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Revisiting EU Social Monitoring: A needs-driven Approach from a Workers' Perspective

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2021

With the financial support of the European Union

1 | Introduction

There is a growing interest in the European Union for monitoring the macro-economic and socio-economic evolution, for instance in the macro-economic imbalance procedure, but also in the field of social protection. The fast and unanimous acceptation of the European Pillar of Social Rights (EPSR), introduced in November 2017, was an unprecedented boost to the European Union to further develop the 'social market economy', that tries to combine economic and social progress. Social indicators are increasingly added to the traditional economic indicators, and they acquire their own place, as is the case with the 'social scoreboard' for the follow up of the European Social Pillar and more importantly the European Semester. This brings the monitoring of social policy close to or in the core of the economic policy, as it should be. There is a growing importance of 'social monitoring', going in greater detail, useful also for a proper assessment of the effects and impact of policy changes, and the follow up of policy changes. This does not only contribute to the transparency of policy making, to its implementation, but also to its evaluation. Moreover, it contributes to flagship reporting on the social dimension of the EU as reflected by the ESDE report (Employment and Social Developments), the Ageing Report, and the Pension Adequacy report. They are also of relevance for better policy making.

Monitoring is not only descriptive but can also be normative. For that reason, a close scrutinising of the existing monitoring system in place is of utmost importance for workers organisations. One of those branches of social protection is the pension system, as self-contained 'social risk' or taken in combination with other branches of social security as early retirement, invalidity, sickness, health and long-term care (LTC). In this context, the implementation of the Council Recommendation on Access to social protection has been accompanied with an ambitious and detailed monitoring framework on access to social protection for workers and the self-employed. A 'version 0' of the Monitoring framework to assess the implementation of the Recommendation on access to social protection as endorsed by the Social protection Committee was recently published, introducing indicators in the field of social protection, such as adequacy of pensions and coverage gaps in social protection systems (EC, 2020).

Within the SociAll project, the ETUC in present expert study, comments to the Monitoring Framework on Access to Social Protection, and its capacity to mirror the complex social reality that impacts the adequate and effective pensions. ETUC wishes to enlarge the concept of an adequate and sustainable pension system to an enlarged concept of guaranteeing 'ageing in dignity' (ETUC, 2019). For that reason, we explore in this report several dimensions that need to be taken into account to assess the present pension schemes, and also to enlarge the existing assessment of the sustainability of the pension, as they are currently presented in the Ageing Report 2018/2021 and Pension Adequacy Report 2018/2021.

The Council Recommendation of 8 November 2019 on access to social protection for workers and the self-employed, in line with the EPSR principle, aims at ensuring the formal and effective coverage as well as adequacy of social protection benefits, including elderly, to all workers and self-employed. ETUC has repeatedly underlined the importance of the Social Scoreboard to monitor the situation with respect to the implementation of the EPSR principles and the more specific goals of the Recommendation. Monitoring the reality in a comprehensive and deep way also ensures coherency across policy areas, so that unequal, ineffective, and inadequate pensions eventually receive greater attention within the European Economic Governance framework. For ETUC "it is also necessary that the social scoreboard be integrated into more extensive monitoring of the 20 principles of the Pillar (…)" (ETUC, 2019). Within the Social Scoreboard, it is necessary to develop a dimension and combine indicators that allow to detect any overlap between the different principles so that positive or negative correlations between pillars, synergies, spill-over effects, etc. can be better assessed when making policies. This aspect is particularly relevant in the field of pensions, given the potential impact of legislative, policy and economic interventions on their coverage, effectiveness, and adequacy. Within that context of developing a more holistic view of social protection, here for the old age risk, we concentrate in this report on the comparison of the first and second pillar of pensions, and on the availability and affordability of health and long-term care.

In this respect, the report includes the following research steps:

- Putting this monitoring framework in perspective of the macro-economic governance at European level and its impact on the debate of the sustainability and adequacy of social protection. This chapter puts the growing importance and impact of social monitoring as the scoreboards and the enlarged scoreboard of the European pillar of Social Rights in the perspective of the monitoring of the public finances in the context of the European Semester, and implicitly used in the Ageing Reports 2018 and 2021; and the Pension Adequacy Reports 2018 and 2021;
- A critical assessment of the monitoring framework of the recommendation of social protection for all proposed by the European Commission jointly with the Social Protection Committee Indicators Sub-group;
- A further development of relevant statistics that complement the existing ones on the sustainability and adequacy of pensions and the need to complement them with indicators on adequacy, in the sense of availability and affordability of health and long-term care services to guarantee 'ageing in dignity';
- Draw some common conclusions and recommendations.

2 | Enlarging EU social and economic indicators: a workers' narrative

2.1 A plethora of monitoring

There is a growing number of systems of monitoring economic but also social developments at European level. Some are part of the formal governance of economic and social convergence as introduced by the Maastricht Treaty and the following Stability and Growth Path. Others are part of ad hoc analysis or reporting. Statistics and indicators are or can become targets and become normative. If a policy target is of relevance, it is a step forward when it is 'enshrined' in a statistic. Sometimes there is a limited number of core indicators, but on the other hand additional dimensions are reflected in more and more detailed indicators. After all, the devil is in the detail. From shortages about statistics, we evolve to a plethora in statistics.

EU social monitoring may be defined as a systematic and continuous observation of social protection/rights in the EU and related changes across time. The purpose of monitoring is to identify whether we are on the right track to where we want to go. Mostly by making use of quantitative measurement instruments, e.g. indicator systems, indicator dashboards. It seems appropriate to distinguish between data-driven, policy-driven, and … needs-driven approaches towards monitoring. While policy-driven approaches usually depart from policy concerns and objectives, which have been agreed upon in political discourses or decision-making processes, data-driven approaches usually turn out to be rather pragmatic, departing simply from available data sources. A needs-driven approach from a workers' perspective departs from the concerns and objectives workers and their representatives have. They are the benchmark for the existing dashboards and statistics.

Sometimes there are certain dimensions missing in the statistics in use, and that is an argument to identify, quantify and perhaps even make them more normative. Sometimes it is useful to develop for its own interest additional dimensions, detailed indicators, or synthesis and core indicators, to support the own narrative and ambition. But constructing, developing, and maintaining statistics is a costly effort, so we should take advantage of the growing number of dashboards, flagship-reports, and available indicators to nurture the own narrative, or to come to a common understanding and reading.

Furthermore, a national and transnational dimension is needed. It is the quintessence of the European economic and social integration that the overwhelming responsibility in social and fiscal affairs are at national level, because of the sacrosanct subsidiarity principle. At the same time it is the ambition and the reality of the growing mobility of workers and citizens that even cause social protection to have a growing transnational dimension.

But not everything can be grasped in a timely way in statistics. A proper assessment of policy making and the expectations around it are also a more advanced 'early warning indicator' of what might happen. When discussing 'monitoring', one sometimes gets the impression that this can only be done with numbers and quantitative indicators and that qualitative methods, such as asking open-ended questions to 'beneficiaries', cannot be used. However, monitoring relying solely on quantitative indicators might give the impression that if there is not a number, nothing is happening. Moreover, the purpose of monitoring is to identify whether we are on the right track to where we want to go. With qualitative questions, one can complement quantitative indicators and get a richer understanding of whether the intended results are starting to be observed. This will hopefully also give a better and more complete picture of reality.

Regarding social benefits rights data, quantitative indicators are based on the collection and processing of qualitative text-based information from the legislative framework. Analysis of the generosity of social benefits by analysing the eligibility criteria (i.e. reference group – personal scope), the entitlement conditions (i.e. waiting period, qualifying period, the duration of the benefit), targeted or universal, means tested, and the level of benefits, are of relevance.

The monitoring of the transnational dimension of social protection helps to detect gaps in transnational social protection, both in terms of protecting social security rights and working conditions of intra-EU mobile persons (EU-movers, posted workers, seasonal workers, frontier workers …). Movements between Member States should not lead to lower social protection or gaps in coverage. The legal framework is difficult to convert into quantitative indicators, and it needs an own and qualitative assessment. It is useful to evaluate and improve transnational social protection policies.

Macro-economic indicators are the outcome of those detailed characteristics. They are to be kept in mind when reading aggregated statistics. Sometimes we appeal on composite indices.

'Composite indices impose normative assumptions for the choice and aggregation of the indicators, including the weights for different components. They are rarely transparent or even explicit'[1].

Within the context of a plethora of dashboards and indicators it is nevertheless of strategic relevance to develop its own indicators. In annex 3 we give three examples of synthetic indicators showing the strength, and at the same time the weakness of certain indicators. The first is the ETUC indicator of 'EUSDG8 Decent work and Economic growth Index 2010. In one figure you get an overview of the level of economic development and social protection, where you can situate a country and its evolution over a certain period. The overall positive performance of some countries (for instance Belgium) needs to be completed with the national narrative of the situation…and the need for further progress.

Similar synthetic indicators are for instance developed by private organisations such as MERCER on the quality of the pension system and the health consumer powerhouse. They get important attention in media and by policy makers and even academic papers[2], so it is again important to assess, for better or for worse, the information available in those studies. For instance, the Mercer indicator is influenced by the size of a funded scheme, that according to some is more sustainable, quod non. Such indicators or publications serves a purpose; in this case the objective to expand private funded pensions at the expense of public PAYG financed schemes.[3] '

The health consumer powerhouse Euro Health Consumer Index is another example. It does not only rank countries on their global performance, but provides additional detail on dimension of accessibility, patient rights, outcome, range of services, prevention, and availability of pharmaceuticals. Again we observe that they play a role in general appreciation of the development of those welfare state regimes.[4] Statistics and indicators do matter.

1 For an interesting discussion on composite indicators, such as the global development indicator and dashboards, see United Nations Development Programme (2020)

2 For instance our colleague L Delsen (2021) quotes it for illustrating the quality of the Durch pension system

3 An example of the biased composition of the index is that 9 out of 11 questions related to adequacy do not refer to pension income. Some examples:

- 'What is the net household saving rate in the country'?
- 'Are voluntary member contributions made by a medium-income earner to a funded pension plan treated by the tax system more favourably than similar savings in a bank account?
- 'Is the investment income earned by pension plans exempt from tax in the pre-retirement and/or post-retirement periods?
- 'Upon a couple's divorce or separation, are the individuals' accrued pension assets normally taken into account in the overall division of assets?'

4 For instance the Euro-health consumer index is as well quoted in Belgium by a former president of a sickness fund Marc Justaert and in the Netherlands by the well know health care expert Wynand van de Ven to show the quality of the health care system in their country (quoted in Pacolet, 2017).

2.2 Monitoring economic performance since the Maastricht treaty

Every five years since 1995 one of us organizes a conference on 'the state of the welfare state in Europe' (with a pre-conference on European economic and monetary integration and social protection in 1992)[5]. This series of conferences was related to the same concern of the present research on how economic governance of macro-economic performances and budgetary constraints can go together with social progress. This series of conferences started in 1995, some years after the Treaty of Maastricht was signed in 1992. I shared at that time the fear with many researchers and social movements that further economic European integration and especially its conditionalities, could hamper further social progress. The timeline of the series of conferences followed not only the enlarging of the EU, as one of the greatest successes of European integration, but also the crises it had to overcome. At the same time, it is the timeline of the economic governance that started since then.

It was exactly in 1995 that the stability and growth pact was agreed upon, which had to put in practice the convergence criteria of the Maastricht treaty on public finances, the deficit and debt criteria and the governance at European and national level of the public finances. Public finances are related to many functions of the state, but it is to a large extent related to the welfare state. From the very beginning, social protection was in the core of the macro-economic monitoring, via the impact of public finances, and it is now even more prominent with what happened since then[6].

Since then the macro-economic governance of the public finances was intensified, renewed, reinforced, or became more flexible, and today it is even put on hold by the activation of the escape clause until the economic consequences of the pandemic crisis is over.

We organized the conference every five years, and sometimes we had the impression that we were not only following the enlargement of Europe but also going from crisis to crisis, not the least with the present one. At the same time, we observed economic convergence at certain moments, we observed also the robustness of the social protection, the further progress in several fields. The richer economies became, the more they want insurance or social insurance, social protection. At the 2015 conference horror stories were still told of what happened with the welfare state in the five years before because of the errors of the dogmatic austerity policies (Pacolet, J., De Wispelaere, F., 2015). Since then the role of social protection as automatic stabilizer became even more obvious after the 2011 credit crises but especially in this Covid crisis (Pacolet, J., De Smedt, L., De Wispelaere, F., 2021).

The sixth conference on the state of the welfare state, looking back at the past five years asked again: is the welfare state prevailing, expanding, leading to a deepening of a genuine social market economy, or declining, and even going down the road to further privatization. One of us was surprised to read in his own statistics today, and to hear also in the national stories, that the privatization remains limited, as well in the form of either a private organization or private insurance or out-of-pocket expenditures for health or long-term care. The conclusion of this series of conferences is that social protection is a superior technical device of solidarity, and at the same time, it is the desire of the people.

The **first observation** that can be made based on these series of conferences is that in almost 30 years of monitoring statistics and policies on economic and social developments, there is no contradiction between economic progress and social progress, on the contrary. Upward economic convergence has happened, perhaps too little or too slow, and it certainly has been interrupted by the fact that our series of conferences also gave us the impression that we were stumbling from crisis to crisis that puts us back a decade . However, the upward social convergence of social protection, even seen in the simple indicator of total spending for social protection as % of GDP, did not improve substantially enough, and certainly in those counties that were lagging behind. But that was at discretion of national policy makers. And the indicator we looked at of total spending is of course not so 'simple'. It is the core indicator since 2009 in the 3-yearly Ageing Reports of the European Commission (see further).

The conclusion that social progress is possible is reinforced with what happened those last five years. Within this period of the last five years the initiative from the Juncker Commission on the European pillar of social rights suddenly appeared. We had to make a report for EZA on the social pillar at that time, 2017, and the only title we could think of was 'the overwhelming ambition of the EPSR'[7]. By the end the initiative surprised everyone that it

5 See the series of conferences on https://hiva.kuleuven.be/nl/onderzoek/thema/verzorgingsstaat/p/The-State-of-the-Welfare-State-in-EU-overview

6 An interesting overview of this European governance of the public finances is to be found In two interesting seminars recently organised by the Belgian European Economic Council, see 'Bienvenue sur la plateforme du débat sur les finances publiques' http://www.ccecrb-debat.be/

7 See EZA report of Pacolet, Op de Beeck, & De Wispelaere (2018)

was so easily adopted at the social summit in Göteborg on 17 November 2017. Many were afterwards taken by surprise again that an announced dashboard for monitoring was already operational in 2018, and applied in the European Semester, further reinforcing the attention for the social dimension in the European governance of what is happening in the Member States. Many new initiatives were inspired or supporting the social pillar. The new Commission surprised us again by the announcement and now putting in practice an action plan on the social pillar, and, to absorb the crisis, an activation of the general escape clause of the stability and growth pact for 2020, 2021, and perhaps 2022. And a discussion on the reform of this SGP is announced, allowing in the future probably more debt financed public investments.

In the next chapter we will discuss an example of the remarkable impact of one of those principles of the pillar of social rights, access to social protection to all, which resulted in a recommendation on that principle, and now national implementation processes, an in-depth monitoring of it. The conclusion now already is that it really will contribute to further social progress. The narrative we were telling in 'the state of the welfare state conference' was that we are, or are becoming rich economies, or should aim at that, and that it goes together with further social progress. The initiative on assessing adequate social protection for all workers, non-standard work, and independent workers, already revealed now that this is not all the time and everywhere the case or is even to a lesser degree the case. To correct that, will be a matter of political willingness. But as economist listening to the weak spots that even a very standard occupation of a self-employed, or all those emerging non-standard jobs in sometimes very poor conditions, our concern emerges even more whether this new industrial structure of our economy is strong enough to guarantee decent social protection. We become as concerned about the strength and productivity of our economy as we are concerned about the willingness to guarantee everyone adequate social protection.

2.3 Economic governance does not hamper social progress

The **second observation** is that there needs to be no contradiction between concern about sustainable public finances, and social progress. Sustainable public finances are in the core of the economic governance since the Maastricht treaty.

This macro-economic governance is under discussion, or let us call it, under reform (although it has been reformed many times during the last 25 years). The present monitoring was getting too complex, but at the same time, in principle it does not want to interfere with national policies of public spending. The concern was about public deficit and public debt. A great concern during and after the previous two crises, and especially after the debt crisis, was that the monitoring did not prevent procyclical effects, instead of improving macro-economic stabilization. The present proposals for reform of the European Fiscal Board[8] are to keep the debt target as an important dimension of sustainability and concentrate further on the net expenditure growth. This implies, correctly, that the macro-economic governance will not define what the level of social spending should be, but that it should be financed properly. This macro-economic monitoring and governance should not conflict with social progress. If countries want to improve their level of social protection or want to converge to a higher level of social protection, this is not in conflict with economic governance. A low public debt contributes to the sustainability of the public pension and other social protection systems. The problem is perhaps more that we could not realise it in the last two decades in many countries, although we would have benefitted from it in the coming two decades.

2.4 Social monitoring in Europe is 'a la hauteur' of economic monitoring

The third observation is that social monitoring (and the interest for it) comes at the level of economic monitoring. Illustrative is how almost instantaneously the acceptance of the European Pillar of Social Rights was accompanied with a dashboard of the monitoring of the realization of those 20 principles, and its role in the European governance of the national public finances in the European Semester.

