MISSOC INFO I

Evolution of Social Protection in 2009

I. Introduction

This report focuses on the response of social protection and social security systems to the economic crisis and the measures used to tackle it. As such, it addresses the dynamic changes brought by the economic crisis while staying within the scope the Mutual Information System on Social Protection / Social Security (MISSOC).

The main focus of this report is to address the situation and measures in the Member States, the European Economic Area and Switzerland, in order to make use of the vast information provided in the MISSOC information system. As such, this report draws mainly upon the contributions of MISSOC National Correspondents, who have provided a wealth of information on measures in social protection and social security systems in their individual countries.

In its objective, the present report follows up on the previous MISSOC Info 1 synoptic reports in giving an overview of the latest developments in the field of social protection, although starting from the particular angle of the economic crisis. While it may not offer the opportunity to go into in-depth analysis, it aims to present a concise and coherent overview of notable initiatives and developments. The scale of impact and the mode of response necessarily varies from country to country and this apparent variability is seemingly amplified by timing: it is impossible to accurately compare impacts and responses across countries at a single point in time; circumstances change, governments change, policy priorities change and for these reasons caution must attend the interpretation of apparent trends.

II. Impact of crisis on the growth of the demand and need of social protection and on the financing of social protection

The recent economic crisis has encouraged a coordinated response by the European institutions and Member States on an unprecedented level. The primary focus of Member States' and European Institutions' actions, especially in the Euro zone, aimed for consolidation of public finances and monetary stability. From the onset of the financial and economic crisis, however, it was evident that addressing its impact on systems of social protection will be at the heart of measures to tackle the effects of the economic crisis; that said, separating the effects of financial and economic challenge from the effects of the policy responses themselves is not without serious difficulty.

The *Joint Report on Social Protection and Social Inclusion 2010*[i] stresses the role that "firm policy intervention and the automatic stabilisers embedded in European welfare systems" have played in limiting "the economic and social impact of the worst recession in decades" even though the "the crisis has highlighted great diversity within the EU". According to the *Joint Report*, the lesson from the impact of the crisis underlines that "its scope, magnitude and effects vary as does the capacity of national welfare systems to provide adequate protection".

This notion is also confirmed by the Council of Europe in its report *The Social Impact of the Economic Crisis*[ii], which also finds that "member states with an elaborate social and health protection system are also economically significantly better placed in meeting the challenges of the current crisis. Countries that have strong and efficiently-run social and health protection systems have valuable inbuilt mechanisms to stabilise their economies and address the social impact of the crisis."

Highlighting the challenges in the aftermath of the crisis, the *Joint Report* stresses that "the need to contain the rise in public spending calls for enhancing the quality of intervention, and in some cases setting clear priorities. This means more effective and efficient social inclusion and social protection, in line with the principles of access for all, adequacy and sustainability."

In accounting for the contribution of European-level measures, the *Joint Report on Social Protection and Social Inclusion 2010* points out the Member States' use of the European Social Funds "to enhance support to the unemployed, to keep workers in employment and to help the most vulnerable facing structural barriers to labour market integration. They used flexibility in the ESF adjusting operational programmes, modifying them where necessary, and used the simplifications proposed by the Commission to improve the effectiveness of the fund. ESF programmes also provide financial support for long-term EU social inclusion objectives, underpinning the recovery and social cohesion."

The important role that social protection systems have played in responding to the crisis, however, has had a profound impact on their functioning and sustainability. Findings of the International Social Security Association (ISSA) point to the precarious situation of social security programmes. In its major survey on the impacts of the financial and economic crisis,[iii] ISSA concludes that "taken together, mounting costs, depleted reserves and the need for government subsidies and cross subsidisation between programmes, leading to higher debt, threatens the financial resilience of social security programmes."

