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**Regional Social Security Forum for Europe
Developments and Trends of Social Security in Europe
Mr. Hans-Horst Konkolewsky, ISSA Secretary General
Warsaw, Poland, 3 March 2010**

Honourable Ministers,
Distinguished guests,
Ladies and Gentlemen,

Welcome to the Developments and Trends session of the first ISSA Regional Social Security Forum for Europe.

Let me begin by extending my sincere thanks to our host, the Social Insurance Institution (ZUS) of Poland for their kind hospitality and meticulous arrangements. You have created an exceptional environment for this historic event. Poland is a country with a unique experience and its social security heritage is composed of various Western and Eastern European practices in social protection. I would also like to thank you, the participants of this Forum, for coming to Warsaw to reflect and debate with colleagues in Europe at this crucial time for social security.

I am particularly proud to be able to give this keynote address today, as it is the first time that the ISSA has organized an occasion to specifically discuss developments and trends in social security in the European region. So far a special session on social security developments and trends has only been organized at the ISSA's most important global event, the World Social Security Forum.

It is also the first time that the ISSA has prepared a report on developments and trends in social security in Europe. The report "Dynamic Social Security for Europe: Choice and Responsibility" provides you with a comprehensive analysis of recent challenges and reform strategies from both policy and administrative perspectives.

In fact, we believe that replicating the concept of the World Social Security Forum at the regional levels offers an important new added value to the ISSA members. And as all regional debates and trends will contribute to the upcoming World Social Security Forum to be held in November this year in Cape Town, South Africa, it will also provide an exciting opportunity for the global ISSA membership to analyse common challenges and to identify innovative responses across regions.

Ladies and Gentlemen,

The European region is home to the oldest and some of the most developed social security schemes. Not surprisingly therefore, it is also the region where our Association came into being more than 80 years ago in 1927. Today, Europe still accounts for over 40 per cent of the global ISSA membership.

During the long time of its existence, social security in Europe has overcome many challenges. Major economic, social and geopolitical changes have also profoundly transformed the region and its social security provision in the last two decades. The process of European integration has created

more interlinked economies and labour markets, and coordination of social security is an important topic at the European level.

However, Europe is also a region with great national and sub-regional variations in social spending and in the structure and level of development of social security. EU countries spend on average close to 27 per cent of GDP on social protection while in non-EU countries the average is around 13 per cent of GDP. Healthcare expenditures range from over 11 per cent of GDP in some countries to less than 4 per cent in others.

Many countries have achieved near-universal levels of population coverage, while some others have lower coverage due in part to large informal sectors and underreporting of wages. While some countries rely mainly on employment-based contributory social insurance, residents-based schemes play an important role in others. These variations reflect the rich history of social security, but they have also made our task to identify trends and developments a particularly challenging one.

In my presentation I will proceed in the following four steps:

First, I will describe a number of common challenges that social security schemes are facing in all countries of the region.

Second, I am going to summarize some of the reform strategies developed in the region to cope with these common challenges.

Third, I will discuss the impact of the measures taken by social security administrations, and the evolving nature of their mandates and missions.

These developments and reform agendas have been altered by an unprecedented financial and economic shock during the past two years. As the fourth element, I will therefore deliberate on the impact of the economic and financial crisis on social security and social security administration.

What I intend to demonstrate through these four points is:

- That European social security systems over the years have launched effective reform processes to address a number of common socio-economic challenges in order to ensure the long-term financial and social sustainability of social security schemes. These processes are, however, far from being completed, and a series of further reforms are required in the coming years.
- Further, that the economic and financial crisis has deeply altered the fiscal, social and labour market context in which these necessary social security reforms are to be pursued. As a consequence we are at a crucial point in social security development in Europe as current reform strategies need to be revisited to achieve their important objectives in the new and complex environment.
- And finally, that the crisis has accelerated a number of emerging trends in social security administration towards more dynamic approaches, such as to not only provide benefits but also to influence the behaviour of insured persons, or the need to respond to increasing public expectations for a greater degree of choice, and to provide data for more evidence-based policy-making. In short, we are expected to do more, and in most cases with less resources.

Ladies and Gentlemen,

Looking at common challenges, European economies, labour markets and societies have been undergoing a major structural transformation, which has significant impacts on the social security strategies necessary to cover and adequately protect populations.

Globalization is putting many European countries under greater competitive stress. It has heightened the risk of both informality and underpayment of social contributions in parts of the region, posing a risk of declining coverage and benefit adequacy.

Labour markets nowadays hardly resemble the model on which social insurance was once built. In the EU 15, temporary work increased by 25 per cent from 1995 to 2006, and part-time work now accounts for more than one job in five. Similar trends have also been identified in Central and Eastern Europe. Migration across borders, barely a new phenomenon in Europe, has increased dramatically. The consequences for social security coverage and protection levels can be substantial for the workers and families concerned.

