BUSINESSEUROPE

POLICY ORIENTATION NOTE

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SOCIAL PROTECTION FINANCING: HOW TO ENSURE EFFECTIVE SPENDING?

Introduction

The need to modernize national social protection systems has been on EU and national social policy agendas for many years. In the last few years, new social needs have emerged and additional investment and various public spending during the recovery have contributed to increasing resources dedicated to social protection. Addressing the economic and social consequences of the Covid pandemic was a necessity. Notably short-time work schemes have been a necessary response and shall be perceived as an effective use of resources. Nevertheless, increasing public debt across the EU is a growing concern. As a result, strengthening the sustainability of public finance becomes an urgent priority. This also applies to public investments and spending on social protection.

In the current context of serious pressure on public budgets and changing social protection needs, rethinking national approaches to social protection and assessing existing schemes to strengthen their efficiency is necessary. Such a review exercise shall lead to a stronger performance-based approach of the national public financing of social protection. It shall be done by focusing resources where the tracking of social outcomes shows the best results and defining areas of potential savings/reallocations the different branches/schemes in which improvement of efficiency is possible following a coherent methodology.

The main aim of this policy orientation note is to provide BusinessEurope's input to the Commission's High-Level Expert Group on the future of social protection and the welfare state that was set up by the European Commission in November 2021.

Recommendations

<u>To the High-Level Expert Group on the future of social protection and the welfare state</u>

- The High-Level Expert Group has an important role to prepare an evidence based report that provides an in-depth analysis of the financing of social protection in Europe in the future, taking into account the current functioning of diverse social protection systems in the Member States, and providing an expert input on how to face changing social needs in a way that is realistic in terms of securing the sustainability of social protection systems both in the short and the long-term.

- The High-Level Expert Group should describe the changing social needs across Europe in a balanced way. This means not only describing areas where social needs are growing (e.g. long-term care), but also taking a long-term view on the evolution of social protection spending to provide useful insights to the Commission, national governments and social partners about where savings and reallocation of resources are possible.

- In the short-term, the High-Level Expert Group should acknowledge the importance of making good use of the extra resources that governments received through taxes on commodities and other products in the context of high inflation. This means partly to find appropriate ways to target exceptional resources to support people facing higher energy and food prices due to high inflation. But this also means making use of these resources to face a changing context whereby higher interest rates will significantly increase the pressure on governments to reduce sovereign debt levels.

- In the long-term, BusinessEurope recommends to the High-Level Expert Group to acknowledge in its work the importance of employment growth to secure the long-term sustainability of social protection in Europe. The two main sources of employment growth are the reduction of inactivity among the EU's working age population and improving third country migration to Europe to tackle the urgent challenge of labour force shortages. Therefore, in the future well-financed and well-functioning social protection systems will mainly depend on the level of employment and the migration policy outcomes. The role of carbon taxes and/or other mechanisms to tax the robots to finance social protection would in no way provide an alternative to employment related incomes. This is the main source of social protection financing in the future, and the best way for people to remain economically self-sufficient under different circumstances.

<u>To the Commission</u>

- Following the positive experience of the setting up of a European network of Public Employment Services a few years ago, BusinessEurope recommends that the European Commission looks into the creation of a European network of national social security institutions to provide the EU forum for regular cooperation and benchlearning on social protection-related developments among the Member States, involving the social partners.

- BusinessEurope calls on the Commission to develop in the future a yearly report on the main trends at national level with respect to financing social protection, including both financial and social protection design/delivery aspects. This yearly report should be prepared involving closely the EU social partners, taking into account the work done by the Council and the Member States on a monitoring framework on access to social protection. This work should take into account the main role of national budgets in financing social protection and the complementary role of the EU budget with a view to avoiding duplication and improving complementarity and synergies. EU resources should be focused where the spill over effects are most promising. The use of EU resources should also be closely connected to one of Member States' priorities: social protection-related reforms as validated by the Council every year in the context of the European semester related country specific recommendations and in the context of the national recovery and resilience plans.

- BusinessEurope reiterates its call on the Commission to create a new tripartite advisory committee on social protection. The upcoming Commission's social dialogue initiative is an opportunity for the Commission to outline its proposed approach to improving tripartism at EU and national levels, including with respect to ensuring well-functioning, sustainable and adequately funded social protection systems in the short-term as well as in the long-term.

<u>To the Member States</u>

- All Member States need to ensure that non-wage labour costs in their domestic contexts are not hindering employment creation. Countries with excessively high non-wage labour costs need to reduce these costs, including by the well-targeted tax shifts, e.g., such as in the form of social VAT, provided that in the long-term the main source for financing social protection remains employment-related incomes. Member States should also coordinate more closely with social partners their long-term strategy to maintain social contributions at a reasonable level that does not penalise employment creation.

- The Covid crisis has had a profound impact on the way how our labour markets and social systems operate. National governments need to review their social protection systems and make sure that the available resources are directed to the areas where the social support is most needed. Close coordination between social protection and employment related institutions should be acknowledged. Employment should be encouraged by social protection policies as the main vehicle for social cohesion and stability.

