Funding Social Protection

The future of the welfare state in the Western Balkans

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Content

- Sources of expenditure
- Revenues and spending levels
- Overall spending levels and per type of expenditure

Recent reports on the financing of social protection in Europe:
- EU policy framework
- Synthesis report (European Social Policy Network):
• Concerted Strategy for Modernising Social Protection, politically approved at the Lisbon European Council

• Launch of the “Open Method of Co-ordination” on social inclusion (2000), Social Protection, politically approved at the Lisbon European Council

• 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 Policy Framework
and adapted, traditional social protection systems will need to be modernised, alongside new forms of work. The 2019 AGS called for the “development of inclusive and growth-friendly social protection schemes” and noted that, as new forms of work emerge, traditional social protection systems will need to be modernised and adapted.

The overall framework is provided by the European Commission’s Annual Growth Surveys (AGS). The AGS 2019 called for the “development of inclusive and growth-friendly social protection schemes” and pointed out that, as new forms of work emerge, traditional social protection systems will need to be modernised and adapted.

National reforms can now be assessed within the European Semester, in a process which culminates in country-specific recommendations that are adopted by the Council of the EU.
New ambition: European Pillar of Social Rights

- Economic cycles, long term trends such as demography,
- Social protection systems in the medium and longer term.
- Challenge for Member States to secure a sound financing basis for social protection and inclusion.
- At present, social protection systems generally fail short of the goals of adequacy and universality.

European Pillar of Social Rights (2017): 10/20 principles are on 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.
- Analyzes 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

Three groups of EU Member States can be identified as regards social protection expenditure:

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  (i.e., from 2005).

• 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.

• This distinction also conforms grosso modo to geographical areas in Europe:
  – Nordic and Continental countries ("high spenders"), followed by Southern Mediterranean countries ("medium spenders"), and Low spenders.
  – The composition of these groups barely changed over the period 2005-2016.
  – "High spenders", "medium spenders" and "low spenders".
  
Eastern European countries ("low spenders") and behind these Central and
European countries ("medium spenders") and behind these Central and
Northern and Continental countries ("high spenders"), followed by Southern

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Substantial variation across countries in the relative importance of old-age benefits has either fallen relative to GDP or not increased significantly in most Member States since 2010.

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. 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%.

This trend clearly reflects the outcome of policy reforms implemented both over the period 2005-2016 and before.
period of receipt of sickness benefits, tightening of eligibility conditions for sickness benefits, shortening of the payment period, reductions in in-patient care, increase in co-payments, financing, reductions in in-patient care, increase in co-payments, which include direct cuts in spending on healthcare relative to GDP in the EU on average over recent years.

Despite population ageing and the increasing pressure on spending for only 10-15% of healthcare spending (range between 20-40%: close to 20% in Denmark. Close to 40% of total social protection expenditure expenditure in Ireland, but only just over 10% of healthcare expenditure, including sickness benefits (though these account

Expenditure for healthcare
Expenditure on “other” benefits

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.

Period 2005-2016 and declined in the other half: relative to GDP in around half the EU Member States over the unemployment, housing and social exclusion benefits – increased expenditure on “other” benefits – family, disability, survivors,
In most EU countries over the period 2005-2016, revenues exceeded expenditure. In each case, these were less than 4% of accumulated surpluses were used to fund future spending. Only four countries (Spain, Lithuania, Estonia, and Greece) had significant deficits on average over the period 2010-2016.
Sources of expenditure

In the EU, from more social insurance-based ones, where social contributions predominated, to more universal ones in which taxation played a larger role.

Funding reflects the different models of social protection in operation across the EU.

- 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.

- The General Government, funded predominantly from general taxation, expended over half (55%) of total expenditure in social protection in the EU in 2016, with 40% coming from social contributions.
Old-age benefits are mainly financed by social contributions, much more than other elements of social protection.

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.

This is the case in nearly all types of social welfare system, even for those mainly funded by taxes.

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Sources for old-age benefits

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Healthcare systems differ in the extent to which they are financed by social contributions or taxes.

- Croatia, the Netherlands, Germany and Estonia are predominantly insurance-based healthcare systems, with social contributions accounting for over 80% of overall funding in 2015.
- By contrast, Italy, Latvia, the UK, Spain and Sweden, on the other hand, have predominantly national healthcare services which are mainly financed from taxation.
In the financing of expenditure, in both cases, there was a shift from social contributions to taxation.

The exceptions are disability and, to a lesser extent, family benefits:

- 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 picture is mixed as regards the relative importance of the different sources of financing:

  - In the case of benefits other than old-age and healthcare, the sources of financing.

Sources for other benefits
Thank you!

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