Dynamic Social Security for Europe: Choice and Responsibility

DEVELOPMENTS AND TRENDS

ISSA INTERNATIONAL SOCIAL SECURITY ASSOCIATION

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Preface

This Developments and Trends report – *Dynamic Social Security for Europe: Choice and Responsibility* – has been prepared for the Regional Social Security Forum for Europe, organized by the International Social Security Association (ISSA), and hosted by the Social Insurance Institution (ZUS) of Poland, 3–5 March 2010, in Warsaw, Poland. This is the third in a four-volume set of regional Developments and Trends reports designed to accompany and inform ISSA Regional Forums during the 2008–2010 triennium. The reports and the Regional Forums represent a new approach to better understand and address the key challenges ISSA member organizations are facing in the different regions of the world.

Social security provision may be considered a defining feature of Europe, a fact that can be traced back to the world's earliest example of social security legislation: the social insurance law for sickness insurance implemented in Germany in 1884. Similarly, it is difficult to consider the region without referring to the federating notion of the European social model. However, at the national level, there are important institutional differences in social security provision. This remains so despite the continuing economic and political expansion of the European Communities/European Union since 1952, involving moves towards greater policy coordination, and the introduction of market economies in the countries of Central and Eastern Europe and the former Soviet Union since 1989.

Despite national differences, the region's social security systems face a number of common challenges. These include satisfying demands for personal choice in benefits and services. Such demands mirror wider expectations about the quality and nature of public service provision, but also reflect changes in labour markets, family structures and social norms. Population ageing is another important factor, as are the impacts of globalization. And the current economic crisis, which has seen demand for social security increase while causing available resources to decline, cannot be ignored. A common supply-side concern is the longer-term ability to adequately finance social security programmes. Notwithstanding the economic downturn, such concerns stem from the prospect of an ageing and, albeit to different degrees, a declining workforce.

A key observation in this report is that all stakeholders have a responsibility to ensure a healthy financial future for social security. Demands for choice in benefits and services require improvements in administrative performance. But just as administrations have a responsibility to be cost-effective and high-performing, so too must the "clients" of social security systems act responsibly. In all of this, the importance of ensuring appropriate governance is paramount. Ultimately, for behaviour to change, it is necessary for social security administrations, ISSA member organizations, to lead by example. This requirement, for innovation that leads to improved performance, is one aspect of what the ISSA refers to as Dynamic Social Security.

The purpose of this report is threefold: first, to synthesize and interpret the most important recent developments and trends in Europe; second, to provide the key background document for the Developments and Trends Session of the Regional Social Security Forum for Europe; and, third, to provide the context for the Regional Social Security Summit for Europe. The discussion during the Regional Forum will provide an opportunity for all of us to complement this report and to debate its messages. I hope that this report will serve as an inspiring stimulus for our discussions and welcome you all to contribute actively before, during and after the Regional Social Security Forum for Europe in Warsaw. The outcome of these discussions will be carried forward to the World Social Security Forum to be held in Cape Town, South Africa, 29 November to 4 December 2010.

Hans-Horst Konkolewsky
Secretary General

CHAPTER 1

Defining the regional context

For the International Social Security Association (ISSA), the region of Europe is a broad entity.[1] The total population of this broad region of Europe is home to nearly a billion people, 500 million of whom live in the 27 Member States of the European Union (EU).[2] A number of ISSA member organizations represent countries or British crown dependencies with populations of less than a million (Andorra, Cyprus, Guernsey, Jersey, Isle of Man, Malta, Luxembourg and San Marino). Looking further east, the Russian Federation (hereafter, Russia) is home to 142 million people.

The economies of the region of Europe are diverse. Some are on the cutting edge of technological innovation in sectors such as aviation, pharmaceuticals, alternative energy sources and communication. Other countries remain primarily agricultural. Still others derive most of their revenues from the sale of natural resources. These differences are reflected in highly divergent employment rates. In the Nordic countries, about three-fourths of the working-age population is employed. The rate is considerably lower in Italy (59 per cent) and in several of the countries that have more recently become EU Member States, such as Hungary and Poland (55 per cent). In the Republic of Macedonia, only 34 per cent of working-age people have jobs.

Across the region average wage levels vary markedly. In the EU, average wages range from a high of EUR 47,000 per year in Luxembourg to a low of EUR 2,000 in Bulgaria. On average, women in the EU earn less than 85 per cent of what men earn, but this comparison too masks variation. In Belgium, Ireland, Italy, Portugal, Slovenia and Malta women's average earnings fall below men's by 10 per cent or less, while in the United Kingdom the gap is 21 per cent and in Estonia it is 30 per cent. In Kyrgyzstan women earn a third less on average than men, and in Georgia they earn about two-thirds less.

As the world's cradle of social insurance, Europe is the home of the oldest and most developed social insurance schemes, as well as the world's longest institutional experience in managing them (SSA and ISSA, 2008). Yet despite the widely-held perception of a European social model, the institutional nature and mix of social insurance practices, health-care systems, social assistance and mutual support varies widely across the region.

Nevertheless, as regards the kinds of risks covered by social security programmes in the countries of the broader European region there is a great deal of similarity. Mandatory programmes cover the risks of old age, disability, survivorship, sickness, maternity, work injuries and accidents and unemployment and also provide support for families. And a growing number of countries are developing mechanisms to provide long-term care benefits, either paid in-kind or in cash.

1. The ISSA's region of Europe is identical to the International Labour Organization's Europe and Central Asia Region.
2. The 27 EU Member States are Belgium, France, Germany, Italy, Luxembourg, Netherlands (joined in 1952), Denmark, Ireland, United Kingdom (joined in 1973), Greece (joined in 1981) [EU-10], Portugal, Spain (joined in 1986), Austria, Finland, Sweden (joined in 1995) [EU-15], Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia (joined in 2004) [EU-25], Bulgaria and Romania (joined in 2007) [EU-27].

Across the region there are notable differences in levels of social spending and coverage. Among EU countries, social spending exceeds 30 per cent of GDP in France, Sweden and Belgium, but falls below 15 per cent in Latvia, Estonia, Lithuania and Romania. In the non-EU countries, social spending averages 13 per cent of GDP. However, these countries too exhibit broad differences, with Croatia and the Republic of Macedonia exceeding 20 per cent of GDP while Armenia and Azerbaijan fall below 10 per cent (ILO, 2009). While most Western European countries have achieved high levels of population coverage, this is less so in other parts of the region, as a result of large sectors of informal work and the chronic underreporting of wages in the formal economy.

Most countries in the region rely on public institutions to administer social security, with the main scheme constituents – workers, employers, and in some cases, pensioners – in advisory positions, often as members of a governing board. However, some countries rely on governments alone (e.g. pensions in Hungary and Bosnia and Herzegovina). In a few cases, workers and employers administer national schemes without government involvement (e.g. supplementary pensions in France). And in a growing number of countries, private firms play major roles in administration. This is particularly characteristic of pension administration in Russia and of most of the Member States that joined the EU in 2004 and 2007, which have diverted a portion of contribution revenues to privately-managed individual savings accounts.

Despite the region's social security systems being characterized by high institutional diversity, to one degree or another four broad trends shape and constrain the environments in which most of them operate.

In many parts of Europe, technological advances are making personal choice more feasible. With these advances, there is a demand for, and economies are providing, more individualized products and services. This trend can be observed in investment strategies, medical treatment, and the design of living and working spaces and equipment for transport, offices and homes. In the provision of social security services and benefits, individual savings accounts have been widely promoted, and implemented especially in Central Europe, as a means to give insured persons greater choice.

