

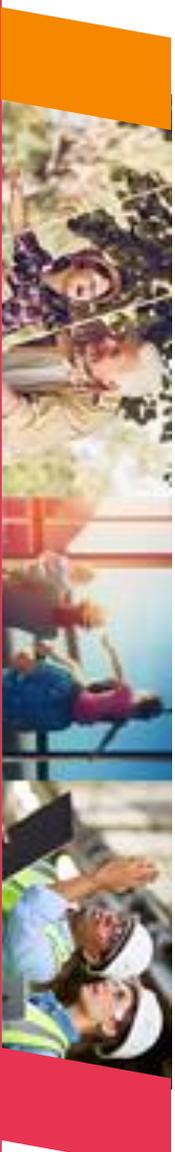


The future of the welfare state in the Western Balkans
Policy Analysis Laboratory School

Financing social protection

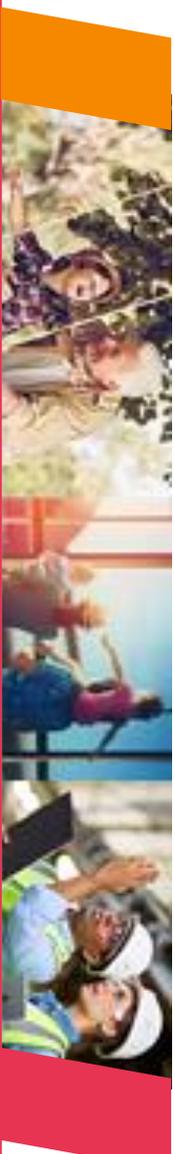
Presentation by **Christiane Westphal**, European Commission, DG EMPL, International Issues unit, Policy officer

Bečići (Montenegro), 23 Oktober 2019



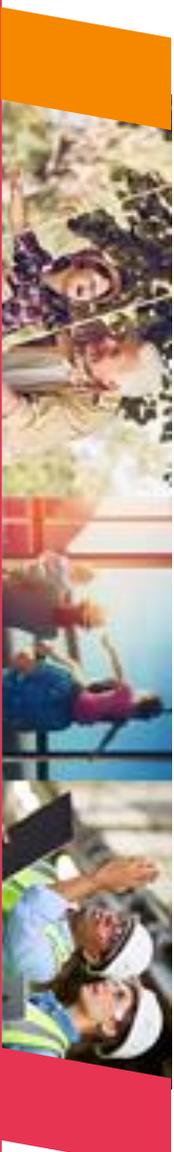
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- EU policy framework
- Recent reports on the financing of social protection in Europe; forthcoming synthesis report (European Social Policy Network):
 - Overall spending levels and per type of expenditure
 - Revenues and spending levels
 - Sources of expenditure



EU policy framework

- European Commission July 1999 “Concerted Strategy for Modernising Social Protection”, politically approved at the Lisbon European Council
- Launch of the “Open Method of Coordination” on social inclusion (2000), pensions (2002) and health care and long-term care (2004).
- Streamlined in 2005 into a single, overarching “Open method of Coordination on Social Protection and Social Inclusion” (Social OMC) – using “soft governance” tools to support Member States in making progress towards common objectives and targets: national reporting, indicators, joint reports (including benchmarking), peer reviews and stakeholder involvement



EU coordination

- National reforms in the area of (amongst others) social protection are now assessed within the European Semester, in a process which culminates in Country-specific Recommendations that are adopted by the Council of the EU.
- The overall framework is provided by the European Commission's Annual Growth Surveys (AGS)
- 2019 AGS called for the “development of inclusive and growth-friendly social protection schemes” and points out that, as new forms of work emerge, traditional social protection systems will need to be modernised and adapted.



New ambition: European Pillar of Social Rights

- European Pillar of Social Rights (2017) : 10/20 principles are on social protection and inclusion.
- At present, social protection systems generally fall short of the goals of adequacy and universalism set out in the Pillar.
- Challenge for Member States to secure a sound financing basis for social protection systems in the medium and longer term.
- Economic cycles, long term trends such as demography, digitalisation, environmental concerns etc.



