

MISSOC SECRETARIAT

MISSOC ANALYSIS 2008

**SOCIAL PROTECTION:
ASPECTS OF FLEXICURITY AND ACTIVE INCLUSION**



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MISSOC Analysis 2008

Social Protection: Aspects of Flexicurity and Active Inclusion

I. Introduction

1.1. The background to MISSOC Analysis

The MISSOC Analysis, a document from the MISSOC Secretariat, is a new output of the Mutual Information System on Social Protection and is presented for the first time in 2008. This document intends to provide an analytical overview of significant developments in selected fields of social protection and to explore how these developments relate to changes in social protection legislation over time. In addition to providing accurate information, the MISSOC Analysis should contribute to work within the Open Method of Coordination (OMC) in the field of social protection and inclusion.

The MISSOC Analysis is based on information found in the MISSOC tables, and is as such an exercise about how these regular updates of social security legislation can be used in a more policy-oriented way. The data of these tables also limit the scope of this report as the tables only contain information on statutory schemes of social protection but no information on complementary systems.

The data from the MISSOC tables are described and contextualised against the backdrop of the theoretical policy framework set by key documents in the field of European Social Policy. The MISSOC Analysis also intends to be a concrete instrument for policy-making by linking overall developments and mechanisms to existing practices in the participating countries. This MISSOC analysis looks to the prevailing context and to the developments that took place between 2004 and today.

Experts from the MISSOC Secretariat [currently contracted to Bernard Brunhes International (BBI)] have drafted this paper in consultation with the European Commission and the National Correspondents from the countries that participate in MISSOC. This document is however the only responsibility of the Secretariat. Prof. Yves Jorens (Scientific mentor in the MISSOC secretariat) took lead responsibility for developing this document, in close collaboration with Prof. Saskia Klosse.

1.2. The rationale for selecting 'flexicurity and active inclusion' as a theme

- *The Renewed Lisbon Strategy: Towards socially inclusive economies*

Originally conceived as a Dutch or Danish phenomenon combining flexible employment protection legislation with a high level of social security benefits, flexicurity has now become a leading concept in the field of European social policy. Current social policy debates around 'flexicurity' address the challenge of reconciling adequate and efficient social security provision, on the one hand, with structural changes that demand more flexible and deregulated labour markets, on the other. The concept of flexicurity reflects the idea that

flexibility and security are not contradictory to one another, but can in many situations be mutually supportive.

In this sense, flexicurity is needed to achieve the objectives of the renewed Lisbon Strategy for Growth and Jobs which aims at combining economic and employment growth with greater social cohesion. This means in particular more and better jobs, while modernising the European social model at the same time. It involves the deliberate combination of flexible and reliable contractual arrangements, comprehensive lifelong learning strategies, effective active labour market policies and modern adequate and sustainable social protection systems. Modern social security systems should provide adequate income support, encourage employment and facilitate labour market mobility and secure transitions from job to job. This includes broad coverage of social protection provisions that help people combine work with private and family responsibilities. The debate on flexicurity deals therefore with the issue of a further interconnection between work and welfare issues or the so-called activating welfare state.

However, if the Union is to make full use of its potential of human resources, economic, employment and social development must go hand in hand. To guide the Member States in the process of finding ways to bring this about, the Guidelines for Growth and Jobs indicate pathways upon which Member States can build their policies. These policies should include active inclusion policies that target increasing labour supply at the same time as strengthening society's cohesiveness.

Within this context, Member States should take measures that are geared to remove barriers to the labour market, for example, by ensuring effective job search assistance and access to (vocational) training and other active labour market measures. Member States should also guarantee the availability of affordable social services and provide adequate levels of minimum resources to all. This type of measure should be complemented by other measures to ensure that taking up work pays and that remove unemployment, poverty and inactivity traps. In addition, Member States should develop new sources of jobs in response to collective needs, for example through the expansion of the social economy so as to create supportive work environments for vulnerable groups by providing services for individuals or local businesses which are not met by the market economy.¹

In developing and implementing their policies, Member States should pay special attention to promoting the active inclusion of young and older people, long-term unemployed as well as disadvantaged groups such as the low-skilled, people with disabilities, immigrants and ethnic minorities. As far as the last three groups are concerned, Member States should intensify their actions to combat discrimination.

- *The link between flexicurity and active inclusion*

¹ COM(2007) 803, *Integrated Guidelines for Growth and Jobs (2008-2010)*, p. 28-29. See in this respect in particular Guideline nr. 19 which invites the Member States more explicitly to ensure inclusive labour markets, enhance attractiveness and make work pay for jobseekers, including disadvantaged people and the inactive through: 1) active and preventive labour market measures including early identification of needs, job search assistance, guidance and training as part of personalised action plans, provision of necessary social services to support the inclusion of those furthest away from the labour market and contribute to the eradication of poverty; 2) continual review of (dis)incentives resulting from tax and benefit systems, including the management and conditionality of benefits and a significant reduction of high marginal effective tax rates, notably for those with low incomes, whilst ensuring adequate levels of social protection and 3) development of new sources of jobs in services for individuals and businesses, notably at the local level.

Whereas flexicurity policies aim to facilitate safe labour market transitions and progress in employment, active inclusion policies focus on those at the margins of the labour market by providing personalised pathways to employment for those who can work, whilst at the same time ensuring that those who cannot work can live a life in dignity and contribute as much as possible to society.² Both types of policy are to be pursued simultaneously in order to meet the Union's objective of mobilising its full potential of human resources.

Labour market integration often needs to be joined up with a range of social services. This is even more pressing in view of the new social risks that have emerged as a result of demographic change and the trend towards greater individualisation.³ In addition, supported employment opportunities, provided by social enterprises within the framework of the social economy, may be needed for those most remote from the labour market. Active inclusion policies recognise that this can be a useful path towards integration, which can bridge the transition from the situation where individuals are fully dependent on social assistance and to their participation in the labour market.

Having succeeded in finding work, continued support may be needed in terms of, for example, training on-the-job and suitable work arrangements to help marginalised people reconcile work with their disadvantages, such as lack of appropriate accommodation or health problems. Consequently, active inclusion policies also promote job retention as a means to avoid this group having to leave the job again due to, for example, inadequate employment skills or because the personal or social hurdles are not adequately addressed.⁴ Active inclusion policies are fully complementary to flexicurity policies in this way. In fact, they complete the flexicurity picture by adopting a wider approach in combining income support and activation policies with the Union's policies on social protection and social inclusion which aim at preventing social exclusion, (child) poverty and inequality.

The interplay between labour markets and welfare states is at the core of debate in Europe. Although flexicurity might at first appear to align more closely to the interests of employers, in fact it also brings benefits to employees. A variety of reasons can underline the need for flexicurity, such as the desire to better combine family and work or to take career breaks for either care or study leave. Different needs at different phases of the life course may result in a variety of career trajectories with fluctuations in the volume of working hours or with career breaks.

² See in this respect the Commission's Communication COM(2007) 620, *Modernising social protection for greater social justice and economic cohesion: taking forward the active inclusion of people furthest away from the labour market*, p. 2.

³ See on this matter the Commission's Communication COM(2007) 620, *Modernising social protection for greater social justice and economic cohesion: taking forward the active inclusion of people furthest away from the labour market*, p. 5. In this respect, it should be noted that improving access to quality social services is one of the key priorities set by the Member States for tackling poverty and social exclusion. See for example Council Decision of 12 July 2005 on Guidelines for the employment policies of the Member States, OJ L 205 of 6 August 2005, p. 21.

⁴ See in this respect the Commission's Communication COM(2007) 620, *Modernising social protection for greater social justice and economic cohesion: taking forward the active inclusion of people furthest away from the labour market*, p. 3 and 5.