- Member States should improve the involvement of national social partners in their activities with the Commission and other Member States at EU level regarding the design and development of a monitoring framework on access to social protection. Member States are best placed to design their social protection benefits is an employment-friendly way. In this respect, BusinessEurope recommends, in particular to the Member States, to look into the role that in-work benefits can play to stimulate employment participation and reduce inactivity in their domestic context. We also encourage the Member States to review and improve their incentives for older people to voluntarily prolong their working lives. By contrast, national approaches in the direction of decoupling public income support from social need, such as basic income schemes, should be avoided as they have been proven to be ineffective to encourage people to work.

To the social partners

- Social partners in most Member States play a key role in the governance of social protection systems, either on a tripartite or on a bipartite basis. National social partners are best placed to judge if improvements are needed, and if so, what kind of improvements they would recommend to their national governments to achieve better functioning social protection systems at the national level.

Policy context

The ongoing discussion related to financing social protection systems focuses on three main areas: **adequacy, sustainability and access to social protection** for all, independent of their employment status/contractual arrangements. The issue of potential savings/reallocation is less present in the discussion, albeit this is of key importance to ensure a realistic debate on the future of social protection and the welfare state in the EU.

The EU Member States' public spending on social protection is among the highest in the world, however **regular review of the spending efficiency is still missing**. It would also be advisable to assess **social spending on labour market institutions** to make sure that the financed structures contribute to well-functioning labour markets. In this respect, the work done by the European network of Public Employment Services (PES) aiming to improve the performance of employment policies is a positive experience on which further efforts can be based. For example, the recent reform of the Swedish PES towards more a results-oriented use of resources is an interesting practice that may inspire other Member States.

Member States and national social partners need to be supported in their decisions aiming to improve the allocation of resources. One of the ways of supporting Member States in this endeavour is guaranteeing access to relevant data, disseminating good practices and strengthening benchmarking building on existing approaches at EU and national levels. The Commission has an important role to play to improve its analytical work related to the financing of social protection systems.

In 2020 the European Commission (EC) published the report titled "Economic Benefits of Improving Efficiency in Public Spending on Education in the European Union" [1]. A similar approach is needed at EU level as regards public spending on social protection.

At the international level, social protection financing is discussed in the ILO's "Fiscal Space for Social Protection. A handbook for Assessing Financing Options" published in 2019. Chapter 2. of this handbook presents the main indicators to monitor social protection expenditure, examines the trends in public social protection spending and government

[1] P.Voigt, A. Thum-Thysen, W. Simons (2020), *Economic Benefits of Improving Efficiency in Public Spending on Education in the European Union,* Economic Brief 056. The brief can be found here

revenue at the global level, and allows to understand the challenges associated with indicators and sources of data. This analytical work done at the international level is relevant and should be taken into account in the EU context.

Proposed national solutions

BusinessEurope members agree that all stakeholders need to understand the urgency of the social security systems' reforms necessary in all branches of the system. National governments need updated information on existing schemes/benefits, their cost and efficiency. **Reviewing and reporting on social spending** on regular basis is very important for well-targeted reforms. Two monitoring exercises in Czechia are interesting examples of such work.

Czechia: monitoring to understand social benefits better

One of the examples of reviewing a subsystem of social protection is the Czech report *Monitoring of Labour Costs in the Czech Republic, the European Union and the United States (*Monitoring nákladů práce v České republice, ve státech Evropské unie a v USA). It was initiated by the social partners. There is also a study on typology of social benefits and events in the insurance and non-insurance social security system in terms of suitability and effectiveness (Typologie sociálních dávek a událostí v pojistném a nepojistném systému sociálního zabezpečení z hlediska vhodnosti a efektivity). This study is not aimed at proposing potential reforms but enables to point out where the system conflicts with the various criteria used to classify benefits. It also allows to define the basic principles for the creation of benefits in relation to the real situation addressed through social security.

Specific reporting is even more useful – ideally it should be done by specific social security branches. The below German example shows how reporting by security sector branch supports reforms.

Germany: a detailed reporting by social protection branch supports reforms

In Germany a detailed reporting by social protection branch is urgently needed. Such simulations help to understand the consequences of the lack of reforms and the financial burden to be taken. If nothing is done, the contribution rates will rise to about 43 per cent by 2025, which corresponds to an additional burden of about €50 billion for the contributors. Merely continuing the sustainability reporting (which hardly exists anyway) is therefore not enough. It would be necessary for the new government to report extensively and regularly on the future development of social contributions for all social protection branches for the next one or two decades to give an informed overview of what needs to be expected if no countermeasures are taken. Currently, such projections are available only for pension insurance, but not for the entire social security system. Such calculations are indispensable for a policy that is sustainable, viable socially and financially.

It is worth noting that the new federal government in its coalition agreement included the proposal to continue the "sustainability reporting" for the social protection branches. Such a reporting would monitor and project spending levels on social protection and the related overall budgetary and macro-economic effects.