The macro-economic governance provided a substantial number of targets and indicators, and rightly the same strategy is followed by the monitoring of the social protection. It results in the context of social protection to

8 https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/european-fiscal-board-efb/european-fiscal-board-questions-and-answers_en

flagship reports as the Ageing Report of DG ECFIN (became publicly available in beginning of May this year) and the pension adequacy report and a new report on LTC of DG EMPL and the Social Protection Committee (announced for publication June 2021). They are on a triannual basis, perhaps because it takes time to update it, but even more we would suggest it takes time to digest them since the information is about structural elements of sustainability and adequacy of social protection. In this report we wonder if there is no need for other or better statistics or scenario's. But those flagship reports are the best that you can find and they do not need much alternatives or addenda, but especially adequate reading and use that could result in an own narrative of also a trade union. We should read them as an informative narrative and not a normative narrative. That narrative should be the role of the politician or the trade unionist or the independent academic reader. In another contribution for the SociAll project an important contribution is made about more ambitious employment hypothesis[9].

For instance, one of us is using the Ageing report from the first edition, it was in 2009, in his own way for his own country. Since the situation differs between countries, we should critically assess the hypotheses made. For instance, from the very beginning, the critique was that when reading the Belgian figures, the hypotheses, and here comes in the normative, were not ambitious enough to reduce unemployment, or what is even more important, to improve employment rate. If those would have been more ambitious, that would have reduced substantially the projections for the cost of ageing.

The same goes for the Pension Adequacy report (PAR). It needs proper reading. It provided by the way in its 2018 version a very balanced definition of adequacy, by a triangle of reducing poverty, maintaining decent replacement rates to previous income, and by a third dimension, the period of retirement, what is of course related to the retirement age. In the 2021 PAR this triangle of adequacy, avoiding poverty, income maintenance and pension duration are again brought into the picture.

In chapter 4 we add some further points of interest to the information that is available in the PAR, namely to illustrate the importance of the first pillar of Pay-as-you-go (PAYG) in comparison with the second pillar of funded pension schemes.

The relevance to stress the importance of the first pillar in comparison with the second pillar is that the PAR 2018 resulted in an unexpected initiative as the installation of a High level group of experts on pensions, announced as such, but in reality it became a high level group on second pillar pensions, with the mandate "to prepare an independent report providing analysis and policy advice relating to the role of supplementary pensions in contributing to adequacy of old age incomes and the development of their market in the Union". The report is of course independent, the mandate is not. The previous report could have triggered a mandate about the role of PAYG to reduce poverty in old age and improve the replacement rate. Perhaps that could be the outcome of next PAR (2021). But the normative choice between a PAYG or a funded scheme or both systems remains a national choice.

This brings us back to the importance of statistics and indicators. A possible critique on the PAR is that the evidence on the separate role and the cost of the first and the second pillar, or the pay-as you go and the funded pillar, is limited.

Coming back to the Ageing Report, that report is sometimes criticized as concentrating too much on sustainability (although we are convinced that there is no adequacy when there is no sustainability). Of course, it is documenting the ageing cost for the public finances. But that should not lead us to normative conclusions in one or another direction. And in next paragraph we are demonstrations that it is not only revealing sustainability but also adequacy.

2.5 Brussels, we have a problem!

Those flagship reports are the best practical available information sources of the concerned social developments. This does not mean they cannot be improved and need proper independent own reading. One of the Flagship reports is the 2021 ageing report.[10] We must realize first of all that they are scenario's, prospective analysis, projections of present system, and not forecasts. We should avoid the risk that scenarios become normative, the more that sometimes some of the scenarios look like horror scenarios. On the contrary, policy ambitions and norms

9 See Wöss, J. et. al.., 2021.

10 A detailed analysis of the labour market parameters in the Ageing Report can be found in the other ETUC SociAll report, see Wöss, J. et. Al., 2021.

could become the inspiration for possible desirable scenarios. The negative scenarios should be prevented from becoming self-fulfilling prophecies. But even positive desirable scenarios are not automatically becoming reality.

The Ageing Report concentrates on the impact for public finances of the ageing population. Some read them as concentrating too much on sustainability (of public finances), and not so much on adequacy. So what. There is no social protection without a cost. The report provides essential information on the availability of social protection. And it provides macro-economic evidence for the present situation, and the future. Since the very beginning of the flagship report on ageing one of us was using the same statistics for his own reading and narrative.

First of all, let us concentrate on the proper reading and use of the available scenarios. But let us give our reading again since the 2021Ageing report became available on the website in May[11]. The core of the ageing report is about the evolution of the share of public (or mandatory) expenditures for covering the cost of demographic change or ageing, as a share of GDP. We use by the way the share of social spending in our own analysis of the state of the welfare state as well and also in chapter 4 hereafter. But our own reading of the ageing report starts from the observation that the complete report is in terms of yearly growth rates and relative shares, without any clear reference of the absolute level and evolution. Neither in the complete ageing report, nor in the for the rest perfect and convenient data sources that are made available, a single figure can be found on the aggregate level of GDP today and tomorrow, and the elsewhere commonly used GDP per capita, or GNI per capita. It is however a common indicator for comparing the economic and social development between countries. Together with life expectancy (by the way adequately documented in the ageing report in absolute levels), GNI per capita is one of the four components of the global development index. When it is so important to compare countries at a certain moment in time, it is also important to have a view on it when comparing countries over the time. We have to pick that starting point from other sources and then start to use the information available in the ageing report, for our own further reading.

In the following table (Table 2.1) we provide our reading of the information available in the 2021 Ageing Report for the EU-27, and as a country example for Belgium.

The figures of the first line are not to be found in the Ageing Report, and only one graph with it can be found for EU-27 showing the increase of the GDP from 2019 to 2030. In the technical report it is mentioned that the 2021 projections start from the 2020 Spring Forecast of the EU but since they only provide figures for 2018, we take the 2019 figures from the 2021 Spring forecast. Now we can start the reading/calculations in table 2.1. We apply on that 2019 level the periodic real growth rates for GDP for the different subperiods mentioned in the statistical annexes of the 2021 Ageing Report. This provides us with the total GDP in 2019, 2030, and 2070. The foruth column gives the index of GDP in 2070, compared with 2019 = 100. Total GDP for EU-27 is projected to increase from 14 trillion to 28 trillion euro, or a doubling (index 198) in real terms, for a population that is projected to continue to decline in EU 27 from 447 million to 424 million. From then on, we can use the other figures from the 2018 Ageing Report statistical annex. An illustration how fragile such prospective analyses are: the population growth for Belgium (currently the population amounts to some 11.5 million), in the 2015 Ageing Report was projected on 15,4 million in 2060, in the 2018 Ageing Report it became 13,9 million for 2070, and now in the 2021 Ageing Report it is 11,8 million in 2070. Be aware however that these are projections, scenarios. As we demonstrate how demographic projections can change, the same goes, or even more so, for economic scenarios. Interesting here is to compare the several ageing reports and observe that the consecutive crises in 2008 and now the pandemic crisis put the projections on a lower growth path. We did this for instance for Belgium by comparing the 2009, 2012, and 2015 Ageing Reports to show how the increase of the GDP per capita differs in every new projection. Since 2009 the impact of the 2008 and 2011 crisis was included, now the impact of the pandemic crisis is already included in the 2021 projections. But even in the 2015 scenario the index of solidarity calculated for Belgium was 1.04. Now it its 0.96, but still close to 1.

11 See for instance Pacolet, De Wispelaere, 2015, rbss-2015-4-pacolet-de-wispelaere-2015-fr.pdf (belgium.be)

Table 2.1 Alternative reading of the 2021 Ageing report for EU-27 and Belgium: Brussels, we have a problem

		AWG 2021 (2019 prices), EU 27				AWG 2021 (2019 prices), Belgium			
					index				index
Line		2019	2030	2070	2070	2019	2030	2070	2070
1	GDP (in billion euro)	14 049	15 839	27 877	198	476,3	523,2	896,1	188
2	Population (million)	447,2	449,1	424,0	95	11,5	11,8	11,8	103
3	Population elderly (million)	91,2	109,6	128,5	141	2,2	2,7	3,3	151
4	Health care spending as % of GDP	6,6	7,0	7,5	114	5,7	5,9	6,3	111
5	LTC-spending as % of GDP	1,7	1,9	2,8	165	2,2	2,5	4,3	195
6	Sum LTC + Health care	8,3	8,9	10,3	124	7,9	8,4	10,6	134
7	GDP/capita	31 416	35 268	65 747	209	41 417	44 336	75 937	183
8	Health care spending per capita in euro	2 073	2 469	4 931	238	2 361	2 616	4 784	203
9	LTC spending per capita in euro	534	670	1 841	345	911	1 108	3 265	358
10	H & LTC spending per capita in euro	2 608	3 139	6 772	260	3 272	3 724	8 049	246
11	GDP - H & LTC in euro	28 809	32 129	58 975	205	38 145	40 612	67 888	178
12	Old age and early pensions	9,3	10,2	9,9	106	9,9	11,6	13,7	138
13	Survivors' pensions	1,4	1,3	0,9	64	0,9	0,7	0,3	33
14	pensions-spending as % of GDP	10,7	11,5	10,8	101	10,8	12,3	14,0	130
15	sum LTC+H+pensions	19,0	20,4	21,1	111	18,7	20,7	24,6	132
16	Actual spending pensions per capita in euro	3 362	4 056	7 101	211	4 473	5 453	10 631	238
17	Pensions + LTC + Health care in euro	5 969	7 195	13 873	232	7 745	9 178	18 680	241
18	GDP - H & LTC - Pensions in euro	25 447	28 073	51 874	204	33 672	35 159	57 256	170
19	Elderly population (65+) as % of total population	20,4	24,4	30,3	149	19,0	22,8	28,0	147
20	Social expenditures elderly per capita in euro	4 932	5 960	12 640	256	6 565	7 870	17 484	266
21	Social expenditure elderly as % of total	15,7	16,9	19,2	122	15,9	17,8	23,0	145
22	Social expenditure per pensioner in euro	24 178	24 427	41 716	173	34 551	34 516	62 444	181
23	Rest of GDP per capita in euro	26 484	29 307	53 107	201	34 853	36 466	58 452	168
24	Rest of GDP per person of rest population 65- in euro	33 271	38 766	76 194	229	43 028	47 236	81 184	189
25	**Ratio trend benefits 65+ to income 65-: an index of solidarity**				**0,75**				**0,96**

* Disability pensions are not included in total public pensions, they are gross pension expenditures. When calculating the social protection costs for the 65+ we used the same stylized hypothesis for the EU-27 and for Belgium , based on former evidence for Belgium, that now and in 2030 half of the health care cost is for the persons above 65, evolving to 75% by 2070. The long-term care cost is completely attributed to the elderly, ignoring the fact that part of it is also for younger disabled persons. We use the gross cost of pensions. The Ageing report also provides the net cost, taking into account the tax revenue on those pension benefits.

Source On calculations on information from 2021 Ageing report, starting from GDP from European Commission Spring Forecast 2021

The share of population above 65 will increase in the EU-27 from 20.4% now to 30.3% in 2070. The gross cost of old age and survivors pensions in the future scenarios, applying the rules of today, will remain stable from 10.7 to 10.8% of GDP; an increase of health expenditures will increase from 6.6 to 7.5% of GDP and for long-term care from 1.7 to 2.8%.

Total spending on those categories will evolve from 19% to 21.1% of GDP. When we further correct for the stylized share (see note in table 2.1) of the elderly in the total health care cost, the only conclusion we can draw from those figures, when we spend in 2019 for some 20.4 % of the population above 65 some 15.7 % of GDP for pension, health and LTC; that seems to be relatively balanced. But in 2070 it seems, under the hypothesis of the Ageing Report, and corrected in a stylized way, to become only 19.2% of GDP spent on pensions, health and LTC, for 30% of a population above 65. That can hardly be qualified as a cost explosion. It could perhaps indicate that applying the present rules of eligibility, replacement rates, and rates of indexing, there is rather a lack of adequacy, or should we call it an implicit lack of future solidarity and lack of generosity. The index that compares the growth of the GDP per capita available for the population below 65 with the social protection spending for the population above 65, could be called an index of solidarity. When the index is around 1, as it is the case for the 0.96 for Belgium, it illustrates that the real spending per elderly evolves at the same speed as the rest of GDP per capita available for each person below 65. For Belgium the evolution is respectively an index of 181 and 189, illustrating how most of the time PAYG systems of social protection guarantee that the social protection follows the 'train de vie' (purchasing power) of the GDP. At European level this seems to be much less the case with a ratio of 0.75, which is the ratio of the growth of spending for the elderly (index 173) and the growth of the per capita GDP available for the population below 65 (index 229). For Belgium the indicatoer of solidarity is now 0.96, still close to 1. But even in the 2015 scenario the index of solidarity calculated for Belgium was even 1.04 (Pacolet, De Wispelaere, 2015).

Illustrating the declining generosity of the welfare state in Europe is that the Ageing report 2021itself calculates the evolution of the gross replacement rate for pensions which is 46.2% in 2019 and only 37.5% in 2070. We should call it not a problem of sustainability of the public finances, but a problem of a lack of adequacy perhaps today and certainly tomorrow. Prospective analyses of this kind risk to become normative, even when they are only meant to be informative. If this becomes reality it would imply a massive instalment of austerity in the social protection. Having then the illusion that we can close the gap by starting in many countries a system of funded pensions, or even combining a strategy to improve the PAYG system and to start the funded scheme, is hardly realistic, also taking into account the additional servicing costs and fiscal expenditures for the funded scheme we will discuss further.

We could say, 'Brussels, we have a problem' when reading those statistics in this way. But we should of course call not Brussels but the capitals of each country because they have the responsibility for the present and future social protection.

For Belgium we calculated the same indicators, as we did in the past[12], and we see there that especially because of the pensions, spending will increase more in the future, so that the share of the GDP that goes to the elderly population will increase more in line with the general development of GDP.

Together with the observations that a much more ambitious employment policy (and hypothesis about it), we must conclude that the information made available in the 2021 Ageing report is not dominated by a concern about the sustainability of public finances, but could even lead to the conclusion that adequacy is under pressure. The information collected in those reports is however used in the European Semester. It contributes to the social dimension of this process. It could lead to country specific recommendations as we read in the past that the Belgian Government should pay attention to the explosion of the long-term care cost in the future. This cost is indeed increasing, but it can be read as an indication of the advanced level of social protection for that risk, which of course needs to follow the demographic ageing. We should perhaps even wonder why the public health care cost should not increase more. It is to the discretion of the national policy makers how high they want to expand the expenditures for those needs. We illustrate that there is room for expansion in chapter 4.

2.6 Europe is adding unprecedented European stabilization funds …but they are not in contradiction with national responsibility

The **fourth observation** is the growing European willingness to provide macro-economic support to absorb the crisis at European level.

A fiscal response package of Next Generation EU of 750 billion euro is approved of which 672.5 billion for the Recovery and resilience fund, for the period 2021-2026; the total is 5.4% of GDP EU-27, or yearly 0.9 % of GDP (some 13,870 billion in EU-27). This is an impressive amount. It comes on top of the usual European budget. It comes on top of other initiatives as for instance the European financing of the SURE (the Temporary **S**upport to mitigate **U**nemployment **R**isks in an **E**mergency).

But recovery and stability need to come from national policies, including social protection, some 3,604 billion in the EU, in one year, some 26% of GDP.

This should remind us clearly that the social Europe is not first of all a European responsibility but much more by definition a national responsibility, because of sacrosanct subsidiarity. What emerges from the comparisons between countries however, is that the social convergence, even in a very simple indicator of the level of spending for social protections, is lagging behind. Sometimes countries spend relatively more for the pensions, but then at the cost of spending for health and long-term care. But that is at their own discretion. It is up to national policy makers to correct that.

In the early study of one of us on the relation between the economic integration (EMU) and social protection we highlighted the importance of national systems of redistribution and convergence (Pacolet, Gos, O'Shea, 1993). We mentioned it in our first assessment for EZA of the EPSR and the following White Paper on the future of Europe (1 March 2017) where the Commission mentioned five alternative roads for going forward. We added a sixth way of going forward 'fully engaged at European and national level'. This seems to be happening. This symbiosis of initiatives at European and at national level is the threat of Ariadne also in the following two chapters and our conclusions.

12 For instance, in Pacolet & De Wispelaere (2015).

3 | Access to social protection for workers and self-employed: comment on Version 0 of the monitoring framework

3.1 Introduction

On 17 November 2017 the European Parliament, the Council and the Commission solemnly proclaimed the European Pillar of Social Rights (EPSR).[13]

EPSR Principle 12 states that regardless of the type and duration of their employment relationship, workers, and, under comparable conditions, the self-employed, have the right to adequate social protection.

On 8 November 2019, the EPSCO Council based on the Pillar of Social Rights adopted the Council 'Recommendation on access to social protection for workers and the self-employed'[14] (hereafter the Recommendation), in which Member States are recommended to provide access to adequate social protection to all workers and self-employed.

In October 2020, the EU Commission's version 0 of the monitoring framework on 'Access to social protection for workers and the self-employed', prepared by the Indicators Sub Group of EPSCO's Social Protection Committee, has been published[15].

In its introductory remarks, Version 0 states that it should be considered as a "living document … allowing discussion with stakeholders and social partners at national and European level on the best way to monitor progress towards the objectives of the Recommendation" (p 14).

As good monitoring of both the current state and the implementation of the Recommendation will be an essential element to its success, the invitation to stakeholders and social partners to participate in the monitoring process is of key importance. Considering their in-depth knowledge of employment related social risks, the involvement of the social partners will be of particular relevance, both at an EU and at national level.

Referring to version 0 as a 'living document' this study mainly aims at exploring key elements of the document and providing some suggestions to the further development of the monitoring framework. Given the wide range of data collection already integrated in version 0 and the complexity of its in-depth analysis of methodological issues, data availability, etc. A complete commenting of the document is out of the scope of this study.

As the study is prepared in the frame of ETUC's pension focussed SociAll-project, particular attention will be paid to the monitoring of EPSR's old-age protection related Principle 15 and related Articles of the Recommendation.