II. Flexicurity and Social Protection: clarification of concepts and method

II.1. Flexibility and security

Taking into account the frequent use of the concept of flexibility, and acknowledging it to be a broad term with different meanings, it is important to elaborate a clear definition. Having in mind the well-known OECD-template⁵, a distinction can be made, on the one hand, between ‘external’ and on the other hand, ‘internal’ flexibility, the latter being of two kinds. External numerical flexibility describes numerical adjustments to the work force by companies. Internal numerical flexibility is based on adjustments to employees’ hours, using time accounts or reductions in working time. Contrary to external flexibility, the number of employees remains constant. Internal functional flexibility involves a reversal of the division of labour and the fragmentation of work organisation and as such implies a reaction to changing production of service needs by adjusting work organisation systems and focussing on employees’ multi-skilling, an adaptation strategy designed to permit deployment at different work places to meet fluctuating market demands.

The Wilthagen Matrix describes the combination between these different forms of flexibility with the different forms of security, as there are job-security, employment security, income security and combination security.⁶ Job security implies the security of being able to stay in the same job and which can be expressed via employment protection in tenure with the same employer. Employment security means security of staying employed, although not necessarily in the same job. Here, the general employment situation, active labour market, training and education policies are playing a key role. Thirdly, there is income security, directly related to the function of social security in the provision of income in case of unemployment, sickness or accident and is expressed through the public transfer of income, such as unemployment and cash benefit systems. Finally, we also speak about combination security, the possibilities available for combining work and private life, as for example, through retirement schemes, maternity leave, voluntary sector activity and paid work, etc. While job and employment security tend to relate to the new patterns of work, social security is more related to income security.

Flexibility/security	Income security	Combination security
External numerical flexibility	<ul style="list-style-type: none"> ▪ Unemployment compensation ▪ Other social benefits ▪ Minimum wages 	<ul style="list-style-type: none"> ▪ Protection against dismissal during various leave schemes
Internal numerical flexibility	<ul style="list-style-type: none"> ▪ Part-time supplementary benefit ▪ Study grants ▪ Sickness benefit 	<ul style="list-style-type: none"> ▪ Different kind of leave schemes ▪ Part-time pension
Functional flexibility	<ul style="list-style-type: none"> ▪ Performance related pay systems 	<ul style="list-style-type: none"> ▪ Voluntary working time arrangements
Labour cost/wage flexibility	<ul style="list-style-type: none"> ▪ Collective wage agreements ▪ Adjusted benefit for shortened work week 	<ul style="list-style-type: none"> ▪ Voluntary working time arrangements

⁵ See OECD, *Labour Market Flexibility: Trends in Enterprises*, Paris, 1989.

⁶ See Wilthagen, T., and Tros, F., *The concept of flexicurity: a newer approach to regulating employment labour markets*, Transfer 2/04.

II.2. Social protection support in transitional life stages

The impact of greater flexibility on social protection schemes poses considerable risks. Social protection systems in Europe were mostly constructed around an 'ideal-type': a typical male breadwinner, someone with a dependent, long-lasting, full-time work relationship. In recent years, however, employees who work 40 years within the same company have become a small minority. It is now much more common for people to switch from job to job and from employer to employer.

- *Flexible working patterns*

In a growing and dynamic labour market people switch between employment and self-employment; between employment, part-time work and unemployment; between different employers. People move more frequently between private activities and non-market activities such as caring for children, or disabled relatives, or just to continue their studies or training. People are looking for ways to be able to fully participate in all the spheres of social life, allowing them to improve their quality of life. People are also increasingly interested in deciding for themselves how to allocate their time to working, learning, caring and other activities during the various stages of life.

Patterns of part-time work, flexible working-time schedules, working-time accounts, leave for caring or parental responsibilities, educational leave, career breaks, sabbaticals, working-time reduction on a daily, weekly, monthly or yearly basis, early retirement schemes... have become more and more common and change to a considerable extent the organisation of working life. It is becoming increasingly evident that the trend is towards a more flexible working life course in which work, learning, caring and leisure time no longer follow the classic chronological sequence, but are increasingly organised in mixed sequences, or even in variable and individualised combinations, over the course of each individual's life.

A modern and activating social system should therefore facilitate transitions between the different stages and make it easier for citizens to make their own decisions about optimal working, care and living patterns. Such activities, through their element of voluntary choice, are traditionally excluded from social security, because they create the problem of moral hazard. Social security should provide custom-made solution for the needs of different people, following different labour market patterns as well as allowing transitions between the different phases of life.

As a consequence of these tendencies, a growing institutional framework is being established in Member States, allowing people to better combine work with care, education or other non-market social activities.⁷ Different leave facilities have been installed for different reasons.

- *Educational leave*

In several countries (Austria, Estonia, Slovenia, France, Bulgaria, Portugal, Latvia, Sweden) systems exist allowing people to interrupt their occupational activities for educational reasons; paid (Austria, Estonia, Slovenia, Bulgaria) or unpaid (Czech Republic, Portugal,

⁷ It has to be mentioned that apart from mechanisms in statutory legislation, many more possibilities for further flexibility will depend on arrangements in collective labour agreements or in the individual labour contract.

Denmark). In many cases however it is up to the employer to decide and the conditions will have to be determined on the basis of mutual agreement between employer and employee.

Participation of the working age population in education and training could avoid skill gaps in the labour market and would fit into the lifelong learning strategy. In some other countries, people can interrupt their activities regardless the reason (Belgium, Spain).

- *Parental leave*

Apart from periods for educational leave, different forms of parental leave have been introduced in the different Member States, not at least as a result of EU directive 96/34.

Together with maternity and paternity leave (which is mostly limited in time), parental leave allows people to combine their role as a worker with that of a parent.⁸ However its duration and characteristics vary between the countries. While in some countries, the duration of parental leave is limited to a number of weeks (Portugal 15 days, father only; UK and Cyprus 13 weeks; Belgium, Ireland and the Netherlands 3 months; Greece 3.5 months), in other countries parental leave can be taken up for several months (Luxembourg, 6 months; Italy 10 months) or even years (Austria 2 years; Poland, Lithuania, Malta, Spain and Slovakia 3 years; Czech Republic 4 years). In Finland parents have the right to leave (or to shorter working hours) as long as the child is younger than three years (per child), while keeping their employment relationship. In case the child is not placed in a public kindergarten, they will receive a benefit.

Differences also exist with respect to the maximum age of the child, for which parental leave can be taken (Latvia 1 year; Austria 2 years; Estonia, Germany, Spain, Lithuania, Slovakia and Hungary 3 years; Belgium 6 years; and Malta, Netherlands; Bulgaria and Sweden 8 years). Where some countries provide for relatively high earnings replacement benefits [between 100 and 70 % (e.g. Estonia, Sweden, Slovenia, Latvia, Finland, Hungary and Denmark) or 30% (Italy)], several other countries foresee lump-sums (Belgium, Czech Republic, Poland, Romania, Slovakia, Austria and Luxembourg), while in many other countries it is unpaid (Netherlands, Spain, Greece, Ireland, UK, Cyprus, Malta and Bulgaria). Several countries also foresee a separate right for fathers (e.g. Sweden, Finland, Austria and Italy). In several countries parental leave can also be taken as a part-time option, although other countries do not foresee this possibility of part-time work (e.g. Czech Republic, Cyprus, Italy, Poland and Latvia).

⁸ Another option allowing people to spend more time to the education of their children or for whatever other reason, could be to reduce working hours or to start working part-time. We would like to highlight here that in the framework of parental leave some Member States have set up a whole institutional framework providing services. As this paper only looks at social protection measures, this framework is not included.