Evaluation of the measure while passing relevant laws is a common practice in Germany. There is special annual report in Germany called "Social Report", in which the federal government reports once a year on the development of the total social expenditure. Additionally, topical reports that monitor individual social security expenditures, branches and the associated administrative costs are published by such institutions as, for example, Social Advisory Council, Regulatory Control Council, Council of Economic Experts etc.

Apart from a regular review and assessment of the social security provisions, **appropriate institutional set up** can support reforming existing systems. Such a set up functions in Denmark.

Denmark: institutional set up to rethink social protection provisions

In December 2019, the *Benefits Commission* was set up in Denmark to rethink the cash benefit system. In May 2021, the Commission submitted its recommendations for a simpler and more transparent social benefit system that both increases employment and creates a fair and more uniform standard of living. The recommendations from the Commission (in Danish): Afrapportering (bm.dk)

Additionally, the government has established a Commission for the so-called *2nd Generation Reforms* to give recommendations for possible new reforms. The Commission's analyzes are expected to help quantify the impact of possible 2nd generation reforms. The Commission's work will run through 2022. Along the way, several thematic proposals will be presented. More about the Commission (in Danish): Om Kommissionen (reformkommissionen.dk)

At the international level, some work has been done by ILO and OECD. An interesting solution that supports implementation of the reforms is technical support facility established by ILO to coordinate the design and implementation of the Global Accelerator on Jobs and Social Protection.

ILO: the Global Accelerator on Jobs and Social Protection

The LO in its Social Protection Factsheet published in June 2022 indicates that national social protection systems should be universal, adequate, comprehensive, resilient and sustainable. The UN Secretary-General launched on 28 September 2021 **the Global Accelerator on Jobs and Social Protection** for Just Transitions. The ILO coordinates the design and implementation of the Global Accelerator, which aims to close the social protection gaps for the 4 billion people still uncovered, and thus speed up the achievement of universal social protection by 2030. Additionally, the ILO coordinates the Global Accelerator's design and implementation, including by establishing a transversal system-wide **technical support facility**. While the Accelerator can be an interesting source of inspiration for national level reforms, the **technical support facility may be an inspiration for the EC action** through its DG REFORM and in cooperation with the Council's Social Protection Committee (SPC).

At the national and sub-national levels, the ILO provides support through a step-by-step approach including three steps:

Step 1. Adopting national social protection strategies based on evidence

Step 2. Designing, reforming and financing social protection systems

Step 3. Improving operations, administration and governance of social protection schemes and programmes

- ➔ Full description of these three steps can be found in Annex 1.

The OECD Social Protection System Review (SPSR) is to support developing countries' efforts to extend and reform their social protection systems. Despite being addressed to developing countries, the tool can be an inspiration for designing and implementing reforms of social protection in the developed countries. The tool adopts a holistic approach and analyses three pillars of the social protection system: social assistance, social insurance and labour market programmes.

OECD: the Social Protection System Review (SPSR)

The SPSR provides a diagnostic of the current state of the social protection system, highlights future challenges and options for addressing them. This review includes analysis of the country's demographics, poverty dynamics, labour market trends and revenue base as well as examines how social protection expenditure is currently financed and its sustainability over the long run.

The SPSR examines five dimensions of a country's social protection system:

- Need: forward looking analysis of risk and vulnerabilities across the life cycle to determine the need for social protection

- Coverage: identification of existing social protection schemes and gaps in coverage
- Effectiveness: assessment of the adequacy, equity and efficiency of social protection provision
- Sustainability: assessment of fiscal policy and the financing of social protection
- Coherence: assessment of the institutions for social protection and their alignment with other policies.

The individual SPSRs are tailored to reflect national priorities. Where possible the analysis is conducted jointly with government officials and/or local researchers to build capacity for evidence-based policy making. More on SPSR can be found here

BusinessEurope members agree that before proposing any increases in social protection contributions[2], the current system's efficiency should be assessed. Potential **savings/reallocations should be the primary policy objective** to avoid putting new financial burden on the contributors. Striking the balance between appropriate social security contributions and keeping the labour cost competitive is crucial for economic growth.

Germany: balancing social protection and competitiveness

BDA, the German member of BusinessEurope, indicates that in Germany the total social insurance contribution comprises all contributions to the social insurance branches financed jointly by employees and employers, i. e. pension, health, unemployment and long-term care insurance. In addition, there is a so-called special contribution to the statutory health insurance and a contribution surcharge for childless persons in the social long-term care insurance. On 1 January 2022, the contribution rates in pension, health, unemployment and long-term care insurance added up to almost 40% (39.95 %)[3].

Social benefits must not permanently increase exceeding economic capacity, because with every increase the factor labour becomes more and more expensive for companies. The overall contribution rate for social insurance must remain below 40 % in the future. Otherwise, massive risks will occur for international competitiveness and the economic development of Germany as a business destination. This would have unfavourable effects on employment as well as would jeopardise social cohesion and a balance between the generations involved.

