BUSINESSEUROPE

POLICY ORIENTATION NOTE

18 January 2021

Adapting social protection systems to demographic change, modern labour markets and diverse life phases and choices

Introduction

This note provides **BusinessEurope's insights and priorities to modernize national social protection systems** to make them fit for the changed ways of working in a life course perspective as well as to effectively adapt to the consequences of demographic change. The note proposes concrete actions to be included in the Commission's Action plan to implement the European Pillar of Social Rights. It highlights selected national examples of undertaken efforts to adapt national social protection systems to new realities.

Proposed action

BusinessEurope calls on the European Commission to include in its Action plan to implement the European Pillar of Social Rights an action aiming to encourage Member States to modernise their social protection systems to make them fit to cope with both the short-term consequences of the Covid-19 crisis and the need to improve structural performance of social systems. These changes would **encourage Member States to make their labour markets attractive for workers**, especially those (re-) starting their careers, **and for companies to invest**. Improved social systems should provide incentives to remain on the labour market and protect workers, when needed.

The transition to modern social protection systems should aim at:

1. **Reducing tax wedge on labour**: one of the main obstacles to this goal is high tax wedge. High levels of labour taxation or social contributions negatively affect employment by reducing incentives for employers to hire more staff.

2. **Modernizing national pension systems** is necessary to ensure their financial sustainability as well as embrace longer working lives and more diversified careers. Adequate pensions systems should be based on well-defined eligibility criteria that correspond to contribution periods. They should be accessible to all interested provided they are ready to contribute while employed/exercising economic activity. Public pension systems should be strengthened with supplementary pensions such as occupational pensions or private pensions plans. Moreover, the portability of pension rights should be ensured by aligning different pension schemes at the national level to avoid gaps in coverage and/or loss of the acquired rights.

3. **Designing minimum income schemes** through improved benchmarking and coordination at EU level, to ensure better support for those in need, focusing not only on income protection but also on raising their employability to promote employment. Minimum income schemes should be accompanied with targeted activation and/or training measures to enable entry/ return to the labour market.

AV. DE CORTENBERGH 168
BE-1000 BRUSSELS

BUSINESSEUROPE a.i.s.b.l.

TEL +32(0)2 237 65 11
FAX +32(0)2 231 14 45

State-of-play

There are **three main reasons putting pressure on social security systems**: demographic change, high labour tax wedge and pension systems that are not well adapted to financial prospects and labour market realities characterised by workers changing their employer and employment statuses more often. Relatively high inactivity rate in Europe further makes these systems unsustainable.

The current Covid pandemic has added additional pressure to these three "obvious" factors. Overnight millions of employees were stuck at home, often with their children as businesses and schools were closed due to the lockdown. EU Member States have put in place comprehensive short-term work schemes (STWSs) to shield their economies and workers from the economic fallout of government-mandated lockdowns. In majority of Member States the STWSs have been extended into the first half of 2021.

Social security systems have been forced to adapt to the Covid-19 reality. Social security contributions got reduced, delayed or completely suspended. Special allowances were granted to those on quarantine or taking care of their children. The rules for acquiring pension rights had to be changed to ensure that periods of STWSs are taken into consideration. As all institutions, social security organisations needed to provide their services on-line, therefore they had to cope with an accelerated process of digitalisation.

And there are more challenges to come. STWSs, while being a very important measure to mitigate the effects of the Covid-19 crisis, distort the employment statistics. That means that unemployment figures do not currently reflect the actual level of economic activity in the EU27 and the unemployment will further increase in 2021 (close to 9% according to BusinessEurope estimates). More detailed data on labour market activity shows that hidden unemployment exists in the EU and is likely to be revealed once short-time work schemes are over. **Social protection systems need to prepare for this potential surge of the number of unemployed people**, **as well as for assisting workers who will be changing jobs** from sectors undergoing restructuring to those that expand.

The OECD Economic Outlook 2020 observes that a key challenge going forward will be to broaden the focus of emergency job and income schemes to ensure support for those who may need to move to new positions in other sectors or locations. **The focus should be rather on supporting workers than jobs**[1].

From the beginning of the pandemics in Europe **employer organisations in all Member States have been in regular contacts with respective governments and social security institutions**. They have been contributing to/or co-designing emergency measures. They have been disseminating information about the adopted measures among businesses - often also non-members - as well as have been guiding them in implementation. They have become "focal points" for businesses and a go-between in their contacts with national administration, which facilitated implementation of the emergency measures and their optimal design. Last but not least, they have largely contributed to drafting national recovery plans and exit strategies.

[1] OECD (2020), *Job retention schemes during the COVID-19 lockdown and beyond,* OECD Policy Responses to Coronavirus, Paris.

As Europe progresses, **the focus should now be put on recovering from the crisis**. STWSs should be gradually phased out and companies should be encouraged to return to their normal activities and to make good use of recovery investments to create new opportunities. A key priority to move out of the crisis as well as possible is to encourage employers to hire workers. **Employment oriented social protection measures** are needed to make it affordable for employers to hire, and at the same time ensure that work pays workers better than being on benefits. From this perspective, **a focus on in-work benefits** going forward would have the merit to make good use of public resources, and be a better alternative to detrimental political intervention in minimum wage setting.