However, early experience indicates that approaches that accord greater choice in social security provision pose a set of difficult questions for social security policy-makers and administrators. How to provide individuals with meaningful and appropriately regulated choices while maintaining the requisite protection against the risks that social security systems are intended to address? How to preserve economies of scale inherent in a single unified national scheme? How to avoid an erosion of benefit adequacy as the result of higher administrative costs associated with moves towards more institutionally-fragmented social security provision? How to ensure that individuals have the skills and information necessary for making choices that result in enhanced welfare outcomes?

Globalization has put many countries under greater competitive stress. With capital flowing more freely to those locations that offer the lowest production costs, many governments have come under pressure to relax labour laws, so enterprises can hire and fire workers more easily, reduce labour costs and deploy workers more flexibly. The result of both developments is an increase in temporary and part-time work. In the EU-15 alone, from 1995 to 2006, temporary work increased by 25 per cent, and part-time work now accounts for more than one job in five (ILO, 2009). Similar developments have occurred in Central and Eastern Europe.

For social security systems, globalization poses a risk of declining coverage and benefit adequacy, as governments strive to create business-friendly environments by limiting or reducing employer social security contribution rates. At the same time, globalization creates a pressing need to assure social security coverage for workers in more precarious jobs. For the EU-27 countries, this complex challenge feeds into developments framed by the concept of "flexicurity"[3] and, no less important, into efforts to use employment and social

3. Flexicurity is geared to promoting a combination of flexible labour markets and a high level of social security. Early evidence suggests that despite the negative impact of the crisis on employment, flexicurity remains the backbone of EU social and economic policy.

policy to engage actively with the labour market to create not only more but also better jobs. For all countries, the creation of better jobs should also involve the creation of qualitatively better working conditions. In the EU, heightened attention to occupational health and safety has reduced workplace accidents and deaths by around 20 per cent since 2000. Improvements in indicators of occupational health and safety also impact positively on measures of general health and well-being and are vital for realizing Europe's goal of enhanced economic competitiveness and productivity.

Population ageing is a third broad trend of significance. Between 1960 and 2000, average life expectancy in the EU increased by four years.[4] Between 2000 and 2060, it is projected to leap by 8.5 years for men and 6.9 years for women. At the same time, fertility rates have fallen well below the required replacement rate of 2.1 births per woman. In the EU countries with highest fertility, France and Ireland, the rates stand at, or just below, 2.0 births per woman. The Netherlands, the United Kingdom and the Nordic countries are not far behind. However, the bulk of Europe's countries are at, or below, 1.4. In contrast, Tajikistan has a birth rate of 3.3 while Kazakhstan, Kyrgyzstan, Turkmenistan and Uzbekistan have rates of about 2.5 (EC, 2009a).

The European Commission (EC) projects that the combined effect of longer life expectancy and lower birth rates will reduce the ratio of active to inactive persons in the EU from 2.7 to 1 in 2009, to about 1.4 to 1 by 2060. Thus, tomorrow's smaller working population will have to support a greatly expanded inactive population. In the face of this shift and at today's labour productivity rates, current retirement ages, contribution levels and benefit levels cannot all be sustained. Substantial adjustments in social spending will be called for, and indeed are already under way in many countries. The EC estimates that EU social expenditure will need to increase by 4.7 percentage points of GDP by 2060 (see Box 1.1.). The EU's "Lisbon Strategy"[5] seeks to deal with the higher fiscal cost of ageing by raising national employment rates and increasing productivity. In a similar vein, there may be some productivity gains and healthier fiscal receipts to be derived from positive net migration rates in many countries of the Europe region.

The final development of relevance for social security is the global financial and economic crisis, which has significantly weakened the region's economies. In 2009, the Euro zone was estimated to have contracted by 4.2 per cent; Central and Eastern European (CEE) countries, by 3.7 per cent; and the Commonwealth of Independant States (CIS) countries, by 5.1 per cent (IMF, 2009a). While some indicators now suggest that the worst is over, unemployment is still rising and constitutes a serious threat to the region's workforce.[6]

In this context, Western Europe's comprehensive social security systems, and not least unemployment benefits programmes, are serving as automatic economic stabilizers, providing financial means to those who have lost their jobs or whose earnings have been reduced. They are also running large deficits that require increasing subsidies from state revenues, where debt is also mounting rapidly. In the lower-income countries of South-Eastern

1.1. The cost of ageing in the EU-27 by 2060, percentage point change in social expenditure/GDP

Pensions	Health care	Long-term care	Unemployment benefits	Education	Total
+2.4	+1.5	+1.1	−0.2	−0.2	+4.7

Source: EC, 2009a.
Note: Figures rounded.

4. In the countries of Central and Eastern Europe and the former Soviet Union, there was an important counter-trend in the 1990s, namely, a decrease in life expectancy, mostly among males. This trend has since ceased and started to reverse itself in most of these countries.

5. Dating from 2000, the Lisbon Strategy currently rests on three pillars: an economic pillar to develop the EU as a competitive dynamic, knowledge-based economy; a social pillar designed to modernize the European social model, including promoting an active policy for employment; and an environmental pillar that underlines that economic growth must be decoupled from the use of natural resources.

6. In the EU, unemployment rose from 6.9 per cent in December 2007 to 8.9 per cent in June 2009 and is expected to reach 10 per cent in 2010 (IMF, 2009b).

1.2. Percentage of unemployed persons with unemployment benefits (weighted by labour force)

Region	Receiving unemployment benefits (%)
Western Europe	77*
Central and Eastern Europe	23
CIS	28

Source: ILO, 2009, Figure 1.

* This total consists of 49 per cent contributory benefits and 28 per cent tax-financed benefits.

Europe (SEE) and the CIS, unemployment benefits were cut significantly in the 1990s, both in terms of amounts paid and persons eligible (see Box 1.2.). These gaps leave CIS and SEE workers without this critical first line of defence against economic hardship.

From this perspective, the duration of the global recession is of crucial importance. In the EU-15, it will determine whether the current flow of unemployment benefits is sustainable, as well as how much the long-term deficits facing pension systems will be inflated by this economic downturn. The EC has projected three recovery scenarios: a quick economic rebound, a lost decade, or a permanent shock (EC, 2009a). A quick rebound should leave the projected long-term deficits caused by population ageing largely unaffected vis-à-vis the "baseline" 2060 projection shown in Box 1.1. Under the second and third scenarios, however, long-term pension costs would rise by 20 to 30 per cent, thus placing heavier burdens on weaker economies. Beyond the EU, an extended recession would have far worse consequences, posing threats of spiralling poverty, declining social cohesion and political instability.

The focus of this report is necessarily selective. It does not cover fully all the branches of social security and also precludes a wider discussion of all current problems and challenges in the administration of social security systems. Nevertheless, the report seeks to demonstrate how social security policy-makers are addressing current challenges, adjusting programmes to new environmental constraints while at the same time reshaping systems' designs to tackle ongoing as well as new needs.

It is exactly in response to these constraints and needs, to help guide the programme design and operational performance of its member organizations, that the ISSA has developed and documented a "Dynamic Social Security" framework.[7] An important aim of the Dynamic Social Security framework is to support the development of high-performing, sustainable and accessible social security administrations and programmes. The key developments presented in this report are identified and interpreted using this framework (see Box 1.3.).

1.3. Dynamic Social Security

As an analytical tool for observing change and mapping the potential future path of social security, including for a region as heterogeneous as that of Europe, Dynamic Social Security may be defined as:
Policies and processes geared to better ensure accessible and sustainable social protection systems that not only provide protection, encourage prevention, and support rehabilitation and (re)integration but also contribute to better achieving socially inclusive and economically productive societies.

7. See McKinnon (2007) for the seminal work on the conceptual framework, and Sigg (2007) and McKinnon (2009) for more global analyses of Dynamic Social Security.