BDA advocates concentrating the benefits of all branches of social protection at the basic level and completing it with extra benefits financed by the individual. The relationship between solidarity and the principle of "helping only those who need help" *(subsidiarität)* must be brought back into proportion. The community of solidarity must only step in where individuals cannot help themselves by their own efforts. A stronger emphasis on the principle of "helping only those who need help" *(subsidiarität)* not only creates more fairness, but also ensures long-term financial sustainability of the welfare state.

➔ The German approach to ensuring sustainable financing of the national social protection system is described in detail in Annex 2.

Modern welfare system needs to embrace megatrends (for example demographic changes, globalization, changes on the labour market, the twin transition) and offers provisions corresponding to these changes. It needs to be flexible and ensure seamless transitions between relevant provisions/branches depending on the type of employment/economic activity. The opinion of the Italian employers on the modern welfare system is presented in the example below.

[2] For example, the proposed increase to the statutory long-term insurance in Germany.
[3] It is worth noting that in 2020, with the "Social Guarantee 2021" the federal government under Angela Merkel committed to cap social security contributions at 40 % for 2021, but no promises were made beyond that.

Italy: need for a holistic approach to modern welfare systems

Confindustria, the Italian member of BusinessEurope, has been stressing the need for a higher degree of transparency in the management and in the funding of the public welfare.

Confindustria believes that to preserve the existing welfare system we need to adapt it to the social, demographic and economic changes. These adaptations should allow for a holistic approach to the social security system as a whole: the welfare system/1st pillar; the negotiated welfare (2nd pillar), and the private/voluntary pillar (insurance schemes financed by individuals).

Additionally, the holistic approach shall take into consideration all the aspects that are included in a wider context of social security, such as childcare, education, active labour market policies (ALMPs), social safety nets, healthcare or long-term care provisions. The future welfare state should embrace all these areas and cater for the needs of individuals, families, and the society as a whole. Moreover, it should be shifted from a system of social protection based on cash payments to the system granting access to relevant services.

Confindustria also believes that introducing any exception to the present legislation ruling on pension retirement (the Fornero Law enacted on 2011) can only be considered with regard to situations that are justified by objective grounds (e.g. in case of strenuous work). These exceptions, when provided, should in any case ensure the overall balance and the financial sustainability of the social protection system, as well as inter-generational fairness. Moreover, the exceptions should never represent a privilege, that would inevitably represent a burden for future workers and a step back on inter-generational fairness.

➔ The Italian approach to modern welfare state that protects employability can be found in Annex 3.

In the context of decreasing social security contributions due to, a.o., shrinking working population, there is a need to **reflect on potential new source of financing social protection**. Any new ideas on financing social protection should not result in increasing labour cost that is already relatively high across the EU. Social protection financing is a current topic in the public debate in France.

France: rethinking financing social protection

In its last report on the implementation of Social Security Financing Acts (October 2021), the Court of Auditors warned that the situation of the French public finances (especially those related to social security) would be affected by the consequences of the Covid-19 crisis for a long time.

The Court made three recommendations as to necessary actions: containing social security expenditure and debt, getting out of crisis management modes as well as relaunching and accelerating the reforms of the management of public finances.

The High Council for the Financing of Social Protection has recently submitted a report in which it recommends activating several levers beyond expenditure control, notably: individual prevention and the anticipation of collective risks, and the reorganisation of the health care system.

New ideas for financing social protection system are one of the topics of the national debate. One of them is the idea to introduce “**social value-added tax** (VAT)” by increasing VAT to finance a part of the social protection system. It implies reducing employers' (and employees') social security contributions and increasing the rate of VAT to allocate the corresponding tax revenues to the Social Security budget.

➔ Concrete actions crucial for sustainability of the French social protection system proposed by Medef, the French member of BusinessEurope, can be found in Annex 4.

All BusinessEurope members agree that **pension system** is one of the branches of the social security that should be redesigned urgently to ensure its financial sustainability and promote longer working lives, whenever possible. The Austrian example below explains the need for the reforms.

Austria: pension system’s reform for sustainability

Most of the social benefit expenditure in Austria is related to old age provisions. In 2020, 53,6 billion EUR was spent on old-age benefits, which stood for 42% of total social benefit expenditure. The demographic change and population ageing are calling for reforms to maintain the financial stability of the Austrian social protection system.

The legal retirement age in Austria is 65 for men and 60 for women. For women, the retirement age will be raised gradually. All women born after June 1968 must already work until they are 65. But the effective retirement age is consistently much lower as there are several schemes for early retirement that are often taken up. The proposal to raise the legal retirement age is not supported by the current government. IV, the Austrian member of BusinessEurope, has been advocating for measures to at least raise the effective retirement age and keep people professionally active longer. As Austria’s pension system is – in theory – financed by people currently working, it is important to keep a balance between people in work and people in retirement. This financing model is not sustainable and needs to be subsidised by money from taxes.

The level of **unemployment benefit** is an important decision factor that hinders or supports return to labour market. To support a prompt return to the labour market unemployment benefit should be conditional, limited in time and degressive. Unemployment benefit should be accompanied by targeted active labour market policies to facilitate finding a new job/taking up economic activity. The example from Austria illustrates the challenge of appropriate design of unemployment benefit.