Table. 1. Examples of national social partners' activities (social security provisions)

Activities in the lockdown phase

- providing **trainings and webinars** to discuss available support measures, for example suspension or reduction of social security contribution in case of short-time work schemes – the Netherlands, Cyprus, Poland, France, Italy, Estonia
- maintaining **regular contact with relevant ministries** to ensure that employers' voice is heard in designing emergency measures (Italy, Austria, Bulgaria; Czech Republic – STW schemes and H&S issues); specific measures: delaying, reducing or completely suspending social security contributions in case of short-time work schemes (France, Poland, Belgium, Estonia), activating and adjusting special Covid- related safety nets (Italy) or changing rules for employer contribution to financing short-term work schemes (Poland, Norway)
- designing, implementation and adjustment of emergency measures such as temporary wage compensation agreed between the social partners and the government through **tripartite agreements** - Denmark
- **designing changes** in the occupation pension schemes so employees do not lose their accumulated rights during furlough schemes - the UK, or short-term schemes - Norway
- **temporary exoneration of the employer social security contributions:** for enterprises over 250 employees and from sectors the most impacted by the crisis (tourism, HORECA, sport, culture) – France; for employers from certain regions and hiring workers with open-ended contracts - Southern Italy; in case of STW schemes up to 100% till June 2021 and up to 50% till the end of 2021 or up to 100% if STW scheme is combined with training - Germany
- **tweaking rules for acquiring pension rights** to ensure that periods of short-term work are taken into consideration as well as maintaining for such workers the social benefits foreseen in case of invalidity or death (*prévoyance*) - France
- contributing to **simplify procedure and entry conditions for economic unemployment** (*chômage economique*) for workers – Belgium
- **changing conditions to qualify for sick leave** – UK, or tweaking sickness allowance to enable paying out special "social allowance" for parents taking care of their children - France
- enabling particularly **vulnerable citizens to qualify for paid sick leave** during the pandemic – Denmark
- discussing possible measures for **social security protection for the self-employed** – France
- securing **additional training and social protection benefits for agency workers** through social dialogue - France

Activities in the "re-opening phase"

- establishing and promoting **rules to facilitate leave of workers in case of extraordinary family obligations** resulting from closing kindergartens and schools - Greece
- **discussing internal sick pay policies** – the budgets were planned for a "normal" year, but the sick pay cost has increased significantly – UK, Estonia
- **discussing consequences of short-term work schemes to the defined-contribution pension schemes** (no work means no contribution) and designing "lifeboat schemes" to sponsor employers to close the gap in contributions – UK
- on-going discussion on **financing of the quarantine periods or testing of employees** who are Covid-negative, but are in a risk group (i.e. have travelled to red zone or were in contact with the Covid-positive person) – UK or **tax deductions of both obligatory and voluntary Covid tests** - the Czech Republic; **financial support granted to quarantined workers and to "fragile" workers**, being in a state of immune-depression (Italy)
- submitting **proposals for a structural reform of the national system of social safety nets**, aimed namely at introducing a fairer and more consistent system of protection in case of loss and/or suspension of employment, based on active labour market policies – approach – Italy.

Source: own compilation based on members survey (September 2020)

It is important to note that **the current Covid-19 crisis is likely to further stress test the capacity of existing social protection systems**. Countries across Europe have extended the existing schemes as well as their eligibility conditions on the temporary basis. Such measures have been fundamental to prevent from a surge of people in need of unemployment benefit; however, they cannot be treated as a permanent solution. Member States should use the recovery phase to structurally adapt their social security systems so they are accessible for the self-employed and workers on more flexible contracts/employment relations. The draft 2021 Joint Employment Report rightly states: "Reforms should address (…) coverage, adequacy, transferability of social protection rights, and support for the labour market integration of those who are able to work"[2]. The eligibility criteria should correspond to the contribution periods as well as to value of the contributions. The issue of thresholds should also be addressed.

Table 2. The challenge of threshold for agency workers: example from the Netherlands

As employees, agency workers in the Netherlands do contribute social contributions. However, some of them are not able to access the rights they build up as such, due to the required threshold values, and this fact is driving some of them to opt into working for platforms, which do not offer any access to social protection.

Source: WEC Europe.

[2] European Commission (2020), *Proposal for a Joint Employment Report 2021*, p.17.

Demographic change

Ageing populations is a challenge at a global level, but this trend is most pronounced in Europe.

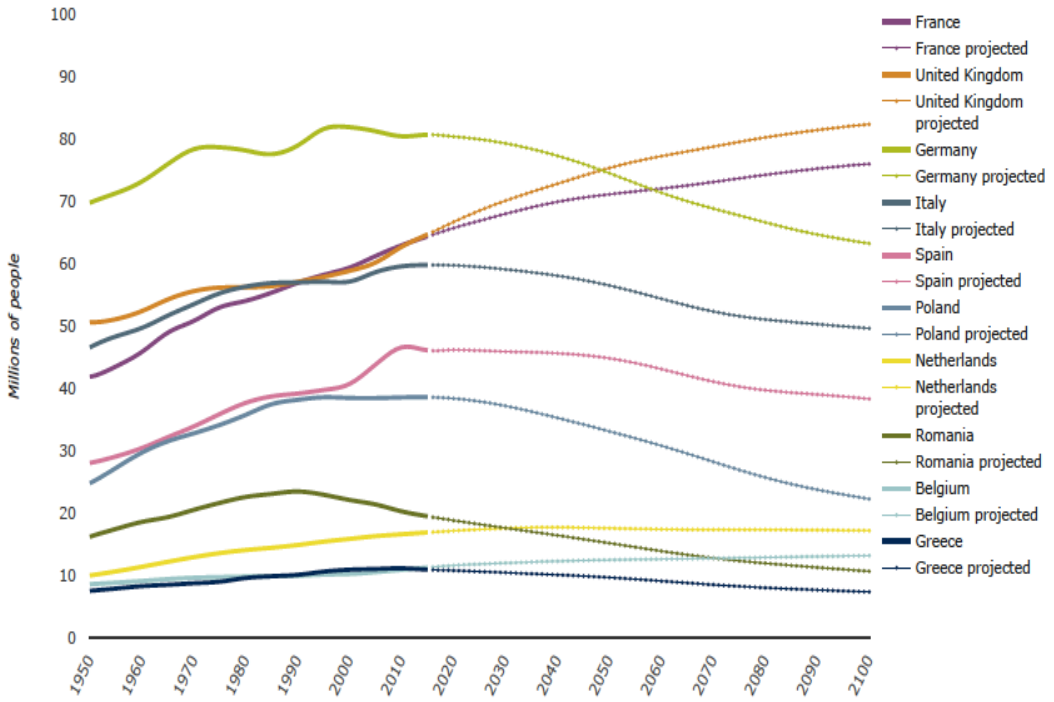
TABLE S.1. TOTAL POPULATION BY SEX AND PERCENTAGE BY BROAD AGE GROUP BY COUNTRY AND REGION, 2017 (MEDIUM VARIANT)