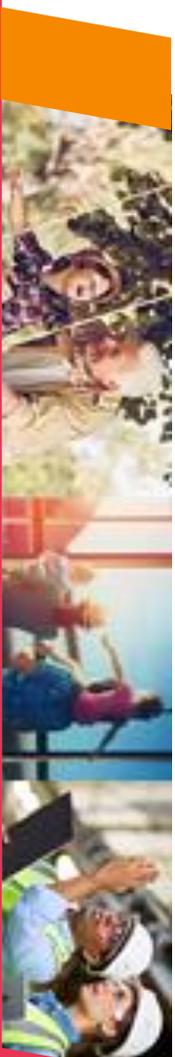
Study on financing of social protection in Europe

- describes the state of play as regards financing models for European social protection systems, as well as their strengths and weaknesses;
- identifies the changes in levels of financing social protection systems during the period 2005-2016;
- analyses the changes in the main sources of financing for these systems during the period 2005-2016 (or the latest year for which data are available);
- assesses the main impact of past (since 2005) reforms and the possible impact of recent and current changes



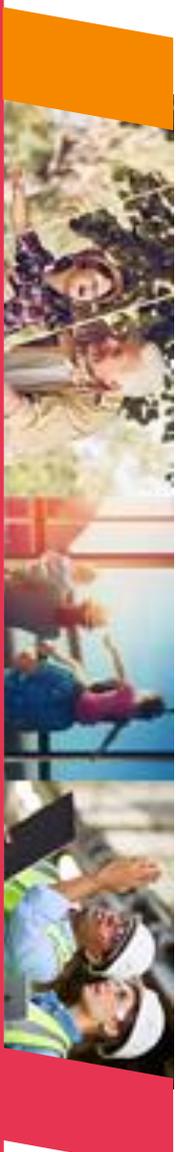
Expenditure levels in EU Member States

- Overall expenditure on social protection averaged 28% of GDP in the EU in 2016, increased by just over 2 percentage points the preceding 11 years (i.e. from 2005).
- Three groups of EU Member States can be identified as regards social protection expenditure:
 - “high spenders”, “medium spenders” and “low spenders”.
 - The composition of these groups barely changed over the period 2005-2016.
 - This distinction also conforms *grasso modo* to geographical areas in Europe: Nordic and Continental countries (“high spenders”), followed by Southern European Countries (“medium spenders”) and behind these Central and Eastern European Countries (“low spenders”)



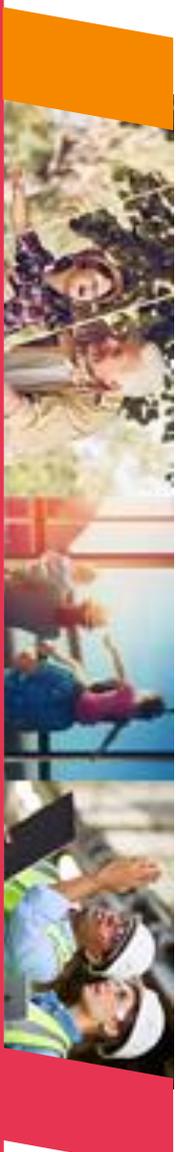
Expenditure on old age pensions/benefits

- Substantial variation across countries in the relative importance of old age functions. At one end, in Greece, old-age benefits made up 55% of total social protection spending in 2016; at the other end, in Ireland, Luxembourg and Germany, they accounted for only around 30%.
- Despite the growing number of people of 65 and older (i.e. the pensionable age in most countries), expenditure on old-age benefits has either fallen relative to GDP or not increased significantly in most Member States since 2010.
- This trend clearly reflects the outcome of policy reforms implemented both over the period 2005-2016 and before.



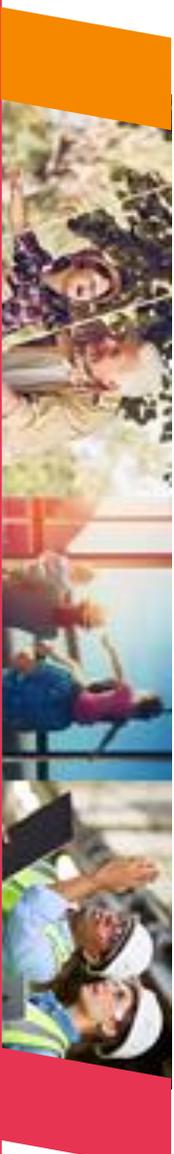
Expenditure for healthcare

- Spending on healthcare, including sickness benefits (though these account for only 10-15% of healthcare spending) range between 20-40%: close to 40% of total social protection expenditure in Ireland, but only just over 20% in Denmark.
- Despite population ageing and the increasing pressure on spending exerted by advances in treatment, there has been a decline in expenditure on healthcare relative to GDP in the EU on average over recent years.
- Some factors: cost-containment measures, which include direct cuts in financing, reductions in in-patient care, increase in co-payments, tightening of eligibility conditions for sickness benefits, shortening of the period of receipt of sickness benefits.



