best of all ways to stimulate activity in the economy, to create employment and to reduce benefit dependency.

Next year, planned spending on social security will be £90 billion. That is the figure I announced last year and is below the plans of two years ago. It includes nearly £3 billion to finance increased benefit rates. This is £600 million more than anticipated last year because it is based on the September inflation rate which jumped to 3.9% and has since fallen back to 3.2%.

The measures I am announcing today will save nearly £500 million in 1996/97 and over £1 billion in 1998/99. Altogether, my reforms to date will save £3.5 billion next year. And by the turn of the century, they will save £5 billion a year.

### **Fraud and abuse**

#### ***Security strategy***

To be able to help those in need we have to stop fraud. Despite tough control on overall running costs I am channelling extra resources to the battle against fraud. Last year the Benefits Agency detected and stopped a record £700 million of fraud. And local authorities doubled their savings to £170 million. But prevention is better than detection. I am therefore pursuing an anti-fraud strategy based on prevention and deter-



rence. In total my anti-fraud measures across all benefits will save £2.5 billion by 1998/99.

The Benefits Agency has just started deploying one of the most powerful data matching systems in the world to identify suspicious claims. The Agency will investigate these and carry out over 1 million home visits and other checks. It will tackle employers who collude with people claiming unemployment benefits while working. And next year, we will start computerising post offices and launch the benefit payment card.

### ***Housing Benefit***

Local authorities have responsibility for administering Housing Benefit. A recent study suggests Housing Benefit fraud costs almost £1 billion a year. So I will strengthen the financial incentives for local authorities to tackle fraud. I will invite local authorities to compete for Challenge Funding for innovative anti-fraud measures. And next year I will introduce a national computer record of Housing Benefit claimants. This will stop people claiming from more than one local authority.

From October 1996 further changes in Housing Benefit will reduce abuse and waste. Some tenants abscond without making initial payments to landlords. So I shall enable local authorities to make the first giro payable to the landlord. Most other benefits are already paid in arrears. I shall align Housing Benefit with them. This will stop wrongful payments that can arise when Housing Benefit is paid in advance (...).

### ***Families and work***

The past two decades have seen a huge increase both in the number of lone parents and their cost to the taxpayer, expected to be £9.4 billion this year. This is equivalent to over £1500 a year extra tax on each working family with children of their own. The right approach is neither to penalise nor to promote lone parenthood.

The benefit system gives special assistance for lone parents which couples do not have. In particular, two components of benefit for lone parents have no equivalent for couples. These are One Parent Benefit and Lone Parent Premium. They cost around £600 million a year. To start bringing treatment of one parent families and two parent families more into line I propose no increase in either benefit next April. My intention over time is to continue to narrow the gap between the benefits which go to lone parents and those which go to couples.

At the same time I intend to build on our existing measures to help lone parents back to work. Family Credit has been of particular benefit to lone parents and I have greatly improved it. I have extended Family Credit to people working part-time. I have given an extra £10 a week to people working full-time. I have introduced a £40 a week allowance for the cost of

childcare. And I now propose to increase the allowance to £60 a week. This will be of particular benefit to those who wish to return to full-time work and those with more than one child. The provision of nursery vouchers will be an additional help to parents of pre-school children.

Maintenance is also an important stepping stone to work. Even absent parents on benefit should contribute to their child's support. So I propose to double the minimum payment of child maintenance to £4.80 a week from April 1996. In addition, from April 1997, I shall pilot a major new scheme. It will provide individual help for up to 25,000 lone parents to find jobs or training opportunities. Finally, my RHF the Secretary of State for Education and Employment will extend the very successful scheme which has already created places to care for 50,000 children out of school hours, creating a further 18,000 places over the next three years (...)

### ***National insurance contributions***

Britain already has one of the lowest non-wage labour costs in Europe. I intend to reduce them further. From April 1996, employers will qualify for one year's remission from their National Insurance Contributions for each person they take on who has been out of work for two years or more.

I am cutting National Insurance Class 4 Contributions for self-employed people by 1.3% from April 1996. This outweighs the loss of tax relief on these contributions announced by my Right Honourable and Learned Friend the Chancellor. And finally, I intend to cut the main rate of employers' National Insurance Contributions by 0.2% from April 1997.