Analysis of recent developments and trends in the Europe region underlines that the ISSA's many and varied member organizations face four common contextual challenges (see Box 1.4.). The main body of this report will show how these four challenges are affecting the provision of social security.

1.4. Common challenges to be met by Europe's social security systems

- Demands for more personal choice and quality improvements in services and benefits.
- The impacts of globalization: greater flows of people, goods, services and capital across national borders.
- Population ageing.
- The economic, fiscal and social fallout of the current economic crisis.

CHAPTER 2

Ensuring adequate retirement income

Across Europe, pensions consume the largest portion of social security resources and, for most citizens, provide the longest periods of support. As such, they are the centrepiece of social security systems. Most recent pension reforms can be grouped into three broad clusters according to objective: strengthening pension finance, mitigating the risks associated with private pensions, and improving minimum pensions.

Strengthening pension finance

Population ageing will cause a drop in the ratio of active to inactive members of European societies, straining pension finance. Estimates suggest that ageing will cause pension expenditures to rise by an average of 2.4 percentage points of GDP by 2060, from 10.2 per cent to 12.6 per cent (EC, 2009a).

In most countries, there is another, less-discussed pressure on pension system finances: informal, undeclared work. While precise statistics are difficult to come by, the best estimates suggest that such work equates to 15 to 20 per cent of the GDP of EU-15 economies, and this figure is approximately double for many of the EU Member States that have joined since 2004 (Schneider and Klinglmair, 2004). Within the EU-15, Greece and Italy have recently reported severe problems with wages paid without deductions of taxes or social contributions (EC, 2006a). The missing contributions deprive the pay-as-you-go schemes of the resources they need to pay current pensioners, thus creating immediate financial pressures to increase the retirement age. The imbalance is evident in Serbia and Bosnia and Herzegovina, where large sectors of informal employment make the current ratio of contributors to pensioners 1.25 to 1. This is actually lower than the 1.4 to 1 ratio projected for the EU in 2060, after the retirement of the baby boom generation.

Efforts to strengthen pension finance fall into three broad categories. First, virtually all countries are increasing their pensionable ages.[8] In this regard, Germany and the United Kingdom are at the forefront, with legislated ages of 67 being phased in over the next 25 to 35 years. Since the onset of the global recession, several countries have been discussing further increases (the United Kingdom, the Czech Republic, Finland, Greece, Hungary, Latvia, the Netherlands, Slovenia and Turkey). Also, the years of work required for a full pension are being gradually increased and the “escape routes” by which workers can leave the labour market early (early retirement, disability pensions and extended sick leave) are being restricted. In some countries, these measures have met with strong resistance. Bosnia and Herzegovina, Croatia, Kyrgyzstan and Moldova have postponed or repealed previously adopted increases in the retirement age. However, during 2001 to 2007, the average age of exit from the labour market in the EU-25 increased by 1.3 years. In the EU-15, the increase was

8. Russia and Ukraine are exceptions to this trend, with retirement ages that date from 1928 (age 60 for men or age 55 for women).

2.1. Average age when exiting employment, 2001 and 2007

	2001	2007	Change
EU-25	59.9	61.2	+1.3
EU-15	60.3	61.5	+1.2
EU-10	57.6	59.6	+2.0

Source: EC, 2009a, Table 9.

1.2 years; in the EU-10, a full 2 years (see Box 2.1.). It must be underlined that significant differences in life expectancy among European populations, as well as among occupational groups within countries, give these increases very different impacts, both on insured persons and on pension system finances.

Second, in many countries, reforms are seeking to link benefits more closely to the lifetime contributions that each worker pays. Advocates of this type of reform hold that it increases actuarial fairness. From the standpoint of benefit adequacy, it is generally less favourable than counting final years, and thus creates financial incentives to delay retirement. The shift to Notional Defined Contribution (NDC) systems achieves this linkage most obviously, since these systems base benefits entirely on lifetime contributions. Sweden, Italy, Poland, Latvia, Russia and Kyrgyzstan are phasing in such systems. A similar linkage is achieved by the new pension point systems put in effect by Bulgaria, Croatia, Romania and Slovakia, that are similar to the German model. The substitution of private savings for social insurance also strengthens the contribution-benefit linkage. However, high volatility in securities markets can leave similarly-situated plan members with quite different private benefits. Such substitution is now well advanced in many of the region's countries (Croatia, the Republic of Macedonia, Sweden and most of the newer EU Member States and Kazakhstan).

Third, a number of countries (Sweden, Finland, Poland, Latvia and Germany) have introduced mechanisms to stabilize pension system finances by reducing benefits automatically as population ageing causes the ratio of workers to pensioners to decline (see Box 2.2.). Other countries have shifted from wage indexation to price indexation (Greece, France and Austria) or to indices that use both measures (Bulgaria, Estonia, Hungary and Poland) (EC, 2009a). Assuming, as in the past, that wages rise faster than prices, these indices will cause pensions to fall over time in relation to wage levels.

The combined impact of these reforms is significant in many countries, bringing some close to long-term pension solvency. However, two caveats are in order.

First, average figures mask large disparities. These can be observed in Box 2.3., which depicts public pension benefit ratios in 2007 compared to EC projections for 2060 for those countries with the largest and smallest expected changes. Estonia, Latvia, Poland and Sweden have major reductions in public pensions on the horizon. While these will be partially offset by the maturation of

2.2. Stabilizing pension system finances

Different options to link pension benefit levels more closely to life expectancy:
– Defined contribution plans, as in Hungary and Denmark.
– Notional defined contribution accounts, as in Italy and Sweden.
– Adjusting benefit levels in defined benefit schemes, as in Finland and Germany.
– Changing qualifying conditions, as in France and Denmark.

Source: IPE, 2009.

2.3. Public pension benefit/wage ratios*

	2007	2060	Percentage change
Romania	29	37	+26
Ireland	27	32	+16
Greece	73	80	+10
United Kingdom	35	37	+7
Cyprus	54	57	+5
Belgium	45	43	–4
Denmark	39	38	–4
Luxembourg	46	44	–4
Finland	49	47	–5
Malta	42	40	–6
Norway	51	47	–8
Bulgaria	44	36	–20
France	63	48	–25
Slovakia	45	33	–27
Portugal	46	33	–29
Austria	55	39	–30
Sweden	49	30	–39
Estonia	26	16	–40
Latvia	24	13	–47
Poland	56	26	–54

Source: EC, 2009a, Table 9.

* Average benefit as a share of economy-wide wage.

mandatory private pensions, in no case will private pensions compensate fully. In some other countries, the ratio of public pensions to wages will increase significantly in the future. Greece and Cyprus have high benefit ratios today and large increases on the horizon. In Romania and Ireland, public pension levels are also projected to rise, but from much lower starting points.

It is important to note that these projections show the impact of current law, which governments may change. Indeed one of the purposes of the EC projections is to assist governments in deliberating such reforms. A recent report has classified EU Member States according to the threat that ageing poses for public finance. The report concludes that, in most countries, further pension reforms will be needed, as the result of the combined impact of population ageing, global recession and, in some countries, a weak financial position (EC, 2009b).

A second caveat is that workers' behavioural response to higher retirement ages is highly uncertain, especially in the current economic climate of recession and rising unemployment. Thus, higher retirement ages may leave some older workers without either a job or a pension for some years, and with a lower pension when they finally qualify. This scenario poses a significant risk of increased poverty among the elderly, especially for women. The risk faced by women stems from the continuing gender pay gap and women's shorter average time in the workforce, which is in large part a result of family caregiving.

Mitigating the risks associated with private pensions

The global financial crisis caused a loss in the value of most of the region's public and private pension funds between June and December 2008. In the first months of the crisis many countries incurred losses in the range of 10 to 35 per cent (ISSA, 2009). Although recent months have seen a partial recovery, the market turmoil has led many observers to reconsider the role and scope of private pension funds in "pillared" or "tiered" pension systems, especially when participation is mandatory and savings may be invested in equities.