As such, social protection systems find themselves before a two-fold challenge. As the *Joint Report* concludes, "the crisis emphasises the need to support citizens at a time of major budget constraint. This highlights the EU agenda for more effective and efficient social inclusion and social protection, pursuing access for all, adequacy and sustainability." At the same time, the report highlights the core challenge in drawing up measures to counter the crisis – "short-term responses should be consistent with structural reforms needed to modernise social policy, prevent lasting damage to the economy and society and prepare for long-term challenges, such as ageing."

These findings are reflected in the new European strategy for jobs and growth *Europe 2020.* In its conclusions in June 2010[iv]**,** the European Council confirmed that "the new strategy responds to the challenge of reorienting policies away from crisis management towards the introduction of medium- to longer-term reforms that promote growth and employment and ensure the sustainability of public finances, inter alia through the reform of pension systems."

In its proposal for the new *Europe 2020* strategy[v], the Commission went into even greater detail when describing the priority of inclusive growth:

> Action under this priority will require modernising, strengthening our employment education and training policies and social protection systems by increasing labour participation and reducing structural unemployment, as well as raising corporate social responsibility among the business community. Access to childcare facilities and care for other dependents will be important in this respect. Implementing flexicurity principles and enabling people to acquire new skills to adapt to new conditions and potential career shifts will be key. A major effort will be needed to combat poverty and social exclusion and reduce health inequalities to ensure that everybody can benefit from growth. Equally important will be our ability to meet the challenge of promoting a healthy and active ageing population to allow for social cohesion and higher productivity.

The Social agenda during the Swedish Presidency took on the core of these aims **-** to fight labour market exclusion and to promote labour market inclusion. Not only in the context of the economic crisis, but also in response to demographic trends and globalisation. The key challenge was not to repeat past mistakes, when people were moved into schemes from which they did not leave. For this reason, the Swedish Presidency put emphasis on active social security policies, focusing on people's abilities rather than on their incapacities, fuelled by the conviction that better incentives and support systems are needed to encourage people to work for longer.

The following section of the report will examine how these general measures have been transformed into the key areas of social protection – employment, family policies and pension systems.

III. Responses and specific measures to combat the effects of the economic crisis

III. 1 Combating rising unemployment

Reflecting on the impact of the economic crisis, the *Joint Employment Report 2009/2010*[vi] argues that "the measures Member States have put in place in response to the crisis, and the on-going structural reforms they have pursued in 2009, have significantly contributed to limiting its adverse impact on employment." While highlighting that "shorter and longer term labour market measures have prevented unemployment rising as high as otherwise and also provided income and other support for workers hit by the crisis", the *Joint Employment Report* goes on to emphasise that "labour market reform will need to continue apace if the EU is to see - as it must - more jobs, better jobs and increased social inclusion."

Summarising the current employment situation, the *Joint Employment Report* states:

> "Despite signs of economic recovery in the EU, employment prospects generally remain unfavourable, with overall unemployment still on the rise, albeit at a diminishing pace… While some Member States have seen much worse outcomes than others, developments since mid-2008 are marked by falling demand for new workers (around -30%), employment contraction (-1.9% = 4.3 million jobs), and rising unemployment especially among groups already in a relatively weaker labour market situation before the crisis (young people,

> low-skilled, migrants). This severe deterioration reflects the business contraction in the sectors/occupations most affected by the downturn, but also the growing use of flexible work arrangements, especially for the less-experienced workers, who were thus the first to lose their jobs (between Q2 2008 and Q2 2009 employment among temporary workers fell by 1.7 million).
>
> The unemployment increase in the EU was not as strong as could have been expected from the rapid GDP decrease. Several countries have introduced measures to avoid mass dismissal including wage subsidies and adjusting working time. Wage moderation and other concessions in return for employment have also helped maintain jobs in several sectors…"

As such, Member States have introduced measures to improve work incentives and make work pay, by reducing taxes or raising in-work benefits. Austria, Belgium, Denmark, Finland, Germany, Malta, Sweden and Slovakia have increased tax-free income thresholds. In a similar vein Belgium, France, Latvia, Lithuania, Netherlands, Portugal, Spain Slovakia and Sweden have reinforced income supplements and targeted in-work tax incentives. Other tax reductions have been aimed at stimulating mothers' return to work (Malta) or supporting families (Austria).