Table 1: Overview of parental leave and career break

COUNTRY	PARENTAL LEAVE				CAREER BREAK: POSSIBILITIES		
	maximum duration	paid/unpaid Flat-rate/percentage	means tested	maximum age child	Reason: study	Paid/unpaid	Maximum Duration
Austria	24 months	flat-rate (soc. sec.) allowance not linked to parental leave with max. of 36 months (if both parents take care)	Partly (income limit)	2 years	No legal entitlement; agreement between employer and employee	Paid soc. Sec. benefit	3-12 Months
Belgium	3 months	Flat-rate sum	No	6 years	Yes, no particular one	Paid	1 Year
Bulgaria	6 months (every parent)	Unpaid	No	8 years	No special interruption study/ study leave	Paid study leave	25 days per year
Czech Republic	4 years	flat-rate, very low allowance	No	4 years	No particular rule for studies, agreement between employer/employee, no right	Unpaid	
Cyprus	13 weeks	unpaid	No	6 Years	No general right		
Denmark	52 weeks	paid: 90% of earnings (through agreement full wage 24 w)	No	9 years (for 32 weeks)	Specific labour market agreement		
Estonia	3 years (18 months parental benefit then child care allowance)	Paid: parental leave 100% previous wage, followed by flat-rate child allowance	No	3 years	Study leave	Paid: 10 days average wage/ afterwards : minimum wage	Duration Study session, min. 30 days/academic year
Finland	-158 working days (twins: plus 60 days) (can be divided between mother or father or mother can take total period -Mothers and fathers have to right to leave or to shorter working hours whenever child is	Paid: 70% of the salary; if income is under EUR 6500/year: minimum cash benefit -Right to child home care benefit	No	No maximum age but has to be taken immediately after maternity (postponement in exceptional reasons)	-Study leave if at least one year working relationship to the same employer -Regardless the reason: if employer employs an	-Paid in case no wage or salary is paid: lump sum of EUR 500 /month plus additional amount based on 20% of income	Minimum 2 months

	younger than 3 years (per child)				unemployed and if 10 years period of work/one year for current employer and 12 months during last 13 months -special arrangements in case of sick child	under EUR 2700 /month and 15% of income above this sum -Paid: 70 or 80% of unemployment benefit if member of unemployment fund; if not flat-rate amount	
France	3 years	Paid: lump-sum, 6 months for the first child, 3 years from second child on	No	3 years	Different reasons	Leave for training: paid For other reasons: not paid	
Germany	12 months	Percentage wage with ceilings	No	3 years			
Greece	3,5 months	unpaid	No	3.5 years	No specific rule, discretionary power employer	Unpaid	
Hungary	3 types of benefits: maternity allowance/child care fee and child home care allowance: last one maximum 3 years	paid: 70% of the earnings, up to ceiling until child is 2 years or 3 rd year lower flat-rate payment	No	3 years	No general possibility, few exceptions: nursing relatives	unpaid	2 years (relatives)
Ireland	3 months	unpaid	No	5 years			
Italy	10 months	earnings related: 30% of earnings	No	8 years			
Latvia	1 year	70% contrib. wage	No	1 year	Study leave	Paid	Not less than 20 days per year
Liechtenstein	3 months	unpaid	No	3 years (5 in case of adoption or handicapped child)	Leave for taking care of sick children/members of family	Paid	3 days for each case
Lithuania	3 years	Paid: percentage 0-2 years, lump sum 2-3 years)	No	3 years	Study vacation possible	Agreement with employer	Agreement with employer
Luxembourg	6 months full time for each	flat-rate allowance	No	5 years	Individual leave for	100% wage by	80 days over whole

	parent				long life learning	employer (who is reimbursed by Ministry)	career, max. 20 d. over 2 years
Malta	Minimum 3 months/child but employer may provide longer	unpaid	No	8 years	No	No	No
The Netherlands	3 months	unpaid	No	8 years			
Poland	3 years	flat-rate allowance	Yes	4 years			
Portugal	fathers 15 days of parental leave following maternity or maternity leave	Paid for the first 15 days (father) 100% of earnings	No	After birth	No (but can ask employer for training leaves)	Unpaid	
Romania	2 years	Flat-rate	No	2 years			
Slovakia	3 years	Flat-rate	No	3 years			
Slovenia	(3 kind of benefits: maternity/paternity and child care leave) 260 days child care plus 105 maternity leave: 365 days	paid: 100% replacement	No	In principle immediately after birth, 8 years (75 days);	Study	Paid	In contract of education or collective agreement
Spain	3 years	unpaid	No	3 years	No rule for study/interruption possible	Unpaid	Min. 4 months max. 5 years
Sweden	480 days to be divided between both parents	paid: 390 days 80% flat ceiling + 90 days flat-rate benefit not earnings related	No	8 years	Legal entitlement to career break for studies	Unpaid unless other agreement with employer	No limit
UK	13 weeks	unpaid	No (but means-tested Income support	5 years	No	No	No

II.3. Challenges for Social Protection

From the moment social security systems assume the existence of an employment situation, and as such make some of the benefits conditional upon it, there is a big risk that people in an atypical working situation will lose their guarantee of security. This conflict of flexibility and social protection can be noticed in every Member State, regardless the model of social security⁹ (conservative/corporatist, liberal, Scandinavian/social democratic or Mediterranean)

⁹ See the following for an extensive discussion of the relationship between welfare models and flexibility: European Foundation for the Improvement of Living and Working Conditions, *Working time options over the life course: Changing social security structures*, Dublin, 2005, and European Foundation for the Improvement of Living and Working Conditions, *Flexibility and social protection*, Dublin, 2003.

and notwithstanding the differences with respect to labour market integration. However, it can obviously be noticed that conservative corporatist welfare regimes where a clear link exists between the equivalence principle and the insurance principle (close link between social benefits and earlier occupational activity) will get more easily into conflict with a flexible reorganisation of working life. In liberal welfare states with a low level of de-commodification through social security benefits systems, the arrangements on company level may however have an impact on the flexicurity.

In countries where social protection strongly relies on statutory insurance, registered unemployment usually gives access to health care and the pension system. Pension entitlement is also built up during unemployment, although the transfer ratio is much reduced. As such these elements are possible impediments to a fully realised and flexible life course. On the contrary, in countries where medical treatment is granted to the whole population, it is less important how employment interruptions are classified, because basic rights to health care are not affected by employment status and the classification of employment interruptions. The same holds for entitlement to citizenship-based basic pensions.

For the person concerned it is important to know that these possible and different time options offer not only flexibility to pursue non-market activities but do so without loss of employment or social security rights.

From our perspective flexicurity can therefore be described consistently with Wilthagen's definition as being a policy strategy that attempts, synchronically and deliberately, to enhance the flexibility of labour markets, work organisation and labour relations on the one hand and to enhance security – employment security and social security – notably for weaker groups in and outside the labour market on the other hand.¹⁰

The key point of this analysis is to question the extent to which social security contributes to greater flexibility within labour market and across the life course. Flexicurity in our approach is a process, where social security goes hand in hand with a flexible labour market and is not just a reaction to further flexibility. We therefore do not immediately look - as is so often the case - at the way social security reacts to different new patterns of work and, if and to what extent, special provisions have been enacted to ensure social protection for workers with atypical jobs. We could even argue that the social security situation of people with an atypical work pattern, is more precisely styled a labour law question, namely if atypical forms of work can be considered as a 'normal' labour contract. Social security might at different moments interfere in a smooth transition between these different phases of life. In particular possible impediments might be encountered at three stages:¹¹ at the stage of the access to social security, at the stage of the level of benefits or at the stage of their duration. For each of these stages, some examples were selected where atypical work could lead to a reduction in the amount of cash benefits from the social security system and where social security might as such have an impact on a smooth transition between these different phases.

III. Social Protection and Flexicurity

III.1. Access to social security

¹⁰ See Wilthagen, T., and Tros, F., *The concept of flexicurity: a newer approach to regulating employment labour markets*, Transfer 2/04.

¹¹ Apart from these elements there is the question of to what extent flexibility has an impact on the financial sustainability of the social security systems. This question is not answered here.

1. Transition between jobs

Social security might include provisions which can facilitate a smooth transition between jobs, or more specifically, between part-time working and full-time employment, thereby protecting those who might otherwise be excluded from social protection because they do not work a certain number of hours or do not reach a minimum wage level.

In several countries, people are indeed excluded from social insurance entitlements due to their limited number of hours of work or low income.