These developments also call attention to problems that existed within many private schemes before the crisis, in particular weaknesses in governance, high private management fees and the absence of legal specifications for benefit computation.

Who must absorb these recent financial losses depends on the type of pension scheme. In the defined contribution, individual savings schemes that exist in large numbers in the newer EU Member States and in Denmark and Sweden, affiliates immediately lost a portion of their retirement savings. The situation differs in occupational defined benefit (DB) schemes, which exist in large numbers in Ireland, the Netherlands and the United Kingdom, and where the level of benefits is guaranteed by a law or a collective agreement. Here the losses incurred caused the schemes' reserves to fall short of what is needed to meet their future benefit obligations. In Ireland and the United Kingdom, for example, funding ratios declined from a high of 120 per cent to around 75 per cent. Unless buttressed with additional revenues, these imbalances will necessitate benefit cuts. In the wake of the crisis, the deficits are leading many employers to close DB funds to new entrants and shift to DC savings accounts. This accentuates the trend from DB to DC pensions that was underway across Europe before the crisis. In some countries, such as the United Kingdom, workers are resisting this shift.

In other developments, some governments have frozen or reduced the rate of contribution that was being diverted from the public pension system to mandatory individual account savings schemes (Bulgaria, Estonia, Latvia and Lithuania). These actions relieve the fiscal stresses of the recession for governments and increase the revenues available to finance public pensions. However, they also create diseconomies in the management of private funds, since a significant portion of their administrative costs are fixed (that is, do not vary with the rate of contributions). Thus, the reductions may further increase these private schemes' costliness for individual contributors.

Despite financial markets partially recovering in 2009, public pressure for government action to mitigate the risks of private pensions continues. Governments are responding with several initiatives.

First, they are providing plan members with clearer information on the risks. Lithuania, Turkey and the United Kingdom are carrying out information campaigns or requiring more disclosure by pension funds. In Slovakia, the government disseminated information showing the age and income profiles of workers for whom private fund membership is disadvantageous. Hungary is requiring private funds to disclose the reasons for low investment returns. Austria has legislation requiring more disclosure of management fees.

Second, governments are developing and improving so-called default options, which automatically assign workers to the choices judged best for them, while giving them the right to switch. In 2012, the United Kingdom will automatically enrol all eligible workers in either a personal account or their employer's occupational scheme. Bulgaria, Germany, Hungary, Italy and Poland are developing and/or improving so-called life cycle funds that include less volatile investments, to which worker funds are switched automatically as they approach retirement age.

A third line of action targets the governance of private pension funds, with calls for higher levels of expertise on pension boards. Germany has passed legislation to improve independent monitoring and risk management. Norway is reviewing its Financial Assessment Framework, used to judge the solvency of private funds. In several countries (Spain, Portugal, the United

Kingdom and Italy) pension regulators are coordinating their efforts more closely with government agencies with similar mandates (the central bank and the finance ministry).

Finally, the crisis is leading some governments to address longstanding problems with private pensions, in particular high administrative costs that consume high portions of worker's lifetime savings (EC, 2006a).[9] Several governments (Belgium, Poland, Latvia, Lithuania, Spain and Slovakia) have placed ceilings on fees or made them contingent upon the investment performance of a fund manager. In the wake of the crisis, Poland halved the maximum management fee that private pension funds could charge. Slovakia is considering a similar cut.

Improving minimum pensions

As pension systems in the region become more earnings-related and privatized, both the importance of minimum pensions and their possible impact on work incentives are commanding increased attention.

Pensioner poverty remains an issue in a number of countries. In 2007, in Cyprus, Estonia, Latvia, Lithuania and the United Kingdom, at least 30 per cent of pensioners were at risk of poverty.[10] In contrast, the EU-25 average rate of poverty risk for pensioners is 19 per cent. There are higher portions of poor elderly in the other countries of the region, especially in the countries of Central Asia, though comparable statistics are not available.

Several governments have recently adjusted their minimum pensions upward beyond what statutory indexation requires. Finland announced a minimum pension increase of 23 per cent (effective 2011). Croatia combined a large increase in the minimum pension with more restrictive eligibility requirements. Portugal's new Solidarity Supplement provides additional income for pensioners older than age 80. Kazakhstan reintroduced a basic state pension (2005), which had been eliminated a decade earlier when it "privatized" its pension system. Russia increased the flat-rate portion of its pension formula, which had the effect of boosting the minimum pension, and is planning another major reform for 2010. During 2007–2009, several other countries (Armenia, Azerbaijan, Kyrgyzstan, Georgia, Tajikistan and Moldova) also increased their minimum pensions significantly.

As a result of the crisis, several countries adopted special measures to assist minimum pension recipients (MISSOC, 2009). Slovenia provided a one-off allowance to compensate for increases in food prices. Austria provided an energy supplement and Iceland pays a supplement for pensioners whose capital income, employment income and pension income fall below a minimum threshold.

In earnings-related pension schemes, minimum pensions are often inaccessible for workers who fail to satisfy certain minimum contribution requirements. A number of countries have recently tried to address this problem. For example, the Netherlands now covers workers on short-term contracts and Belgium recognizes periods in part-time work when assessing eligibility for the minimum pension. In addition, several EU Member States have improved pension rights for periods of childcare leave and some (the United Kingdom and Germany) are introducing such rights for providing care to elderly family members. These rights can help women and men who engage in family caregiving to qualify for a minimum pension. From this perspective, equalizing the retirement age, as in the United Kingdom and Hungary, will also improve women's pensions. Increasingly, the perception that earlier pensionable ages for women are favourable is being challenged. Women's often shorter, less-well paid and more fragmented employment histories may actually result in lower or no entitlements to pensions.

Some EU Member States have expressed concerns that minimum pensions may increase work disincentives

9. The fees levied against assets in EU countries range from 0.5 per cent to 2.5 per cent per year. An annual asset fee of 1 per cent subtracted year after year will consume about 20 per cent of a worker's lifetime savings.

10. See http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tsdde320&plugin=1. At risk of poverty is calculated by the EC as income below 60 per cent of national equivalized median income (EC, 2006a, b).

and impede efforts to link pension amounts more closely with past earnings (EC, 2006b). Pension policy-makers and administrators in Moldova have expressed similar sentiments. These concerns underscore the inherent tensions between ensuring minimum benefit adequacy and avoiding work disincentives. Such disincentives may be lessened by minimum pensions that increase with years worked, such as those provided in France, Greece, Latvia, Lithuania and the Netherlands.

On the basis of the developments and trends reported in this chapter, Box 2.4. presents key policy conclusions.

2.4. Key policy conclusions

- Population ageing has led to pension reforms that require or encourage workers to remain in employment longer, as well as to increase personal retirement savings. These reforms have reduced projected financial imbalances, but more adjustment is needed. However, the recession could offset these improvements.
- The crisis has rekindled debates about the appropriateness of state-mandated, privately managed retirement savings schemes, especially when invested in volatile instruments. In many countries, stronger regulation of private schemes to protect individuals' savings is required.
- Increased retirement ages and/or a lengthening of the contribution period required for a full pension, combined with high unemployment and losses of private savings, heightens the risk of old-age poverty, especially among low-income workers and women who may have had limited opportunities to accumulate adequate savings. More generous minimum pensions help mitigate this risk.