EPSR Principle 15 states:

a) Workers and the self-employed in retirement have the right to a pension commensurate to their contributions and ensuring an adequate income. Women and men shall have equal opportunities to acquire pension rights.
b) Everyone in old age has the right to resources that ensure ageing in dignity.

Based on these EPSR commitments, the Recommendation in its Article 2 specifies the right to participate in a scheme as well as the build-up and take-up of entitlements. In particular, Member States are recommended to ensure formal coverage, effective coverage, adequacy and transparency for all workers and the self-employed. Version 0 of the monitoring framework mainly addresses these issues.[16] Furthermore, considering the key importance of the employment status previous to the materialisation of social risks, the monitoring framework also includes labour market related 'context indicators'.

First data published in version 0 demonstrate the close link between poor employment integration and social vulnerability. Considering this, the EU Commission's EPSR Action Plan published on 4 March 2021 stresses the need of 'more and better jobs' with its ambitious 78% employment rate goal for 2030 in age group 20 to 64 and its

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13 social-summit-european-pillar-social-rights-booklet_en.pdf (europa.eu)
14 2019/C 387/01
15 European Commission DG EMPL and Social Protection Committee, 2020.
16 The focus is on formal coverage, effective coverage, and adequacy.

repeated reference to job-quality[17]. “Having a quality job is a key source of income, purpose, and accomplishment, and it is essential for social inclusion and active participation in society. […] As Europe moves from crisis response to recovery, more forward-looking support to quality job creation and employment is necessary in order to build a sustainable path towards the 2030 employment target of 78%” (EPSR Action Plan, p 15f).
In our comment we focus on formal coverage, effective coverage and on adequacy (sections 3.2, 3.3, 3.4). Additional remarks on labour market related context indicators are integrated in the concluding remarks in section 3.5.

3.2 Formal coverage

'Formal coverage' of a group means a situation in a specific social protection branch (e.g. old age, unemployment protection, maternity or paternity protection) where the existing legislation or collective agreement states that the individuals in a group are entitled to participate in a social protection scheme covering a specific branch (Recommendation, Article 7e).
Member States are recommended to ensure access to adequate social protection for all workers and self-employed persons … In light of national circumstances, it is recommended to achieve this objective by improving the formal coverage and extending it to: (a) all workers, regardless of the type of employment relationship, on a mandatory basis; (b) the self-employed, at least on a voluntary basis and where appropriate on a mandatory basis (Recommendation, Article 8).

Version 0

“Ideally, the key headline indicator monitoring formal coverage should be the proportion of workers and self-employed who have formal access to social protection under the different branches” (version 0, p 26).

Since this indicator is not directly available, version 0, based on information to be provided by the Member States, chooses a two-step approach:

1) mapping the legal situation (which categories of workers and self-employed are not formally covered)
2) estimating the size of the groups that were identified as not formally covered

Based on pilot data collection on these issues, version 0 includes a wide range of information on legislation in EU Member States and on related data. Furthermore, version 0 lists 4 specific performance indicators on formal coverage (each one disaggregated by social protection branch):

- Number of non-standard employment contracts/persons lacking formal coverage
- Number of non-standard employment contracts/persons which are part of a voluntary social protection scheme
- Number of self-employed persons/statuses lacking formal coverage
- Number of self-employed/statuses which are part of a voluntary social protection scheme

Comment

- Approaching the monitoring of formal coverage primarily by mapping the legal situation at national level (groups of workers and self-employed not formally covered) and, based on this, estimating the size of the groups not covered seems to be the most appropriate way.
- The wide range of significant data presented in version 0’s section 6 confirms the validity of an approach based on the legal situation.
- Unfortunately, there are substantial shortcomings with regard to the selected performance indicators:
  - Disaggregation by sex is missing
  - Restricting the monitoring to non-standard employees and self-employed is too narrow, both standard employees and unemployed people should also be included. Not including standard employees is particularly problematic in monitoring the number of those who are part in a (supplementary) voluntary scheme. In most EU Member States, a huge share of ‘standard workers’ are, for instance, not covered by an occupational pension scheme. Furthermore, even in monitoring formal coverage of basic public schemes, such as unemployment insurance, against the background of very diverse schemes across Europe including all types of employment is important.

17 Unfortunately, concrete targets concerning job quality are missing in the Action Plan.

On the other hand, following the scope of the Recommendation which includes "people whose work is interrupted due to the occurrence of one of the risks covered by social protection" (Article 3.1) other groups too, such as the unemployed (including jobless 'available for work but not actively seeking' and those 'actively seeking but not immediately available')[18], should be included in formal (and effective) coverage monitoring, for instance with regard to the acquisition of pension credits.

- When monitoring the number of those who are part of a voluntary scheme, a clear distinction should be made between voluntary schemes which supplement existing mandatory public social protection schemes and membership in voluntary schemes where this is not the case. Especially, for monitoring the situation of self-employed such a distinction seems to be needed.

- The mapping of the legal situation should also include contribution rates and the income assessment base applied for different employment statuses. Referring to Articles 12, 13, 14 of the Recommendation version 0 in its chapter on 'Further developments' underlines the importance of also monitoring this essential part of social insurance and points to several options for its monitoring. In any case, for the sake of fairness, and against free-riding and moral hazard, achieving the goal of social protection for all forms of employment necessitates fair contribution to be paid by all. Competition based on the circumvention of labour cost has to be avoided.

- With regard to the Recommendation's Article 8b (membership of self-employed is recommended "at least on a voluntary basis and where appropriate on a mandatory basis") it has to be noted, that for the self-employed mandatory coverage ought to be the rule but not the exception.

3.3 Effective coverage

'Effective coverage' of a group means a situation in a specific social protection branch where the individuals in a group have an opportunity to accrue benefits and the ability, in the event that the corresponding risk materialises, to access a given level of benefits (Recommendation Article 7f).
Member States are recommended to ensure effective coverage for all workers, regardless of the type of employment relationship, and for the self-employed … while also preserving the sustainability of the system and implementing safeguards to avoid abuse. To that end: (a) rules governing contributions (e.g. qualifying periods, minimum working periods) and entitlements (e.g. waiting periods, calculation rules and duration of benefits) should not prevent individuals from accruing or accessing benefits because of their type of employment relationship or labour market status; (b) differences in the rules governing the schemes between labour market statuses or types of employment relationship should be proportionate and reflect the specific situation of beneficiaries (Recommendation Article 9).

Version 0
Data used in version 0 is derived from the European Union Statistics of Income and Living Conditions (EU-SILC) and from the Labour Force Survey (LFS). Unfortunately, as noted in the document these data only provide insights on the effect of the social protection system as a whole.
"Only significant further data collection efforts would allow for the provision of data on effective coverage an on the income-smoothing function of the social protection systems by branch, and therefore for the measurement of how the different social risks impact the economic security of various groups" (p 11).
Considering EU-SILC and LFS data restrictions, version 0 only lists two indicators on effective coverage:

- Benefit recipiency rate for the population at risk of poverty before social transfers: share of working age individuals (16+) receiving any benefits (other than old age or survivor benefits) among people at-risk-of-poverty before social transfers – disaggregated by most frequent activity during income reference year.
- Coverage of unemployment benefits for the short-term unemployed: the share of people aged 16-64 registered in unemployment for less than 1 month up to 11 month receiving benefits.

As available data do not allow to capture the proportion of persons receiving benefits for each type of risk by previous labour market status the first indicator looks at the benefit recipient rate across all branches of social

18 See Eurostat (2020), Eurostat (2020), Labour market slack – annual statistics on unmet needs for employment. Statistics explained.

protection. Version 0 underlines that this approach, apart from the advantage of avoiding complex challenges such as assigning each reported benefit to a specific type of risk, entails some problems, for instance people can be at risk of poverty before social transfers for many reasons going beyond the scope of the Recommendation (inactivity, household situation, …).

The 'coverage of unemployment benefits' indicator, based on LFS data, is already used in the benchmarking framework on unemployment benefits. It captures both contributory unemployment benefits and social assistance. As small sample sizes in some countries do not allow reliable disaggregation by previous labour market status, version 0 recommends limiting the breakdown by labour market status to the EU average and to those Member States for which the data are reliable.

Unlike on unemployment, version 0 of the monitoring framework does not include an indicator on effective coverage of pensions. Referring to old-age benefits the document states: "The coverage rate could be calculated via EU-SILC, but it is generally high across Member States. In addition to this, the data by previous labour market status can only be calculated for those who retired a year ago, which means that the sample size is too small" (p 48).

With regard to the overall monitoring of effective coverage by branch, version 0 eventually points to the fact that monitoring this "…usually relies on data on the number of beneficiaries based on administrative sources … at EU level, such data is available through either the SPC's ad-hoc collection or ESPROSS data. … In a more long-term perspective, the use of administrative sources to monitor effective coverage could be further explored at a later stage of the development of the monitoring framework" (p 48).

Comment

- As stated in version 0 the 'benefit recipiency rate for the population at risk of poverty before social transfers' provides "imperfect insight" in effective coverage. However, this is only partly due to data restrictions which do not allow a link to a specific branch of social protection. Further shortcomings result from questionable definition of the indicator:
  - Limiting the monitoring exercise on effective coverage to people living in at-risk-of-poverty households (before social transfers) falls short of the scope of EPSR and the Recommendation. Social rights, such as protection against the risk of sickness or acquiring pension entitlements (from basic or supplementary schemes), refer to all workers and the self-employed and not only to those at risk of poverty.
  - Applying the criteria 'receiving any benefit' allows little valuable indication of effective coverage. Is there 'effective coverage' if only minuscule benefits are granted?

- The data published on the only more precise indicator suggested so far, i.e. coverage of unemployment benefits for the short-term unemployed, show alarming figures: in EU-27, only 1/3 of those recorded as unemployed for up to 11 months are receiving unemployment benefits or assistance (Table 4.10).
  As the very narrow LFS-definition of unemployment excludes a huge share of jobless people, such as those classified as 'available for work but not actively seeking' or 'seeking but not immediately available'[19] an additional indicator focussing on long-term unemployment and including these groups among those under scrutiny should be established.

- With regard to pension coverage reference could be made to the findings published in the EU Commission's Pension Adequacy Report. Based on SHARE-data, the 2018 edition of the report displays (effective) public pension coverage rates among persons aged 65+ varying between only 68.4% in Greece and 99.6% in Estonia for women and between 82.8% in Croatia and 99.6% in the Netherlands for men.[20] The fact that SHARE data are not collected every year should not prevent using these data for the monitoring of access to social protection, at least as long as no other data are available.

- As qualifying periods, waiting periods, duration of benefits, etc. very much impact on effective coverage, data collected and published in version 0's chapter 6 are of high relevance. Considering that 8.1% of all employees

19 See FN 3
20 EU Commission (2019), Pension Adequacy Report Vol I, Table 5

in EU-27 work in short-term contracts of up to 1 year[21] additional data collection on the impact of vesting periods on the effective coverage of supplementary pension schemes would be of interest. Without taking into account the effect of vesting periods on such contracts, coverage ratios of supplementary pension schemes could be significantly overrated.

- In the further development of the monitoring framework extended use of administrative data should be considered. "The use of administrative sources would be the best approach in the long-term" (version 0, p 48).

3.4 Adequacy

While the term adequacy - unlike formal coverage, effective coverage, etc. – is not addressed in its article on definitions (Article 7), the Recommendation includes some specification:

Where a risk insured by social protection schemes for workers and for the self-employed occurs, Member States are recommended to ensure that schemes provide an adequate level of protection to their members in timely manner and in line with national circumstances, maintaining a decent standard of living and providing appropriate income replacement, while always preventing those members from falling into poverty. When assessing adequacy, the Member State's social protection system needs to be taken into account as a whole (Recommendation, Article 11).

Social protection is considered to be adequate when it allows individuals to uphold a decent standard of living, replace their income loss in a reasonable manner and live with dignity, and prevents them from falling into poverty while contributing, where appropriate, to activation and facilitating the return to work (Recommendation, Recital 17).

Version 0

"Compared to those effectively covered, those adequately covered represent those who receive a benefit level considered adequate to smooth income, prevent poverty and ensure a decent standard of living" (p 19f).

Version 0 points to the fact that there is no universal definition of adequacy "as it may be very different from Member State to Member State … In particular, no specific target is set for replacement rates" (p 21).

Furthermore, as already mentioned in section3.3 version 0 states that "only significant further data collection efforts would allow for the provision of data on effective coverage and on the income-smoothing function of the social protection systems by branch" (p 11).

Based on this, version 0 among its adequacy indicators only lists indicators referring to poverty prevention but none referring to the other key adequacy dimension which is providing adequate income replacement and maintaining a decent standard of living.

Indicators listed in version 0

- Material and social deprivation rate
- Poverty rate after social transfers (AROP)
- The impact of social transfers (excluding old age and survivors' pensions)
- The relative median at-risk-of-poverty gap

All four indicators refer to the most frequent activity status during the reference year and to the age group 16+. Measurement is based on household income, both benefits given at individual level and at household level are included.

The combined use of the well-established AROP-indicator and the 'material and social deprivation' rate is explained against the background of the complexity of collecting income of the self-employed. While self-employed generally show higher AROP rates than workers, they face lower or similar risks of material deprivation.

"A gap in this list of indicators is that they only measure the poverty-reducing effect of social protection, and not its income-smoothing function, while the Recommendation sets objectives for both functions" (p 56).

In order to fill this gap, version 0, with regard to unemployment and old age, suggests complementing its list by using already existing indicators:

21 Version 0, Table 5.7

- Unemployment: Net replacement rate of unemployment benefits for a person earning 67% of the average wage, at the 2nd and 12th month of unemployment (monitored in the benchmarking framework on unemployment benefits)
- Pensions: Theoretical replacement rates (Pension Adequacy Report)

For the other branches of social protection version 0 points to the possibility to use the MISSOC database for adequacy monitoring. However, "legal rates may provide an incomplete picture of the situation of the self-employed". Therefore, legal replacement rates included in version 0's chapter 6 for sickness benefits, maternity benefits, accidents at work and occupational diseases are provided "as information, and not as performance indicators" (p 57).

Comment

- Version 0's data on its adequacy indicators display very important information on the social situation. It clearly shows that a huge share of EU's population experience very tough living conditions, thus, confirming urgent need for implementing the EPSR goals.

- Though version 0 announces future use of additional adequacy indicators which go beyond poverty prevention and also allow the monitoring of the income replacement function of social protection systems not to include such indicators from the early beginning of the monitoring process is difficult to understand considering its key importance for the validity of social protection systems. For instance, as mentioned in version 0 (p. 200), the adequacy of pensions is a top priority for workers and self-employed when they are interviewed about the future of welfare state.

- Pension adequacy indicators, such as theoretical replacement rates (TRR) based on current legislation are well established and regularly published both by the EU Commission (Pension Adequacy Report) and by OECD (Pensions at a Glance). A look at prospective TRR calculations shows that in several EU Member States, as a result of excessive pension reforms, even if a full career at average earnings is assumed, under no-policy-change assumption today's young people will end up with a pension level far from ensuring a 'decent standard of living' (with most extreme low net replacement rates of only 31% in Lithuania and only 36% in Poland).[22] For other EU Member States, under the same assumption of a full career at constant average earnings, TRR calculations show much better net replacement rates (up to almost 90% in Austria). Unsurprisingly, in all EU Member States TRR calculations for people with short careers or career interruptions show lower replacement rates. By simulating typical careers of different groups of workers and self-employed TRR calculations allow valuable analysis of income maintenance.
  In order to provide more complete information and to improve comparability between countries TRR calculations should be expanded in several respects
    - information on indexation rules should be added (only to compare the initial pension with the final wage falls short of a key determinant of retirement income);
    - career variants should also include variants of earnings trajectories;
    - in addition to prospective TRR calculations current TRR's (based on past historical date) should also be calculated;[23]
    - (at least) in prospective base case calculations a variant with a similar retirement age assumption should be added, not exceeding the age of 67. For countries with a higher or lower legal retirement age, the TRR-rate should be calculated considering penalties and bonuses deducted or added if retiring before or after legal retirement age.
    - TRR calculations on defined contribution schemes should be based on prudent investment return assumptions, variants with somewhat lower or higher investment return should be added
- Additional, very general, information on the income capacity of pension systems is provided by the Pension Adequacy Report's 'Aggregate Replacement Ratio (ARR)'. This indicator refers to the average income

22 OECD (2019), Pensions at a Glance, Tables 5.5, 5.6.
23 See EU Commission (2018), The Pension Adequacy Report, p 152

replacement level achieved by current retirees by comparing the average pension income of those aged 65 to 79 to the average earnings of those aged 50 to 59. It too displays substantial replacement rate differences from country to country, ranging from only 35% in Ireland to 88% in Luxembourg. Furthermore, comparing the average pension income of men and women of those aged 65 to 74 reveals substantial gender pension gaps of up to 48.7% in Cyprus[24], primarily determined by the fact that women have lower earnings, more career interruptions (because of child-care or care of older relatives) and more periods of part-time work (frequently also related to unpaid care work).

As with TRR calculations there is scope for improvement. Especially in order to increase transparency more information should be displayed

- Both the actual amounts of earnings and pension income underlying the ratios and the composition of the pension income (public, occupational, personal)
- Ratios based on net as well on gross
- Ratios for people at the highest and the lowest quintiles of pension income and earnings

3.5 Concluding remarks

Version 0's monitoring framework provides a valuable starting point for the monitoring process. The first data collection published confirms what has been suspected: non-standard workers and many self-employed are strongly exposed to social risks. However, what is less known, these data also show that in many EU Member States even many 'standard workers' experience high risk of inadequate earnings and inadequate social protection.