Despite an encouraging recent increase in fertility rates in some countries, populations in Europe are ageing rapidly. The EU estimates that the ratio of active to inactive persons will drop from 2.7 to 1 in 2009 to about 1.4 to 1 by 2060 accompanied by a substantial increase of expenditures. This implies that social security is increasingly not only playing a protective role, but is becoming one of the key investors in human capital to promote activity and productivity in society.

At the same time public social security systems need to satisfy increasing demands for more personal choice. Such demands mirror wider expectations concerning the quality and nature of public service provision, and reflect changes in labour markets, family structures and social norms.

As a response, European countries have adopted reform strategies in almost all branches of social security. The ISSA's developments and trends report illustrates these strategies and provides you with an analysis of the multitude of reforms that have been implemented.

One overarching reform pattern reveals a highly interesting mix of efforts to consolidate expenditures over the long-term and at the same time to improve protection where coverage gaps are identified.

Looking at old-age pensions, for instance, efforts to strengthen pension finance through further increases in the pensionable age or the closer linkage of benefits to lifetime contributions have been accompanied by measures to improve minimum pension levels and to ensure better security for privately managed complementary provisions. Evolving labour market patterns and non-standard individual employment histories have forced governments to take action to prevent rising old-age poverty. Minimum pensions have also been high on the agenda in countries where old-age poverty is already or is still a widespread challenge.

Recent measures to increase minimum pension levels in some countries have contributed to a substantial reduction in poverty rates.

Health care reform strategies have combined efforts to strengthen cost-effectiveness and financial sustainability with measures to improve quality and deal with the current and projected shortages in long-term care. The increasing prevalence of chronic conditions contributes to a transformation of health care systems requiring more attention to prevention and patient empowerment. Strengthening general practice and primary care and enhancing coordination between different care sectors are

only but examples of many measures to ensure that high resource input leads consistently to better quality.

Another reform strategy relates to strengthening the positive impact of social security on employment rates and activity.

High labour force participation and productivity are key strategies for countries with ageing populations to finance social security schemes and remain competitive in a globalizing world. European Union targets for employment rates of 60% for females and of 50 % for older workers aged 55-64 capture these strategies.

Positively, in the light of low birth rates and still perceived insufficient female employment rates, family policies and benefits have received much more attention in the last years as an instrument to pursue multiple objectives. The formulation of these objectives is highly specific to national cultures and perceptions but they all generally aim at providing opportunities for a better combination of work and family through improving support structures, upgrading financial support, promoting equal sharing of parental leave between spouses and facilitating the return to work after childcare.

The significance of activity and employment rates in an ageing society contrasts with the increasing prevalence of health risk factors and the negative impact of more stressful and precarious employment conditions.

It is no surprise, therefore, that preventative concepts play an increasingly important role in social security. Once a pillar mainly for schemes related to occupational accidents and diseases, where prevention has proven to be successful and highly cost-effective, preventative concepts have recently also been adopted in other social security branches. Examples are the increased attention to health promotion and prevention in health care schemes as well as the prevention of unemployment through active employment policies. Such investments in human capital are conceived to be beneficial for the entire social security system, for example by facilitating the increased employment of older workers, but they can also have a number of positive externalities on overall economic performance.

These trends have had an important impact on the roles and mandates of social security administrations. Reforms have been increasingly complex and ambitious: they not only seek changes to benefit levels, but policies have mandated social security administrations with an important additional mission: To proactively seek to change individual behaviour and prevent or postpone certain risks. This not only requires developing a new relationship with clients, but also calls for a more holistic view of risk factors and improved inter-agency and inter-sector cooperation.

Social security institutions also play an increasingly important role in influencing the public perception and acceptance of social security reform, which is enhanced if the public perceives social security administration to be efficient and effective. This coupled with increasing demands for higher service quality and personal choice through multiple service channels and political demands for reductions in administrative expenditures poses significant challenges for administrations.

Excellence in administration therefore has gained an important political dimension. Well-governed institutions not only provide key data for evidence-based policy-making, but also crucially contribute to sustaining the public trust needed to meet future challenges.

Regrettably, these additional tasks have often not been accompanied by corresponding increases in administrative resources.

These trends and reform strategies have been developed over a number of years in the European region and have evolved in tandem with the increasing pressures of longer-term structural developments.