CHAPTER 3

The evolving role of family benefits

Most countries of the region of Europe have well-developed programmes providing family benefits, including income support for periods of maternity, paternity and care of young children; subsidies to help families cover the extra costs of raising children; and a range of social services. In the EU, where family policy is left to Member States, the EC has long been urging the further development of family benefits, especially childcare, as a means to promote more equal employment opportunities for women and men. In the countries of Central and Eastern Europe and the former Soviet Union, extensive systems of family benefits are a legacy of the socialist period. Over the last two decades, most governments have reduced spending on these programmes and targeted the neediest families. This trend is exemplified by Kyrgyzstan, where the number of day-care centres declined by two-thirds during 2000-2008, now accommodating just 11 per cent of children of the target age.[11] Across the region, recent reforms of family benefits have taken different directions: some countries are easing eligibility to provide greater family support, while others, concerned with work disincentives and budgetary imbalances, are restricting eligibility (Council of Europe, 2009).

In this complex picture, three major initiatives stand out. These are efforts to use family benefits to: encourage higher levels of employment among women, meet new family needs that result from more precarious work and more fluid family structures, and address low fertility and demographic ageing.

Encouraging higher rates of employment among women[12]

An objective of the EU's Lisbon Strategy is to raise national employment rates by activating larger numbers of major demographic groups, including women, older workers and youth. This strategy is the cornerstone of the EU's effort to boost growth and, in this way, cope better with the fiscal costs of demographic ageing. For women, it sets an employment target of at least 60 per cent, to be achieved by 2010. To help achieve this target, the strategy calls for increasing the supply of childcare.

By 2008, considerable progress had been made, and ten EU countries had exceeded the target. The average rate of employment for women in the EU-27 countries was 59.1 per cent, which was only slightly lower than the 60.4 per cent rate for the EU-15 (EC, 2009a). However, the onset of the global economic recession and the subsequent rise of unemployment may reverse part of these gains, thus jeopardizing the attainment of the target.

In their efforts to reach the Lisbon target, EU Member States have adopted family benefit reforms that support working parents. Some countries outside the EU have adopted similar reforms as well. These changes are formally gender neutral. However, because women continue to bear the major burden of family caregiving, they are most impacted by them. First, some countries are aligning childcare benefits more fully with the

11. In an important counter-trend, Kazakhstan introduced maternity and childcare insurance programmes in 2008.

12. Outside the EU, many governments have targeted youth, rather than women, in their efforts to raise employment levels. A number of these countries have higher birth rates than EU Member States, as well as larger cohorts of youth who experience difficulties finding employment.

requirements of employment. Bulgaria has authorized parents who are eligible for childcare leave and benefit to receive 50 per cent of the benefit if they remain in the workforce. The Czech Republic has given parents flexibility to stretch the duration of their childcare benefits, with a commensurate reduction in the monthly amount.

Second, some countries are individualizing certain family benefits, so that the amounts that each worker receives correspond more closely to his or her own past earnings. Denmark and the Netherlands have authorized tax-deferred individual savings schemes to enable workers to finance their own time off from work for childcare, education or other purposes. These arrangements are in the early stages of implementation in both countries. Other countries are seeking to eliminate "benefit traps" that make it financially unprofitable for mothers to move into employment because their benefits exceed expected future earnings. France is introducing a Working Solidarity Income programme (*Revenu de Solidarité Active* - RSA), which provides an income supplement to parents who return to their jobs or take up self-employment. The United Kingdom has introduced a work credit for parents who return to employment, thus ensuring that their total income is higher than their previous benefits.

In order to promote gender equality and facilitate the employment of mothers with young children, additional incentives are being created for fathers to share in family caregiving. In EU countries, fathers have had equal legal access to childcare benefits for years. Yet their actual use of these benefits is low. Some countries are tipping the scale of public support further to reward and encourage fathers' participation (see Box 3.1.).

In 2006, Sweden introduced a "gender equality bonus", provided as tax relief, to reward equal sharing of parental leave between spouses. Since 2007, Germany provides an additional two months of parental leave if the father takes at least two months. In Italy, there is widening use of a one-month extension of childcare provided as a reward for fathers' participation. Austria has extended the duration of payments when childcare is shared between parents. Finland is undertaking a public information campaign to encourage fathers to make use of their existing rights to family leave.

As a further support for women (and men) to enter employment, greater flexibility is being added to existing childcare programmes. The Czech Republic is introducing a Mutual Parental Assistance programme, allowing parents taking leave to care for their own children to also receive remuneration for the care of other children. Germany is expanding childcare services, especially for those younger than age three. This initiative relies heavily on child minders rather than institutions. In France, subsidies for child minders have been made more flexible, to take account of parents' need to work irregular hours. In Bulgaria, an unemployed person who cares for a young child of a mother returning to work is eligible for government subsidies on wages and social taxes. In 2009, Russia initiated a new programme of support for family crèches.

The increased flexibility of these arrangements enables parents, mostly women, who care for children in their homes to do so on a larger scale; and it taps the reserve of unemployed women to provide care that enables other women to work, giving a double boost to female employment. However, the wages of these care providers are low, and the work is heavily gendered. Thus,

3.1. Fathers' use of childcare leave and benefits in Iceland

Iceland provides fathers with three months of childcare leave and benefits, a period that is equal to that earmarked for mothers, and to that to be shared between both parents (3 months for mothers, 3 months for fathers, and 3 months to be shared, for a total of nine months). In 2007, 90 per cent of Icelandic fathers used some of these benefits, with an average duration of 97 days. This is the highest average for fathers' use of childcare leave in Europe. However, childcare leave is still taken primarily by mothers, who used an average of 180 days.

Source: Petursdottir and Einardottir, 2008.

these developments also raise issues of gender equality and adequacy of family incomes. In addition, in many countries there are discussions of the quality of care provided by small facilities, owing to the limited formal training of providers.

Increased assistance to families in need

Increases in non-standard and part-time work can pose serious difficulties for family life: changing work schedules, increased mobility, lower wages and less social security coverage (Knijn and Smit, 2009). Many family benefits programmes are restructuring in an effort to address these difficulties.

Belgium, Bulgaria, Kyrgyzstan, Germany, Ireland, Italy, Malta, Portugal and Romania are among those countries that have increased family benefits, especially for those with low incomes. Since the onset of the global recession, Belgium and Denmark have increased support to single-parent families. Luxembourg, the Netherlands and the United Kingdom have substituted direct cash support for tax preferences in order to reach more low-income families. Slovenia is reducing the number of required application forms and allowing on-line applications in an effort to improve access to family benefits.

In addition, new services are being targeted on families under stress. Both Belgium and Denmark have recently taken such initiatives. Responding to increased rates of child poverty, Finland implemented a new Child Welfare Act in January 2008. The United Kingdom has created a programme to assist young fathers in overcoming barriers to involvement in their children's upbringing. Turkey has established a programme of conditional cash transfers to parents, typically mothers, who keep their children in school and provide them with medical check-ups. Similar programmes are being put in place in Albania, Romania and the Republic of Macedonia.

Greater support for childbearing

Most countries in Europe have fertility rates below that needed to maintain the size of the population. Low fertility also threatens reduced economic output and contributes to demographic ageing. To avoid these outcomes, family benefits programmes are being used as part of national strategies to promote higher birth rates.

The thrust of these programmes reflects differing national perspectives on the appropriate role of government in encouraging increased fertility. For example, the Irish, German and Swiss governments formulate their objectives as supporting people who wish to have children, rather than providing active encouragement for higher fertility (Council of Europe, 2009). However, Croatia, Latvia, Lithuania and Portugal have formulated policies that are forthrightly pro-birth as part of strategic plans to boost their populations. In these four countries total fertility rates have dropped significantly since the 1970s and remain below the replacement rate of 2.1 children per woman. In Western Europe, only Iceland, Ireland and France have fertility rates of at least 2.0 children per woman. Concerning France, current rates of fertility can be partly attributed to social policy interventions, which better reconcile family and working life.