Austria: degressive unemployment benefit crucial for return to employment

A reform of the unemployment benefits has been a hot topic in Austria for some time now. The benefits of the Austrian unemployment insurance are highly complex. Unlimited unemployment benefits often overlap with social assistance. The actual level of benefits, which often results in replacement rates of 60 to 80 per cent, when all supplementary amounts and surcharges are taken into account, does not support prompt return to the labour market.

IV, the Austrian member of BusinessEurope, believes that the main objective of the unemployment benefit reforms should be getting the unemployed people back into the labour force as quickly as possible. Only increasing unemployment benefit is counterproductive and IV has repeatedly advocated for the introduction of a degressive unemployment benefit. Austria is the only country in the European Union that pays unemployment insurance benefits for an unlimited period and, due to the lack of a degressive progression of the amount drawn, weakens the readiness of the beneficiaries to come back to the labour market.

The IV also supports the already discussed approach of reforming the receipt of benefits during marginal employment (while receiving unemployment benefits, an amount of 485,85 EUR can be earned). Labour market experts argue that marginal employment during unemployment often hinders the return to regular employment and subsequently leads to lower earnings.

In France the project of reforming the multiple-scheme- solidarity system has been an important topic of the last presidential election campaign. This proposal aims at simplifying and completing the social protection system by filling in the blind spots in the system (notably provision for those under the age of 25). This simplification is expected to increase take up of the benefit and increase confidence in the social system.

France: proposal for a universal activity income (RUA)

The project to reform the solidarity system, including creation of a universal activity income (*revenu universel d’activité*, RUA) was a key measure of the “Poverty Plan” presented already in 2018. The Covid-crisis halted development of the RUA project during the five-year term of President Macron. Nevertheless, the work at the technical level continued and President Macron has confirmed his commitment to creating a single resource base to allocate income-tested benefits.

The government’s proposal is based on two pillars: the reform of the minimum social benefits with the creation of RUA (safety net component) and the creation of the public service for integration and employment (activation towards employment component). Introducing RUA would imply merging of the existing benefits (the income of active solidarity, *revenu de solidarité active,* RSA), the activity allowance and housing allowance) into a single automatic payment. This income would be based on a basic amount equal to the current RSA, to which would be added components taking into account various specificities (housing supplement, disability, old age, invalidity, youth). The creation of a public service for integration and employment (*service public de l'insertion et de l'emploi*, SPIE) aims at guaranteeing the right to a personalized approach for any person experiencing social or professional difficulties entering the labour market. The first call for expression of interest to set up SPIEs was launched In December 2020 and led to selecting 31 territorial projects that added to 14 experiments from March 2020. The 2nd call has been launched with an objective to select 35 additional territories by the end of 2022. Projects are to be implemented over the course of 2022 and 2023.

According to Medef, this reform would maintain various principles already in place, in particular the conditionality of aid to household resources, and would strengthen the "activation towards professional activity" component, which is a positive development.

Timely and meaningful social dialogue and involvement of social partners in the envisaged reforms of the social protection system are crucial. Social partners' engagement ensures that the proposed solutions are responsive to specific needs and the rights and obligations of potential beneficiaries are balanced to their economic viability. Social partners also understand the specificities of local labour markets and/or sectors therefore can propose necessary accompanying measures that make benefits more effective and available for those in need. Finally, involving social partners ensures social acceptance of policy decisions and ownership, for example it has proved crucial for the success of the reforms aimed at increasing retirement age in Denmark.

- ➔ Involvement of the Danish social partners in reforming social security systems is described in detail in Annex 5.

Conclusions/The way forward

The need to modernize national social protection systems has become urgent. It is even more important to design and implement concrete reforms in the current context of a serious pressure on public budgets and changing social protection needs. Proposed changes shall lead to a stronger performance-based approach of the national public financing of social protection. Available resources should be directed to those areas where not only they are the most needed, but also bring the best results. At the same time, areas of potential savings/reallocations should be defined across different branches/schemes of social protections. Developing a yearly reporting tool at EU level combined with improved benchlearning between national social protection institutions and social partners is the best way forward to track efficiency of social spending and improve cooperation and mutual learning at EU level. At the same time, social protection is, and should remain the national competence because most of the resources that finance social protection systems are domestic ones, and the decision on where to invest social protection resources is at the core of the functioning of national democracies. Involvement of social partners at EU and national levels is very important to ensure that proposed reforms modernise social protection systems and make them fit for the future in a way that is well articulated with labour market realities.

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Annexes

Annex 1. ILO: the Global Accelerator on Jobs and Social Protection

Annex 2. Germany: ensuring sustainable financing of the national social protection system

Annex 3. Italy: from protection of workplace to protection of employability

Annex 4. France: paradigm shift to ensure sustainability of the social protection system

Annex 5. Denmark: social partners’ involvement in reforming social security systems

Annex 1.

ILO: the Global Accelerator on Jobs and Social Protection

On 28 September 2021 the UN Secretary-General launched **the Global Accelerator on Jobs and Social Protection** for Just Transitions. The ILO coordinates the design and implementation of the Global Accelerator, which aims to close the social protection gaps for the 4 billion people still uncovered, and thus speed up the achievement of universal social protection by 2030.