### ***Long term care***

#### ***Capital limits***

One of the main financial concerns facing elderly people is the prospect of long-term care. Providing for their needs in old age is, of course, one of the reasons why people save. But Age Concern and others have argued that the capital limits applying to people in residential and nursing care are tougher than the rules for people who stay in their own homes. They have urged us to raise the capital limits for residential and nursing care to those applying to Housing Benefit. We are going further than that, not just doubling the upper limit to £16,000 but more than tripling the lower limit. Under our proposals, people with up to £16,000 of assets will qualify for state help. And people with capital of less than £10,000 will not be required to make any contribution from their capital towards the cost of residential care. The new limits will apply from April 1996 at the latest to all people in long-term residential care or nursing homes. Around 50,000 people should benefit in the first year. We also want to ensure that in future more people can afford care.

### **Savings and insurance**

One of this country's major successes has been encouraging more private pension provision than any other European country. The challenge facing us is to be equally successful in enabling people to make decent provision for long term care. We are announcing three important proposals to stimulate the development of attractive savings and insurance schemes. First, benefits from long-term care insurance will be tax free. Second, my Right Honourable and Learned Friend the Chancellor is consulting on how occupa-

tional pension schemes can enable pensioners to defer some income early in retirement so that they have more income to help with the cost of long-term care. Third, we will consult on partnership schemes. These would enable people to retain even more of their own assets in return for providing for a corresponding amount of their long-term care costs. This would encourage more people to make provision for themselves. And it would help the insurance market develop new products, since their risks would be limited (...).



## **SUBJECTS IN DISCUSSION**

### **EUROPEAN UNION**

#### **Communication from the Commission: „The future of social protection: A framework for a european debate.“**

*The Commission submitted its communication „The future of social protection. A framework for a european debate“ (COM (95) 466 final) to the Council on 31 October 1995. Against the background of the reforms aimed at the adaptation to the changing social and economic conditions currently considered in the European Union and the strategy of convergence which has been followed since 1991, the Commission acknowledges the necessity for common deliberations in detail on the development of social protection.*

*The Commission has already submitted in its Action Programme for 1995 to 1997 a proposal of a framework for a european debate on the future of social protection. The published communication describes the further details of the objectives and means of this framework.. We now publish the middle part of this extensive paper (Part 2: Nature and scope of the problems).*

#### **The nature and scope of the problems**

##### **Employment and social protection**

In all the Member States, social protection systems were set up in a context both of relatively low rates of activity, especially for women, and low unemployment. They were not designed to cope with the current imbalance between demand for and supply of

jobs. The burden of the transfers to persons not in gainful employment, whether retired, sick, incapable of working or unemployed, has grown for those whose income comes from economic activity. The resulting indirect labour costs are seen as prejudicial to the development of employment, competitiveness and economic growth: Moreover, the combination of means-tested benefits and the taxes levied on income

from employment can be such that the unemployed have little or no incentive to seek employment.

Social protection is also crucial to the very working of our societies. There has been a large degree of success in *combating poverty*, especially among older people, disabled people and large families. In times of recession the income transfers produce *countercyclical effects* at macroeconomic level. Social protection has *facilitated the access to education* for lower income families and thus has contributed to improve the quality of the labour force. It has helped to cushion the social effects of industrial restructuring, and thereby facilitated *economic progress*. In the current period it is essential *to alleviate the social effects of unemployment*. Opinion surveys show that the vast majority of Europeans recognize the value of the existing machinery and wish to retain and improve it, recognizing that it is an *essential vector of social cohesion*.

The question is then: how can the positive aspects be consolidated while overcoming the negative effects? In order to help increase job opportunities, combat social exclusion and reduce the cost of unemployment, it has proved necessary to put in place an active employment policy which combines income support, professional training and tapping new sources of employment. How can social protection be made more conducive to this active employment policy? How can it be integrated in employment promotion by relating for example the payment of benefit to active measures of economic integration of first-time job-hunters or the retraining of unemployed workers? How can it be ensured that social protection promotes integration into the labour market, i.e. that payment of benefits should not become a disincentive to legitimately remunerated work? And in this context, when benefits become more targeted on the most needy, because of financial pressures, how to avoid the problem that efforts made by recipients to get higher wages lead to very small changes in their disposable income?