Fertility services, including in-vitro fertilization procedures, are now financed by family benefit programmes in Austria, Serbia and Slovenia. Ukraine has created a birth grant and increased subsides for larger families. Romania has established a marriage grant and Slovakia has extended its birth grant to cover the second and third child. Poland has lengthened the period of maternity leave. Russia provides a large payment to mothers of second children, that is held by the pension scheme and paid on the child's third birthday. The United Kingdom has established a pregnancy grant, payable to women who are at least 25 weeks pregnant and have received medical advice from a doctor or midwife.

Recent developments within family benefits programmes have targeted support on families under stress as a result of a rise in precarious work and evolving family structures. A further important aspect of these developments is to seek to prepare for, and cope with, the acceleration of demographic ageing. Box 3.2. summarizes these key policy objectives.

3.2. Key policy objectives

- Provide support to enable and encourage higher levels of female employment, as called for in the EU Lisbon Strategy.
- Encourage men to share more equally in family caregiving, thus reducing the tensions that face women in balancing family and professional life.
- Provide greater support for couples who wish to have children.

CHAPTER 4

Extending cost-effective and quality health care

Social health protection varies significantly across the region of Europe, with marked differences both between and within countries. In the EU-15, most countries have well-developed health services, and most citizens express high levels of satisfaction with their care. However, some countries have quality gaps and supply shortages, and all of them face financing problems. In the EU Member States that have introduced market economies since 1989, most have taken significant steps to redesign the health-care systems inherited from the socialist period (Waters et al., 2008). They have established social health insurance, decentralized administration and created new incentives for the efficient use of resources. They are, however, still struggling to limit the previous over-reliance on hospital and institutional care. In the SEE and CIS countries, most are experiencing serious shortages of affordable health care and high out-of-pocket payments (ILO, 2009). Overall in the Europe region, health-care expenditures range from over 11 per cent of GDP in France and Switzerland to less than 4 per cent in Kazakhstan (WHO, 2009). A constant challenge for all countries is to better align health-care expenditures with improvements in quality and health-care outcomes.

Four broad regional trends in health-care policy and administration can be identified. They involve government efforts to improve the cost-effectiveness of health-care expenditures, to improve access for underserved regions and groups, to deal with current and projected shortages in long-term care, and to address uneven quality in health care.

The quest to improve cost-effectiveness

In most countries, health-care costs are increasing in response to technical innovation, demographic ageing and greater prosperity. For EU Member States, ageing is projected to increase spending from approximately 7 to 8.5 per cent of GDP by 2060. In an effort to mitigate the current and projected financial shortfalls, there is need for greater cost-effectiveness in the use of health-care resources.

One approach is to foster competition. Many European governments have created “provider markets” within the public health-care sector, by requiring hospitals and general practitioners to compete for local authorities’ resources. County councils in Sweden have taken this approach, as have regional governments in Italy. Some governments are allowing private health-care firms, both insurers and providers, to take part in public systems. In 2006, the Netherlands enacted a major health-care reform that required public insurers either to privatize or merge with private funds. In 2008, Hungary replaced the former national health insurer with regional bodies in which private insurance companies can hold shares of up to 49 per cent. Bulgaria is planning to allow private health-insurance funds to participate in the provision of compulsory national health insurance.

To ensure competing private insurers do not exclude the less healthy, governments have put in place risk equalization mechanisms. The Netherlands, Poland, Switzerland, Romania and Slovakia have recently developed systems for financial transfers among health insurance funds, in which those funds with healthier membership profiles compensate those with disproportionate numbers of high-cost individuals.

Second, many countries are emphasizing prevention, so as to avoid expensive medical ailments. In Switzerland, some insurers provide rebates for healthy lifestyle choices (e.g. ceasing to smoke). In the Netherlands, certain costs associated with positive lifestyles (e.g. health-club membership) are reimbursed as are some treatment costs for persons with remediable medical problems (e.g. diabetes). Since the onset of the global recession, Russia has expanded its campaign to counter alcohol abuse. However, the EC has noted that overall EU expenditures on prevention are still low in relation to the goals that governments have articulated (EC, 2009c).

Third, governments are requiring consumers to share in the costs of their care. The aim is not only to limit public expenditures (cost containment) but also to raise consumer awareness of value for money, thus promoting greater cost-effectiveness. Modest co-payments, long a feature of many Western European systems, have been adopted by the Czech Republic, Hungary,[13] Latvia, Slovakia and Slovenia. France has recently increased co-payments.

Some governments are using "gatekeepers" to restrict the use of costly services, as well as to avoid duplication of diagnoses and treatments. As part of its 2006 health-care reform, the Netherlands established a national network of after-hours clinics from which general practitioners respond to night calls by people who would otherwise go to a hospital emergency room, a far more costly entry point for obtaining most kinds of care. In France, those who go directly to a specialist or hospital without first visiting their general practitioner must pay additional out-of-pocket charges. Hungary requires individuals who go directly to the hospital for services to pay 30 per cent of the cost.

Finally, some governments have set up regulatory bodies to evaluate the cost-effectiveness of new technologies before mainstreaming their use. In England and Wales, this is being done by the National Institute for Clinical Excellence, within the National Health Service. Similar bodies have been created in Sweden, Finland and Germany. Several Central European countries are emulating this approach or considering it.

Dismantling barriers to access

Unequal access to health care is a major issue in the region. The EC has repeatedly registered its concern about high inequality in Member States (EC, 2008, 2009c). Noting that its roots often lie in poverty, unemployment and a lack of educational opportunities, the EC has called on Member States to address these imbalances. In addition, many governments both within and beyond the EU are seeking to improve access to social health protection in the shorter run.

One line of attack focuses on organizational barriers to access. Slovenia has made it easier for persons in material need to obtain health care by allowing providers to bill the Health Insurance Institute of Slovenia directly. Austria has set up provincial health platforms to provide individuals "one-stop shopping". In the Netherlands, a new system of capitation payments has increased access to physicians in underserved areas, where resources for primary health care had previously been capped at a low level.

A second effort focuses on extending primary care. France has set up a complementary insurance programme targeting persons with low incomes, providing free drugs, eyeglasses, dental work and hearing aids. Belgium has extended free dental services to children and elderly persons with low incomes. In 2006, Russia initiated a major national programme to improve primary health care. It features public information campaigns on the need for vaccinations and screening for communicable diseases, such as tuberculosis, as well as

13. In 2006-2007, Hungary adopted co-payments for primary care, outpatient services and each day spent in hospital, but the law was overturned in a national referendum in 2008.

financing high-tech medical equipment, regional medical centres and emergency medical vehicles.

In the countries of Central and Eastern Europe and the former Soviet Union, access is impeded by demands from health-care professionals for "gratitude" payments for services that are covered by social health insurance. Recent estimates place such payments at 19 per cent of the total cost of health-care services in the Czech Republic, 30 per cent in Russia and 37 per cent in Bulgaria. To discourage gratitude payments, several CEE governments have instituted formal co-payments. Other countries (Estonia, Hungary, Latvia, Slovenia and Slovakia) have defined the benefit package covered by social health insurance with more precision. Russia has recently initiated a campaign against illegal gratitude payments (see Box 4.1.).

4.1. Combating unofficial health-care payments in Russia

In 2009, the Ministry of Health and Development initiated new measures to combat the widespread practice of unofficial "gratitude" payments made in hospitals for medical care or prepayment for future services. The Ministry has issued an updated list of benefits and services that are to be provided free of charge and is urging health-care users to report solicitations of additional payments for investigation by the Federal Service for Surveillance in Health Care and Social Development.

Source: Ministry of Health and Social Development, 2009.