Ladies and Gentlemen,

Then, unexpectedly, an event occurred that has significantly altered the environment in which social security operates - the financial and economic crisis. The crisis has created different pressures for social security policy and administration but it has also provided opportunities to demonstrate their value for the societies affected:

- In the short-term, social security systems were compelled to cushioning the impact of the crisis. The crucial importance of social security as a counter-cyclical instrument and as a tool to prevent the economic crisis from turning into a social crisis cannot be overstated. Social security has once again proven its relevance and social security administrations have demonstrated their capacity to quickly adapt to serve mounting needs. Unemployment schemes were the first affected and strived to prevent and to reduce unemployment while dealing with sharply increasing numbers of benefit claims. Proactive policies on training, wage subsidies, public employment measures, and job search assistance have been strengthened to combat unemployment. Short-term cash transfers were introduced to protect vulnerable populations. Funded schemes have experienced negative investment performance during the first year of the crisis, which has impacted on long-term scheme financing and has significantly reduced public confidence in complementary private provision through savings instruments.
- During the medium-term, in which we appear to be entering now, with persistent high unemployment, reduced contribution income and government fiscal consolidation, social security will be under particular pressure to reduce spending while the number of benefit claims remains high. Pressures for social security to ease an excess supply of labour through various benefits are also likely to continue. The financing of social security deficits through tax subsidies will become harder as governments must consolidate public finances after the massive spending on the short-term response to the crisis.
- As for the longer-term, it is important to raise the question of how the crisis will impact on the reform strategies that were designed to tackle the general challenges I mentioned earlier. Clearly, it is crucial not to compromise identified solutions to longer-term structural challenges for the sake of short-term pressures due to the crisis.

This refers not only to measures already taken, such as those to increase employment rates of older workers and of women, but also to measures that should be taken now as their beneficial impact on scheme financing requires time to take effect, for instance in the case of changes to the pensionable age.

Ladies and Gentlemen, this is more easily said than done. The crisis changes the parameters that have influenced the definition of reform strategies during the pre-crisis period.

How to go about promoting high employment rates of older workers and women in the context of persisting high unemployment? How to mitigate pressures for early retirement in times of excessive youth unemployment? What should be the respective roles of public and private provision in the future in view of reduced public benefits and negative attitudes towards volatile financial markets

and complementary provision? What does this mean for public spending on minimum pension benefits?

How do we strengthen investment in health promotion and prevention when resources for necessary health care interventions are tight - while increased stress and deteriorating working conditions lead to increased health risks? How to undertake necessary further reforms when public acceptance of reforms is at a serious low due in part to job insecurity and unemployment? How to communicate the need for continuous reforms to address structural challenges in the current context?

These are fundamental questions, which urgently need to be addressed. This Regional Forum and in particular the Summit on Friday provides a unique opportunity for this discussion and I invite you all to contribute to valid European responses as we look forward to the World Social Security Forum for a global ISSA approach to social security in a post-crisis world.

As concerns the tasks we are facing in social security administration, I have in my presentation outlined some of the main developments and challenges that need to be addressed.

In the ISSA's view, the crisis has accelerated these demands. Again, the crisis urges us to do even more with even less: In addition to the rising number of benefit claims and the introduction of new benefits and services that have affected all administrations immediately, we have to improve our performance as communicators to, and educators of, the public in a context of anxiety and lack of resources for generous financial incentives.

We have to deal with policy instability with little time to prepare and implement reforms, and we need to be more proactive in analyzing and communicating the unintended consequences of reforms. Contribution collection and enforcement of compliance can be difficult when companies are in severe financial difficulties. And let us not forget that we must take action to be better prepared for future crisis scenarios through improved risk management.

All these demands have to be shouldered with even tighter administrative budgets, so once again we need to improve administrative and operational efficiency.

In this context it is truly impressive what you, the social security administrations in Europe, have so far achieved and accomplished for your populations.

But if we want to answer the crucial questions I have outlined, if we want to successfully balance long-term reform needs with short-term crisis-related pressures, if we want to ensure adequate benefits and high quality of services for our populations in the future, - if we want to be optimally prepared for a post-crisis world, it is mandatory that dynamic social security administrations must lead by example by innovating and by taking on an even more proactive role.

Ladies and Gentlemen,

We are at a crucial time for social security development and social security administration in Europe.

The crisis obliges us to take a fresh look at some of the strategies adopted to deal with the common challenges we are facing. The crisis has accelerated the need to address medium- and long term challenges. The crisis has also revealed that the design of some social security systems needs to be reviewed. All this is highly complex and challenging, but also a great opportunity to adapt and to get things right.

In order to realise these opportunities an international platform is needed where good practice information is exchanged, new challenges and approaches are debated and important lessons can be learned amongst peers. The ISSA is proud to provide exactly this platform to its membership – we are committed to accompany and to support you, our members, in particular during such challenging times, with the knowledge and the tools that will help you to manage the crisis successfully and be at an even stronger position in your societies when the crisis is behind us.

I wish that the ISSA, through this Forum and related knowledge activities such as the Developments and Trends report can provide you with fresh and relevant ideas and be able to assist you in making the right choices.

Thank you very much for your kind attention.