Therefore, in the further development of the monitoring framework and in the concrete monitoring process attention has to be paid to all forms of employment, including 'standard employment'. Furthermore, when monitoring the situation of the unemployed all jobless people included in Eurostat's 'labour market slack' indicator (see FN 3) should be included.

Monitoring must not be limited to the poverty prevention function of social systems. The European Pillar of Social Rights and the Recommendation, furthermore, require "adequate income" for "maintaining a decent standard of living and providing appropriate income replacement". Alarming prospective theoretical replacement rate calculations show that in several EU Member States even 'standard workers' under the assumption of a full career will not achieve decent income during retirement unless pension reforms implemented in the past are reconsidered.

Apart of social protection provision, employment careers preceding the materialisation of a social risk are a key determinant of decent income. Thus, disaggregation of data along professional statuses as carried out in version 0 by labour market related 'context indicators' is very important. Unfortunately, so far, disaggregation of some indicators along gender and age groups is missing. Regarding age groups, specific attention should be paid to the most sensitive groups such as young workers and workers of higher working age. Another important issue addressed as 'context indicator' in version 0, is to shed light on the phenomena of marginal part-time work. Incomprehensibly, the limit of paid working hours ('less than 10 hours per week') is set at such a low level, that for instance most of Germany's four million 'mini-jobbers' are not assigned to this category.[25] Eventually it has to be noted that collective bargaining coverage should be included among the 'context indicators'.

Given the close link between quantity and quality of employment (number of jobs, earnings level, job security, working conditions, etc.) and the exposure to social risks a rights-based integrated approach to equal opportunities, quality jobs, employment conditions and social protection rights will be needed in order to implement the EPSR objectives.

24 EU Commission (2018), The Pension Adequacy Report, Figures 27, 37

25 In 2019, according to Bundesagentur für Arbeit, about 15% of all women and 9% of all men in employment in Germany were mini-jobbers while the Eurostat's indicator 'less than 10 hours paid work per week' only displays 4.4%.

4 | Adequate pensions for ageing in dignity

The EPSR outlines very clearly the rights of old age people in its principles 12 and 15. ETUC wishes to enlarge the concept of an adequate and sustainable pension system to an enlarged concept of guaranteeing 'ageing in dignity'[26].

Ageing in dignity is built on two components: an adequate pension (section 4.1) and adequate and sustainable health and long-term care (section 4.2). Adequate in this sense does not only signify decent, it also stands for available and affordable, two necessary characteristics in order to age in dignity.

4.1 First and second pension pillars

In the ETUC report for pensions policy at the European level (B. Davies, 2021) a set of indicators and benchmarks are proposed. In this chapter we explore the information on the funding and expenditures in the first and second pension pillar, as can be found in a new table 29 in the national accounts, as they are published by Eurostat (Gregorini, 2020). New evidence on the contribution cost of both systems, the benefit, and also the administrative cost, the cost of service of the second pillar, became recently available[2]. This table of the national accounts provide more evidence on this, at least in macro-economic terms. Contradictory to the common wisdom or should we call it the common ('Washington') doctrine of a three-pillar pension system, the new evidence reveals that the funded pension schemes are in Europe more the exception than the rule, and that a special pension regime for the civil servants remained the rule in many countries. And finally, that the funded pension schemes come at a substantial service cost. In the Netherlands for instance, those servicing costs are 1% of GDP. In Belgium, where we have a much less developed system the service cost is already 0.2% of GDP. For Belgium for instance, the contributions in the second pillar are some 6.8 billion and the service cost is some 0.8 billion or respectively 1.5 and 0.2% of GDP (Pacolet, 2021). On top of that, but that dimension is not yet present in those new macro-economic statistics, comes the fact of live that the creation of a second pillar does not go without any fiscal incentive. This can also be considered as a cost. Recently the Belgian Planning Bureau calculated the net (para-) fiscal expenditures for the second pillar are some 3 to 3.5 billion or 0.7% of GDP. That is exactly 10% of the social contributions for the first pillar, leaving out the system of civil servants. If they would not be used for that reason, the first pillar could be increased with 10%. Starting from what we are missing in the PAR (more information on the second pillar); it brings us back to what is in the PAR. The additional dimensions of tax expenditures because of non-taxation of the contributions and or non-taxation of the benefits, is documented in a detailed way in the upcoming PAR report (see the in June 2021 upcoming 2021 Pension Adequacy Report).

Figure 4.1 and 4.2 provide an overview of the first and second pension pillars. The figures are based on Eurostat's table 29 in the national accounts[27]. Recently (from 2015, now the last available is 2018) the national accountants produce a table 29 on the 'accrued-to-date pension entitlements' in the social, not individual, pension schemes. Table 29, part of the national accounts, describes the present value or the future pension entitlement, the contributions to it of employers, households and general government, the pay-out in monthly pensions or in a once paid out capital, and the administrative cost.

From Figure 4.1 it is possible to distinguish the first and second pension pillar. In almost all Member States, social security pension schemes make up the majority of the total contributions. Together with the defined benefit schemes for government employees classified in general government, this makes up the first pension pillar. Only in Denmark, the Netherlands, Iceland, and Switzerland, the second pillar (consisting of private defined contribution/benefit schemes and defined benefit schemes for general government employees classified in financial corporations) seems to be of higher importance.

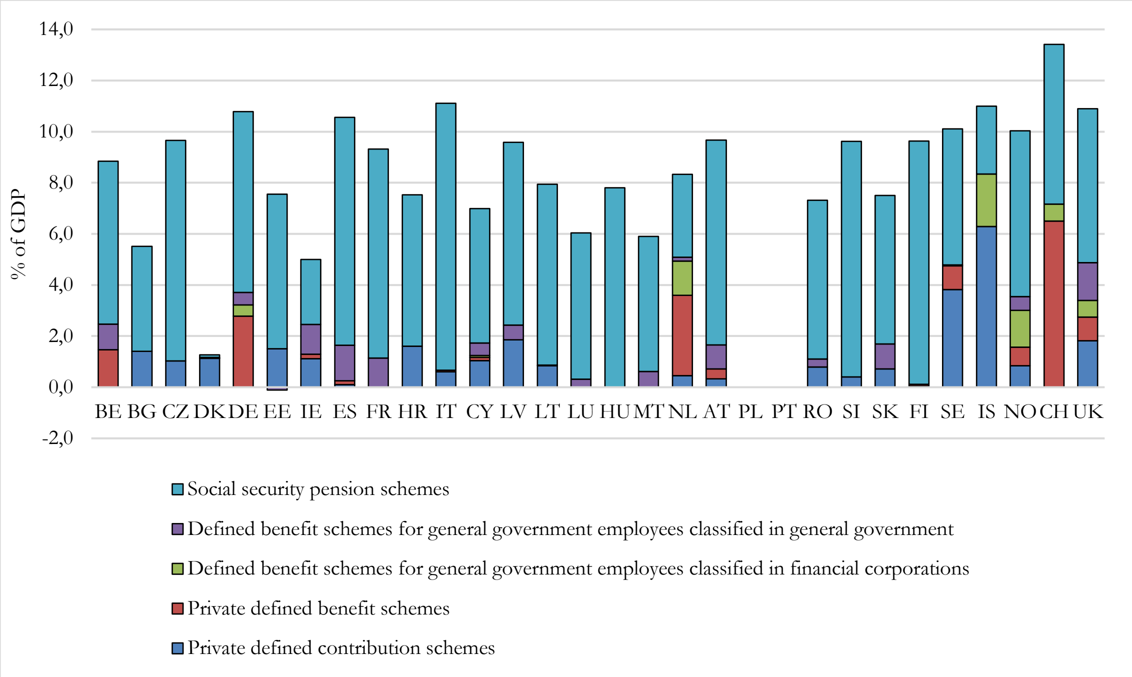
26 ETUC action on access to social protection (Resolution) Adopted at the Executive Committee of 26 – 27 March 2019,

27 For a further description of this new data-source see Gregorini (2020).

Another point of view is visualised in Figure 4.2 where it is possible to have a look at who exactly finances the contributions. There are 3 systems visualized: employers' actual pension contributions, employers' imputed pension contributions, and households' actual pension contributions. In most of the Member States, the employers' actual pensions contributions make up the highest share. Only in Germany, Croatia, Cyprus, Luxembourg, Malta, the Netherlands, Romania, Slovenia, and Switzerland, households' actual pension contributions are more important.

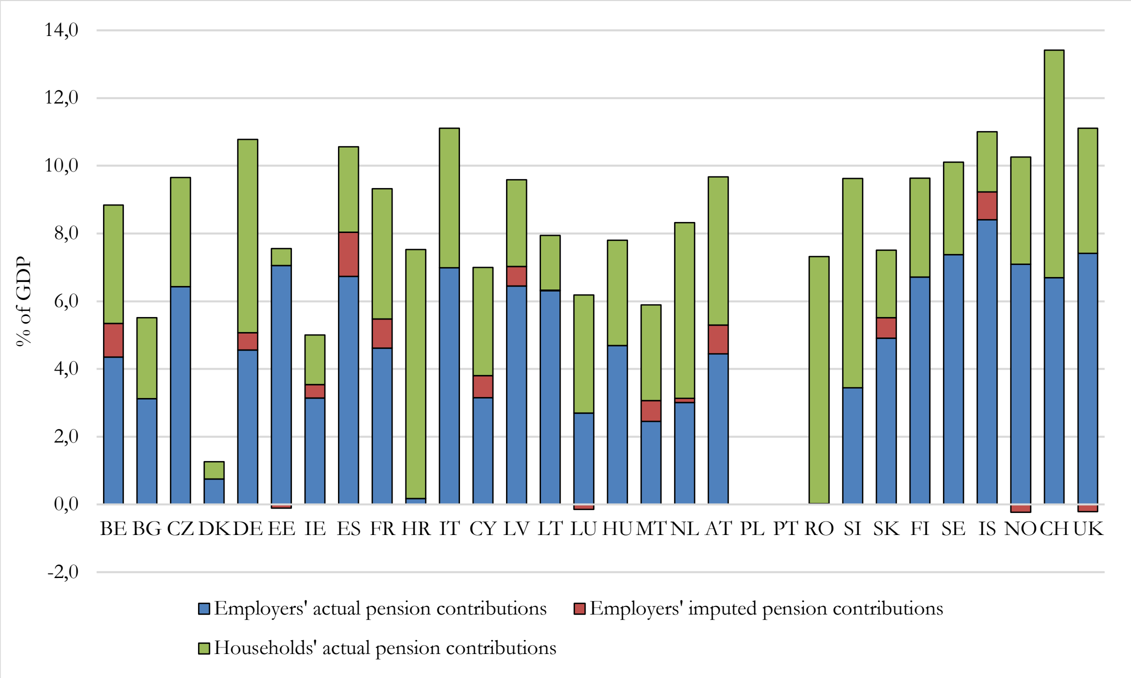
See also appendix 2 for additional and more detailed figures on pension contributions.

Figure 4.1 **Total contributions for pensions in the EU and EFTA, by pension scheme, % of GDP, 2018**



Source Eurostat [nasa_10_pens1]

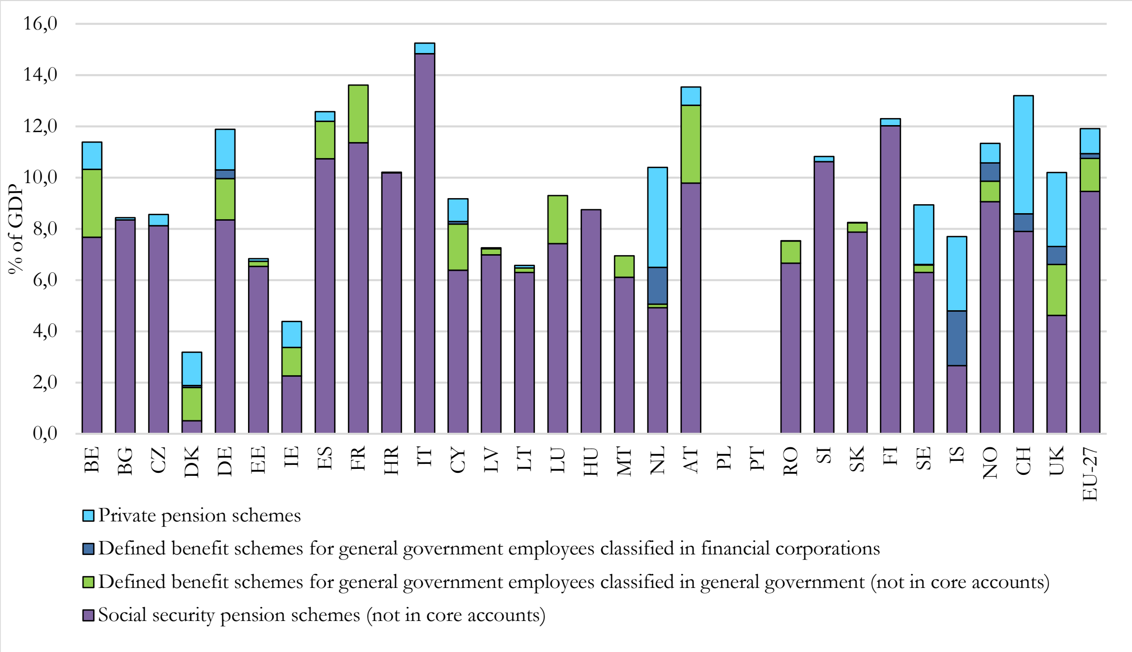
Figure 4.2 **Total contributions for pensions in the EU and EFTA, by contributing entity, % of GDP, 2018**



Source Eurostat [nasa_10_pens1]

Those contributions do not cover the total financing of the pension benefits, the balancing items being either tax financing as an additional financing source for the public social security pension scheme or net return of the funded pension schemes. The balance between total yearly spending and the total identified contributions remains a weak point in this new statistic. But nevertheless, the new source provides the information on the total current spending for the defined pension schemes. In Figure 4.3 we can see that the total spending for EU-27 is some 12% of GDP in 2018. Out of this total some 10.8% of GDP is for the PAYG schemes of social security and the pension scheme for the employees of the government. This 10.8% is perfectly in line with the 10.7% of GDP for pension spending that we find in Table 2.1 in this paper (see section 2.5) and based on the 2021 Ageing Report. The rest, some 1%, is the relative importance of the funded pension schemes for the total population, or in some countries (the Netherlands, Iceland), also for the employees of the general government. The funded pension schemes are only good for 1/12th of the total spending. We see that in most of the countries the social security is the most important provider of pension benefits, in some countries even exclusively, as is the case in Italy, Finland, and Hungary. In many other countries a separate system of a PAYG scheme for the employees of the general government remains. And the funded pension schemes are only important in a limited number of countries in the EU such as the Netherlands, Sweden, and the United Kingdom (in 2018 still a member state). The Netherlands even have a substantial funded pension scheme for the general government employees. If we need to improve the pensions for the present generations, as well at the lower end to avoid poverty, and for the rest of the pensioners to improve the replacement rate, it has to come from the PAYG pension schemes. And by improving it for the present generations, it will implicitly be of a higher standard for the next generations, as illustrated above in our calculations in section 2.5. If we want to guarantee a better pension for the future generations via funded pension schemes, it needs to be financed already today, and on top of the additional financing of better pensions for the present generations. But there is another cost that becomes visible in those new statistics, namely the service cost.

Figure 4.3 Social insurance pension benefits in the EU and EFTA, by pension scheme, % of GDP, 2018



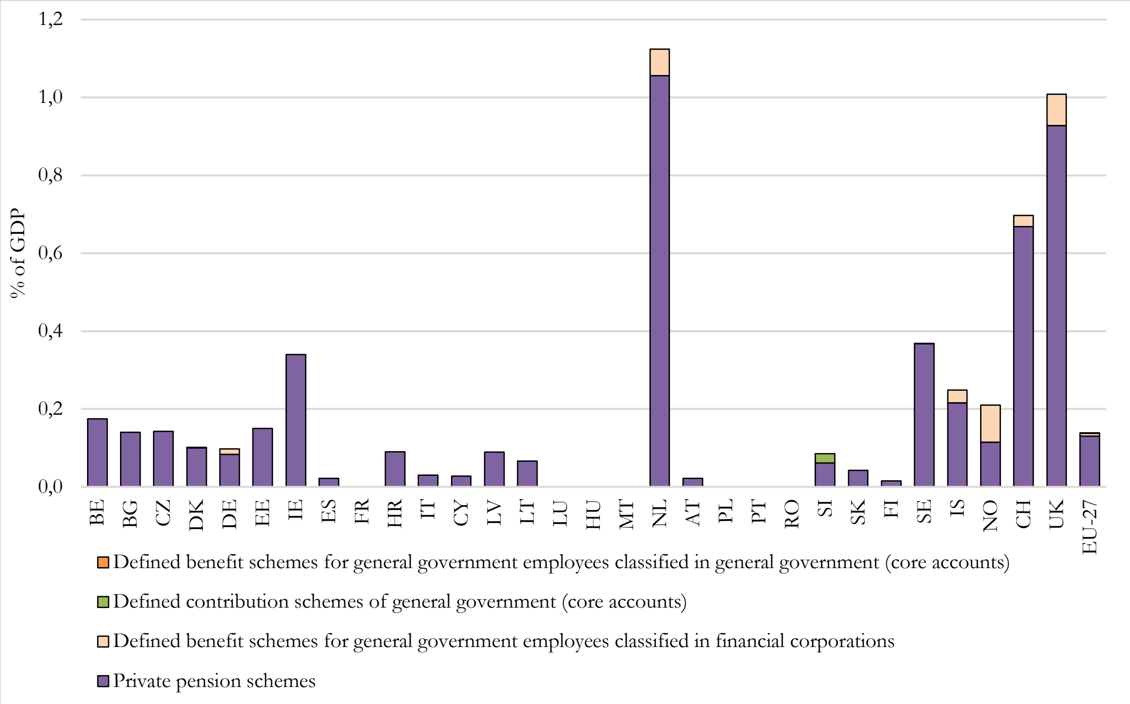
Source Eurostat [nasa_10_pens1]

Figure 4.4 depicts an interesting item, which attires national and international attention, namely the concern about the administrative cost of the funded pension scheme. It was surprisingly high in 2018 for the Belgian funded pension scheme, but for countries where the funded pension schemes are much more important, it even amounts to more than 1% of GDP, for instance in the Netherlands and the United Kingdom. Whether we have to subtract it from the yearly contributions, or from the yearly return on assets is a point for discussion and a matter of presentation. A front-load fee (% of new contributions) of 20 % would reduce the value of contributions after a 40 years career with some 20%; an annual management fee (% of account balance) of 1% would reduce the value of the account after 40 years with again some 20%[28]. But in both understandings, they seem to be substantial[29]. To take the Netherlands as an example, the 1% of GDP for the service of the funded scheme is almost as large as the contribution of the households. It is as if their contributions serve only to finance the intermediation cost of this financial industry of pension funds.