	Population (thousands)			*Population by broad age group (percentage)*			
Region, country or area	*Total*	*Male*	*Female*	*0-14*	*15-24*	*25-59*	*60+*
World	**7 550 262**	**3 808 932**	**3 741 330**	**26**	**16**	**46**	**13**
Africa	**1 256 268**	**627 392**	**628 876**	**41**	**19**	**35**	**5**
Asia	**4 504 428**	**2 304 731**	**2 199 697**	**24**	**16**	**48**	**12**
Europe	**742 074**	**358 540**	**383 534**	**16**	**11**	**49**	**25**
Latin America and the Caribbean	**645 593**	**319 085**	**326 508**	**25**	**17**	**46**	**12**
Northern America	**361 208**	**178 828**	**182 380**	**19**	**13**	**46**	**22**
Oceania	**40 691**	**20 356**	**20 335**	**23**	**15**	**45**	**17**

Source: UN DESA World Population Report 2017

Europe is not only getting older, but also shrinking in numbers[3]. The population of Europe as of 2020 was estimated to be 743 mln. Over a 35 year time period between 1950 and 1985, the population of Europe grew by approx. 159 mln. But in the following 35-year period (1985-2020) it was estimated to have only increased by 35 ml. It will start decreasing as of 2030.

Graph 1. Historical and projected populations of the ten most populous EU countries



Source: European Environment Agency 2020

[3] Europe: 44 countries (the full list: https://www.worldometers.info/geography/how-many-countries-in-europe/); the population of the EU-27 was estimated at 447,7 mln (1 January 2020).

Ageing population puts a lot of pressure on public budgets. Increasing public healthcare cost - from around 7% of GDP in 2015 to over 11% of GDP in 2050 – is the main driver, but pensions and long-term care expenditures are also expected to increase by about 1.7 pp and 0.8 pp, respectively. The growing old-age dependency ratio will shrink the tax base with fewer workers paying income tax. As a result, via increasing expenditure and a shrinking tax base, population ageing will place further stress on public finances.

The Europeans not only live longer but also, in most cases, **are healthier and able to work longer**. To make this a reality, an important priority on European labour markets is to increase employment rated of older workers, an issue that has been addressed by the EU social partners through the 2017 EU autonomous framework agreement on active ageing and an inter-generational approach. Positively, the employment rate of older workers (55-64 age cohort) has increased in the last decade from 45,9% in 2011 to 59,1% in 2019 for the EU 27. Further progress is needed, in particular in countries where older workers' employment rates continue to be under the EU average.

In conclusion, declining working age population hinders Europe's long-term growth potential. To avoid a negative adverse effect of this demographic trend, **extending working lives and raising productivity are important measures** to consider and implement.

Our recommendation: *Extending working lives and supporting meaningful professional careers*

- There is an urgent need and substantial scope for promoting higher employment participation of older workers in nearly all Member States.

- **Policies to extend working lives** should be two-folded: on one hand they should **reduce incentives to retire early and reward longer careers** (pension system related), on the other hand they should **support companies** so they can accommodate both enterprises' and older workers needs (for example, the need of flexible work arrangements, support for re-skilling and upskilling and/or adequate organization of physical workplaces and work organisation).

- **Ensuring that older people maintain their employability** and have access to better employment choices (i.e. career guidance or job matching by public or private employment services) is likely to help them find their place in the labour market that will increasingly require constant adaptation of skills and job changes. In particular, equipping workers, with a focus on older workers, in **appropriate digital skills** is a must to enable longer working careers and prepare all workers for a more digital labour market/economy. Older workers are better prepared to update their skills, if they have **access to lifelong learning throughout their career**. To enhance employability of older workers and improve the matching of labour demand and supply, **cooperation between public and private employment services** should be strengthened.

- **National labour laws and employment policies** need to be assessed and, where necessary, adjusted **to incentivize employers to create employment opportunities**. It is important to ensure well-balanced employment protection legislation for all types of employment contracts, keeping in mind the objective difference between temporary work options and work of indefinite duration. In

particular, it is important to ensure that new labour market entrants, such as young people, or people coming back to work after a career break, e.g. many women or older workers, have opportunities available that can help them integrate or return to the labour market, including the necessary focus on facilitating labour market transitions. On top of this, it is essential that the attention is paid in legislation and/or collective bargaining to disincentives to hire older workers, such as seniority based pay systems, and make sure that they are removed where needed.

- **Retirement age should correspond to demographic changes** and preserve sustainability of pension systems. It should be set in such a way that encourages longer professional activity, whenever possible, and adequate pensions, once retired. It is also in the interest of both employers and workers that there is certainty with regard to a predictable or set retirement age in order to ensure, amongst other things, the personal and professional dignity of older workers' transition from employment.

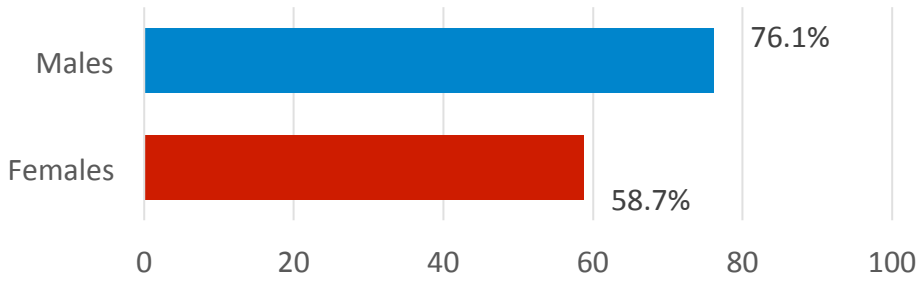
- **Working conditions** (for example, nature of work or work organizations) **should be adapted to the capacities** and changes in general conditions **of older workers**. These adaptations should be **reasonable from the employers' point of view**: not all work posts can be adapted nor it is financially viable to do so. However, whenever possible, a life course approach should be adopted to help workers remain in a good health and avoid accumulation of individual disadvantages that later require costly interventions or may even unable working.