Expenditure on “other” benefits

- Expenditure on “other” benefits – family, disability, survivors, unemployment, housing and social exclusion benefits – increased relative to GDP in around half the EU Member States over the period 2005-2016 and declined in the other half.
- Expenditure on benefits other than old-age benefits and healthcare shows no common pattern of change in respect of the various functions covered and countries have given differing levels of importance to the different benefits financed.



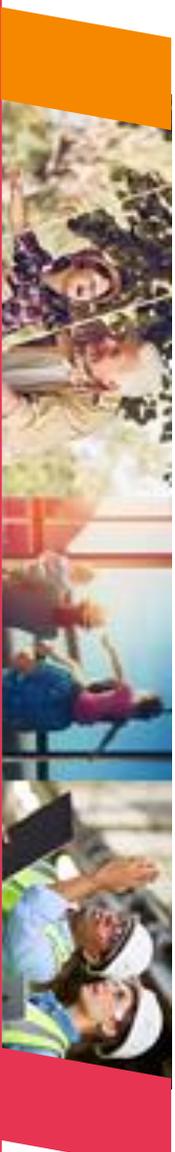
Revenues and spending levels

- In most EU countries over the period 2005-2016, revenue from social contributions and taxation to finance social protection exceeded expenditure, so that surpluses were accumulated to fund future spending.
- Only four countries (Spain, Lithuania, Estonia and Greece), had significant deficits on average over the period 2010-2016, and in each case these were less than 4% of expenditure.



Sources of expenditure

- On average in the EU, social contributions financed over half (55%) of total expenditure on social protection in the EU in 2016, with 40% coming from the general government, funded predominantly from general taxation.
- The proportion of financing from social contributions ranged from close to 80% of expenditure in Estonia and around 75% in Lithuania and Czechia, to under 40% in the UK, Ireland and Malta and under 20% in Denmark.
- Difference in the relative importance of social contributions as a source of financing reflects the different models of social protection in operation across the EU, from more social insurance-based ones, where contributions predominate, to more universal ones in which taxation plays a larger role.



Sources for old-age benefits

- Old-age benefits are mainly financed by social contributions, much more than other **elements of social protection**.
- This is the case in nearly all types of social welfare system, even for those mainly funded by taxes.
- In 2015, social contributions accounted, on average, for 65% of the financing of old-age pensions in the EU, while government revenue from taxation accounted for only 20%, the rest coming from interest on investment and other sources.



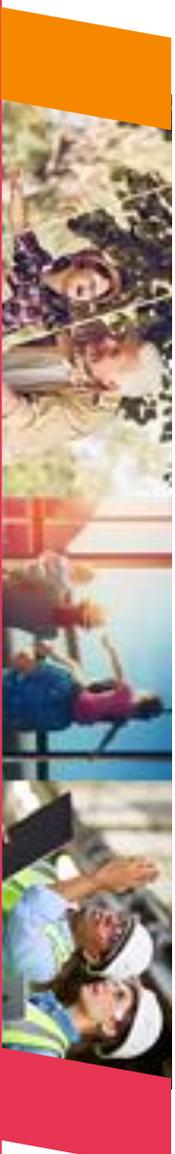
Source of healthcare expenditure

- Healthcare systems differ in the extent to which they are financed by social contributions or taxes.
- Croatia, the Netherlands, Germany and Estonia are prominent examples of insurance-based healthcare systems, with social contributions accounting for over 80% of overall funding in 2015.
- Italy, Latvia, the UK, Spain and Sweden, on the other hand, have predominantly national health services which are mainly (over 70%) financed from taxation.



Sources for other benefits

- In the case of benefits other than old-age and healthcare, the picture is mixed as regards the relative importance of the different sources of financing.
- Again, while there was a widespread shift from social contributions to taxation in the five years before 2010, there is no common tendency apparent over the five years since then.
- The exceptions are disability and, to a lesser extent, family benefits: in both cases, there was a shift from social contributions to taxation in the financing of expenditure.



Thank you!

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