Another aspect relates to the growth of part-time work, temporary work and teleworking, affecting women in particular. Unless full social protection rights are given to these workers, to what extent is there a perverse effect that an individual does not enjoy better rights when in work than when unemployed.

### **The financing of social protection**

All the Member States are concerned about the financing of their social protection schemes. While revenue, which mostly comes from wages and salaries is at a standstill because of poor employment levels, expenditure is increasing, particularly as unemployment persists. It is not possible to sustain sub-

stantial deficits in the long term. Even in the short term, the present budget deficits contribute to the pressures on interest rates and consequently to the delay in economic recovery.

Member States appear to have limited scope to put up social charges and contributions levied on wages and salaries: they are seen as relatively high already in many countries. As a proportion of GDP, the tax burden on labour increased at Community level from 19% in 1980 to 21% in 1993. There is now general agreement that the cost of low-skilled labour should be reduced; and as a consequence the magnitude of non-wage labour costs is seen as being too high. One of the five priorities of European employment policy set by the Essen European Council was reducing indirect labour costs, notably in relation to low pay.

In this context, a significant number of Member States are looking at ways to diversify sources of financing and examining how to obtain tax revenues for the financing of social protection. For example, some of them are beginning to attempt to shift the burden of taxation from employment to natural resources, with a view to discourage their excessive use. Other Member States are trying to tie benefits more closely to contributions. In any case, reforms of the structures of compulsory charges and contributions are in hand or in preparation in many Member States.

In this context of change, is there a need for closer Community cooperation on these matters between the Member States?

The design of the social protection system is also being examined in some Member States in terms of where the line is to be drawn between statutory and supplementary provision. In order *to lower the rate of compulsory social contributions*, some proposals are being made to reduce the former and give more importance to the latter. What would be the impact of such a change on distribution of incomes within societies, and what would be the consequent impact on the labour market? Is there a risk that wage discrepancies would be widened if they are associated with bigger differences, as far as social protection rights are concerned, between firms according to their size and activity? How can an adequate balance between statutory and supplementary protection be reached, which maintains social cohesion within Member States and meets the growing need for greater flexibility in modern economies?

### **The impact of demographic changes**

The gradual progression of the baby boomers born after the war to working life and, after 2010 to retirement is now producing its first effects. This will play its part in intensifying ageing from the next century. The most recent UN forecasts on demography show

that the total population in the 15 EU Member States will be more or less the same in 2020 as it is now. This assumption is based on estimates of lower fertility rates that EUROSTAT now consider to have been conservative, and it may be possible that by 2020 the European population will drop below today's levels. But what is sure is that the number of people aged 65 and over will grow by 23 million, from 52 to 75 million, or almost 45%<sup>1</sup>. Moreover, it seems unlikely that the growing imbalance in the age pyramid will be remedied by immigration.

The strain of achieving the transfer to those above retirement age and the burden imposed on the future generation of working-age will depend critically on the underlying growth of the European economies between now and then, and what happens to jobs. In recent years, the effective dependency ratio has risen substantially, not because of the ageing of the population but because of earlier retirement and increasing unemployment. Higher employment rates than currently achieved could offset the effect on the dependency ratio of the ageing of the population and make it easier to obtain the income transfer required. At the same time, some Member States are discussing changes in the way their pension system is financed, and in particular the balance between capitalization and pay as you go scheme. Is there a need to discuss the impact of such changes, for example on economic growth and job creation and the objective of maintaining solidarity between generations?

The progressive transformation of family structures and lifestyle trends also makes it necessary to adapt existing schemes. Some of the systems are still implicitly based on a traditional family concept, in which the husband is the breadwinner while the wife has no paid activity, the two partners are linked by marriage, and that link is only broken with the death of a spouse.

It is well known that this is no longer the dominant model, with the very significant increase in the activity rate of women, the increased frequency of divorce, and the increasing proportion of unmarried couples and single-parent families.