Increasing the supply of long-term care

The availability of long-term care is uneven both within and across countries. Moreover, demographic ageing will increase the number of persons with chronic health problems. Meeting their need for long-term care (LTC) will increase the demand for, and the cost of, these services. For EU Member States, LTC is expected to raise national health-care expenditures by an average of 1.1 per cent of GDP by 2060 (EC, 2009a). Providing such care in a person's home or on an outpatient basis in the community is both more humane and less costly than in a hospital, nursing home or other residential institution. Thus, a major thrust of efforts focuses on increasing local capacity to offer such care.

To address the current and projected shortages, Germany is promoting outpatient services, increased benefits for home care and the further development of local care centres (see Box 4.2.). Iceland is offering individualized services for the elderly, aimed at enabling individuals to stay in their own homes. Portugal is promoting family participation in the care of elderly and infirm members, with coordinated support from social services and health agencies. Estonia has adopted case management in the social services sector. Slovakia has a new law that emphasizes long-term, community-based care for persons with chronic disabilities, including new forms of home services. In Poland, an inter-agency team is drafting a new long-term care law.

4.2. Amendments to Germany's long-term care programme

A decade after the enactment of its statute on long-term care in 1995, Germany adopted significant amendments in 2005 and again in 2007. These changes:

– revise social insurance contribution rates for long-term care to differentiate between insured employees with or without children;
– provide easier access to care for elderly persons suffering from dementia and mental illnesses (along with increased cash benefits);
– encourage family caregiving for elderly persons by providing a six-month entitlement to unpaid leave (in enterprises with 15 or more employees) to provide such care, along with a continuation of health and pension insurance; and short-term unpaid leave for acute care of up to ten days.

Source: Federal Ministry of Health, 2008.

Two key supply factors will influence the success of these efforts: the availability of family members to provide care and the numbers of homecare workers. If current initiatives to raise the employment rates of women prove successful, this will create even greater need for home-care workers, as more women take up employment. As workers in the home health sector currently receive low remuneration and perceive themselves as having low social status, successful delivery of long-term care in homes and communities will involve making this line of paid work more lucrative and attractive.

Improving the quality of health care

Despite important disparities in the quality of health care within countries and across the region, a few countries have made significant progress in their efforts to ensure high and uniform quality services (EC, 2009c). In recent years, two initiatives stand out: the creation and use of new measures for quality assessment and increased attention to patient safety (Legido-Quigley et al., 2008).

As regards new measures, the Nordic Council is supporting a Working Group on National Quality Indicators. Sweden has established voluntary "quality registers" for health-care professionals, which allow them to compare their interventions and results. The Slovenian Ministry of Health and Medical Chamber has launched a project to develop quality indicators for all medical specialties. A few government health-care agencies have begun to use new quality measures to accredit providers and issue guidelines for care (EC, 2008b). Denmark has developed standards and indicators for 36 components of quality which, when finalized, will serve as the basis for accreditation of health-care institutions and professionals. Finland has used newly-formulated health-care indicators to develop guidelines for the treatment of 193 diseases. The Netherlands is developing indicators to cover, on a step-by-step basis, nursing and home care, disability, mental health and addiction care, general practitioners and dentistry. Since 2005, Slovakia has been assessing health-care providers (mostly hospitals) against a set of indicators linked to financial incentives for quality improvement.

In addition, so-called "pay for performance" programmes, long used to promote efficiency and productivity in health care, have recently been targeted on quality measures in some countries. This development reflects a growing recognition that improvements in the quality of care will lead to healthier patients and thus to long-term savings. In 2004, the United Kingdom adopted the Quality and Outcomes Framework, by which general practitioner surgeries report on a voluntary basis on measures of the quality of care in four domains: clinical, organizational, patient care and additional services. A 2008 review of its impact suggests that it has produced significant quality improvements in the care and treatment of asthma, diabetes and coronary heart disease (OECD, 2009).

In 2005, both Luxembourg and the United Kingdom made patient safety a key theme of their EU presidencies. That same year, an expert panel of the Council of Europe developed a recommendation for increasing patient safety, which was approved by the Committee of Ministers in 2006. In 2007, the EC launched an Initiative on Patient Safety and the Quality of Health Care Services, which is supporting Member States with tools and information.

Within this framework, some governments are taking health-care safety initiatives. In 2007, Hungary sought to improve its quality assurance mechanisms under a new Health Insurance Supervisory Agency. That same year, Germany began publishing data on the quality of hospitals. This was aimed not only at enhancing safety but at promoting competition and giving patients a more meaningful choice of hospitals. In its 2005-2008 Government Programme, Romania sought more secure care for consumers (EC, 2008c).

On the basis of the evaluation of the four broad regional trends in health-care policy and administration discussed in the chapter, Box 4.3. presents key findings.

4.3. Key findings

- In many countries, rising health-care costs are motivating a search for greater cost-effectiveness in the use of public resources. Recent reforms aim to foster competition, increase prevention, require greater cost sharing and put in place gatekeepers to avoid duplicative treatment and to verify the need for, and appropriateness of, new technologies.
- Current and projected shortages are leading governments to try to increase the supply of long-term care (LTC). Many of these initiatives aim to provide LTC in local communities and to support family caregivers. There is a pressing need to address the shortage of home health-care workers.
- To reduce inequalities in access, governments are tackling organizational barriers, extending primary care to excluded groups and regions, and, in many CIS and CEE countries, trying to combat unofficial "gratitude" payments requested by health-care personnel.
- Some countries are taking initiatives to measure the quality of care, and the most advanced are beginning to use these to set quality standards for providers and use quality measures as a basis for payments to providers.

CHAPTER 5

Conclusions: The challenges for administration

The developments and trends in social security reform in Europe reported here place new and heavy demands on social security administrators. These reforms are increasingly complex and ambitious and seek to enhance the coverage of social risks. Reforms also seek to change the behaviour of stakeholders, to encourage competition among multiple providers, to drive down administrative costs and to provide more individualized benefits offering personal choice.

A number of examples of efforts to change the behaviour of populations have been examined in this report. Pension reforms aim to induce older workers to defer retirement and stay in employment longer. Family benefit reforms, along with other policy tools, encourage women to both work and have children, and men to share more equally in family caregiving. Health-care reforms encourage both providers and patients to rely less on hospital and emergency room treatment and more on prevention and primary care provided in community settings.

In pensions and health care, many countries have opened doors to the participation of private firms in the delivery of benefits. In pensions this is being done through privately-managed individual savings accounts and in health care through private health insurance and medical treatment. Both types of reforms allow for multiple providers and give beneficiaries a choice. Furthermore, some social health-protection schemes have organized market-like competition where public providers must compete for resources. In family benefits, governments are making payment rules more flexible for private childcare, especially for small private crèches. A few are moving to substitute individual savings for social insurance-type family benefits, thus giving insured persons broader choice in how to use accrued savings i.e. for retraining, sabbaticals or childcare leave.

The implementation of these reforms places an important set of demands on social security administrators. To a greater extent than before, senior administrators must imbue staff and institutions with a strong culture of public service, coordinate their efforts with counterparts in other agencies, and compile more detailed programme data and use it for more revealing analysis. They must also formulate rules for private providers and assess their compliance and effectiveness and inform policy-makers of the issues that they encounter in implementing reforms.

Good service as social capital

The fiscal costs of population ageing will require social security scheme constituents to pay more for social security and, in some cases, to endure cuts in benefits. They will be likely to accept these burdens as fair to the extent that they perceive social security administration to be efficient and effective. In this sense, the pursuit of excellence in administration is a form of social capital that can help to sustain the public trust needed to meet future challenges. Those who administer social security are its human face. To build trust, the public must perceive administrators to be as efficient as a well-run private business and as caring as a friend. This requires developing a strong culture of public service among social security administration employees, so they see themselves as trustees for those who pay contributions and depend on benefits.