	Country	Exempted from compulsory insurance
Marginal Earnings	AT	In case of an income less than EUR 349.01, there is only compulsory insurance under the insurance for accidents (labour accidents and occupational diseases). No compulsory insurance therefore in all other branches.
	DE	up to EUR 400/month under the health care (medical care as well as cash benefits) invalidity and old-age pension system
	CZ	less than EUR 14/month
	IE	less than EUR 38/week
	SK	Self-employed people under the invalidity and old-age system in case of an annual income of less than 12 times the minimum monthly wage
	UK	less than EUR 117/week, or for self-employed annual earnings less than EUR 6,244
Limited hours of work	ES / LU	Occasionally and not regularly in a professional activity and where the period of activity does not exceed three months per calendar year under sickness cash benefits
	CZ	Less than 7 successive calendar days/month
	LI	Less than 8 working hours/week with an employer or is employed for a maximum of 3 months

2. Transition between employment and self-employment

Switching from employment to self-employment might also result in disadvantages. Self-employed people traditionally have less social protection when compared to employed persons, as they are considered to be capable of organising their own protection against social risks. Enhancing the rights of social security or even opening up systems to self-employed traditionally reserved for wage earners, would contribute to further flexibility.

A typical example is the opening of the right to unemployment benefits. In Belgium the special benefits paid out in case of bankruptcy (a kind of “unemployment benefits for self-employed”) have been introduced. Unemployed people trying to escape from unemployment by starting a self-employed business will be considered to have fulfilled the conditions for insurance for a maximum period of 15 years if their self-employed activities turn out to be not successful. Since a number of years, self-employed people are obliged to affiliate with the unemployment insurance scheme in Hungary. In Germany, since 2006, there is a possibility to opt for the continuation of insurance against unemployment for persons who have been compulsorily insured against unemployment as employees for at least 12 months during the

24 months preceding the independent activity or have received unemployment benefits. So also in Germany, unemployment benefits are available to the self-employed.

Furthermore in Belgium from January 1st 2008 onwards, self-employed people are also insured for the so-called “small risks” under the medical care scheme, equalising them in that respect to employed people. In addition, the right to maternity benefit and the level of family benefits have been extended. In Cyprus, the waiting period for cash benefits for sickness has been decreased from 18 to nine days. In order to be treated in the same way as employed persons, the self-employed person today needs to be hospitalised for at least one day instead of six days as it was previously.

3. *Transition between unemployment/sickness and employment*

The traditional passive strategy towards unemployed people leads to an increasing number of people living on income support and a growing and larger group of people excluded from the labour market. To allow a better transition between the phase of unemployment and a job, a growing number of activation measures have been adopted in the social security systems.

While the condition for looking for a job or accepting suitable employment offers is already since many years a condition in the Member States for obtaining unemployment benefits, a further strengthening of these conditions can be noticed during these last years in several Member States. In different countries there is a clear tendency to individualise this condition for looking for work and to follow-up (and examine more closely) the circumstances of the unemployed person.

Related to strengthened activation measures in employment insurance, one can also identify the introduction of further stricter sanctions for unemployed persons that fail to comply with their duty to actively look for a job. In Germany a reduction by 30% of unemployment benefit applies, if one does not make an effort to participate in the labour market or does not accept a reasonable employment. In Italy, an extra sanction was introduced for those people who refused to attend recycling training courses.

All these active labour market measures should be seen as encouragement to find new employment.

Recently introduced measures in unemployment schemes to stimulate activation	Countries
General obligation (or strengthening of this obligation) to search actively for work as conditions for benefits	AT / BE / CY / EE / FR / LU / SP / PT / FI / SI / SK
Individualised follow-up/personalised action plan of condition to look for work	DK / LT / HU / FR / SE / UK
Stricter sanctions when not actively looking for a job	BE / EE / LT / PT / DE / IT

Tighter eligibility criteria apply not only in the unemployment system, but also in respect of social security for the long-term sick and disabled. This corresponds to the principles of the so-called ‘activating welfare state’ where opportunities for early retirement may be abandoned or re-structured and where later retirement triggers entitlement to other (unemployment or

disability) benefits. Many countries offer the possibility of partial disability benefits (e.g. Bulgaria, Czech Republic, Germany, Estonia, Greece, Cyprus, the Netherlands, Poland, Portugal) instead of “all or nothing” benefits so that work disincentive effects can be minimised. In recent years there has been greater emphasis on developing active work strategies. On the one hand partial benefits were abolished or the requirements for obtaining full benefits were strengthened. In the past people with a part-time incapacity often received full benefits. Many countries now prescribe that full benefits can only be obtained by people who are without prospect of further employment (e.g. Malta, Denmark, UK).

On the other hand, part-time options should make it easier for disabled workers to remain in the labour market in both the short and the long run and so reduce the prevailing tendency for their early exit.¹² As we will see later on, the receipt of part-time benefits while being active in the labour market is increasingly common.

In the Netherlands an entirely new disability benefit system was introduced in 2006. The new scheme has two components: A permanent disability benefit for people who can no longer work and another benefit for individuals with a disability that is either partial or not permanent. The first category comprises permanently disabled workers with at least 80% reduction of their earnings capacity, who receive a disability benefit at a level of 75% of their last wage. Workers with an earnings capacity reduction of 15-34% can no longer receive a disability benefit. Instead, their employment relationship is maintained (if possible) and the employer will have to adapt the workplace if necessary. In case of job loss they are, after exhaustion of sickness benefits, treated on the same basis as other unemployed people. Workers with an incapacity of 35-79% and those who are fully but not permanently disabled are entitled to a benefit that is higher if the employee is working for at least 50% of the remaining capacity. After a period of five years, this benefit will be reduced to a flat-rate payment if the worker is not utilising that capacity. Both these elements are designed to improve work incentives.

In the UK, the new Employment and Support Allowance (ESA) will replace the incapacity benefit and income support paid on the grounds of incapacity. It will focus on capability for work rather than benefit entitlement or incapacity. It is intended to start for new claimants from October 2008. From April 2010 all existing incapacity benefits claimants will be required to take the work capability assessment. Anyone claiming ESA will be assessed over a 13 week period, or longer if necessary, to determine whether they have a limited capability for work but also whether or not he or she is capable of ‘engaging in work-related activity’. Those who cannot engage in work-related activity will receive a ‘support component’. Those who can engage in work-related activity will receive a ‘work-related activity component’ but may be required to do three things as part of the ‘conditionality’ for receiving this component: a) they may have a work-focused health-related assessment aimed at providing additional information about the claimant’s functional capacity; b) attending a work-focused interview to discuss what steps they can take to move towards work, and c) undertake activities that increase the likelihood of getting a job. This may include activities such as work trials, training, or attending a programme designed to help them manage their condition.

¹² See also OECD, *Transforming Disability into Ability: Policies to Promote Work and Income Security for Disabled People*, Paris, 2003.

4. Some other elements of influence

Some other elements that might influence flexibility and in particular the transition between unemployment and employment, relates to the strengthening of the necessary qualifying period for unemployment insurance. Variables such as the number of years of contribution, in particular in combination with a short qualifying period during which these years of contribution have to fulfilled, might complicate access to social security. In recent years, some countries have introduced stricter qualifying periods.

Stricter qualifying periods for unemployment benefits:	Countries
12 months during last 2 years (instead of 12 m during last 3 years)	DE
3 months during last year (instead of 10 weeks during last year)	IS
365 days during last 4 years (instead of 200 days over last 4 years)	HU
80 hrs/month over last year or 480 hrs with at least 50 hrs/month over last year (instead of 70 hrs/month or at least 450 hrs during 6 months with at least 45 hrs every month over last year)	SE

In considering the transitional relationship between sickness and employment, another related issue deals with incentives for the employer to prevent employees from relying on social security. A typical example are the sickness cash benefits where in many countries the employer has to continue paying the salary during the first phase of any claim. The extent to which this obligation exists in the different Member States however varies considerably. While several countries do not prescribe any statutory continuation of payment of wages for the employer, in other countries the obligations for the employer vary between a few days (2 days: Liechtenstein, Lithuania) up to 2 years (Netherlands). In particular in this last country an important increase of the responsibility of the employer was noticeable.