28 Peter Diamond, 2018, https://saspensions.files.wordpress.com/2018/11/peter-diamond.pdf

29 For Belgium for instance the service cost is some 0.2% of GDP, the total balance of funded pensions is some 23% (see figure 4.5), so the service cost comes close to the 1 % of total account balance as given in the example of P. Diamond above.

Figure 4.4 Pension insurance scheme service charges, % of GDP, 2018

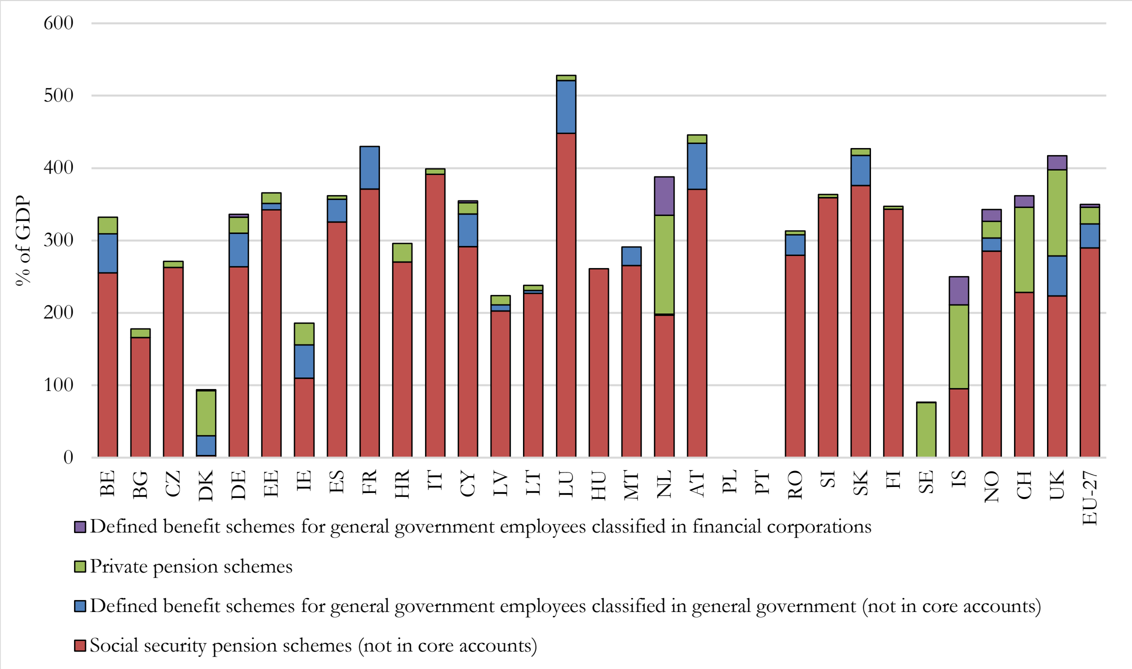


Source Eurostat [nasa_10_pens1]

Figure 4.5 shows the pension entitlements in the closing balance sheet for 2018 in % of GDP. For almost all Member States, social security pension schemes are most important. Only in Denmark, the Netherlands, Sweden, Iceland, Switzerland, and the United Kingdom, private pension schemes are also significant. See also appendix 2 for another table on pension entitlements in the closing balance sheet.

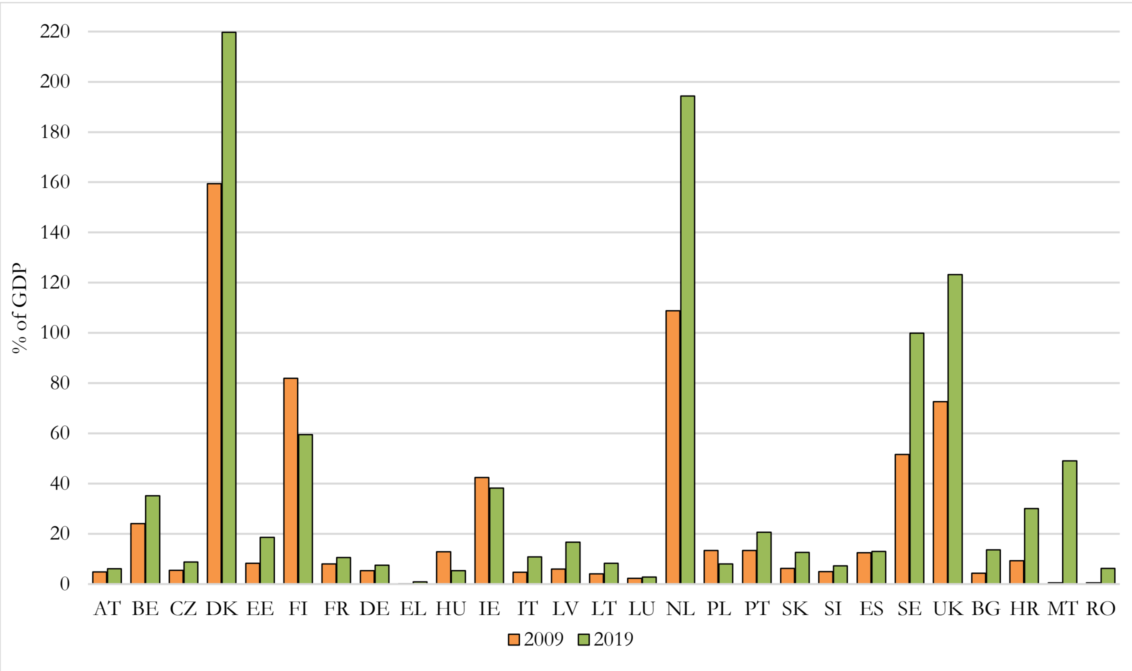
Figure 4.6 depicts the standard reporting on the second pillar by the OECD. This information is similar as the one provided in Figure 4.5, only from a different source and for different years. On several occasions we noticed in the past that for instance for Belgium there was an underreporting since only the pension funds were included, and not the much more important insurance funds that are the major provider of occupational funds, leaving Belgium with a low share of capital in funded pensions of some 10%. Only in the 2020 report this changed. Finally the insurance funds were included. However, another element also changed. From 2017 onwards, a third pillar component of individual retirement saving is included. This is the so called third pillar, and it is questionable if it should be included or not. For instance, for Belgium, we used to mention on top of the individual savings account also the individual life insurance, since it is also a long-term saving instrument, stimulated with a tax credit. It is by the way not only more important than the individual savings account, but even more important than the second pillar. It certainly differs from the notion applied by the national accountants that include in the above described table 29 only the first and the second pillar. When comparing Figure 4.6 with the second pillar 'accrued to date' account in Figure 4.5, sometimes the picture is similar, while sometimes it diverges substantially (for instance for Denmark). This example only to mention that even when the best available information is used, a critical reading is needed since they do not all the time include the total reality.

Figure 4.5 Pension entitlements in closing balance sheet, % of GDP, 2018



Source Eurostat [nasa_10_pens1]

Figure 4.6 Total assets in retirement savings plans, % of GDP, 2009 vs 2019



Source OECD

There is a final dimension that becomes more and more documented and that is the fiscal treatment of contributions for financing the pension system, and of the pension benefits. In Table 4.1 we illustrate first of all the implication for the benefit recipient. The more beneficial tax treatment of retirement income is compared to income during the active phase, tax expenditures contributes substantially to the net replacement rate of public pensions. It illustrates how so called 'fiscal expenditures' (more advantageous tax regimes for certain income or activities; they can also exist in social security contributions) top up the social security benefits, and are not visible in the above used new statistics of the national accounts on pensions. At the same time, the pension benefits are taxed as other income, and this also implies that the net cost for the government is lower than what can be concluded from the gross figures. In the calculations we made in section 2.5 we use the gross cost, but the 2021 Ageing also provides the net cost. It reduces the net cost of ageing. It goes by the way for all benefits in social security. In a recent study on the financing of social security for Belgium we estimated the taxation of benefits on some 2% of GDP, while the fiscal expenditures for social protection was also some 2% of GDP. This illustrates that both amounts are not negligible. What becomes more and more clear is that the net fiscal expenditures for the second pillar are not negligible. A recent study for Belgium calculates it at some 3 to 3.5 billion euro, to be compared with the 6,8 billion euro of contributions for the second pillar (Peeters & Schols, 2021). It is as if the public budget finances half of the second pillar. Upfront, at the moment the pension fund needs to be financed. This dimension will also be documented further in the upcoming 2021 Pension Adequacy Report, illustrating the growing interest for this dimension as well. The service cost of the pension system also attracts the interest and concern at European level.

Table 4.1 Gross and net pension replacement rates from mandatory (public and private) and voluntary pension schemes, OECD Pension at a glance 2019

	Percentage of individual earnings											
	Gross mandatory public and private			Net mandatory public and private			Total gross with voluntary			Total net with voluntary		
	0,5	1	1,5	0,5	1	1,5	0,5	1	1,5	0,5	1	1,5
Austria	76,5	76,5	76,5	89,7	89,9	89,6						
Belgium	57,3	46,8	33,7	70,7	66,2	48,3	78,1	61,0	44,1	87,9	72,4	57,8
Czech Republic	75,0	45,9	36,2	91,6	60,3	47,9						
Denmark	113,8	74,4	64,0	104,5	70,9	63,3						
Estonia	61,4	47,1	42,3	65,6	53,1	49,0						
Finland	56,5	56,5	56,5	65,1	64,2	64,9						
France	60,2	60,1	54,0	71,4	73,6	69,0						
Germany	38,7	38,7	38,7	56,1	51,9	51,4	52,2	52,2	52,2	68,6	68,0	67,5
Greece	63,1	49,9	45,5	57,6	51,1	50,3						
Hungary	56,1	56,1	56,1	84,3	84,3	84,3						
Ireland	54,1	27,0	18,0	60,5	35,9	26,7	89,9	62,9	53,8	105,6	81,1	75,5
Italy	79,5	79,5	79,5	92,0	91,8	94,4						
Latvia	44,6	44,6	44,6	55,2	54,3	52,2						
Lithuania	36,8	23,6	19,2	48,4	31,0	25,3						
Luxembourg	91,5	78,8	74,5	99,0	90,1	85,9						
Netherlands	73,5	70,9	70,1	78,0	80,2	78,5						
Poland	29,4	29,4	29,4	35,9	35,1	34,7						
Portugal	75,8	74,4	73,1	88,0	89,6	89,0						
Slovak Republic	59,5	49,6	47,0	71,7	65,1	63,3						
Slovenia	47,8	38,8	36,0	62,8	57,5	53,7						
Spain	72,3	72,3	72,3	78,6	83,4	82,8						
Sweden	54,1	54,1	65,3	60,7	53,4	68,9						
United Kingdom	43,5	21,7	14,5	51,0	28,4	20,2	72,6	50,9	37,4	82,3	61,0	47,4
EU-28	60,3	52,0	48,8	69,8	63,5	60,4				73,6	67,0	64,0

Source OECD, pensions at a glance 2019, p. 157; see also Davies, ETUC report 2021

This section has clearly demonstrated that the second pension pillar is not as widespread as is sometimes believed. It is certainly not dominant in the EU. Therefore, it is better to keep the focus on the first pension pillar and improve this one.

Furthermore, from the different figures is has become clear that new Member States are not focussed on public pension expenses, for which the time has certainly come. They should make an effort here and provide adequate additional public financing.

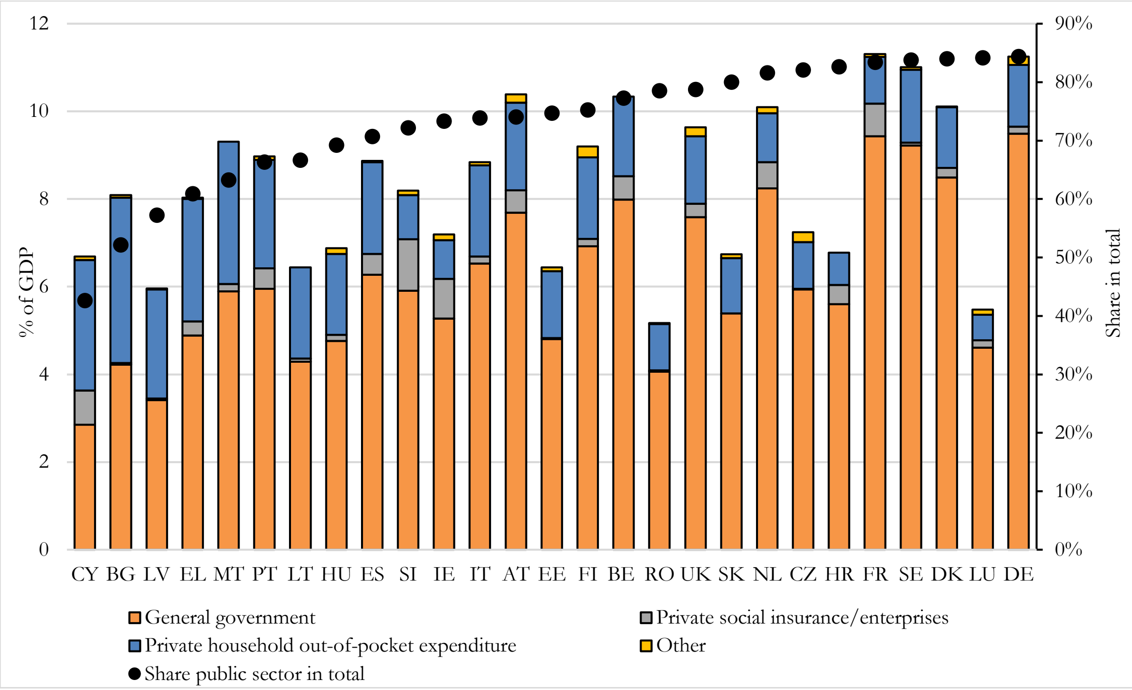
4.2 Adequate and sustainable health and long-term care

An overview of the private and public spending on healthcare in % of GDP is provided in Figure 4.7.
In general, the big spenders are Belgium, Denmark, Germany, France, Austria, and Sweden. These (old) Member States spend more than 10% of their GDP on healthcare.

In all Member States, except for Cyprus, more than 50% of healthcare is financed by the general government. The more a Member State is on the right-hand side of the figure, the higher the share of the general government (or public sector) in the total expenditure. The private household out-of-pocket expenditure remains limited in most Member States. Only in Cyprus, Bulgaria, and Latvia does it exceed 40% of total healthcare spending.

One essential difference between the public and private spending in this graph is, except with the private insurance, that the private part is paid by the sick persons themselves, while the public part is paid by the total population. This graph represents the degree not only of so called 'privatisation', but the 'share of public sector in total' is also indicator of solidarity with the ill.

Figure 4.7 **Private and public spending on healthcare, % of GDP and share of public sector in total, 2017**

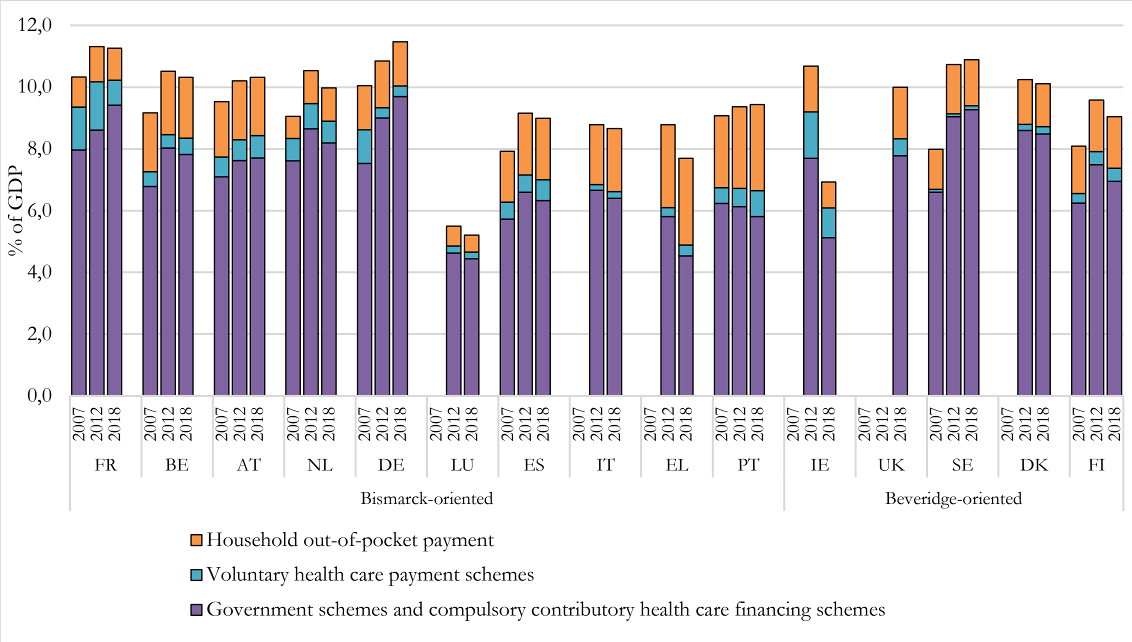


Source Eurostat data, SHA

Figure 4.8 (for the old Member States) and Figure 4.9 (for the new Member States) provide a similar picture as Figure 4.7, but here the evolution over the years is visible. In almost all Member States, the expenditure, expressed in % of GDP increased over the years. Only in some Member States (IE, DK, EL, IT, HU, SK, BG) the evolution was not always upward.