- In the era of the Covid-19 pandemics and in the recovery phase it will be even more important **to ensure secure and healthy workplaces for older workers**. The "hybrid work organization" - a rare physical presence in the office combined with a regular distant work - can be an interesting solution allowing older people to work at ease and prevent from potential contamination.

Gender aspect of demographic change

The gap between female and male employment persists in all age groups. It stood for 17,4 percentage points in 2019 while analysing full-time equivalent for male and female workers[4].

Graph 2. Employment: age group (20-64), FTE (full-time equivalent), in 2019



Source: Eurostat data (EU27), Josef Woess for the European Social Partners' seminar on demographic change (November 2020)

[4] FTE needs to be taken into account to assess correctly gender gap since women are more likely to work part-time.

Lower employment rate among women leads to lower pensions. Additionally**, women live longer** than men. As a result, female pensioners consist majority of pensioners. At the same time, over the course of life most women often **share a higher burden of caring responsibilities** related to raising children and later to taking care of dependent family members. This situation hinders their ability to build up adequate pension rights and, in its extreme form, can lead to **a higher risk of old-age poverty for women** as well as exclusion in terms of access to pension entitlements.

Our recommendation: *Supporting female employment and ensuring access to more accurate data*

- EU and national policy efforts should focus first to achieve **progress on reducing the gender employment gap**, achieve a more equal employment participation of men and women across sectors, and good care solutions provided so that both men and women can work, while taking care of their families. Progressing on employment participation of women will be the main vector supporting a reduction of the gender pay and pension gaps. In parallel, there is a continuous need to promote changing attitudes and beliefs in society and **reshape gender stereotypes**.

- There is a need for **better gender equality statistics** when it comes to employment participation of men and women. It is important to not compare only employment rates, but ensure that the statistics capture also the different use of part-time work by men and women. Further research is also needed to assess the link between the gender employment gap, on the one hand, and the gender pay and pension gaps, on the other hand.

Table 2. Old-dependency ratio versus economic-dependency ratio - policy implications

In discussions on ageing societies and the consequences of this trend for the pension systems the most often used indicator is "old-age dependency ratio"[5]. However, it is also worthwhile to consider another indicator, namely "economic dependency ratio"[6].

"Economic dependency ratio" seems to be a more accurate indicator, as the key question is how many employed people have to support the non-working population. "Switching" from "old-age dependency ratio" to "economic dependency ratio" expands the discussion about possible measures. The economic dependency ratio is expected to increase less strongly than the old age dependency ratio[7]. This has consequences for the potential solutions: there are more solutions to limit economic-dependency ratio that old-age dependency one.

When the old-age dependency ratio becomes a central problem indicator, the most often proposed solution is to increase the statutory retirement age and contribution rates as well as to reduce the benefit levels (or combinations thereof). If, however, the economic dependency ratio is considered, there are more options for possible policy responses, the main being increasing employment rate and the number of those contributing to the system. As a result, the labour market conditions (not just retirement age) determine to what extent the future increase in the old-age dependency ratio will also generate an increase in the economic dependency ratio.

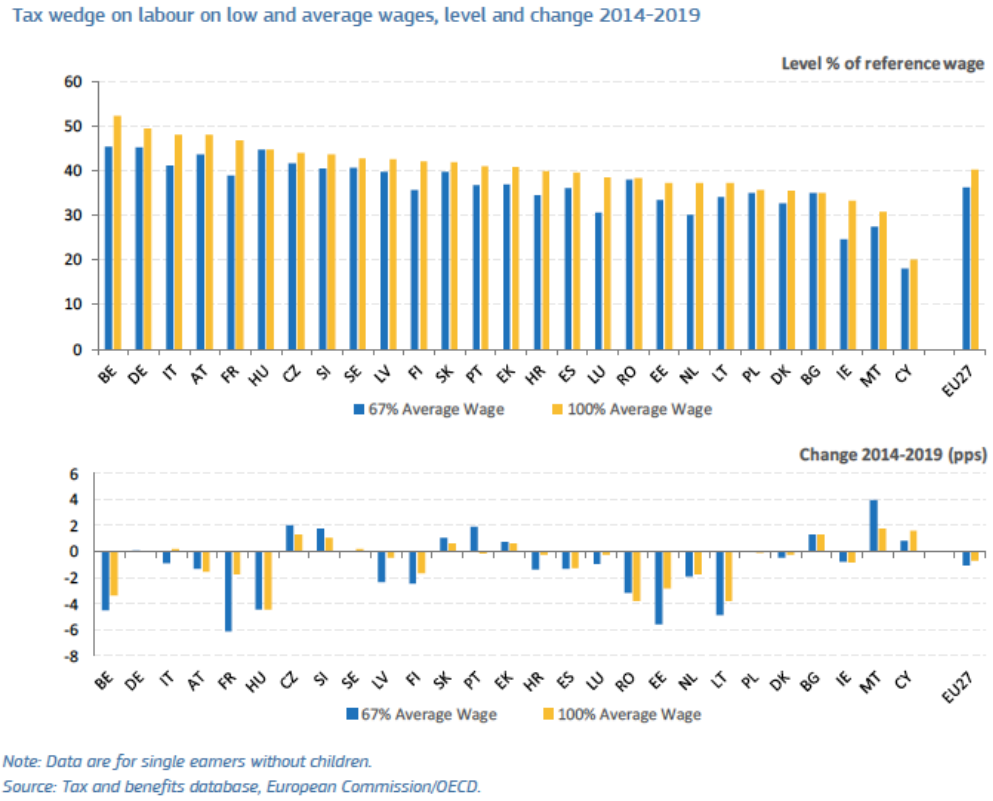
[5] Old-age dependency ratio: the number of people aged 65 and over divided by number of people aged 20-64.
[6] Economic dependency ratio: the total number of the unemployed and the pensioners divided by the total number of those contributing to the social security system.
[7] European Commission (2012), *An Agenda for Adequate, Safe and Sustainable Pensions,* White Paper, COM (2012) 55, p.6.