Statutory continuation of payment	Specification	Country
No continuation	derogative provisions no derogative provisions	CY / CZ / DK EE / EL / IE / PT
Up to 2 weeks	2 days 5 days 9 days (derogative provisions) 10 days 2 weeks Up to 15th day	LT / LI RO FI SK BG / HU / LV / SE ES / MT
2 weeks-1 month	16 days 3 weeks (more through CLA) 1 month (more through CLA) 30 days > 30 days white collars	NO CH IS SI BE
1-3 months	33 days 6 weeks 6-12 weeks; after that 50% during 4 weeks)	PL DE AT

More than 3 months	month in which disease occurs + 3 months up to 6 months 28 weeks 104 weeks 30 to 90 days according to seniority; employer pays difference between social security benefit and salary	LU IT UK NL FR
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III.2. Level of benefits

1. Transition between employment and private activities

Allowing a smooth transition between the different phases of life, may also include the possibility of leaving the labour market either partly or completely for a period of time in order to take up non-market activities such as spending time at home looking after children or sick relatives. As mentioned above, a whole institutional framework has been set up allowing people to leave the labour market temporarily. As long as these non-work related periods are not taken into consideration for the calculation of the benefits, this might imply a strong impediment for a flexible life course as it would lead to a reduced protection. Enhancing the value in terms of rights to social protection of such non-market activities is therefore an important element in contributing to further flexibility.

Periods related to private or family activities, to education, care or assistance or activities outside of the market are, especially for the first pillar of pensions, often taken into account although to varying degrees. Concerning periods of parental leave (caring for children), the number of years, as well as the age of the child up to which these periods may be taken into account, may indeed differ. Cyprus and Malta have recently introduced the possibility of accounting for periods of parental leave. Several countries also allow for the possibility that career interruption to care for a disabled or seriously ill family member or to undertake a programme of study can be taken into account. This latter opportunity in particular contributes to the comprehensive lifelong learning strategy ensuring the employability of workers.

Reasons to leave temporarily the labour market	Specification	Country
Parental leave (to raise children) ⇒ Maximum overall duration	1 year 2 years 3 years	ES AT FR
⇒ Maximum age of child	3 years 4 years 6 years 8 years 12 years	LI / ES CZ CY / SK / LU / MT LV (only mother) IE
Taking care of disabled member of family		AT / BE / BG / CZ / FR / LI / PL / SK / UK
Study reasons	Maximal duration of 6 years Age between 18 and 27 years Successful graduation as condition Degree obtained within	CZ LV / LU PL / DE / RO FI / SI / SE

	maximum 5 years	
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To the extent that these periods are limited in time and do not compensate for the complete loss of entitlements, problems may therefore remain. To address this problem Switzerland has for example introduced a system of income sharing between spouses, where the income paid by each partner may be summed, divided by two, and counted separately and individually by each spouse (splitting system). Indirectly these non-contributory periods can also have an impact, due to a proportional reduction of income, and as such may result in a proportional reduction of social security.

Many more problems, however, may be encountered in the second and third pillar pensions. This will in particular be the case when the first pillar pension is rather low. First of all, in general, it might be expected that people with an atypical working contract, either part-time or fixed-term, will have reduced access to company schemes. The fact that membership of a second pillar scheme often depends on a minimum period of employment, either with the employer or in the sector, might lead to extra difficulties for flexible workers. Portability measures will therefore become more and more important.

But also the size of the pension can be affected.¹³ The size of the pension paid to temporarily flexible employees is proportionally reduced by the extent of non-performed working time. It may be remembered that in private schemes the scope for redistributive solutions is considerably more limited and while periods of unemployment, sickness or disability might indeed be taken into account in public schemes, they are generally not in private or occupational schemes. In case the scheme includes a provision for equal treatment of absences for part-time work and career breaks, the proportionate reduction in the second pillar is counteracted. Studies in Belgium have made clear that provision for equal treatment of absences can in most instances be back-dated for employees who take a career break but never for part-time employees.¹⁴

The further introduction of defined contribution (DC) pension schemes (e.g. second pillar schemes in Bulgaria, Latvia, Lithuania, Switzerland, Hungary, Slovak Republic) where the level of benefits is closely linked to the number of contributions paid, might generate additional disadvantages for workers whose careers are interrupted by periods of non-activity. A similar problem can also be found in the NDC (Notional Defined Contribution) pension systems that have been installed in recent years in some Member States (introduced first in Sweden, later followed in Latvia and Poland). This model features individual accounts that are financed on a pay-as-you-go basis. As both NDC and DC schemes are designed to tie benefits closely to contributions, they are generally less redistributive than defined benefit plans, substantially undermining retirement security for low income workers or for those without a strong attachment to the labour force. Although it involves less redistribution than under a defined benefit model, it generally does include some redistribution and in particular, most countries with NDC schemes provide some notional credit thanks to financing from the government for time spent out of the paid labour force to care for young children, recognising as such non-contributory periods, so that personal accounts continue to accumulate.

¹³ While career breaks may have an impact on the size of the pension, this will not be the case with respect to participation to such a scheme as one is indeed already member or not.

¹⁴ See Brosens, G., Peeters, H., Verschraegen, G., Debels, A., Van Gestel, V, and Berghman, J., *Impact of increased labour market flexibility on social security: a study of the social protection of flexible employees in pension provisions*, KU Leuven, 2005.

A new and growing phenomenon increasingly used in big companies and based on labour agreements, is designed to save money or time in 'working time accounts'. In general, we can distinguish between short-term (flexi-time programmes) and long-term accounts (time banking schemes). Short-term accounts serve to register the difference between the working hours actually carried out and the standard hours specified in the employment contract. Long-term accounts aim to save up time and so allow credits to be accumulated. Working-time accounts allow for blocks of paid leave, during which time the employment contract is maintained, allowing for a redistribution of time throughout working life.

An example can be found in the Netherlands where in 2006 the life course saving system (LCSS) came into force. The basic idea behind the LCSS is that people can reserve a portion of their income to offset losses of income in the future. The LCSS offers individual employees the opportunity to save funds to finance periods of unpaid leave for various purposes (to take care of ill child, take sabbatical leave, take early retirement...), while continuing the original employment relationship. Employees may save a maximum of 12% of gross salary per annum income tax free (after saving 12% of the gross salary for two years, one can pay for three months of leave on full salary). The maximum saving amounts to 210% of the last earned gross salary. Employees receive a tax credit of EUR 185 per year of participation in the LCSS when taking up leave. When someone joins the life-course savings scheme part of the gross salary is deducted. This is paid into a special savings account. In consultation with the employer it is possible to convert saved time, like extra holidays, overtime hours and days due to shorter working hours, into money. Saving is tax-free. Only when money is withdrawn must income tax be paid as well as income-related contributions for health and social care insurance. Contributions for employees insurances are also deducted from the deposit for the life-course savings scheme so that this scheme does not affect any unemployment insurance allowance or occupational disability allowance.

Also, in the manifesto of the new recently installed government in Belgium, a system of time-banking is proposed which will allow a better combination of family and work. In Germany a special law on part-time retirement – although this could be seen as a way to full early retirement - allows employees to work full-time up to five years and for zero hours during the next five years within a period of up to ten years. This is a kind of special time-account.

2. *Transition between invalidity/unemployment and employment*

An active labour market policy¹⁵ looks to facilitate the transition between employment and unemployment/disability by trying to integrate people quicker into the labour market, allowing them to combine better the receipt of benefits with the income from work. Looking at the accumulation of a disability pension with work, we can divide different categories of countries.

Some countries are not in favour of it and do not allow the combination of a disability pension with work. This is for example the case in Ireland, Italy and Malta. In these countries, recipients of an invalidity pension are precluded from both employment and self-employment.

¹⁵ See Ditch, J. and Roberts, E., *Integrated approaches to active welfare and employment policies*, Dublin, European Foundation for the Improvement of Living and Working Conditions, 2002.