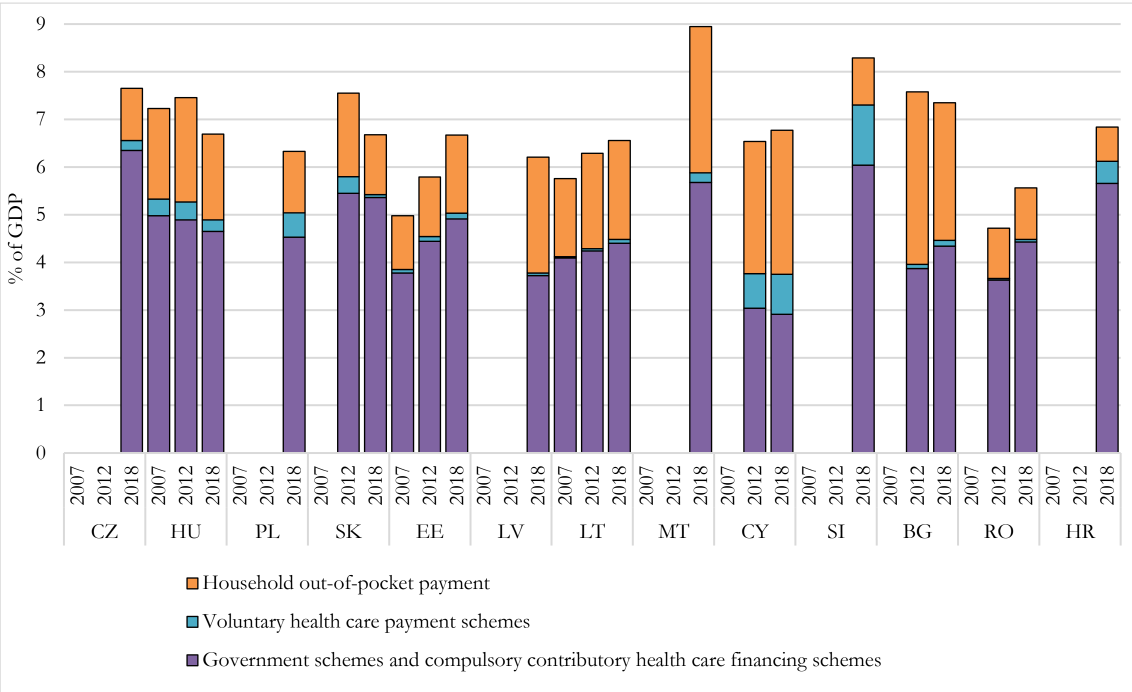
Furthermore, the share of private financing did not change too much, except perhaps a decline in some countries (for instance, BE, AT, DE, LU, IE, SE, SK, BG and RO).

Figure 4.8 **Private and public spending on healthcare, old Member States, % of GDP, 2007 – 2012 – 2018**



Source Eurostat data

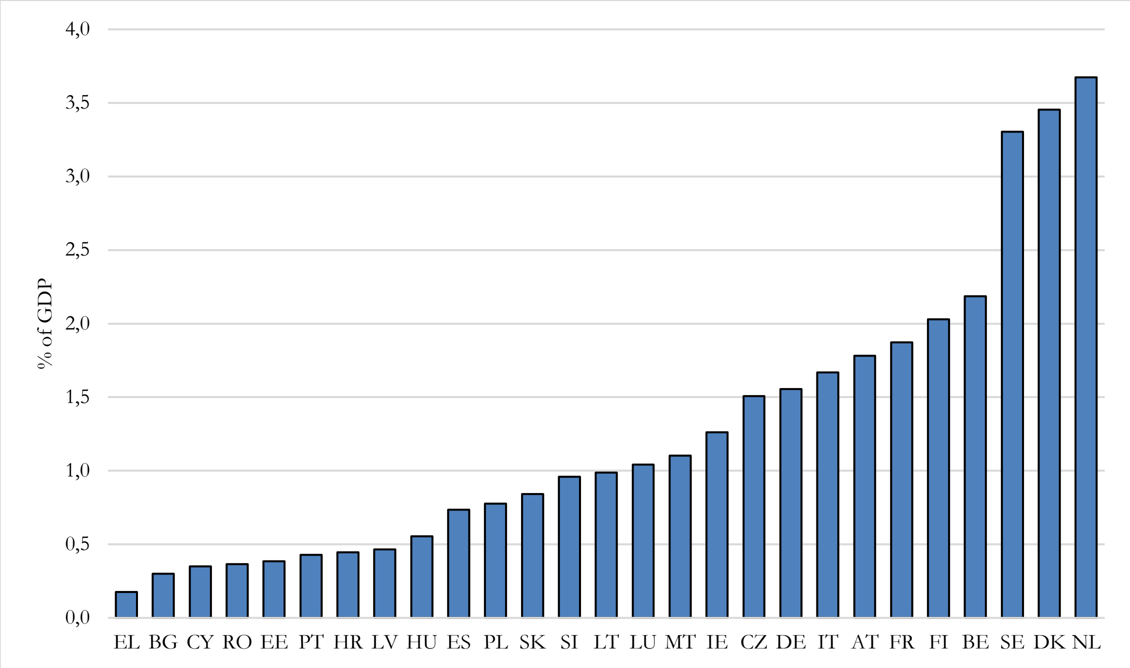
Figure 4.9 **Private and public spending on healthcare, new Member States, % of GDP, 2007 – 2012 – 2018**



Source Eurostat data

In addition to looking at healthcare, attention is paid to long-term care (LTC). Figure 4.10 clearly indicates that especially old Member States have a high expenditure on LTC. On the other hand, for Greece, Bulgaria, Cyprus, Romania, Estonia, Portugal, Croatia and Latvia, long-term care spending does not even reach 0.5% of GDP.

Figure 4.10 Long-term care spending, % of GDP, 2019



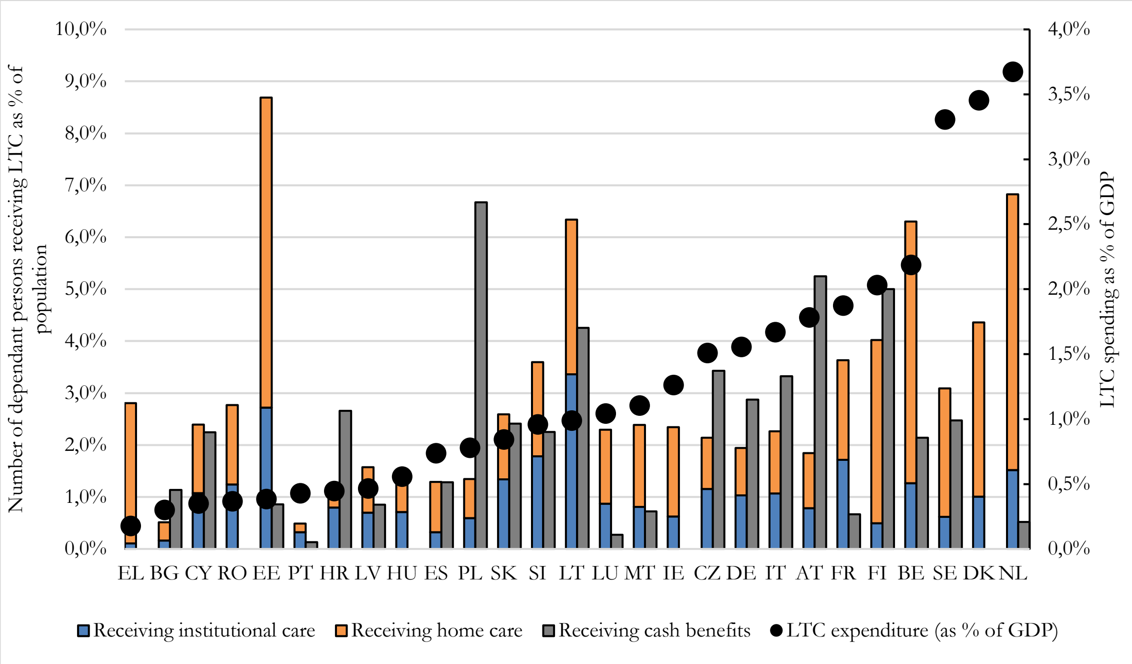
Source 2021 Ageing report

A more detailed overview of long-term care can be found in Figure 4.11. On the right axis the LTC spending as % of GDP is pictured, similar as in Figure 4.10. In Poland, more than 6.5% of the population received cash benefits (grey right bar for each Member State). This share is also on the high side in Austria (5.3%), and Finland (5.0%). Furthermore, the division between the share of persons receiving institutional care and home care is visualized in the left bar for each Member State. In most countries, the share of persons receiving home care is higher. This is however not the case in Portugal, Croatia, Hungary, Slovakia, Lithuania, Czech Republic, and Germany, where institutional care is of higher importance.

The relationship between the development of residential and home care is pictured in Figure 4.12. Especially in Belgium, the share of the population receiving institutional care (1.3%) is much lower than the share receiving home care (5.0%). This is also the case in the Netherlands, where 1.5% of the population receives institutional care and 5.3% home care.

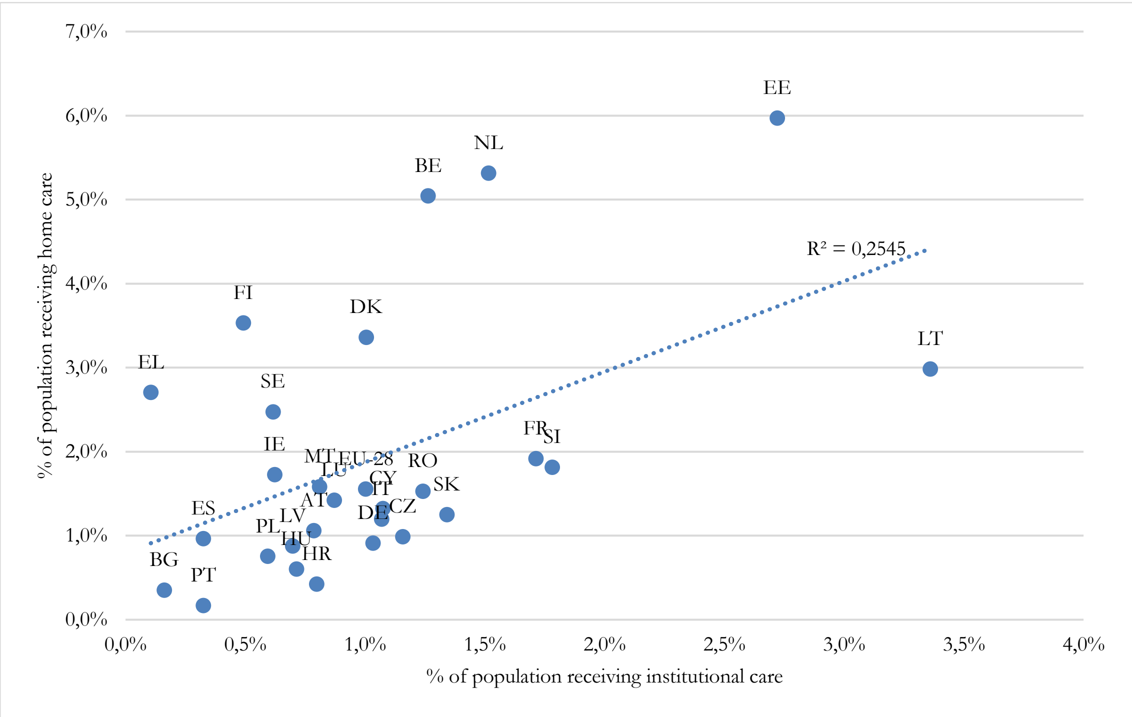
Figure 4.12 also shows that especially new Member States are positioned at the left bottom of the figure, indicating that residential and home care are not yet highly developed.

Figure 4.11 Long-term care, % of beneficiaries of total population and total spending as % of GDP, 2019



Source 2021 Ageing report

Figure 4.12 Relationship between development of residential care and home care, % of population, 2019



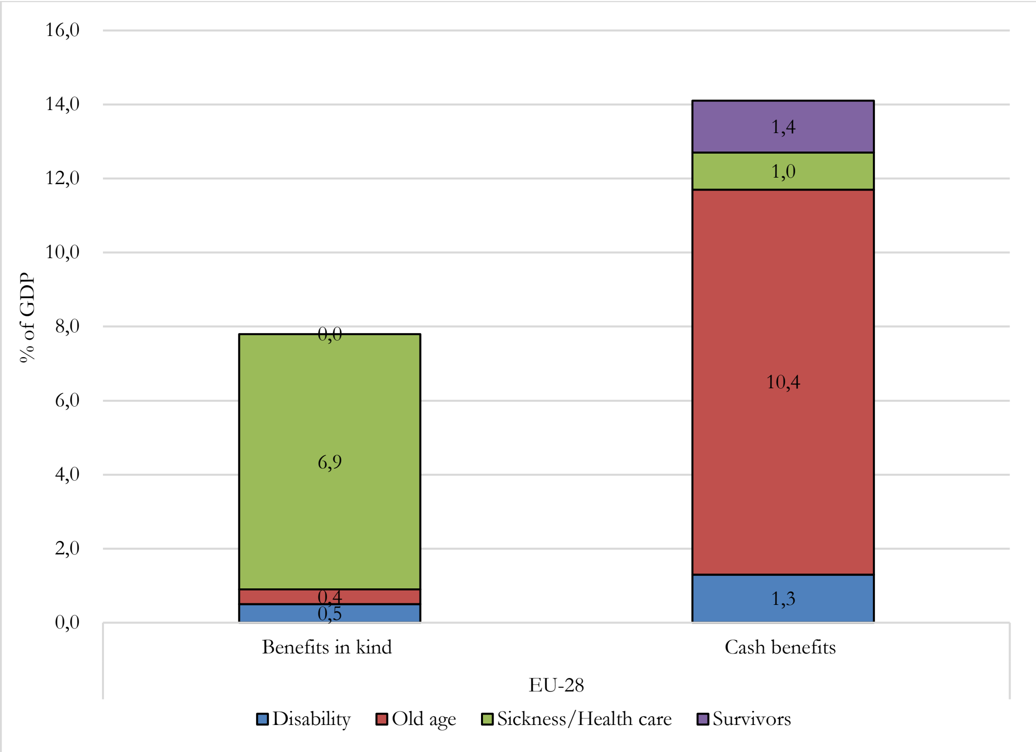
Source 2021 Ageing report

An important issue regarding LTC is still the search for accurate and complete data. For this reason, an analysis of ESSPROS[30]-data and SHA[31]-data took place. Although a lot of data is found in these sources, it remains difficult to extract the exact data needed. For instance, in the ESSPROS-data there are 4 categories of interest when trying

30 European system of integrated social protection statistics
31 System of health accounts

to extract LTC-data, namely disability, old-age, sickness/healthcare and survivor. Furthermore, a distinction is made between in-cash benefits and in-kind benefits. Figure 4.13 gives an overview of these indicators for the EU-28 in 2018. Overall, the EU-28 spends on average 7.8% on benefits in kind and 14.1% on cash benefits. Almost all benefits in kind concerns the sickness/healthcare function, while the majority of cash benefits are used for old age.

Figure 4.13 **In cash and in-kind benefits for disability, old-age, sickness/health and survivors function, % of GDP, EU-28, 2018**



Source Eurostat ESSPROS

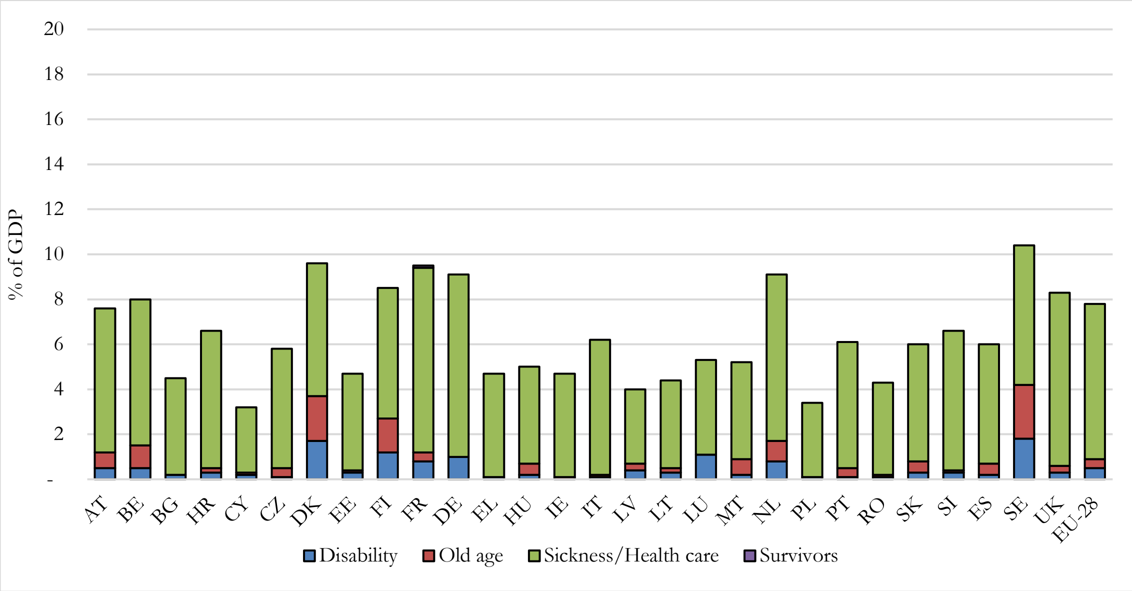
A breakdown of Figure 4.13 for each Member State can be found in Figure 4.14 (for the benefits in kind) and Figure 4.14 (for the cash benefits).