High tax wedge on labour

Over the last 10 years, the EU has made very little progress in closing the gap with other advanced economies. According to Eurostat, between 2018 and 2019 the average decrease of tax wedge on labour was less than 1 percentage points across the EU-27[8].

The average tax wedge in the EU-27 in 2019 was 39,5%. This is almost 10 percentage points higher than in the US (29,8% in 2019) and almost 7 percentage points higher than in Japan (32,7% in 2019).

Figure 1. The tax wedge on labour remains high in several Member States



Source: European Commission (2020), *Proposal for a Joint Employment Report 2021*, p.42.

High tax wedge on labour not only hinders employment creation, but also does not correspond to the needs of modern labour markets and economies in general. The draft 2021 JER rightly observes that there is scope for shifting taxation away from labour towards other sources that have less impact on economic growth and contribute to achieving environmental goals[9]. In its recent Economic Outlook OECD also stresses the importance of reducing tax wedge on labour to support job creation.

[8] Only Lithuania has experienced a more pronounced decrease in tax wedge on labour (3,43%) due to major reforms which implied significant reduction in employer's social security contributions, higher tax burden on employees and corresponding increase of gross salaries.
[9] European Commission (2020), *Proposal for a Joint Employment Report 2021*, p.41.

Our recommendation: *Reducing tax wedge*

- Across Member States there are some **examples of measures aimed** – on permanent or temporary basis – **at reducing tax wedge on labour**. These measures are likely to be beneficial both on the labour demand and supply side. They also can serve as a source of inspiration for other Member States to address the issue of high tax wedge.

Table 3. Overview of chosen "labour tax tax-friendly" measures

Greece	Reduction of social security contributions for full-time employees by 0,9 pps with effect from June 2020. A further reduction by 3 pps is announced in 2021.
Poland	Young workers enjoy special tax exemptions; the first income tax rate was reduced from 18% to 17% since October 2019. Tax-deductible costs for workers have also been increased.
Lithuania	Increase of the income tax allowance from 350 EUR/month to 400 EUR/month as of July 2020.
Italy	Reduction of tax wedge for dependent workers: for income up to 28 000 EUR/year there is a 600 EUR- allowance available for the second half of the year; it is to double to 1 200 EUR from 2021 onwards. Lower allowances are available for income up to 40 000 EYR/year. This reduction replaces so-called "bonus Renzi" and significantly increases the income for which the reduction is available.
Belgium (Flanders)	Workers whose monthly gross salary is up to 1 700 EUR are entitled to "employment bonus" of 50 EUR/month. This bonus will increase net salary and will be available as of 2021. The bonus gradually decreases to zero for those with gross monthly salary of 2 500 EUR.

Source: European Commission (2020), *Proposal for a Joint Employment Report 2021*, p.47; own compilation

Role of in-work benefits

The evidence shows that one in four working age people is inactive in the EU and the rate of inactivity varies significantly across Member States (from 17% in Sweden to 34% in Italy[10]). In-work benefits can play an important role to attract this group (back) to the labour market.

According to the OECD definition, in-work benefits are "permanent work-contingent tax credits, tax allowances or equivalent work-contingent benefit schemes, designed with the dual purpose of alleviating in-work poverty and increasing work incentives for low-income workers"[11] (OECD, 2011). They have a two-fold objective: increase employment by creating financial rewards for remaining in work or taking up a low-paid job and increase incomes of the less-well off workers and their families[12].

[10] Inactivity rate over 30% can be also found in Croatia, Romania, Greece and Belgium.
[11] OECD (2011). *Taxation and Employment*, OECD Tax Policy Studies, No. 21, OECD Publishing, Paris.
[12] Immervoll, H. and Pearson, M. (2009). A good time for making work pay? Taking stock of in-work benefits and related measures across the OECD. *OECD Social, Employment and Migration Working Papers*, No.81, OECD publishing.

Most studies on in-work benefits point towards positive effects at the extensive margin (i.e. the choice between working and not working), meaning that employment rates among the target group are raised due to the in-work benefit[13]. **Low income workers are more responsive to financial incentives** than the middle or high-income earners.

As a result, in-work benefits targeted at low-income workers tend to result in important positive employment effects. Additionally, in-work benefits are considered to be relatively cost-effective.

While designing in-work benefits, its **interaction with other redistributive and labour market measures needs to be taken into consideration**. In-work benefits increase the gap between disposable incomes of those in work and those inactive, which is to some extent justified to make work an attractive option but needs to be balanced with social protection considerations, in particular for the most vulnerable in our societies. As a result, such policy aspects as levels and eligibility conditions of out-of-work benefits, tax burden on low-wage workers, regulations influencing wage levels and distribution (for example, statutory minimum wages) will also impact the functioning on in-work benefits.

Our recommendation: Encouraging pro-economic aspect of benefits

- As **part of their recovery and resilience plans**, national governments should look into the role o**f well-targeted and balanced in-work benefits** paid via social protection systems aiming to encourage employment participation and, at the same time, a reduction of in-work poverty. The related measures should appropriately balance the necessary focus on employment creation and participation, paying attention to income effects for low-skilled workers', the unemployed and the inactive. A key policy consideration, at a time when our economies are deeply tested, is to proceed with such measures without raising the cost of work for employers.

- Ensuring that **social investments and in-work benefits** are designed in a way that **underpins economic growth and employment participation** of benefit recipients.

- The business community calls on the European Commission and on the Council's Employment and Social Protection Committees to prioritise policy learning and exchanges with social partners on in-work benefits to support Member States designing and implementing their policy initiatives in that field drawing on most effective existing in-work benefit schemes.

Minimum income schemes

Minimum income schemes contribute to the social protection of those in vulnerable situations; recently also to support those the most affected by the Covid-19 pandemic. Such schemes contribute to individual's inclusion in employment and society as well as have a stabilizing effect for the economy as a whole. They **should be accompanied with activation measures to foster transition to employment**, whenever possible.

[13] Vendelannoote D. and Verbist, G. (2017), *The impact of in-work benefits on employment and poverty, Euromod* Working Paper Series, EM 4/17. Accessed at: https://www.euromod.ac.uk/sites/default/files/working-papers/em4-17.pdf (18 December 2020).