Several Member States have put in place positive measures to support those furthest from the labour market. Greece, Finland France, Hungary, Italy, Lithuania Poland, Portugal and Sweden have targeted employment subsidies, while Ireland, Romania and Spain focused on incentives for the employment of people with disabilities.

The increase in unemployment among young people (aged 15-24) has been dramatic in 2009. In addition to a general focus on activities aimed at education and vocational training, Belgium, France, Italy, Portugal, Slovenia and United Kingdom focused on job subsidy schemes to support labour demand for young workers.

Thus far older workers have not been at particular risk of losing their job due to the crisis so far, but if they do, they face substantial difficulties in becoming re-employed. Netherlands, Poland, Portugal and Slovenia have introduced specific measures to support older workers' labour market participation, while Netherlands and Portugal have also acted to stimulate demand for older workers.

The role of Public Employment Services has been crucial in tackling the increasing number of unemployed people. Modernisation of employment services' provision is an effective means of coping with the new challenges. Indeed this has been pursued through organisational mergers/intensified cooperation of integration and insurance services in Denmark, Estonia, Germany, Greece, Finland, France, Hungary, Italy, Netherlands and Slovenia. New types of service delivery combining web-based and personal services were introduced in Estonia, Germany, Greece, Ireland, Malta, Portugal, Romania and the United Kingdom. Special counselling for companies to train employees and early proactive intervention in case of redundancy have been utilised by Austria, Bulgaria, Denmark, Estonia, Germany, Ireland, Italy, Malta, Netherlands, Portugal, Romania and Slovenia, while outplacement guidance for employees and employers has been utilised in Belgium, Finland, Ireland, Luxembourg, Portugal and the United Kingdom. In Austria, France, Italy, Netherlands and Sweden, Public

Employment Services have intensified cooperation with private employment agencies or private service providers.

The *Joint Employment Report* affirms that “social protection systems have suffered a strong stress test with the sharp increase in unemployment and increased labour market policy expenditure.” As such, a number of Member States saw the need to adjust the duration (Lithuania, Romania, Spain), level (Belgium, Bulgaria, Greece), eligibility (Sweden) or coverage (Italy, Portugal) of benefits, or to establish new or larger income support schemes for those not qualifying for unemployment benefits (e.g. France, Latvia, Portugal). Beyond the group of people qualifying for unemployed benefits, some Member States also stepped up support to vulnerable groups (Belgium, Cyprus, France, Poland and Slovenia), low income pensioners (Cyprus, Portugal, Romania) and pensioners (Sweden). Still, the capacity to meet the rising demand for social security varies greatly among Member States.

According to the *Joint Employment Report,* Member States have over the last two years applied the principle of flexicurity, and started to formulate comprehensive flexicurity pathways in line with individual structural challenges and starting positions. The main measures taken in this respect were temporary adjustments to falling production through flexible work arrangements, mostly short time working arrangements to avoid dismissals and the loss of human capital. Belgium, Greece, Latvia, Lithuania, and Romania have introduced or envisage wage moderation in the public sector. In the Netherlands, economy wide wage moderation over the medium term was traded against cuts in social security contributions.

High non-wage labour costs and a high tax wedge were and remain a major impediment to employment. Despite progress in recent years, the EU 27 average tax wedge on labour costs remains at its 2000 level of around 40.5%. Action taken to reduce the tax burden on labour included the reduction of social security contributions (Belgium, Bulgaria, Czech Republic, Finland, Greece, Hungary, Spain, Sweden) and revising the tax system to reduce labour costs. To keep people in jobs and/or promote recruitment, labour costs have been reduced in a number of Member States, with varied targeting at low-wage workers (Czech Republic), SMEs (Netherlands), self-employed (Portugal, Slovakia) or otherwise through tax benefit incentives to stimulate the unemployed to set up a business (Portugal). An alternative approach allowed employers to defer social contributions and taxes for up to 3 months (Belgium) or 12 months (Sweden), to help cash flow and ease credit constraints.