In terms of in-kind benefits, all Member States spend the highest share of GDP on sickness/healthcare, as was the case for the EU-28 in general. Only in some Nordic countries, the old-age function is more significant, namely in Denmark, Finland, and Sweden.

Figure 4.14 shows the in-cash benefits for all Member States, making it clear that the old-age function is the most substantial function. Nevertheless, Greece, Italy, and Spain also spend more than 2% of their GDP on cash benefits for the survivors' function, and Denmark does the same for the disability function.

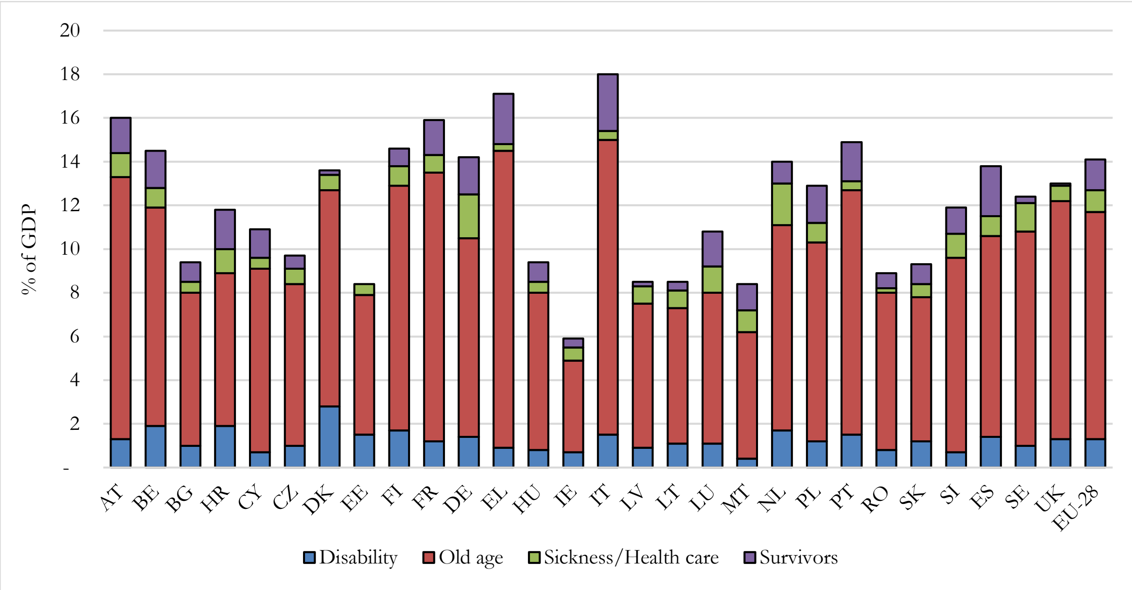
In total, when adding up the in-kind and in-cash benefits for each Member State, the top spenders are Finland, the Netherlands, Denmark, Germany, Austria, Italy, and France, who spend more than 23% of their GDP on these four functions. On the other hand, Ireland, Latvia, Lithuania, Estonia, and Romania spend less than 13.5% of GDP on disability, old-age, sickness/healthcare, and survivors.

Figure 4.14 **In-kind benefits for disability, old-age, sickness/health and survivors function, % of GDP, 2018**



Source Eurostat ESSPROS

Figure 4.15 **In-cash benefits for disability, old-age, sickness/health and survivors function, % of GDP, 2018**

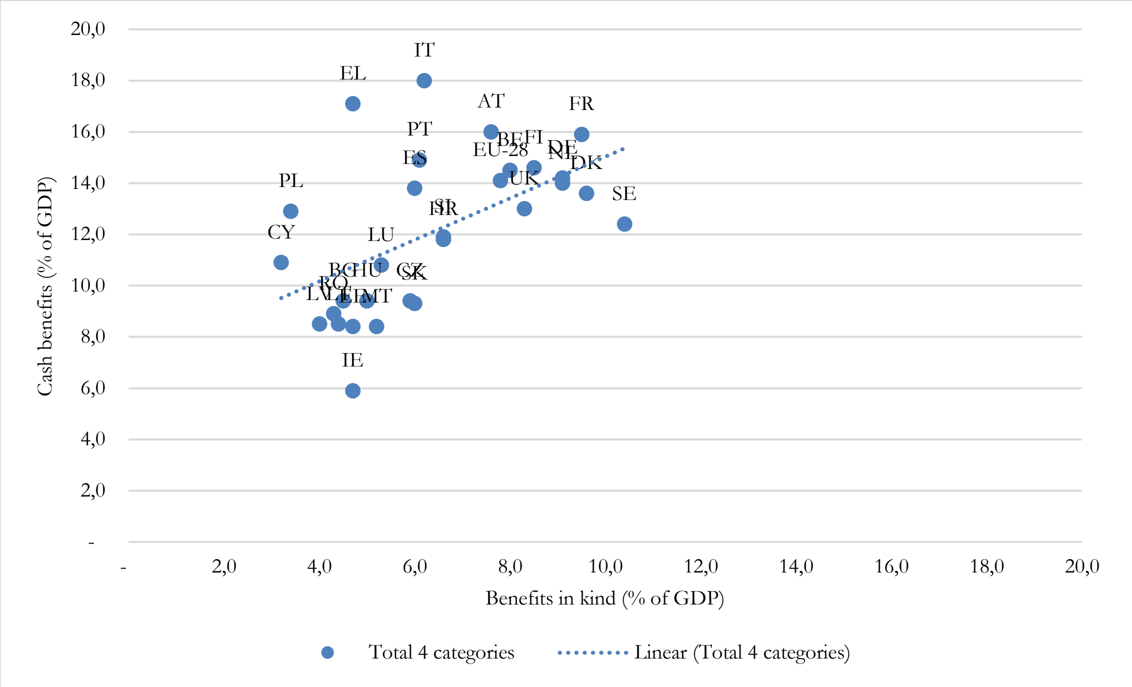


Source Eurostat ESSPROS

A scatter diagram in Figure 4.16 shows how the two types of benefits relate to each other for each Member State. In general, a linear relationship can be found between the expenditure on in-cash benefits and in-kind benefits. The correlation coefficient amounts to 0.54, indicating a moderate positive relationship. This means that when a Member State spends more on in-kind benefits for these four functions, it will also spend more on in-cash benefits, or the other way around. Nevertheless, correlation does not mean causality. Therefore, it is not *because* they spend more on one type that they will also spend more on the other.

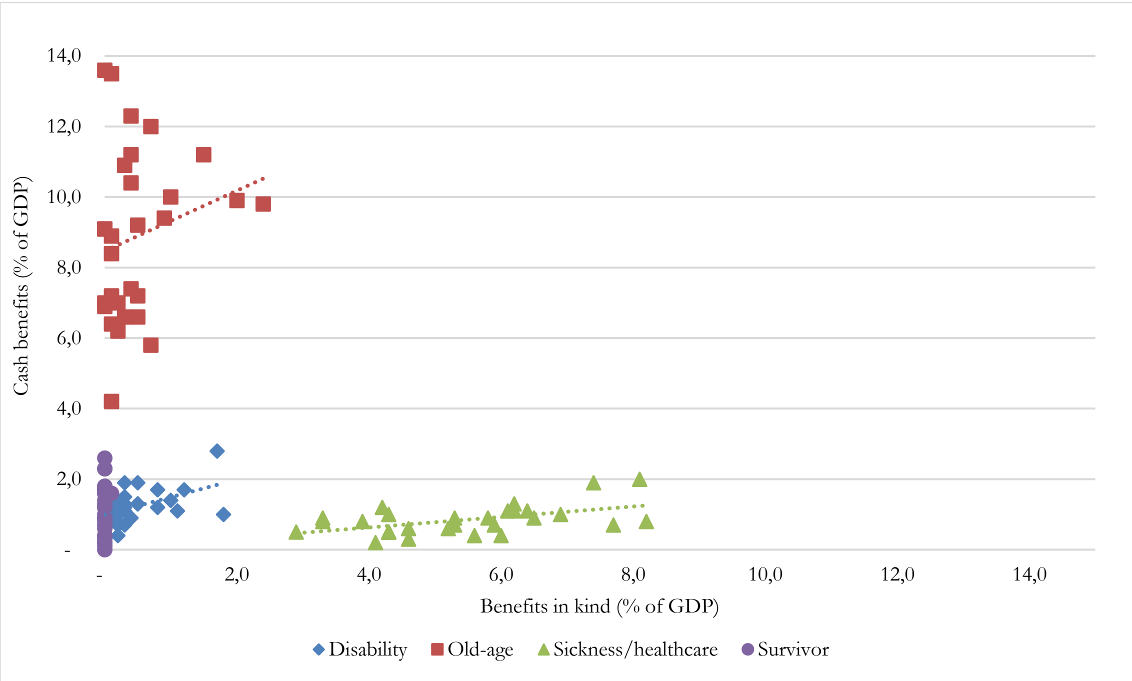
Figure 4.17 shows a similar picture, but now separately for each of the four functions. This figure makes it clear once more that for old-age, especially cash benefits are used (upper left side of the figure), while for sickness/healthcare, benefits in-kind are used more often (lower right side of the figure). For the disability and survivors' function, spending is much less significant, as both groups of dots are positioned on the lower left side of the figure, near the origin. This figure reminds us also how huge the differences remain between countries in the share of GDP they spend on old age benefits or health and sickness benefits. Social convergence, at least measured by this indicator, is far from realised.

Figure 4.16 **Complementarity between in-cash and in-kind benefits, total of disability, old-age, sickness/healthcare, and survivors function, % of GDP, 2018**



* The correlation coefficient amounts to 0.5373.
Source Eurostat ESSPROS

Figure 4.17 **Complementarity between in-cash and in-kind benefits by function, disability, old-age, sickness/healthcare, survivor, % of GDP, 2018**



Source Eurostat ESSPROS

From the figures and explanation above, it is clear that in the ESSPROS data, LTC cannot be singled out, as it is a part of four different functions (disability, old-age, sickness/healthcare, and survivor). For this reason, a look was also taken at SHA[32]-data from Eurostat. In SHA, there are three dimensions by which data is organized: the financing schemes (HF), healthcare functions (HC), and healthcare providers (HP). We will look at the entirety of the financing schemes (HF) and try to identify LTC-spending by looking more closely at specific components of the healthcare functions (HC) and healthcare providers (HP).

With regard to the healthcare functions (HC), there are two functions in which LTC is mentioned, namely HC 3 LTC (health) and HC R 1 LTC (social). Both are pictured in Figure 4.18 and this for the three main groups of financing schemes, namely HF 1 Government schemes and compulsory contributary health care financing schemes, HF 2 Voluntary health care payment schemes, and HF 3 Household out-of-pocket payment. While HF 1 concerns public spending, HF 2 and HF 3 relate to private spending.

The graph makes it clear that the spending on LTC is especially low in EU-13 Member States and Mediterranean countries. For instance, the 13 Member States[33] that spend less than 1% of their GDP on LTC all belong to this group. On the other hand, the Member States that spend more than 2% of their GDP on LTC are all EU-15 Member States[34].

Figure 4.18 also indicates that there are barely any voluntary healthcare payment schemes for LTC in any of the countries.

Furthermore, it can be seen that in addition to Belgium, a bar is added to depict Flanders[35], as a more extensive estimation of the expenditure was attempted, in which especially the own contributions (HF 3 out-of-pocket expenses) were determined more in detail, and they turned out to be of higher importance than the estimation for Belgium as a whole. Illustrating again the even the best available figures, as the SHA is, does not guarantee exhaustiveness of the information.

Finally, it is remarkable that some Member States show a high share of expenditures for the healthcare related function on LTC (HC R 1), while other Member States do not indicate any expenses for this category. Appendix 3 gives a more detailed explanation as to why this is the case. It should be mentioned that the memorandum items, of which HC R 1 is a part, are not mentioned in the EU Commission Regulation 2015/359 with the result that Member States are not obliged to provide these data[36].

32 SHA System of Health Accounts

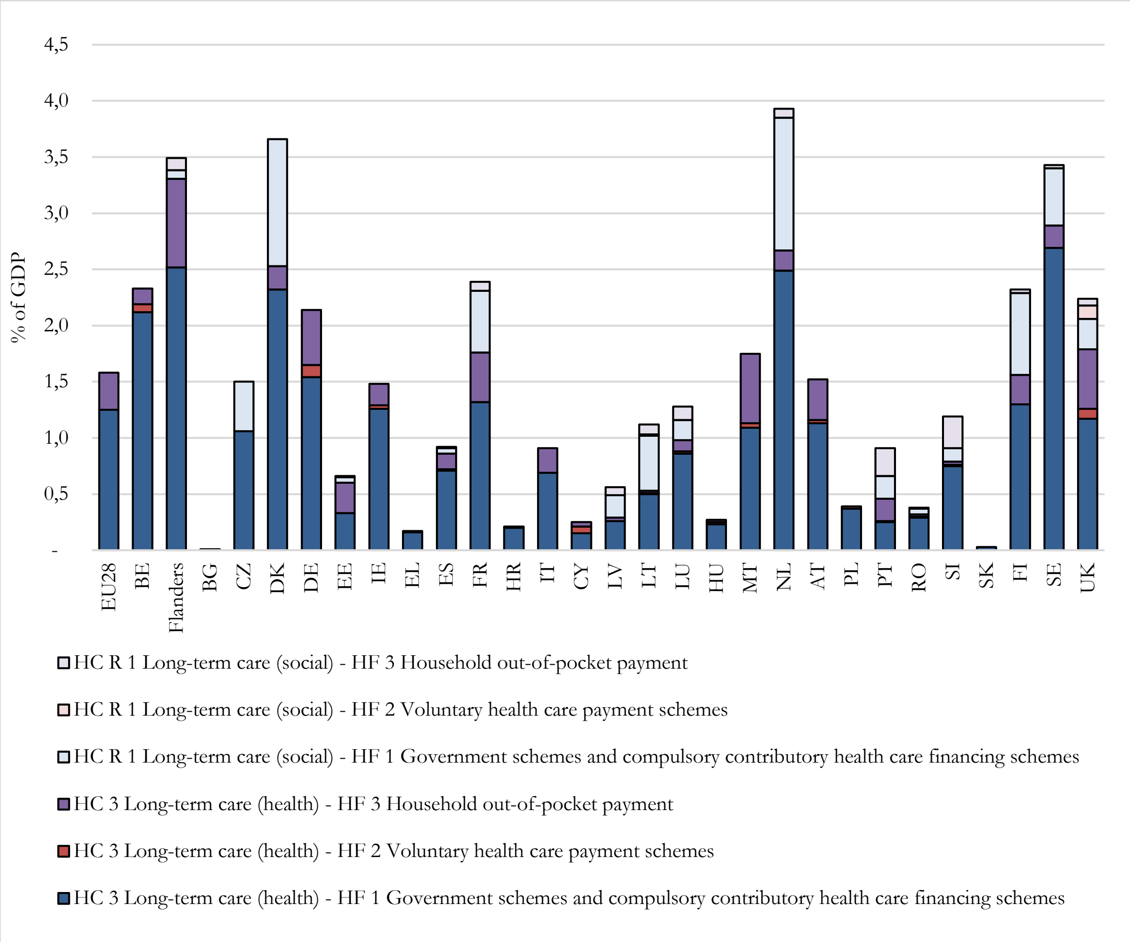
33 Bulgaria, Slovakia, Greece, Croatia, Cyprus, Hungary, Romania, Poland, Latvia, Estonia, Italy, Portugal, and Spain.

34 Germany, United Kingdom, Finland, Belgium, France, Sweden, Denmark, and the Netherlands.

35 See De Smedt, L, Pacolet, J., in cooperation with Moens D., Breda, M., (2021),

36 For this reason, the data reported under HC R are not included in the total expenditure reported by Eurostat.

Figure 4.18 Public and private spending for health long-term care (HC 3) and social long-term care (HC R 1), % of GDP, 2018



Source Eurostat SHA

In addition to healthcare functions (HC), one can also look at another dimension, namely the healthcare providers (HP) to single out LTC. Figure 4.19 shows that especially Malta (1.7%), Sweden (2.0%), Flanders (2.0%), and the Netherlands spend a high share of their GDP on residential long-term care facilities (HP 2). Cyprus, Poland, Croatia, and Bulgaria on the other hand spend less than 0.1% on residential LTC facilities.