The recent Council Conclusions invite the European Commission and Member States to act within their competences and **taking national labour markets models into account while designing measures related to the minimum income protection**. Member States are invited to use the support from EU funds, namely the ESF+ and the next Generation EU recovery instrument. In designing their minimum income schemes Member States are invited to ensure compliance of such schemes with the relevant EU and ILO recommendations. The European Commission will update the Union framework to effectively support and complement the policies of Member States on national minimum income protection.

At the EU level relevant monitoring and policy coordination activities within the European Semester process are supported by **the EU benchmarking framework on minimum income protection**. This framework developed by the Social Protection Committee (SPC) on adequacy, eligibility and activation of the existing minimum income protection **provides valuable information on the diversified policies in the Member States**.

Our recommendation: *Designing minimum income schemes as a transition payment towards employment with respect to national contexts and labour market models*

- **Minimum income schemes are best designed at the national level**. Defining minimum income at the EU level is not possible for multiple reasons. Firstly, it is financed at the national level and corresponds to national context. Secondly, national social safety nets are very different and as such not comparable. Last but not least, all elements of safety net need to be taken into account to correctly assess adequacy of minimum income scheme.

- **Minimum income schemes should** be designed in such a way that does **not hinder taking up employment**. Any income or earned wages should be welcomed and do not exclude an eventual top up to the level of the minimum income. We should rather talk about “minimum disposable” income instead of minimum income as such.

- Building on the 9 October 2020 Council conclusions on “Strengthening minimum income protection in the COVID-19 pandemic and beyond”, the European Commission should consider a future initiative, fully respecting national competences in the field of social protection, and with a focus on improving economic, employment and social impact of minimum income schemes.

- The European Commission and Member States should **keep an eye on minimum income schemes’ fiscal sustainability**. At the same time they should work together towards the necessary development of adequate upskilling and reskilling measures for vulnerable people to avoid as much as possible long-term unemployment and inactivity.

- **Member States should involve national social partners** in development, updating and implementing respective schemes to ensure that they include both stabilizing component (minimum income) and the activation measures aimed at (re)-integration to the labour market.

- Member States should involve national social partners to ensure the best use of the available EU funds, namely ESF+ and the Next Generation EU recovery instrument to promote social inclusion and labour market participation.

Pension systems

The Pension Adequacy Report 2018 observes that despite longer working life, the duration of retirement is expected to grow even faster due to increasing life expectancy. In Europe the average time spent in retirement accounts for about half (51%) of that spent in employment. It is projected to increase even further: to 53 % in 2060[14]. In 2019 pensions adequacy remained generally stable, but it is likely to deteriorate in 2020 due to the Covid-pandemic.

The positive development of longer life expectancy has put into question the sustainability of pension systems across Europe. Depending on an individual country, there is today either an **urgent or continuous need to reform pension systems**. Such reform should address the need to secure financial sustainability of the pension systems cross Europe as well as their inter-generational solidarity. In some countries, a better balance needs to be found between the interest of the growing number of pension receivers and those paying contributions.

Individuals are co-creators of their financial wellbeing during retirement. It is obvious that **public pensions need to be complemented by additional financial solutions**. These include occupational pensions, private pension plans, private savings to name just a few. In any case, each person needs to come up with his/her "individual pension strategy" to ensure comfortable retirement.

Our recommendation: *Reforming pension systems*

- **Pension sustainability is one of the main challenges**. While the duration of working life is increasing, the duration of retirement is expected to grow even faster as life expectancy continues to increase. The challenge is to find progressive, clear and reliable solutions to pensions reforms in all countries that ensure at all times a balance between working life and retirement and to sustain adequate pensions for the next generation.

- **Financing of adequate and sustainable pensions is a joint responsibility**. Employers contribute to mandatory pension schemes. In some Member States employers contribute also to collective retirement schemes for their employees (occupational schemes), which now are by large DC schemes (defined contribution). These schemes can be designed and / or managed by social partners. Individuals should be encouraged to save money for retirement, e.g. by investing in private pension funds.

- Member States should provide financial and regulatory incentives **encouraging social partners to set up collective pension plans** that ensure risk sharing between members, while respecting the autonomous competences of the social partners and the sponsoring companies[15].

- **Pensions need to follow labour market developments**: the ability of pension systems to cover different types of economic activity (e.g. platform work, gig economy or self-employment) will have significant consequences on the future adequacy of old-age incomes.

[14] European Commission (2018), *Pension Adequacy Report 2018,* Vol. 1, p.15.
[15] European Commission (2019), *Final Report of the High-Level Group of Experts on Pensions,* Brussels.

- **Supplementary pensions schemes** (e.g. occupational pension schemes, private funds) **need to remain an attractive option for employers** to continue, and when possible reinforce, their contributions to pension adequacy. In many Member States, including those facing the most urgent need of their pension system reform, the coverage of any type of supplementary pensions remains low and the national policy framework in some countries requires important reforms.

- If we want sustainable pensions, it is **essential to create or keep a pension-friendly legal environment** (social and labour law, tax law, prudential law, supervision). This is needed because pension policies can influence people's behaviour toward pension savings for better or worse.

- In some Member States **occupational schemes provide up to half of pension income**. Medium to high supplementary pension coverage is mostly found in countries characterized by an active role of social partners and collective bargaining. The legal and prudential environment should therefore encourage employers and employees making contributions into occupational pension plans and, in doing so, creating or strengthen a pillar pension system which is truly sustainable.

- Member States should reserve **tax and/or financial incentives in both the saving and pay-out phase for supplementary pensions** meeting minimum quality requirements. These incentives should reflect the diversity in characteristics of types of pensions and the related social policy of a Member State[16].

- **People trust in pension systems is low**. At the same time their understanding of pension systems' architecture and basic financial knowledge are very limited. As a result, **gaining citizens' support for the necessary reforms remains a challenge**; it is also an important success factor. However, it is important not do overestimate the impact of information. There is a trade off between the precision of pension information and its clarity.