The second category of countries do to a certain extent allow a combination of invalidity pensions with work. However, there are conditions which must be observed, such as approval or authorisation or declaration from a medical advisor from the insurance company (Belgium, Greece) or by placing a limit on the amount that may be accumulated, leading as a result to a suspension or a reduction of the benefit in case earnings exceed certain ceilings (the Netherlands, Cyprus, France, Luxembourg, Greece, Austria, Poland, Finland, and more recently the UK and Hungary). In Spain, accumulation with earnings is possible, provided the activity is consistent with the pensioner's physical condition and does not imply a change in his or her capacity to work for revision purposes. In other countries, an unlimited and unconditional accumulation with work is possible (Bulgaria, Latvia, Lithuania, Slovak Republic, Estonia and recently the Czech Republic).

The situation is slightly different if one compares between the possibility of accumulating unemployment benefits with disability pensions. Indeed, here accumulation is very limited - as we have seen not all countries provide partial disability benefits - and only a few countries allow the combining of these two benefits (e.g. the Czech Republic, Spain, Cyprus and Latvia), although some of them under certain circumstances. In Cyprus, one is entitled to the pension/benefit with the highest amount. In Spain, accumulation is possible in case the disability pension is compatible with the work from which the unemployment benefit is derived. In Latvia, possibilities for accumulation increased, as more people are now allowed to accumulate, in particular now also people belonging to category 3 (i.e. with a slight or limited incapacity of work).

3. *Transition between employment and retirement*

Transitions between different phases of life not only imply facilitating entry to the labour market but also exit from the labour market. Social security should in that respect guarantee a flexible and gradual retirement. Flexible retirement schemes allow people, on the one hand, to continue working after the legal retirement age and, on the other hand, to reduce working time in advance of complete retirement. The first way to regulate withdrawal from the labour market is via the retirement age and the age for eligibility for early retirement. While it was usual in established schemes for early retirement to lead to significant reductions in the value of the pension, the general policy trend is towards the encouragement of a later average retirement age.¹⁶

- Discourage early retirement

Early retirement is often not permitted or is gradually removed. Many countries pose as a condition for early retirement a long insurance period varying between 15 years (Estonia) and 40 years (Slovenia) as a result of which people may retire between two years (Cyprus, Germany) or even 10 years (Portugal) before the official retirement age. In some countries there is no age condition (Greece, Slovak Republic). Several states have particular rules for people who have been working under special circumstances (persons in arduous work or even raising children under certain conditions (Estonia). While in several countries, early retirement results in a reduction in the pension amount just as a result of the application of the pension formula, in other countries an extra reduction (penalty) factor is applied.

¹⁶ The information is limited to the data inserted in the MISSOC Tables, covering general statutory schemes. Flexibility between different retirement schemes for special categories of people is therefore not envisaged.

Conditions for early retirement	Specification	Country
Not permitted / abolished	No specification Gradual abolition Abolished from 1/7/2008	IE / NL / NO / SE / UK AT LV
Specific conditions	Only people older than 65 years Only people born after 01/01/1949 Only seamen Only for 'arduous labour' For raising (grand)children	DK PL IS BG / EE / GR / IT / ES / RO EE
Long-term insurance period	15 years 480 months 25 years 35 years 37 years 40 years	EE LU CZ BE / DE / MT GR / IT SI
Maximum period for opening right to early pension before legal retirement age	2 years 3 years 4 years 5 years 10 years	CH (first pillar) / CY / DE / SK CZ / EE / FI LI / MT BE / FR (insured with severe disability under certain conditions) / LU (between 5 and 10 years depending on conditions or specific categories / SI PT
Reduction factor	0.9 % for every 90 days 0.4 % per month 0.5 % per month 0.6% per month 4.2% per year 6.8 % per year 80% of normal pension	CZ EE / LT PT / SE / SK FI AT CH LV

- Encourage deferred retirement

While early retirement is not promoted, retiring at a later age is clearly encouraged in almost all countries. An additional bonus is paid to persons who retire at a later age, although still differences exist between the countries. Ireland does not allow for the possibility of deferment. In Belgium and Malta deferment does not directly yield a higher pension, although it may yield a higher pension indirectly through payment of extra contributions (additional years might be allowed to fill the number of years needed to obtain the maximum amount) or the fact that additional pensions might increase the reference wage. In Latvia and Bulgaria additional years of contribution are taken into account in the formula of calculation. In Norway there is no particular increase of the pension. The same rules of calculation apply, but the recalculation based on the pension points earned during the deferment, is made only after the pensioner reaches 70 years of age.

In the last three years several countries have clearly further encouraged the possibility of postponing the retirement age (Denmark, France, Greece, Italy, UK and Italy). Most of the countries allow unlimited deferment, with the exception of a few countries where deferment is only possible up to a certain age or after a certain number of years.

Extra financial compensations for deferred retirement	Country
The person continues to earn pension rights also after the age of 65 and as long as he/she continues to work. No extra financial compensation for deferred retirement	SE
1.5% for every 90 days of economic activity during which the claim for an old-age pension is postponed	CZ
0.9% per month, unlimited	EE
0.5% per calendar month (in IS up to maximum of 30% and age 72)	CY / IS
0.5% per calendar month	DE / SK
0.6% per calendar month	FI
0.5% of the pension for each 30 days of additional service time	HU
4.2% per year, to a maximum of 12.6% of the benefit.	AT
3% in the first year after retirement age; 2.6% in the second; 2.2% in the third; 1.8% in the fourth and 1.5% in the fifth or each additional year	SI
first pillar: between 5.2 and 31.5 % depending on the number of months of deferment	CH
first pillar: increase on an actuarial basis of between 5.22% for 1 year and 40.71% for 6 years	LI
3.6% for each supplementary year	RO
8% per year, up to 5 years	LT
Rate applied to calculation basis is increased by 2% for each additional year of contribution up to 100% and over 100% after 35 years of contributions	ES
percentage calculated on actuarial principles according to length of deferment + supplement to old age pension per month after the age of 65.	DK
3% per insurance year beyond 35 years for age between 65 and 67	GR
from 7.5% to 10.4 % per year	UK
0.33% per month if insured between 15-24 years and 1% per month if insured during more than 40 years	PT
0.75% for age 60 + 40 years activity, for each additional quarter from 1st to 4th quarter s/he contributed, then by 1% for each additional quarter and after the age of 65 by 1.25% per each additional quarter	FR
If activity is continued beyond 65 years of age, contributions at charge of the insured are reimbursed at the end of the year	LU
social pension: 120 months; supplementary pension until age of 75	DK
Maximal age of 67 years	GR
Maximal age of 68 years	CY
Maximal deferment period of 5 years	LT

4. *Some other elements of influence*

Calculating final pension entitlement on the basis of salary levels in the last years of employment tends to increase unequal treatment especially for those with different patterns of career development and as such might also endanger flexibility in the transition between employment and retirement. Schemes that only look at a final salary or a limited number of best years, disregard extended periods of flexible work or low income periods.

Taking into account a long period of income or even the entire career may attenuate periods with low income and as such represent an advantage. Not many countries today make reference to a limited number of years at the end of career as starting point for calculation of

the pension benefit. Exceptions include Greece, where entitlement is based on wages from the last five years, as well as Spain, where the contribution basis for the calculation are the 180 months immediately prior to the date of retirement.

Most countries allow for the linking (accumulation) of earnings from employment with receipt of old-age benefits. Some countries provide only for an accumulation if the earnings are below a certain amount (Slovenia, France, Italy), whereas income above certain limits leads to a reduction with a certain percentage (Belgium, Denmark, Iceland) or even to a withdrawal if the income is too high (Belgium, Iceland). In Hungary, working activities are not restricted, but pensions accumulated with earnings are now subject to taxation, although the amount of tax from pensions (tax rate for pensions 0%) is deducted only from the accumulated amount. Only in Spain is payment of the pension immediately suspended if a paid professional activity is pursued. In Iceland, income from work is not taken into account in case where pensioners are 70 years or older.