In order to help Member States finance ‘anti-crisis’ action with aid from EU financial resources aimed at supporting people, the Commission modified European Social Fund (ESF) programming and management to improve the ESF capacity to expedite programmes and target them at sectors and groups most in need of support. Some Member States (Austria, Hungary, Ireland, Latvia, Lithuania, Netherlands and United Kingdom) have used the possibility of amending their Operational Programmes for crisis adjustment, while others used the already existing flexibility of ESF programmes to target interventions to those hit by the crisis.

Member States' employment measures in response to the crisis have significantly contributed to stabilising economies and have, in many cases, reduced the adverse impact on employment in 2009. However, as the *Joint Employment Report* confirms, many challenges lie ahead: the current circumstances have accentuated structural problems, particularly the risk of higher long-term unemployment, of persisting skills mismatches, and of labour market exclusion of the most disadvantaged groups.

While constraints and situations differ and will require different strategies, Member States have a number of common employment policy objectives: higher unemployment must be reversed and prevented from becoming structural; job transitions, especially matching between skills and jobs, need to be improved and should become a stepping stone towards quality jobs; the young and others hardest hit by the crisis need sustained support; skills upgrading must be better linked to labour market requirements; and labour market participation must be further enhanced especially for women, older workers and immigrants.

Still, the pressure on sustainable financing remains strong and has translated into Member States' attempts to increase the effectiveness of financing of employment support. In Hungary, as a newly introduced part of the contributions, labour market contribution *(munkaerőpiaci járulék)* should be paid, amounting to 2.5% of the gross earnings of which 1.5% is paid by the employee 1% is paid by the employer. The Czech Republic increased the maximum contributory amount of unemployment insurance from 4-times the average wage to 6-times the average wage. Estonia increased the unemployment insurance rates for employees and employers. Latvia increased the proportion of overall employers' and employees' social contribution allocated to unemployment insurance. Lithuania and the Netherlands marginally increased employers' contribution rate to unemployment insurance. Hungary decreased the contribution rates from higher wages for employers and self-employed persons. Finland also increased rates of employers' and employee's contributions towards earnings-related social security. Slovakia changed the reference for determining the minimum contributory income for unemployment insurance from the minimum wage to average wage. Cyprus has decreased the minimum sum of the Basic Insurable Earnings and increased the Global State contribution for all benefits provided under the Social Insurance Scheme. Latvia has decreased the social insurance rates for self-employed persons as well as the voluntary pension insurance contribution rate.

According to the *Joint Report on Social Protection and Social Inclusion 2010* "the effectiveness of unemployment benefits vary greatly depending on the coverage, duration, conditionality and replacement rate of the benefits. Young workers with short contributory records and some of the self-employed may not be entitled to unemployment benefits, while workers on part-time or temporary contracts often receive lower benefits than other workers."

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

The Commission's proposal for the new *Europe 2020* strategy emphasises this fact when it concludes that "short-term unemployment support should only start to be phased out once a turning point in GDP growth can be regarded as firmly established and thus employment, with its usual lag, will have started to grow."

III. 2 Family support

To date, the policy area of family support has been relatively least effected by the impact of the economic crisis. On the one hand, Member States have taken measures to fine tune family support measures and increase the effectiveness of their financing because of rising pressure to consolidate public finances. On the other hand, it is evident that family support forms a crucial pillar of social protection systems and has thus been left relatively untouched.