Some social protection mechanisms, particularly those used for calculating pension rights, are ill-suited to meet these trends. Increasing consideration is given to individualization of rights and contributions. But the change in lifestyles and working practices also creates new social protection needs. This is the case, for example, with the care of elderly dependents, which is more and more difficult for adult children to provide on an informal basis. More generally, the tra-

ditional patterns of solidarity between generations are changing, and will increasingly be modified with the aging of the populations.

### **Changes in health-care systems**

The 1992 Recommendation on convergence set out a clear definition of the social protection policy objectives in this area: (i) to maintain and develop a high-quality health-care system geared to the evolving needs of the population, to the development of pathologies and therapies and the need to set up prevention; (ii) to ensure for all persons legally resident access to necessary health care as well as to facilities seeking to prevent illness.

Reconciling the twofold objective set out in the 1992 Recommendation with the constraint resulting from the need to keep public health-care expenditure under control is extremely difficult. Introducing market-forces into the health-care sector has proved to be difficult, if one wants to avoid the adverse effects of risk selection. Whatever the way the system is organized, through sickness insurance or a national health service, detailed contracts or agreements between the providers of medical services, the paying bodies and the public authorities seem to be necessary. Given the complexity of these problems, exchanges of experience in this area would therefore be particularly useful. Moreover, closer cooperation between all concerned would now appear useful to identify the best solutions to the evolving needs of the population.

At European level, it would appear useful to analyze whether, as a first step, efficiency gains could be made by improving the complementarity in the supply of specialized health care across borders, and what administrative arrangements would be necessary. Could agreements be envisaged between the paying bodies to allow access where appropriate to the health-care system of another Member State?

### **Social protection and freedom of movement**

There has been a substantial change in the nature of migration across the Union. Generally speaking, during the 60's and the 70's only workers and their families used their right to mobility. The current situation is very different: many non-active persons, whether retired or students, people undergoing training and job-seekers want to move to another Member State.

The increased importance of supplementary social protection has reduced the ability of coordination mechanisms to promote free movement of workers. There is currently no mechanism or arrangement dealing with the maintenance or transferability of supplementary old-age pension entitlements, for example. Given that these supplementary provisions will probably become increasingly important, the

<sup>1</sup> The Commission produces an annual report on „ The demographic situation in the European Union“; see COM (94) 595.

question arises of the extent of the obstacle this presents to the development of a European labour market.

Another problem for people using the right to free movement or free establishment is linked to the fact that the financing of social protection differs between Member States. Since there is no coordination between taxation legislation and applicable social security rules, - as already exists for social security contributions in Regulation 1408/71 - this can lead to some problems for frontier workers, whether employed or self-employed. Some workers have to pay high levels of both taxes (in the country of residence) and social security contributions (in the country of work), and other ones take advantage of being in a symmetric position. Is there scope for closer coordination to help overcome these problems?

Directives governing the right of residence require people not to be dependent on the welfare system in the host country. This can, for example, make it difficult for someone who is unemployed in one Member State, to go to another Member State to look for work while continuing to receive unemployment benefits. The Commission has already presented a proposal to amend Regulation 1408/71 to help overcome this problem. More generally, is there a need to reflect on how the interpretation of this requirement - which is designed to avoid the risks of "benefit tourism" - can be reconciled with the right of free movement?

More generally, the question of the future evolution and scope of coordination of social protection systems between Member States is being raised. The aim of coordination is to promote free movement. Can coordination operate satisfactorily if the Member States' social protection systems grow further apart or become increasingly complex, for example by the trend towards targeting and means-tested benefits? What are the main obstacles to simple and effective coordination and how can we overcome them? And what are the consequences of such wide differences from one country to another of key determinants of social protection, such as the conditions and age of retirement and the definition of incapacity for work?

#### **Social protection and freedom to provide services**

Collective social protection systems coexist with individual self insurance provision. People who can afford to do so often enter into private contractual arrangements to top-up benefits from collective schemes, both statutory and professional.

Collective systems are organized on the basis of pooling risks: everyone contributes, everyone benefits. The financial viability of the schemes depends on balancing the good risks with the bad. The good risks are those who are better qualified, in good health, in employment for example. The likelihood is that these people benefit less from the schemes than the other

ones. If there is no compulsion for people who are good risks to belong to collective schemes, then the defined level of benefits could not be maintained.

