Cross-cutting introduction to Financing (Table I)

Taken together social security payments and health care services represent the largest share of government expenditure in all MISSOC countries. The cost of these schemes is represented by the direct value of the benefits and services that are provided on the one hand and the cost of managing and delivering them on the other. This aggregate cost will vary according to demand and the number of beneficiaries, in turn driven by demography and prevailing economic circumstance; by the complexity of the benefits and services that are available (the more complex the more expensive) and by the number of officials employed to administer the system. For over a century all governments have been challenged to find ways of raising revenue to finance social protection and these have revolved around contributory payments from employees and employers (social insurance), general taxation (on income, expenditure or assets) and exceptional measures including, for example, enforced payments particularly in the field of family maintenance.

Whatever financing arrangements exist in any country must be robust and sustainable, sufficient to meet the cost of payments, proportionate to the capacity of different groups to contribute or pay while also being sensitive to wider concerns around social justice and fairness.

A common starting point is to distinguish between the universal, categorical or assistance based benefits that are available to all residents who satisfy appropriate eligibility criteria (such as having dependent children and/or being subject to a means/asset test) on the one hand and access to occupation-related benefits on the other hand. The former (which include e.g. family benefits and guaranteed minimum income benefits) are usually financed on the basis of revenue from general taxation and the latter (e.g. sickness cash and unemployment benefits) from contributions made by employers and employees, supplemented by government revenue and tax allowances.

Insurance-based benefits are financed on the basis of contributions paid by both the employee and the employer, some may be ‘flat-rate’ but others may be ‘wage-related’ and therefore calculated as a percentage of income, usually within lower and upper limits. Administratively, employers who transfer the money to a central insurance fund if the scheme is statutory or to a private fund if the scheme is occupational make these deductions and contributions.

Insurance-based schemes bestow rights and entitlements on individual contributors/beneficiaries, help maintain a stable labour market and treat both good and bad social risks equally.

These arrangements constitute ‘pay-as-you-go’ schemes in that they must meet the entitlements of former contributors while providing resource for future claims. Funds must have the capacity to respond to unexpected emergencies and the resilience to meet anticipated demand. Maintaining a judicious balance, based on fiduciary principles, between the need to protect the accumulated capital asset, while generating income from investment while allowing for an appropriate degree of liquidity has always been difficult and has become more so in recent years as a result of demographic ageing and financial instability in currency and investment markets. As a result, many occupational and private schemes have been forced to increase contribution rates, extend contribution periods, limit or reduce entitlements or close schemes to new members entirely. Statutory schemes have seen government subsidies increase to meet the shortfall in revenue.

Assistance-based benefits are generally financed from government revenue out of general taxation. In some countries, where sub-national authorities have responsibility for social assistance programmes, revenue may also be a regional or local responsibility.

Direct payments, made by otherwise insured individuals, are sometimes required as for example when visiting a doctor or dentist or when obtaining a prescription for medicines. In such circumstances the individual is making a direct contribution for the service provided but not meeting the full economic cost.

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