Social security administrators must also lead by example, respecting the same policies that governments are calling on private firms to adopt: that is, adapting jobs to make them suitable for older workers, thus enabling them to delay retirement; aiming for gender equity in hiring and promotion; and allowing and encouraging fathers to make use of their childcare entitlements. In leading by example, public social security managers can use their schemes' high visibility to prod private enterprises to follow suit.

Coordinate efforts with counterparts

The need for inter-agency cooperation is increased by reforms whose objectives transcend traditional agency boundaries. For example, increasing the supply of long-term care in communities engages both health and social service administrators. Inducing older workers to stay in employment requires not only changes to pension rules and employment services, but also appropriate jobs, training to renew older workers' skills and education aimed at both workers and employers.

Such inter-agency cooperation can take many forms and includes roundtables or working groups that identify shared or complementary approaches to common problems, formal agreements that lay out agencies' respective roles, and arrangements for information sharing that boost knowledge and efficiency across agencies. Such cooperation is never an easy road. It requires managers to combine diplomacy with persistence in pursuing goals in areas of overlapping authority. For managers who are achievement-oriented, the breadth of the objectives of recent social security reforms makes such cooperation a practical necessity.

An expanded role in monitoring scheme performance

Many recent reforms aim at inducing individuals to change important behaviours. This may mean taking a job, adopting a healthier lifestyle, taking paternity leave or extending the working life. They also seek to raise the cost-effectiveness of social security expenditures. The success of both efforts is highly uncertain, and there is thus a need for closer monitoring of scheme performance.

The requirements differ according to the level of economic development of the country and the quality of its governance. In the less-advanced countries, there is a pressing need for improvement in basic programme statistics. Many social security institutions do not record, or make public, basic programme information, such as the size of the beneficiary caseload, overall income and spending or administrative costs. Nor do they keep records on the basic characteristics of scheme beneficiaries, such as age, gender, marital status and work history. In particular, deeper analysis is made challenging by a shortage of statistical data from many CIS and SEE countries. For these countries, irregular labour-force surveys and the existence of large sectors of informal employment make national statistics incomplete or subject to uncertainty (Gal, Hagemejer and Fultz, 2005; ILO, 2008). This information gap is clearly shown in the preceding chapters, which rely heavily on EC statistics. Without such basic information, policy-makers must work "in the dark" in devising reforms.

In all countries, there is a need to document not just average values of relevant variables (e.g. wages, contributions and benefit levels), but also the experience of workers and beneficiaries with differing profiles. With the increase in atypical work, the average beneficiary is less and less relevant as a guide for policy-making. This need for more nuanced analysis is especially pressing in those countries that are raising their retirement ages while reducing pension replacement rates and, in so doing, raising the risk of poverty among certain groups. Required too are long-term projections, such as those developed under the auspices of the EU Open Method of Coordination,[14] focus

14. The Open Method of Coordination provides a framework for political coordination without legal constraints wherein Member States promote policies with the aim of learning from each others' experiences.

groups to supplement programme statistics with qualitative information, new measures of quality for health-care interventions and expanded statistics on private benefits.

Regulating and evaluating private providers

Public administrators are challenged by the growing involvement of private enterprises in delivering social security. In some cases, they must regulate private providers to compensate for market imperfections, such as information shortages. For example, some public agencies are implementing new systems of financial transfers among private health-insurance funds that equalize their exposure to risk. They are also administering performance-based payment systems that assess the quality as well as the quantity of private health services. In family benefit programmes, increased reliance on private service providers creates a similar need for standards, payment rules and oversight. In pension administration, public managers often have limited contact with private funds, which tend to be regulated instead by the finance ministry or pension regulatory bodies. However, this is changing as public schemes are being called on to deliver private benefits, or to readmit members of private schemes to the public system (alone) at retirement. To make such complex arrangements work, public administrators need to be assertive as to the information and resources they need from private funds. All these approaches make social security administration more technically demanding.

Inclusive policy-making

Under the old model of public administration, managers were called on to implement policies devised by governments and legislatures. Under the new model, there are continuous feedback loops between policy and implementation. It is now widely recognized that to devise workable and efficient laws, policy-makers need input from those who put the laws into practice. This need is evident in the pension privatization laws enacted in Central and Eastern Europe during the past decade, many of which were drafted without such consultation. It is also evident in policy-makers' current quest for greater cost-effectiveness in health care, which involves finding the greatest economies with the least costs in curtailed service; something best known by those who administer the programmes.

In the wake of an era of heavy borrowing of social security reform models, there is now much wider recognition that reforms need to be tailored to match their environments, including the country's administrative capacities (see Box 5.1.). This recognition is well expressed in the recent analysis by Barr and Diamond, which states succinctly that, "… a policy design that exceeds a country's implementation capacity is a bad design" (2009, p. 5).

This outlook underscores the importance of administrators' experiences, perspectives and insights as

5.1. Key messages for social security reform strategies

– Reform is increasingly complex and must be undertaken in a coordinated and tailor-made manner to pursue multiple goals (i.e. adequate coverage; improved cost-effectiveness; pluralistic delivery mechanisms; appropriate regulation and governance; adjustment to demographic change) that are increasingly ambitious.
– Reform must ensure adequate protection for all against covered risks and seek improvements and equity in the quality of services delivered while also providing choice.
– Improvements in policy-making require improvements in data collection and, as regards the policy-design process, earlier and ongoing consideration must be given to the knowledge input to be offered by the social security administrations responsible for implementing policy.
– To ensure the financial health of all programmes in a context of demographic ageing and to enable the provision of quality and choice in benefits and services, all stakeholders have a responsibility to adapt their behaviour. In this regard, it is the responsibility of all stakeholders to proactively support the vital roles played by social security systems in society.

inputs to policy deliberations. At the same time, it gives administrators a responsibility not to wait to be asked, but to be proactive in sharing their views with policy-makers – a stance that is fully consistent with the ISSA's Dynamic Social Security framework and the emphasis placed on the need of social security administrations to be forward-looking.

Looking to the future, and to make further progress towards Dynamic Social Security, a continuing challenge for the region of Europe is to successfully innovate in order to ensure the sustainable financing of social security benefits and services. However, and equally challenging, this must be done while also satisfying evolving public expectations about the adequacy and quality of the same. To meet all these challenges, well-informed policy choices and high-performing social security administrations are necessary but not sufficient elements. Also required are changes in behaviours among all stakeholders. To this end, social security administrations, the ISSA's member organizations, are duty bound to lead by example.

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Dynamic Social Security for Europe: Choice and Responsibility

Dynamic Social Security for Europe: Choice and Responsibility identifies, synthesizes and interprets the most important recent developments and trends in Europe in social security. A key conclusion is that demands for choice in benefits and services require improvements in administrative performance and governance. But just as administrations have a responsibility to be high-performing and cost-effective, so too must all stakeholders of social security systems act responsibly. Ultimately, for behaviour to change, it is for social security administrations, ISSA member organizations, to lead by example. This requirement, for innovation that leads to improved performance, is one aspect of what the ISSA refers to as Dynamic Social Security.

This is the third in a four-volume set of regional Developments and Trends reports designed to accompany and inform the ISSA's Regional Social Security Forums during the triennium 2008-10. In combination with reports on Africa, Asia and the Pacific, and the Americas, the regional format of this series presents a new approach to better documenting, understanding, and learning from the key challenges facing ISSA member organizations in the different regions of the world.

The International Social Security Association (ISSA) is the world's leading international organization bringing together government departments, social security administrations and agencies administering social security. Globally, the ISSA has around 350 member organizations in over 150 countries, including 142 organizations in 43 countries of Europe.

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