There is a grey area as to the extent to which compulsory affiliation to schemes which are not statutory schemes is compatible with European law. Whilst the European Court of Justice will rule on such questions on a case by case or scheme by scheme basis, is there a need to explore what general principles should be applied with a view to achieving the Community objective of providing a high level of social protection and to avoid unbalancing schemes, and predetermining Member States' choices in this area?

#### **Social protection in the longer term**

Europe must achieve change, if it is to be at the forefront of economic and technological progress. And, as emphasized in the Green<sup>2</sup> and White<sup>3</sup> Papers on European social policy, the Union is fully committed to ensuring that economic and social progress go hand in hand. A medium-term strategy is needed which will draw together economic and social policies in partnership rather than in conflict with each other.

The role of transfer and redistribution may become increasingly important in the future, since there has been a tendency in recent years towards a widening of income discrepancies, and consequently the risk of poverty and exclusion is increasing. In that context, social protection systems will have to be adapted, not only because of the funding pressures but, more fundamentally, because of the needs to move towards more active policies aimed at ensuring that everyone is integrated into work and society. Within the overall prospect of change, specific challenges will have to be addressed, such as how to promote the integration of the current generation of young people into the labour market and how to ensure that everyone has equal opportunities.

The 1992 Council Recommendation on convergence of social protection objectives and policies recalled that one of the basic objectives of social protection is to help to further the social integration of all persons legally resident within the territory of a Member State and the integration into the labour market of those who are in a position to exercise a gainful activity. The 1990 Recommendation on the guarantee of minimum resources defined the basic right of a person to sufficient resources and social assistance. The Commission will examine the efforts being made to meet these objectives. A link between the acknowledgement of this right and active measures for social and economic integration has been established and many innovative experiences are

<sup>2</sup> COM (93) 551

<sup>3</sup> COM (94) 333

under way in Member States. Would it be useful to organize an exchange of views on the way social protection can be an effective tool for fighting against exclusion?

On the other hand, changes in life-cycle patterns are appearing, which may lead to modifying the traditional sequence of education, work and retirement periods. There is a long-term trend to reduce the duration of work and to increase training periods throughout working life. Working conditions will tend to become more flexible and mobility will continue to increase. Given these changes, the current way of acquiring rights to social protection- and especially the link to work - may need to be revisited.

Finally, the globalisation of the world economy and the increased need for competitiveness are likely to require continuing moderation in the growth of labour costs. In the future it will probably be more difficult to meet the financing requirements of social protection by raising employers' social contributions and charges. As a result, it will increasingly be clear to workers, who receive wages and pay social security contributions and taxes, that there is a trade-off between disposable income today and entitlement to benefits tomorrow. The level and financing of social protection are therefore likely to become more sensitive political issues in the future, especially as demand for protection against social risks is likely to continue to rise. A common reflection on these subjects can only be useful.



## PUBLICATIONS

### LUXEMBOURG

In November 1995, as every year, the General Inspectorate for Social Security in the Ministry of Social Security published a "General Survey of the Legislation on Social Security in the Grand Duchy of Luxembourg" (*Aperçu sur la législation de la sécurité sociale au Grand-Duché de Luxembourg*) for 1995. This publication describes the situation in Luxembourg under consideration of the changes in legislation until 31 July 1995.



### PORTUGAL

#### Equal Treatment in Portugal

The State Secretariat for Social Security in Portugal has published a special edition no. 11/95 on equal treatment [Igualdade de Tratamento (I)] in its series *Segurança Social. Regimes*. The edition contains, inter alia, a detailed description of the problems of equal treatment in non-contributory schemes. Other details deal with the equal treatment of men and women, of Portuguese nationals and nationals of other EU member states, of Portuguese nationals and nationals of third countries.



### FINLAND

The Finnish Ministry of Social Affairs and Health has published the edition of its English language newsletter *Socius*, no. 1 /1996. Several contributions deal with the correlation between employment policy and social protection in Finland. Several other contributions focus on the Finnish policy of equality of men and women, the policy of the protection and encouragement of children, measures to restrict tobacco and alcohol consumption and sex education in connection with AIDS prevention.