The majority of Member States' actions in the area of family support thus address the fine tuning of benefits aimed at increasing differentiation according to need. The Czech Republic and Poland introduced differentiation based on the age of child in awarding child benefits. Estonia and Latvia introduced flat rate child benefits. Lithuania and Portugal have introduced differentiation of child benefits depending on family income (maximum cap), age and number of children. Greece has modified child benefits depending on the number of children. Spain has introduced differentiation of child benefits depending on income, age and degree of disability. Ireland has introduced differentiation of the rate of child benefit based on the ranking of the child within the family. Ireland, Latvia and Lithuania have decreased the maximum age of child beneficiary to 18 years. Luxembourg has also introduced differentiation of child benefits, depending on the family group and age of child.

Only minor steps were taken in adjusting entitlement conditions or financing of family support. Lithuania has increased the minimum time of insurance before establishing eligibility for maternity and paternity benefits. In Switzerland, one canton has introduced the financing of family allowances through contributions for persons not engaged in paid employment. Iceland has discontinued partial state financing of the parental benefit, Ireland has discontinued providing an early childcare supplement payable in respect of all children aged under 5 ½ years of age. Iceland has introduced the financing of maternity/paternity grants from taxes.

Additional resources were made for family benefits (Germany, United Kingdom), while some Member States have announced special one-off payments to low-income households (France, Italy, United Kingdom) in order to give temporary relief.

III.3 Adequate and sustainable pensions

According to the *Joint Report on Social Protection and Social Inclusion 2010,* "pensioners have been relatively little affected so far, although cuts in payments in some countries with high poverty rates among the elderly are a cause of concern." At the same time, "variations in the ability of funded schemes to weather the crisis show that differences in design, regulation and investment strategy matter." In addition, the *Joint Report* warns that "as pension systems and their economic context are changing, the longer-term implications of the crisis could, if not sufficiently addressed, be rather more serious for future pensioners."

The International Social Security Association's analysis of the crisis-impact on social security and private pension funds[vii] concludes that "social security and pension funds were affected on an unparalleled scale by the recent financial crisis." Negative investment performances have refocused the discourse on the suitability of funded schemes to fund old-age security because of the link between old-age benefits and fluctuations of financial markets. Without doubt, the financial crisis has placed risk management in old-age security under the spotlight.

The Social Protection and Economic Policy Committees' *Interim Joint Report on Pensions*[viii] takes a more sector-specific view:

> "Sustainability and adequacy concerns for all types of pension schemes have been aggravated by the crisis. Lower growth prospects and increasing deficit and debt affect sustainability. Regarding adequacy, today's pensioners have generally been well-protected against the crisis, but pensions may be affected by unemployment periods and lower contributions and poorer returns in financial markets. The crisis has an impact on the currently active population, and thus on the accumulation of pension rights, notably for younger generations."

Nonetheless, even the *Joint Report on Pensions* admits that "with secure incomes from public pensions, which have been allowed to perform their role as automatic stabilisers, current pensioners have so far been among the population groups least affected by the crisis." Exceptions apart, benefits from funded schemes still play only a marginal role in the pensions of retired Europeans and just a few Member States with very acute public budget problems have had to adjust public pensions in payment. In several Member States, funded schemes will be much more important for benefit delivery in the future.

The crisis has also highlighted that economic growth, employment, good regulation of financial markets solidarity and fairness between and within generations are interlinked key components of pension policy. Macroeconomic stability and well-functioning labour and financial markets are needed for pension systems to work well. Reducing structural unemployment would bring major benefits.

These views are also reflected in the Commission's recently-published *Green Paper towards adequate, sustainable and safe European pension systems* [ix], which aims to review how the adequacy and sustainability of pension systems can be enhanced. It also reiterates that recent economic circumstances have "aggravated and amplified" the existing challenges associated with demographic ageing and the financial sustainability of pension schemes.