The situation is slightly stricter in case of early retirement. In that situation, many more countries impose limits (Luxembourg, Malta and Norway) or even forbid every accumulation (Estonia, Czech Republic, Romania, Latvia).

IV. Social Protection and Active Inclusion: Results achieved so far

The renewed Lisbon Strategy for Growth and Jobs has achieved results in the sense that growth has picked up, and the overall EU employment rate is rising. However, there is little doubt that much more is needed to mobilise the full potential of Europe's human resources. Despite the reforms pursued, there is still a sizeable number of people with little prospect of finding or keeping a job who therefore remain at risk of falling into poverty and social exclusion. In general, Member States have embraced the active inclusion approach and, in doing so, acknowledge more clearly that people's right to play an active role in society needs to be supported. Consequently, most Member States made efforts to ensure that economic and labour market reforms are accompanied by provisions to protect the most vulnerable groups.

IV.1. Measures targeting the low-skilled and the low-paid

Within this context, several Member States took measures to improve the employment chances for the low-skilled. In the UK, for example, low-skilled job seekers are subject to specific activation measures including support for placement from the employment services. Germany and France created financial incentives for employers to hire low-skilled people. Other countries provided specific training opportunities for this group either through public employment services or on the job. Examples of this can be found in the Netherlands, Belgium, Austria, Estonia, Lithuania and Bulgaria. France and Denmark also developed and improved the programmes for basic literacy of adults. In addition, Austria, Belgium, Finland and France started to subsidise household work with the aim of increasing employment opportunities for the low skilled and the low paid; an example that will be followed by the Netherlands in the near future.¹⁷ Sweden as well started to subsidise household work but with the aim to improve and ease reconciliation with family life. Furthermore, a number of countries lowered tax wedges in order to foster participation rates and job creation. For example, in Sweden, Austria, France, Italy, Malta Hungary, Slovakia, the Czech Republic and Lithuania general tax reductions were introduced so as to cut the tax wedge on low income groups. Denmark, Finland, the Netherlands, Greece and Slovenia, on the other hand, launched a straight reduction of the tax burden on low incomes, whereas Belgium, Sweden and Malta reduced social security contributions for both employers and employees.¹⁸

IV.2. Measures targeting migrants and ethnic minorities

A number of Member States took also measures to strengthen the employment position of migrants and ethnic minorities. In Sweden, Denmark, Belgium, Austria and Cyprus, for example, specific training and language courses have been offered to migrants, whereas other countries, like Germany, Estonia and the UK, specifically aimed activation measures and job search support at this group. In Sweden and Denmark this sort of measure has been combined with wage subsidies so as to enhance the employment chances for migrants and their descendants. The Netherlands and Lithuania, on the other hand, took steps to better integrate migrants' children into the education system. France and the UK launched specific

¹⁷ See the Commission's Strategic Report on the renewed Lisbon Strategy for Growth and Jobs: launching the new cycle 2008-2010, COM(2007) 803 final, p. 56.

¹⁸ See the Commission's Strategic Report on the renewed Lisbon Strategy for Growth and Jobs: launching the new cycle 2008-2010, COM(2007) 803 final, p. 57.

programmes for geographic areas where migrants are highly concentrated. Moreover specific measures have been taken to fight discrimination against this group and to promote their participation in civic life more broadly. Some Member States are also developing plans to attract highly skilled migrants, which counts for example for the Netherlands, Denmark, Cyprus and Lithuania. Other countries are planning to simplify the procedures for work and residence permits in sectors where there are labour shortages. This is the case, for example, in Sweden, Ireland, Austria, Finland, Estonia, Malta, Belgium, Cyprus, Denmark, Spain, Lithuania and Slovenia.¹⁹

IV.3. Measures targeting the unemployed

In addition, some Member States increased spending and/or raised the effectiveness of their active labour market programmes, for example, by increasing the effectiveness of job search assistance (Belgium and Slovakia), by providing targeted training for the unemployed (Austria) or by introducing ‘in-work’ benefits (Sweden and France) or a return to work bonus for long-term unemployed (France). Some countries also subsidise self-employment. This happens for example in Germany, Greece, Lithuania, Slovakia and Latvia. Other Member States rather focused on strengthening the individual responsibility of job seekers, for instance by increasing the conditionality of unemployment benefits, a more stringent monitoring of job search activities and by making job seekers’ rights and obligations more explicit in contracts concluded between the job seeker and the employment service. A number of Member States intensified the internal cooperation between the different agencies serving job seekers. Examples of this can be found in the Netherlands, Ireland, Hungary, Malta and Slovakia.²⁰

IV.4. Measures targeting people with disabilities

Moreover, a number of Member States implemented measures targeted at people with disabilities. Within this context, Ireland, Estonia and Slovakia created financial incentives to encourage this group to take up work, while subsidies are given to encourage employers to hire them and to adapt workplaces to their needs in the Netherlands, Poland, Sweden, Ireland, Slovenia, Austria, Latvia and Bulgaria. In Denmark, Sweden, Spain, Germany, Lithuania, Slovakia, Slovenia and the Czech Republic measures are also being taken to develop guaranteed jobs and supported employment opportunities for those who face reduced work capacity.²¹ While some Member States target their actions more in particular to people who are physically disabled, others are addressing this issue more broadly, for example by improving access to mainstream measures, by paying attention to the importance of living independently and by offering better access to quality social services. However, in general, less attention is given to those who suffer from mental illnesses and disabilities.²²

¹⁹ See the Commission’s Strategic Report on the renewed Lisbon Strategy for Growth and Jobs: launching the new cycle 2008-2010, COM(2007) 803 final, p. 57.

²⁰ See the Commission’s Strategic Report on the renewed Lisbon Strategy for Growth and Jobs: launching the new cycle 2008-2010, COM(2007) 803 final, p. 57.

²¹ See the Commission’s Strategic Report on the renewed Lisbon Strategy for Growth and Jobs: launching the new cycle 2008-2010, COM(2007) 803 final, p. 57.

²² Joint Report on Social Protection and Social Inclusion 2007, as adopted by the Council on 22 February 2007, 6694/07, p. 7.

V. The way forward and leads for further improvements

V.1. Enhance employment security

Tackling the risk of poverty and (future) social exclusion of the underprivileged requires a balanced mix of labour integration policies and paying special attention to those who do not work or are involved in precarious work. An ageing Europe in an increasingly competitive world needs more people working in a stable work environment. For many people this is the main safeguard against poverty and social inclusion.

Bringing this about requires a shift from the traditional attitude concentrating on job security towards the broader concept of employment security. It also demands improved access to quality jobs so as to allow people to integrate and progress in the labour market and to adequate benefits during transition periods. Workers will be more inclined to take the risks associated with job transfers, if these transitions provide income support combined with real prospects for new and better jobs. This sort of measure should go hand in hand with contractual arrangements that put in place the right conditions for skills- and career development and for combating discrimination in the labour market. Public authorities should lay the foundation for this sort of measure by providing a legal framework, thereby leaving sufficient room for the social partners to take specific measures which promote, for example, job retention, flexible work arrangements for disadvantaged groups, suitable recruitment procedures and the availability of quality jobs. The system should include measures that prevent workers from becoming unemployed by sustaining safe job-to-job transitions. Employers, social partners, public employment services and temporary work agencies should work together to organise these transitions as soon as it becomes clear that redundancy is likely.²³

V.2. Ensure that income support and activation rules complement each other

It is important that this type of measure is backed up by modern social security schemes which offer effective support to bring those who are excluded from the labour market back to work. In encouraging disadvantaged groups to take up work, modern social security schemes should seek to combine active and personalised job searching support and skills training, with adequate incentives that make work pay, satisfactory levels of income support and high quality social services. Indeed, this is a major challenge for policy makers who also have to take account of the budgetary cost that this may involve. Seen from this perspective increasing the conditionality for benefit receipt may be seen to be an effective way out. After all, making the entitlement of benefits conditional on active job search, participation in training and willingness to work, can help to keep budgetary cost within limits, whilst at the same time encouraging job seekers to accept job offers made to them. The current trend towards making benefits more strictly conditional suggests that many Member States have embraced this concept. However, it should be kept in mind that linking income support to activation policies will only result in well-balanced outcomes if this sort of policy is carefully

²³ Commission's Communication COM(2007) 359, *Towards common principles of flexicurity: more and better jobs through flexibility and security*, p. 14-17.

designed. If these two aspects of social protection do not adequately complement each other, unintended consequences may follow.