At the national and sub-national levels, the ILO provides support through a step-by-step approach:

<u>Step 1. Adopting national social protection strategies based on evidence</u>

The ILO supports countries in:

- conducting diagnostic studies and participatory assessment-based national dialogue, involving social security institutions, workers and employers' representatives, UN agencies, civil society and IFIs to identify policy options to close social protection gaps
- estimating the cost of the policy options and projected over time
- conducting a fiscal space analysis that helps identify financing options for newly proposed programmes or adjustments to existing schemes and provide recommendations on the mobilization of domestic resources
- supporting the adoption by the government of a national social protection strategy.

<u>Step 2. Designing, reforming and financing social protection systems</u>

The ILO provides technical support to:

- design policy reforms and programmes for extending social protection to groups that are so far excluded or not adequately protected (such as people with disabilities, workers in the informal economy, migrant workers and refugees, among others) and improving adequacy of benefits.
- enhance linkages between social protection and public finance management, identifying financing options for social protection, conducting actuarial assessments for setting the parameters of new or expanded schemes, and strengthening capacities for improved public finance management.

<u>Step 3. Improving operations, administration and governance of social protection schemes and programmes</u>

The ILO supports countries in:

- strengthening administrative and delivery capacities, including management information systems and one stop-shops for beneficiary registration and payment of benefits, as well as a complaints and appeals mechanism
- improving coordination across the schemes and institutions involved in policy design, financing and delivery of social protection
- strengthening the tripartite governance of the scheme and ensuring the participation of those concerned at the national, regional and local levels
- carrying out actuarial studies to improve the financial governance of the scheme
- developing communication and education of the wider public necessary to create a national consensus around proposed policy reforms, build ownership and trust in the system.

The ILO provides specialized technical services adapted to each country's context and based on applied knowledge and research. The thematic areas of support can be found in the table on the next page.

<table>
<tr><th>Realizing the human right for social protection for all</th><th>Universal, robust and sustainable social protection systems</th></tr>
<tr><td>Protection across the lifecycle</td><td>Building blocks</td></tr>
<tr><td>✓ Expanding social health protection towards universal health coverage (including health, maternity, sickness and long-term care)
✓ Unemployment protection
✓ Old-age, disability and survivors pensions
✓ Child and maternity benefits
✓ Employment injury insurance</td><td rowspan="3">✓ Inclusive and effective social dialogue
✓ Building national systems of social protection statistics and monitoring and evaluation frameworks
✓ Financing social protection
✓ Building rights-based social protection systems (including a ratification campaign)
✓ Financial governance and sustainability – actuarial valuations
✓ Digital transformation
✓ Adaptation of social protection systems to new and emerging challenges
✓ Culture of social protection</td></tr>
<tr><td>Protection for all people</td></tr>
<tr><td>✓ Protecting workers in all types of employment
✓ Disability-inclusive social protection systems
✓ Social protection for migrants, refugees and host communities
✓ Just transition to a more environmentally sustainable economy and society
✓ Leveraging social protection to promote gender equality</td></tr>
</table>

Annex 2.

Germany: ensuring sustainable financing of the national social protection system

Benefits where the financing is not covered by contribution must be fully financed from the federal budget instead of the current practice of cross-subsidising. Additionally, the nature of the unemployment insurance as a contribution-financed risk protection must be strengthened. The maximum duration of claims to unemployment benefits should be limited to twelve months.

- *Statutory health insurance (SHI)*

The goal should be that, as a matter of principle, only those services are financed that are necessary, evidence-based and economically provided. The principle of co-payment also sets incentives for health- and cost-conscious behaviour on the part of the insured and takes into account the principle that, in accordance with the principle of "helping only those who need help" *(subsidiarität*), a social insurance system should only provide benefits that the individual cannot pay for himself.

Proposals for reforms:

- Today's wage-based contributions act as a punitive tax on labour. Therefore, the financing of health insurance should be changed to income-independent health premiums with payment of the employer's contribution into the gross wage and tax-financed social compensation for those on low incomes.
    - In this way, neither wage or salary increases, nor premium increases lead to higher additional labour costs.
    - The necessary redistribution volume can thus be reduced.
- Health insurance funds should be given more contractual freedom to negotiate prices, quantities and qualities with service providers - in compliance with anti-trust and competition law regulations.
- In addition, the health insurance funds should have more leeway in offering different forms of care to the insured.
    - A stronger focus on competition elements helps to limit the increase of expenditure, contributes to preventing the inefficiencies in the provision of services and in the organisational structures as well as prevents false incentives for the insured persons and service providers.
    - SHI tariffs that include care management could be offered as optional tariffs, the remaining SHI tariffs could be financed by income-independent additional contributions of the insured.

- *Accident insurance*

Accident insurance benefits must be concentrated on the coverage of company-specific risks. The demarcation of general health risks from occupational diseases shall be more sharply defined. The preconditions for certain illnesses to qualify as "occupational diseases" must be defined more precisely with regard to the differentiation from common illnesses (e. g. back problems) and also in connection with risks due to personal behaviour (i.e. smoking).