The *Green Paper* goes on to explain the seriousness of the crisis' impact on pensions:

> "By demonstrating the interdependence of the various schemes and revealing weaknesses in some scheme designs it has acted as a wake-up call for all pensions, whether PAYG or funded: higher unemployment, lower growth, higher national debt levels and financial market volatility have made it harder for all systems to deliver on pension promises.

According to the *Green paper*, the crisis has, therefore, added the following dimensions to the pre-existing reform agenda:

- a more pressing need to address adequacy gaps;
- a more pressing need for reforms that improve the sustainability of public finances;
- an increased emphasis on raising effective retirement ages;
- a need to revisit the regulation of funded pension schemes to ensure that they are efficient and remain safe in the wake of major financial crises whilst ensuring

regulation is proportionate and does not push employers into insolvency or into abandoning pension schemes;
– a need to ensure that financial market regulation is effective and intelligent given the growing role of pension funds.

The steps taken so far by Member States have thus addressed the need to improve the sustainability of pensions' financing. In the financing of old-age pensions, the Netherlands has introduced additional financing through general taxes. Within old-age pensions insurance, the Czech Republic increased the ceiling for contributory income for employees and self-employed persons from 4-times the average wage to 6-times the average wage. Latvia decreased rate of contributions for old-age pensions insurance. Hungary has increased employers' contribution for Early Retirement pensions. Finland slightly increased the contribution rates for statutory earnings-related pension insurance for employees and self-employed persons while also increasing the state expenditure for pension-tested national pensions. Slovakia has changed the reference point for calculating the minimum contributory income from minimum wage to average wage.

IV. Conclusion

Social protection systems have historically played a key role as socio-economic stabilisers in times of uncertainty and insecurity. The measures undertaken by both Member States and European institutions highlight this continuing role in response to the key challenges of the age. Of particular note are the attempts to align social security policies with the wider economic and public policy agenda at the European level. The diversity of Member States' policy response reflect their very different starting points; some have well developed and mature social protection systems and others less so. The irony is that the greatest social and economic needs are expressed, often by the most vulnerable and socially excluded, at a time when the capacity to meet need is perceived to be so limited. In some countries, and against a popular culture and prevailing ideological climate that sometimes views social protection as being part of the problem rather than part of the solution, it is important that the values that have sustained the European social model to-date (and these include solidarity, reciprocity, inclusion and growth) are reinforced so that the principles of individual responsibility and collective obligation can be reconciled and embodied in policies and practice supporting the continued improvement social protections systems for the benefit of Europe's citizens.

[i] Communication from the Commission to the Council, the EP, ECOSOC and CoR: *Proposal for the Joint Report on Social Protection and Social Inclusion 2010*, Brussels, 5.2.2010, COM(2010)25 final
[ii] Council of Europe Parliamentary Assembly: *The Social Impact of the Economic Crisis*, Doc. 12026, 30 September 2009
[iii] International Social Security Association: "The impacts of the crisis on social security administrations: A review of findings of an ISSA review." *International Social Security Review*, Vol. 63, 2/2010
[iv] European Council: *Conclusions, 17 June 2010*, Brussels, 17 June 2010, Doc. EUCO 13/10
[v] European Commission: *Communication from the Commission – Europe 2020 – A strategy for smart, sustainable and inclusive growth*, Brussels, 3.3.2010, COM(2010) 2020
[vi] Council of the European Union: *Joint Employment Report 2009/2010,* Brussels, 19 Feb 2010, Doc. 6575/10
[vii] International Social Security Association: "The impact of the 2007-2009 crisis on social security and private pension funds: A threat to their financial soundness?". *International Social Security Review*, Vol. 63, 2/2010
[viii] Council of the European Union: *Interim EPC / SPC joint Report on Pensions*, Brussels 27 May 2010, Doc. 9989/10.
[ix] European Commission: Green paper: towards adequate, sustainable and safe European pension systems, Brussels, 7.7.2010, COM(2010)365 final