Experience shows, for example, that activation policies which are over-reliant on conditional rules can press benefit recipients to accept inappropriate or low quality jobs. This can put them in precarious situations, especially since these sorts of jobs often leave little room for skills- or career development. Consequently, they may have to leave the job sooner or later, due to inadequate employment skills or insufficient support to address underlying personal or social hurdles. At the end of the day this may have the effect of pushing the weakest members of society further into social exclusion.²⁴ This effect may be reinforced when benefits schemes which provide minimum income protection drive beneficiaries to take up any job offer, whether suitable or not, and lower, or even withdraw entitlement to these benefits when they refuse. Experience shows that this may lead to situations where a significant share of those targeted by such schemes may not actually benefit from them, either because they cannot claim their entitlement so long as they don't accept work or because the income support provided becomes insufficient to participate fully in society due to sanctions which reduce the benefit level for a certain period of time.²⁵

V.3. Find a proper balance between activation, alleviating poverty and budgetary costs

To break out of this spiral, it is vital to improve the interaction between economic and employment policies for growth and jobs and the Union's strategies for social protection and social inclusion. Member States should be more aware of the fact that social protection policies should not only effectively contribute to mobilise people who are capable of working, but also contribute to achieving the wider objective of providing a decent living standard to those who are excluded from the labour market. Social protection reforms should therefore focus in particular on finding a proper balance between enhancing employment activity without creating trap effects, whilst at the same time improving the adequacy of social benefits and ensuring better access to social services.²⁶

If effective progress in curbing the risk of social exclusion is to be achieved, it is fundamental that these three elements are interlinked. Policy makers should realise that without active support for labour market integration, there is a real danger that minimum income schemes trap people in long-term benefit dependency. However, they should also realise that these schemes should provide adequate levels of minimum resources to all. Without appropriate income support, there is the risk that active labour market programmes fail to prevent widespread poverty. In turn, this may increase the risk of ill-health and encourage people to

²⁴ See the synthesis report of the Commission Services on the public consultation on active inclusion following the Commission's Communication concerning a consultation of action at EU level to promote the active inclusion of people furthest from the labour market, Com (2006), 44 final, p. 3.

²⁵ A study covering 13 Member States reveals that between 2 and 13% of the population in these countries have to live at some point below the national, more or less guaranteed, minimum income level. See for more details on this matter: I. Nicaise, 'Gaps, traps and springboards in European minimum income systems, HIVA - KU Leuven and Loughborough University (CERP), 2004. Account should be taken of the fact that the minimum income schemes across the Member States vary greatly in terms of the extent to which basic income support is linked to other policy components such as labour market policies and access to services. See the synthesis report of the Commission Services on the public consultation on active inclusion following the Commission's Communication concerning a consultation of action at EU level to promote the active inclusion of people furthest from the labour market, COM(2006) 44 final, p. 5.

²⁶ Joint Report on Social Protection and Social Inclusion 2007, as adopted by the Council on 22 February 2007, 6694/07, p. 5.

seek immediate sources of subsistence by irregular means, such as undeclared work or even crime. In addition, it may increase the demand for other social programmes, such as health care and family allowances that would take on some of the burden of poverty relief. On top of that policy makers should be aware of the fact that access to social services is a pre-condition for being available to work, especially for those who find themselves at the margins of the labour market. Without adequate social support, there is a risk that activation rules are implemented without due regard to the particular needs of people at disadvantage. Thus, the effectiveness of these rules can be seriously reduced. After all, if these rules are implemented blindly, there is a real danger that the hurdles that disadvantaged groups may encounter in entering mainstream society will not be adequately addressed.²⁷

V.4. Take the common principles for active inclusion into account

The open method of coordination can be a powerful instrument to promote a more holistic approach in which the three main strands of active inclusion are interlinked. To help the Member States to take more account of the linkages between these three strands, the Commission has proposed to deepen the open method of coordination through the adoption of a set of common principles. These principles reflect the main elements of each of the three strands and thus provide a concrete analytical framework for their implementation, thereby respecting the autonomy and the different situations and needs of the Member States.²⁸

In line with the 1992 Recommendation on income support, the first set of common principles refers to the recognition of the basic right of each person to sufficient resources and social assistance to live in a manner compatible with human dignity.²⁹ Member States should make the recognition of this right subject to general principles including active availability for work or for vocational training for those whose age, health and family situation permits such active availability. For other persons, Member States should make this right, where appropriate, subject to economic and social integration measures. Member States should also take appropriate steps to implement this right, thereby taking account of the practical guidelines regarding the amount of resources considered sufficient to cover essential needs.³⁰

The second set of common principles refers to the Employment Guidelines nr. 19 and stresses the importance of breaking down barriers to the labour market by taking measures as specified by this Guideline. The third set highlights the need to provide quality social services and underlines the importance of ensuring their accessibility, availability and affordability. The principles related to this strand also define the 'quality' aspect and make clear that the social services to be provided should include assistance to persons facing personal challenges or crises, such as unemployment, over-indebtedness, drug addiction or a family breakdown,

²⁷ See the synthesis report of the Commission Services on the public consultation on active inclusion following the Commission's Communication concerning a consultation of action at EU level to promote the active inclusion of people furthest from the labour market, COM(2006) 44 final, p. 8.

²⁸ See, in this respect, the Commission's Communication COM(2007) 620, *Modernising social protection for greater social justice and economic cohesion: taking forward the active inclusion of people furthest away from the labour market*, p. 6.

²⁹ See Recommendation 92/442/EEC of 27 July 1992. See also Recommendation 92/441/EEC of 24 June 1992. The first established as a common objective the guarantee of a minimum level of resources and the second set out the principles and guideline by which this objective could be achieved.

³⁰ See in this respect the Commission's Communication COM(2007) 620, *Modernising social protection for greater social justice and economic cohesion: taking forward the active inclusion of people furthest away from the labour market*, p. 6-7.

activities to ensure that the persons concerned are able to completely reintegrate into either society or the labour market, activities to ensure access to affordable child care, activities to integrate persons with long-term health or disability problems and social housing.³¹

The implementation of these sets of principles will be supported at the EU level by a systematic monitoring and evaluation exercise within the framework of the open method of coordination. Experience shows that this can help the Member States in developing an appropriate policy mix to foster active inclusion. Progress in this area can not only be achieved by the exchange of good practices; the common principles might also add value by providing a common format against which Member States can compare and assess their policy instruments. The Commission can play a major role in this process. After all, within the Union's system of assessment and reporting, it is up to the Commission to identify the most relevant challenges for each Member State. The Commission also evaluates progress, gives feedback to the Member States, makes proposals for adjusting specific policy instruments and, if necessary, reports on serious difficulties to the European Council on the basis of which the Council can formulate country specific recommendations for each Member State.³² On top of that, the Commission can encourage Member States to make use of the provisions of the new ESF regulation to support active inclusion measures and strengthen the involvement of relevant stakeholders by taking steps to reinforce the interaction between national and EU policy levels and the regional and local levels where implementation largely take place. However, when it comes to the crunch, the success of the envisaged approach will eventually depend on the capacity of individual Member States to produce a well-balanced policy package in which activation measures, adequate levels of income support and adequate social services are interlinked. This is a major challenge for the Member States in the coming years.

³¹ See in this respect the Commission's Communication COM(2007) 620, *Modernising social protection for greater social justice and economic cohesion: taking forward the active inclusion of people furthest away from the labour market*, p. 8.

³² See the Commission's Communication COM(2005) 24, *Working together for growth and jobs: a new start for the Lisbon Strategy*, p. 31-33.

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