Proposals for reforms:

- Accidents on the way to and from work should no longer be covered by accident insurance.
    - The employer has no influence on the risk of a commuting accident. Moreover, this general risk of life is covered by other branches of social security or private insurance (such as health insurance).
- The current accident pension should be replaced by an income compensation pension, which precisely compensates for the concrete reduction in income until retirement.
- In addition, the possibilities for settling accident pensions should be expanded.
    - The partially existing overprovision due to double payment of accident pension and salary as well as of accident and old-age pension needs to be corrected.

- *Long-term care insurance*

Proposals for reforms:

- As demanded for the statutory health insurance, the financing of long-term care costs should be decoupled from the employment relationship and the financing should be changed to income-independent long-term care premiums with tax-free payment of the employer's contribution into the gross wage as well as social compensation for low-income earners.
    - Should this not be politically feasible, at least the employer's contribution to long-term care insurance must, by law, be maintained at the level of 3.05 per cent.
- In addition, a funded risk provision should be introduced.
- Adjustments should be made with regard to employees who take care of relatives.
    - The better and more quickly the necessary counselling of those in need of care and their relatives takes place, the sooner employers will be able to adjust their personnel planning to these requirements, if necessary.
- Introduce a sustainability factor when adjusting care benefits.
    - This ensures that adjustments to long-term care benefits are dampened if the number of people in need of long-term care grows faster than the number of contributors.

- *Pension insurance*

In addition to a reduction of the benefit level, a rebalancing of the tasks of the pension insurance would be important. The goal of ensuring adequate, contribution-based provision in old age and in the event of reduced earning capacity must be given greater priority. An extension of the working life should not be tabooed any longer in the political discussion as this is a realistic option to tackle demographic changes (longer and often healthier life and shrinking workforce).

Proposals:

- The active phase of life should be extended
- The contribution rate must be kept below 20%.
    - Due to demographic developments, pension insurance contributions alone will rise from 18.6% today to almost 20% in 2025.
- Early retirement incentives must be eliminated.
    - Early retirement without deductions should be abolished.
    - Reductions for early or supplements for later retirement should be increased.
    - Existing disincentives to increase working hours should be eliminated.
- The already existing sustainability factor should be strengthened.
- Non-contributory benefits and expensive exemptions for individual groups of insured persons – such as the basic pension (*Grundrente*), maternity pensions and the pension without deductions from the age of 63 – should be reduced.
- Supplementary old-age provision should be strengthened.
    - A mixed system of pay-as-you-go pension insurance and additional funded provision is much more crisis-proof and sustainable than a system that relies on only one pillar. In the context of demographic change, supplementary funded pension provision offers an important advantage: it makes possible to pre-fund future pension entitlements. A decline in the number of contributors does not have any negative consequences for funded pension provision.

Annex 3.

Italy: from protection of workplace to protection of employability

Preliminary remarks

The EU Member States' economies and societies are presently undergoing significant transitions (for example demographic change, green and digital transitions or changes on the labour market etc.). These transitions affect structure and financing of national social protection systems. The Covid pandemic has accelerated the transformation processes/transitions already ongoing in the world of work due to globalization and technological innovation.

Confindustria, the Italian member of BusinessEurope, stresses the need to accompany transition processes and, at the same time, to rethink the structure of existing welfare system by adapting and progressively improving it to ensure its equitability and efficiency as regard to the emerging social needs. The new approach should strongly focus on the labour market: the progressive shift from the protection of the workplace to the promotion of employability of people is the necessary direction.

The fundamental role of active labour market policies in the new scenario

Active labour market policies (ALMPs) will have to prevail with respect to the passive approach. This change is needed to overcome huge imbalances in allocation of financial resources characteristic for Italy. Currently the available resources are mostly financing passive measures rather than the active ones.

The reform of ALMPs should be aimed at creating a social protection system against unemployment in which unemployment benefit should be completed with an effective path for the reinsertion into the labour market. As a result, the unemployment benefit should be, fully or partly, conditional to the active collaboration of the unemployed person in all the relevant activities linked to his/her professional re-activation.

The principle of effective conditionality entitling people to receive the unemployment benefit should also be referred to the general and structural re-introduction of the relocation allowance (*assegno di ricollocazione*). The unemployed person should be entitled to spend this allowance according to his/her own choice to access services provided by both private employment agencies and public employment services. To this regard, the request by the unemployed person of the relocation allowance should be mandatory as from the first day of receipt of the first unemployment benefit payment, so that the unemployment benefit might simultaneously accompany all the job search and training activities which will be proposed to the unemployed person by both public or private employment services.

It is necessary to eliminate the present distortions in the structure of financing of unemployment benefits between sectors. This means that the financing of this instrument must be based on effectively balancing rates of financing charged to the companies and effective activation of the unemployment benefit by the respective sector (e.g. industrial companies pays the highest rates, with respect to other sectors paying less, but utilizing the instrument on a greater scale).