- Last but not least, both policy makers and citizens - pensioners of today and those of tomorrow – need to understand **urgency and inevitability of reforms**. Pensions systems shall not be a topic of political games as the consequences of not reforming the systems now will bring serious negative results in the nearest future. Measures aimed at promoting longer professional activity, later withdrawal from the labour market as well as equal conditions in accruing pensions rights should be in the core of each Member State reform agenda.

Policy context

The Council Recommendation on access to social protection for workers and the self-employed adopted in November 2019 aims at encouraging Member States to take action with a view to improve social protection coverage. The Recommendation rightly acknowledges increasing incidence of diversity in forms of employment. The variety of contracts/relationships in the world of work is a positive development as it provides flexibility and opportunities for companies, workers individuals. It is even more needed in the so much wished for recovery after the Covid-19 crisis. Social protection systems need to accompany these developments to ensure people have access to employment opportunities.

[16] European Commission (2019), *Final Report of the High-Level Group of Experts on Pensions,* Brussels.

Social protection remains national competence and Member States make their choices as to design, organisation and financing of their social protection systems, including the choice between tax- or insurance-based schemes. Member States were asked to submit their national plans including measures for implementation of the Recommendation within 18 month following its adoption. At present the European Commission is drafting guidelines for Member States to help them in elaborating their national plans. It would be valuable if national social partners were consulted in the process of drafting national plans as well as the peer support under the Open Method of Cooperation for Social Protection and Social Inclusion were continued. National plans are to reach the European Commission by 15 May 2021.

The EU will continue to play an important role in facilitating mutual learning and exchange of practices to achieve better social outcomes in a cost-effective way. A good example of such an approach was a series of four mutual learning seminars on access to social protection organized between September 2019 and October 2020. The main findings from the workshops were published in December 2020 and include the following:

- **Mandatory formal coverage should be extended** to include non-standard workers and self-employed, **but voluntary approaches can encourage take-up**. A "total income" from diverse working arrangements and sources, including assets, should be taken into consideration.

- **Member States should consider more universal systems**, which correspond better to cope with labour market diversity and are generally more effective. Aligned systems and infrastructure can help to ensure accumulation, preservation and transferability of rights to social protection, especially for those with a diversified career path as well as low-income earners.

- **Adequacy remains a challenge**. The self-employed and non-standard workers should be included in the social protection systems as this creates level playing field and facilitates seamless transitions between different forms of employment. At the same time, higher income earners should be encouraged to remain in social protection system to foster solidarity and to ensure sustainability.

- **Relevant legislation should be clear and judicial protection adequate and accessible to guarantee rights**. When different schemes exist, coordination is crucial to capture individual rights and to make the management of the different schemes simple. It is usually achieved by attributing acquired rights to the individual rather than to the work status or a life event.

- **Targeted information on social protection and outreach** to non-standard workers and self-employed should be intensified across Member States. Social partners can play an important role in this endeavour[17].

[17] European Commission (2020), *Mutual Learning Workshops on Access to Social Protection for non-standard workers and self-employed: final report*, Brussels. Accessed at: https://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=8357&furtherPubs=yes (21 December 2020).

The Social Protection Committee (SPC) is an important platform of cooperation between the Commission and Member States. One of the results of this cooperation is the monitoring framework developed by the SPC Indicators' Sub-Group and published in December 2020[18]. The framework is to support and monitor the implementation of the Council recommendation. The Commission is planning to meet with social partners to exchange on the monitoring framework and seek their insights on implementation of the Council Recommendation. This is a mutually valuable and worth continuing way of engaging social partners in the SPC work.

The implementation of the Council Recommendation on equal access to social protection is further strengthened through European Semester process and Country Specific Recommendations (CSRs) related to reforming social protection systems. **Half of the EU Member States received relevant CSRs in 2018 and 2019.**

The 2019 CSRs addressed extensively the issue of pensions, longer working lives or minimum income. The issue of sustainability and adequacy of pensions systems was addressed in case of 14 Member States[19]. Two Member States were encouraged to unify different pensions regimes (France and Poland); sustainability of the 2nd pillar was addressed in case of Romania and the Netherlands.

Another important issue addressed via the 2019 CSRs were necessary changes to retirement age[20]. Effectiveness and adequacy of the social safety net was mentioned in case of three Member States[21]. The issue of minimum income or addressing income inequality was mentioned in case of 4 Member States[22]. Last but not least, four member States were asked to shift away taxes from labour[23].

The issue of social safety net adequacy and accessibility continued to be an important area of necessary reforms in the 2020 CSRs. As in 2019 fourteen Member States were the addressees of the relevant CSRs[24]. Member States were encouraged to ensure access for all to (adequate) social protection[25]; specific groups were indicated in case of four countries[26]. A few Member States were asked to provide adequate income replacement[27].

[18] European Commission (2020), *Access to social protection for workers and the self-employed. Version 0 of the monitoring framework*, Brussels. Accessed at: https://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=8358&furtherPubs=yes (21 December 2020).
[19] Austria, Belgium, Czech Republic, Germany, France, Malta, Luxembourg, Poland, Romania, Slovakia, Ireland and Italy.
[20] Adjusting retirement age (Austria, Malta, Poland); increasing effective retirement age (Slovenia); limiting early retirement (Belgium, Luxembourg, Malta and Slovenia).
[21] Reforming social assistance and unemployment benefits (Portugal, Hungary); support for families and better coverage of unemployment assistance (Spain)
[22] Minimum income benefit (Latvia- adequacy; Romania - completing reform); coverage of regional minimum income schemes (Spain); addressing income inequality (Latvia-old-age pensioners and people with disabilities, Lithuania - improving tax and benefit system).
[23] Austria, Germany, Italy and Latvia.
[24] Quite interestingly only five Member States were repeated from 2019 (Poland, Romania, Slovakia, Ireland and Italy); and there were nine "new" Member States (Bulgaria, Cyprus, Estonia, Lithuania, Latvia, the Netherlands, Portugal, the UK and Slovenia).
[25] Bulgaria, Cyprus, Italy, Slovakia, Slovenia, Portugal, Romania
[26] Italy for atypical workers, the Netherlands for the self-employed, Poland- for those in need and the UK for those most affected by the crisis.
[27] Cyprus, Italy, Portugal, Romania, Slovakia, Slovenia; Portugal – income support; Poland - better target social benefits.