The fundamental role of the second pillar in the future model of the welfare state

Modern social protection system should be based on promoting the uptake of the second pillar, the complementary pension scheme. This scheme provides for an additional and flexible part of the social protection system linked to individual contributions, therefore independent of the shrinking contributions to the public pension systems. Confindustria stresses the need to further develop and sustain these schemes[4]. To ensure widespread participation in the second pillar schemes, it is necessary to increase financial awareness as well as understanding of the architecture of social protection systems.

[4] Currently only one third of the active population in Italy, mainly workers aged from 34 to 54, are contribute to the second pillar pension schemes. The uptake by those younger than 34 is even weaker.

Annex 4.

France: paradigm shift to ensure sustainability of the social protection system

Medef, the French member of BusinessEurope, indicates a few actions crucial for sustainability of the French social protection system. The proposals include:

- Clearing the current debt and avoiding creation of future debts
- Reconsidering financing methods
    - Taxes on labour should not be increased as they constitute a deadlock for the recovery process
    - Replacing the issue of the fiscalization of the social security funding in a broader evolution of the system (for example debates on the "social VAT")
    - Further developing the complementary part in the financing of social protection
- Introducing a new approach to expenditure
    - Putting more emphasis on prevention
    - Considering innovation as an opportunity and not a cost
    - Considering health actors as partners and not just contributors to the regulation of expenditure

The main objective is to ensure good coverage of social protection; at the same time, the social protection-related expenditure should not be increased. Further increases in expenditure would lead to an increase in compulsory levies, which would weigh heavily on companies affected by the health crisis, and thus ultimately on the French level of employment.

In line with the High Council for the Financing of Social Protection, Medef is particularly supportive of:

- Initiatives enabling social partners to be better involved in the process of drafting and adopting Social Security Financing Acts
- A multiannual approach concerning the steering public finances, as it would allow for an upstream assessment of the impact of long-term measures
- Regarding the management and organisation of the social security provisions, the logic of branch-based management must be maintained in order to take into account the differences between risks and to guarantee the balance of certain branches when the accounts of others deteriorate

Medef is in favour of resuming pension reform to secure their long-term financing, which implies:

- Raising the retirement age
- Abolishing special schemes and combining multiple schemes into three main schemes (private sector employees, civil servants, the self-employed)

Medef has made several proposals on this subject in the context of the presidential elections. These are:

- Capping solidarity incomes by imposing a maximum limit for social solidarity benefits for each taxable household in France.
- Controlling emerging social protection issues such as the loss of autonomy and dependency. A fifth social security branch has been created in 2020. It is called "Autonomy" and is dedicated to supporting the autonomy of elderly persons, those with disabilities as well as caregivers. It should be financed by national solidarity and not by income from labour; private actors shall play an important role in supporting the development of this sector.
- Preserving the current French social protection model based on social security and complementary institutions.

Annex 5.

Denmark: social partners' involvement in reforming social security systems

Preliminary remarks

DA, the Danish member of BusinessEurope, believes that there are three main ways to decrease the public expenditure to finance social security:

- increasing employment rate and reducing the number of people on social benefits
- basing reforms on thorough analytical work including input from social partners and academics
- simplification of a complex social security system and making it more manageable

DA on unemployment benefits

For a number of decades Denmark has focused on reducing structural unemployment through various structural reforms. For example, the insurance-based unemployment benefit period has been shortened over several years and is now two years. This has made the system more flexicurity-aligned.

In autumn 2015, the social partners provided input into a review of the unemployment benefits by the Unemployment Benefits Commission. Unemployment benefits are usually paid for the period of two years. In 2017, the unemployment benefit system was reformed. The reformed system encourages workers to accept temporary or part-time work during this period. In that way, the unemployed are encouraged to enter the labour market. This allows them to retain their right to unemployment benefits and potentially extend their entitlement to benefits. The procedure used to require a large amount of paperwork, so the rules have been simplified and the processes digitalized. National social partners also agreed to reform the unemployment benefit system for the self-employed, contractors and freelancers. The new, flexible labour market regulation has increased job mobility and incentives for the unemployed to find a new job.

DA on senior workers and pensions

The Danish social partners have undertaken several initiatives to secure flexible and improved conditions for senior workers both in the private and in the public sector. This also includes initiatives originating from the work of tripartite committees and commissions such as the Labour Market Commission and the Welfare Commission.

Based on a political agreement, the national retirement age is indexed according to life expectancy. The retirement age in 2020 was 67 years and new legislation has provided the retirement age to be 68 years as of 2030 and 69 years as of 2035. New legislation from June 2022 makes it possible for national pensioners and early retirement pensioners to receive their pension regardless of whether their spouse or cohabitant has an income from work.

Reforms of early retirement schemes have had clear effects through a large increase in employment among those over 60 years of age. The employment statistics show that labour market participation (employment rate) of workers aged 60-64 years has increased from 49,1 % in 2013 to 65,5 % in 2020 (Statistics Denmark, 2020).

DA regrets that a new politically decided retirement schemes such as senior pension and a new early retirement pension results in a reduced supply of labour.