The issue of strengthening the adequacy of social safety net was addressed in case of four Member States (Latvia, Estonia, Lithuania and the UK).

Concluding, **reforming social security protection systems should remain a long-term priority** so that national safety nets accompany implementation of the national recovery plans towards greener, more digital and more resilient Europe.

National examples related to social security provisions

- ***Reducing tax wedge***

Germany – a ceiling on the gross salary
BDA has repeatedly proposed to introduce a legally binding ceiling of 40% of a gross salary. The general aim to keep social security contributions permanently below 40 % was included in the agreement of the current governmental coalition.

Italy – reduction of social security contribution for young workers and women
A 100% exemption from social security contributions for the new hiring with open-ended contracts of young workers (< 36 years of age) in a two-year period (2021-2022) is available for a maximum period of 36 months and with a ceiling of 6000 EUR/year. This exemption is strengthened in the Southern Regions of Italy (Abruzzo, Molise, Campania, Basilicata, Sicilia, Puglia, Calabria e Sardegna), where the exemption will apply for 48 months. The exemption from social security contribution will apply to employers who have not dismissed workers in the 6 months before the date of hiring, and who will not dismiss any worker in the subsequent 9 months (from the date of hiring).
An exemption from social security contributions is provided for the hiring of unemployed women, from 1January 2021 until 31 December 2022. It's a 100% exemption with a ceiling of 6000 EUR/year.
Both provisions are subject to authorization of the European Commission.

Poland - ceiling on social security contributions/changes to civil law contracts
In Poland there is a ceiling to social security contributions – a 30 time-projected average gross salary for a given year. Attempts to abolish this ceiling have been stopped. There is an on-going discussion on applying the same rules to social insurance contributions for those being a subject of multiple civil law contracts and those engaged on the basis of employment contracts.

- ***Minimum income***

Austria – reform of minimum security/social assistance basic law
On 1 January 2019 the new Basic Social Assistance Act has come into force. The essence of the basic law is that it is to be elaborated in more detail by the individual state laws (to be established) and is also to be enforced by the individual federal states. From 2020, the new Basic Social Assistance Act defines maximum rates (maximum amounts) instead of minimum standards, and in the future social assistance will increasingly be granted in kind (e.g. for housing needs). Generally, to a certain extent, existing assets must be liquidated in order to claim social assistance or minimum income support.

- ***Pensions***

Sweden - successful pension reform
The Swedish government took the decision about increasing retirement age in late 90s. An intense awareness-raising campaign followed. It was continued till 2003, when the reform was adopted by the Parliament by 80% majority. The Swedes are used to getting annual information letters ("orange envelopes"), which in a simplified way present the accumulated capital and explain how it translates to pay-out benefits depending on the retirement age.

Finland – Social partners play key role in pensions reform
Social partners reached an agreement of the pension reform in September 2014 (in effect since1 January 2017), with the following objectives: 1/ raise the effective retirement age; 2/ reduce the sustainability gap of public finances; 3/ promote employment; 4/ secure the financing of statutory earnings related pensions; 5/ adjust the minimum old age pension with the life expectancy coefficient; 6/ Make people earn pension more evenly throughout their working career.

Denmark – Linking retirement age directly to increases in life expectancy
In order to secure the long-term economic sustainability, the Danish government undertook a welfare reform in 2006 linking the retirement age directly to increases in life expectancy. Combined with the occupational pension schemes, which is fully funded defined-contribution schemes agreed by the social partners and covering some 90 % of the workforce, this is the main reason for the long-term sustainability in the Danish economy and pension system.

The Netherlands – timely and well-targeted information on earned pension
The Dutch citizens are regularly informed about their "pension situation". There is a national website where each citizen can find information on his/her total pension accrual (not only first pillar pensions, but also occupational pensions). It is designed in an interactive way allowing for simulation to assess how the length of working life translates into to-be pension. All information is explained in a simple language to facilitate understanding of the information.

- **Reforming social security system**

Austria - reorganization of social security system
As of 1 January 2020, the former 21 Austrian social security carriers transformed into five carriers, namely a single Austrian Health Insurer (ÖGK), the insurer for public officers, railroads' and mine workers (BVAEB), the insurer for self-employed persons and farmers (SVS), the pension fund (PV) and the insurer for occupational accidents (AUVA). Furthermore, a number of administrative and supervising bodies have been reduced and the services and benefits provided for the insured have been harmonised.

EU level context and the way forward

Modern social protection systems should accompany employers, workers and individuals in using diverse contract forms, becoming self-employed, transiting between or combining different forms of work. Access to social protection is an important factor for a wider use of flexible contracts. Ensuring access to social protection in a financially sustainable and balanced way is a precondition to effectively accompany the changes in the labour market and support economic growth and innovation.

Division of competences between the EU and the national level should be the guiding principle of the EU action in the field of social protection. Member States should be encouraged to reform their social protection systems to respond to the demographic challenges of shrinking and ageing working population, and labour market changing needs i.e. labour shortages, variety of forms of work, workers' preferences etc.

Lack of or moderate progress in reforming pension systems is due to the highly political nature of pension reforms and resistance to change of significant parts of European societies. We believe that reforming pensions without public support is very difficult, if not impossible. For this reason, BusinessEurope:

- **prioritises tripartite discussions** between the Commission, national governments, ETUC, European employers and respective affiliates to exchange information and practices on pensions reforms. It is noteworthy that some Nordic countries have been able to reform their pension systems, with the support of trade unions.

- encourages the Eurogroup and the Social Protection Committee – SPC - of the Council **to better inform/involve the social partners** in the benchmarking of pension reforms in the Member States,

- calls on the European Commission **to organise effective awareness raising and informational campaigns** at the EU and Member States levels to provide necessary information and understanding with a view to supporting the reform process at national level.

- supports efforts at EU and national levels **to improve information provided to individuals** about their pension entitlements throughout their careers without creating unnecessary bureaucracy, as this is important to encourage people feeling more responsible for their pensions.

****