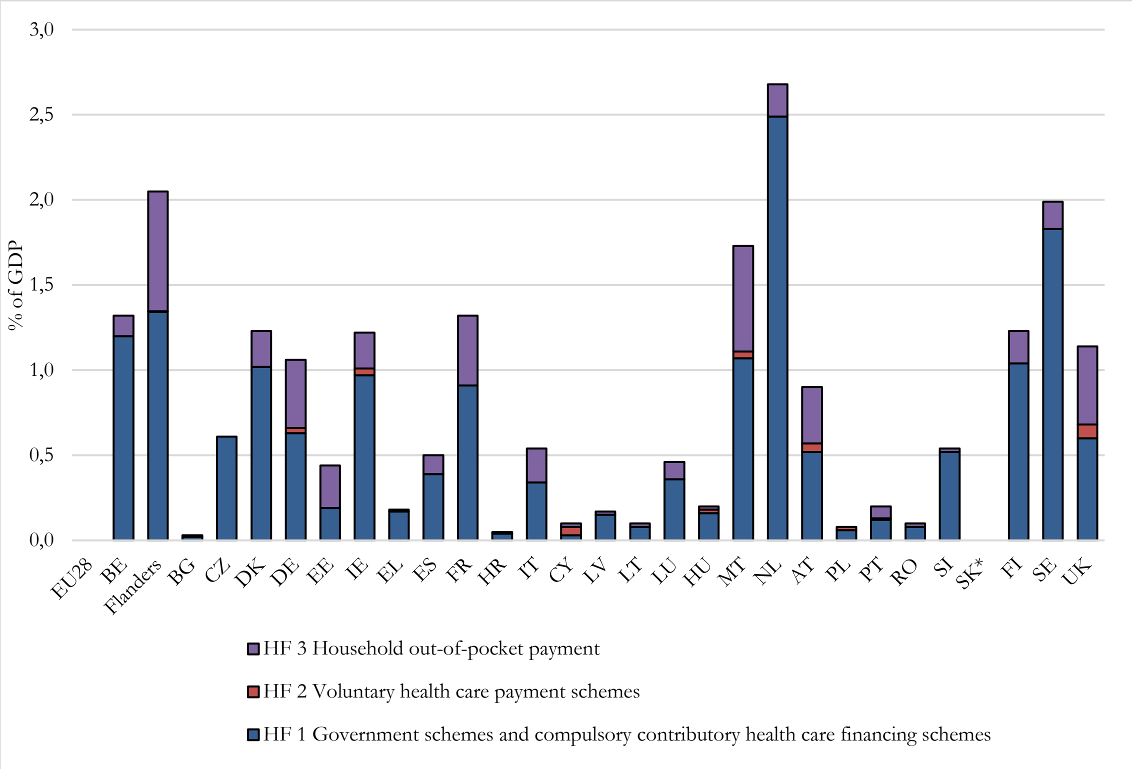
As was done for HC in Figure 4.18, Flanders is added next to Belgium. This shows that the 'correction' of the national healthcare account entails a higher private spending by household out-of-pocket payments.

Again, it is clear that public spending is the main financing scheme, followed by household out-of-pocket payments. Especially in Malta (35.8%), Austria (36.7%), Italy (37.0%), Germany (37.7%), the United Kingdom (40.4%), and Estonia (55.6%), household out-of-pocket payments are of high importance as they make up more than 35% of total expenditure on residential LTC facilities. However, the voluntary health care payment schemes are almost nowhere to be found. Only in Hungary (10.5%), Poland (25.0%), and Cyprus (55.6%), voluntary health care payment schemes make up more than 10% of the total expenditure on residential LTC facilities. But the total spending is so low in those countries, that private insurance could gain some relative importance. But in general private insurance for the risk of LTC remains very low. This confirms the observations and conclusions one of us made already decades ago in the pioneering studies of LTC, at that time called social protection of dependent older persons[37]. Nothing changed so much since then. LTC -insurance is or should become the core responsibility of social protection.

37 See Nijkamp, P., Pacolet, J., Spinnewyn, H., Vollering, A., Wilderom, C., Winters, S. (1990).and Pacolet J., Bouten R., Lanoye H. & Versieck K. (1999),

By comparing graph 4.19 with 4.18, it becomes clear also that residential care is a dominant part of the total cost of LTC, with also a dominant component of out-out pocket contributions, indicating a lack of insurance for that clear social risk. For that reason, we recommend in our conclusions that the 'principle' on LTC of the social pillar should not be literally read, or understood as focussing on especially home and community care. Both home care and residential care need adequate social protection/social (security) insurance.

Figure 4.19 Public and private spending for residential long-term care facilities (HP 2), % of GDP, 2018



* SK: no data available
Source Eurostat SHA

In this paragraph the aim was to look for private versus public financing using different sources such as ESSPROS-data and SHA-data. Furthermore, the development of healthcare spending and the total extent of LTC were analysed.

It can be concluded that for healthcare the development differs considerably in different Member States, and this is even more so the case for LTC. Some Member States are lagging behind in terms of both aspects, so they need to be developed further. Moreover, especially concerning LTC, there is still a lot of work to do, both at home, in a residential setting, and as a care allowance.

Furthermore, there are serious differences in own contributions, and in general, voluntary health care payment schemes are almost non-existent.

Section 4 in general has shown that it is not only important to monitor the sustainability and adequacy of pensions, healthcare, and LTC, but also to keep an eye on the transparency and exhaustiveness of the data available on these topics.

5 | Conclusions

5.1 On the monitoring of economic and social developments

There is a growing interest in the EU for monitoring the social dimension, in combination with the macro-economic governance that has been installed since the Maastricht treaty.

This leads us to following observations:

1. The **first observation** is that in almost 30 years of monitoring statistics and policies on economic and social developments, there is no contradiction between economic progress and social progress, on the contrary.
2. The **second observation** is that there needs to be no contradiction between concern about sustainable public finances, and social progress. Sustainable public finances are in the core of the economic governance since the Maastricht treaty.
3. The **third observation** is that social monitoring (and the interest for it) comes at the height ('a la hauteur') of economic monitoring.
4. The **fourth observation** is the growing European willingness to provide macro-economic support at European level to absorb the crisis, but that does not imply that the main responsibility remains at national level.

5.2 On the monitoring on the recommendation of social protection for all

The new European initiative of the recommendation on social protection for all illustrates the strength of putting the principles of the European Pillar of Social Rights into practice. These principles triggered the European recommendation, which resulted in national implementation plans, and a detailed monitoring of this implementation. The monitoring of it, and the complementary aspects we propose, reveals already now, in developed systems of social protection, or in less advanced system, the gaps in social protection, but also the difficulties to finance it. The pillar of social rights can trigger the filling of those gaps, but it cannot guarantee the economic evolution toward high standard job creation. It illustrates again that there is no contradiction between economic development and social protection. In point 3.5 we formulate detailed recommendations to complete and improve the proposed monitoring by the European Commission and the Social Protection Committee of the recommendation of social protection for all.

5.3 On the strategy for ageing in dignity

On the reinforcing of the strategy for ageing in dignity we can make **two policy recommendations at national and two at European level, and a fifth that holds for both the national and European level.**

Because of the urgent needs that they reflect, and because of the impact on the recovery of our economy, they are not priorities for tomorrow but for today. And they can comfort us with the idea that social progress and economic progress can go hand in hand. It is a recipe for a genuine social market economy.

1. Since (in many countries) sometimes the low pensions are too low to avoid poverty, while other pensions are too low to guarantee a decent replacement rate, there is an urgent need to upgrade the public pension scheme for the present pensioners. By improving it for the present pensioners, it will also guarantee it for the future pensioners. Let's do it now, since there seems to be a window of opportunity in the mindset and it will support the present need for recovery and expansion. It is too late for a start of a second pillar system, or even the expanding of it.
2. Increase the public spending, or should we use the word 'investment', for healthcare and long-term care: they do not only respond to the people's desires and needs, but also contribute to job creation and thus economic growth. And do it especially in those countries that are lagging. Relating to the pillar of social rights, this is relevant for the EU policy makers as well.
3. When we are discussing principle 12 'right for adequate social protection for all', as there is now a recommendation under implementation, guarantee that it is also an exhaustive social protection for all risks, including long-term care as it is sometimes hidden in health insurance, or in old age expenditures. It is a similar risk in later life as pensions, or healthcare and even when the needs do not appear directly for the active population, in social protection systems it is not only a matter of entitlements to benefits, but also a matter of contributions. Adequate social protection for all implies contributions for all pillars of social protection.

4. And when we are discussing principle 16, for everyone affordable LTC of good quality, 'in particular home and community based services' in the wording of the principle, let us again, read it in a holistic and exhaustive way and include also the residential care sector, since they are 'in particular' expensive for those that need to fall back on them. While it is a high risk for the individual confronted with it, it is affordable at macro-level.
5. This brings us to a final recommendation, based on the observations of this last crisis. Temporary measures have been accepted as at European level SURE (the Temporary **S**upport to mitigate **U**nemployment **R**isks in an **E**mergency) and the recovery and resilience fund is another example. In many countries short term unemployment was used to absorb for employers and employees, indeed both benefit from it, to absorb the consequences of the Covid lock down. In a country as Belgium many self-employed also benefited from a similar system of a bridge benefit, which existed before but was hardly used. Some say we should certainly not make temporary instruments permanent. If they are filling a gap, why should we not make it permanent? We mean of course as an instrument, not in the sense of budgetary volume. At European level there is already a discussion to make the instrument of the recovery and resilience fund permanent. The same was already going on for a European reinsurance for the unemployment insurance. We are not going to speak out now on the European initiatives, but for Belgium for instance, making the unemployment insurance of self-employed more explicit should be in line with the Recommendation for social protection for all. But this also implies an additional social security contribution for that risk. Because there is no free lunch. This is completely in line with the orthodoxy of European economic governance. But of course, not with austerity.

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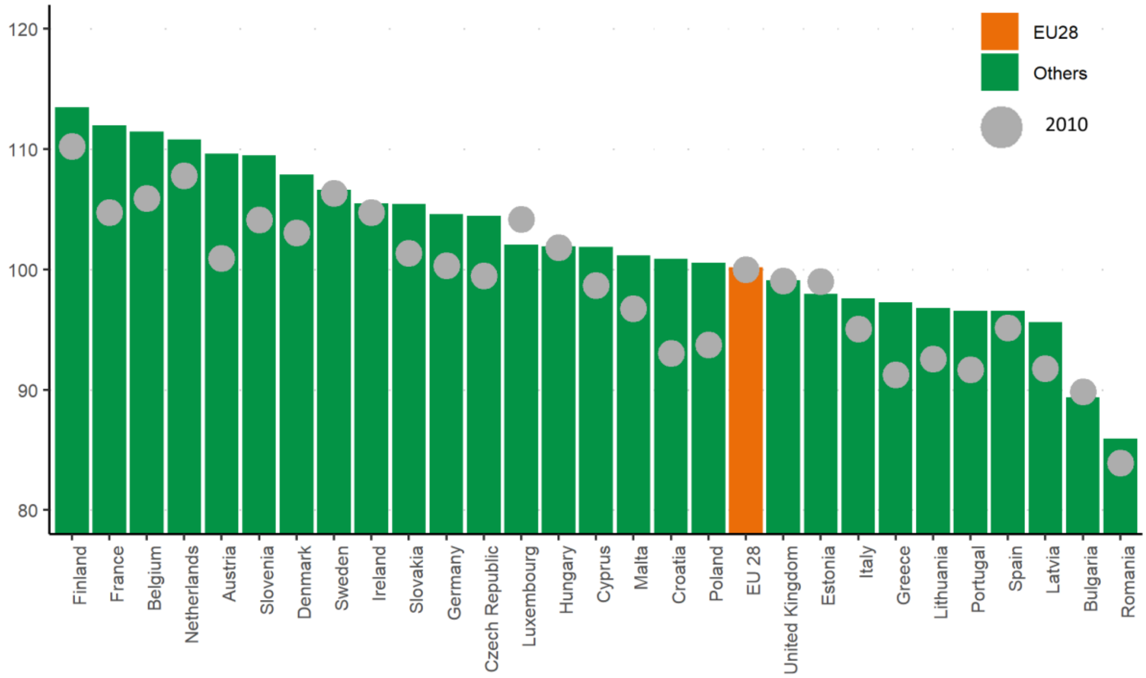
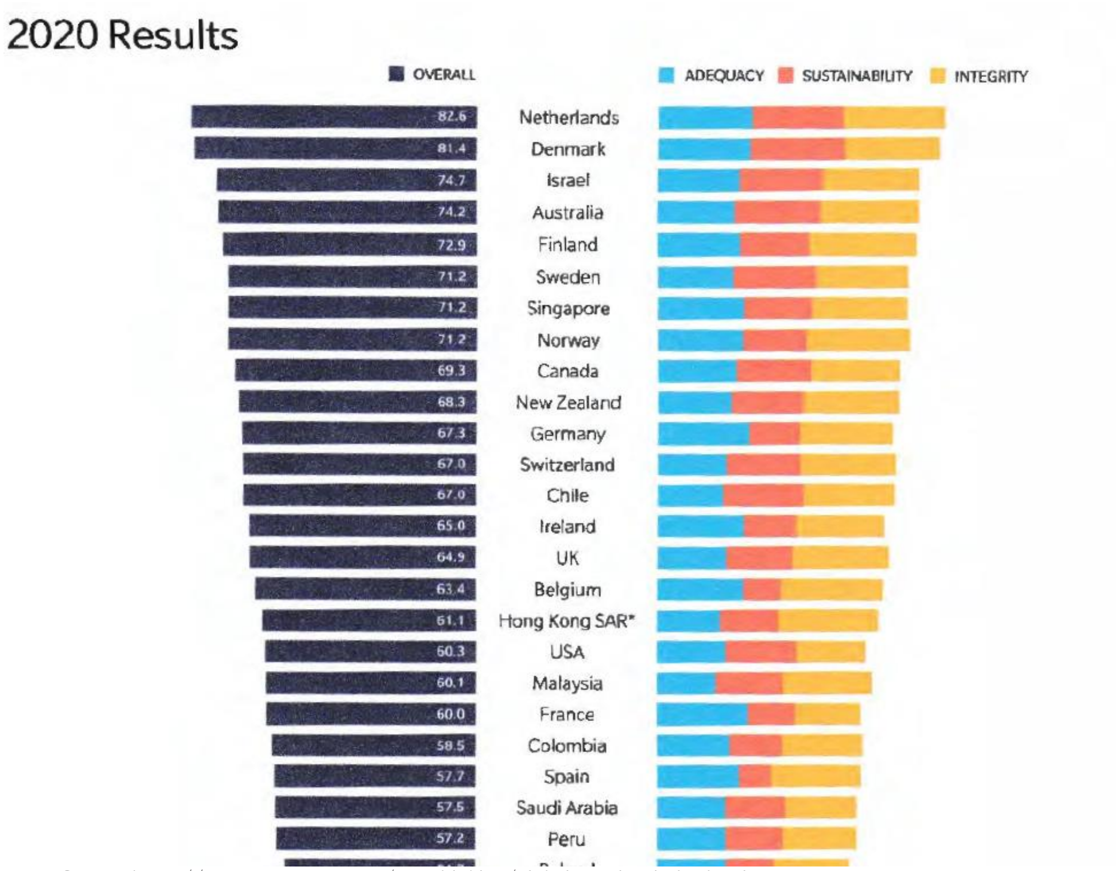
appendix 1 Examples of synthetic indicators

Figure a1.1 **The ETUC indicator of 'EUSDG8 Decent work and Economic growth Index 2010 and 2019**



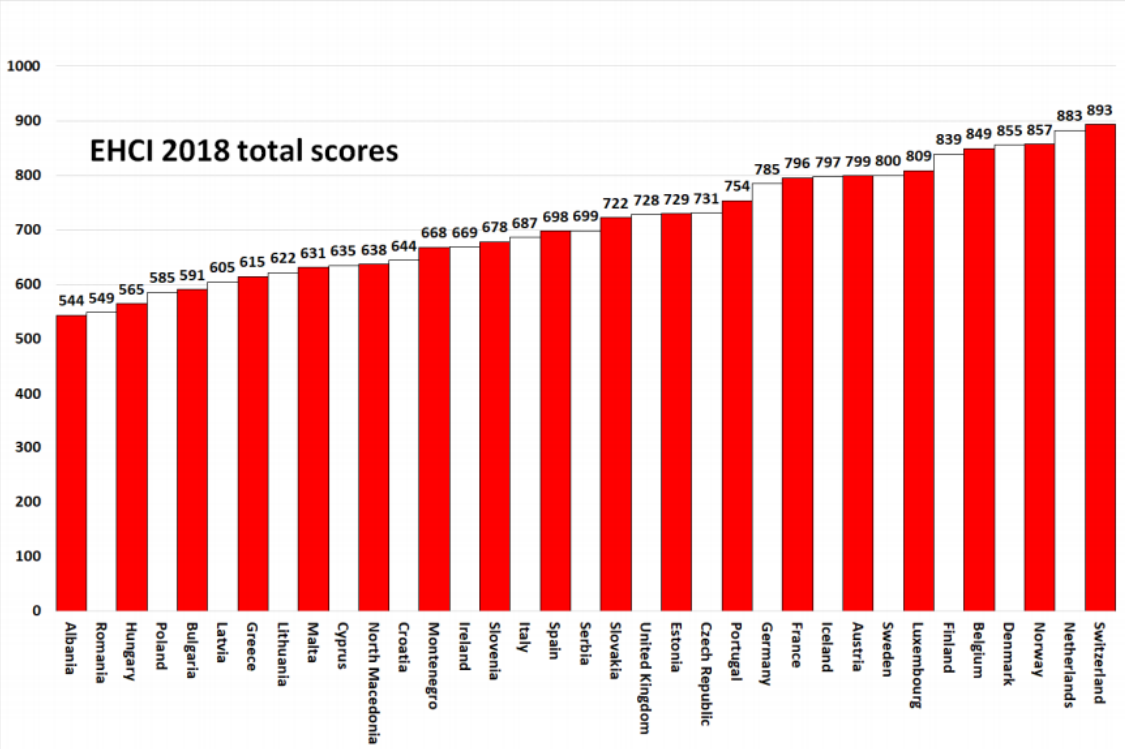
Source Marco Cilento, **SDG8 Index** to monitor the progress of each European country over time, Presentation ETUC 4 March 2021

Figure a1.2 Mercer CFA Institute (Chartered Financial Analyst) Global Pension Index



Source https://www.mercer.com.au/our-thinking/global-pension-index.html

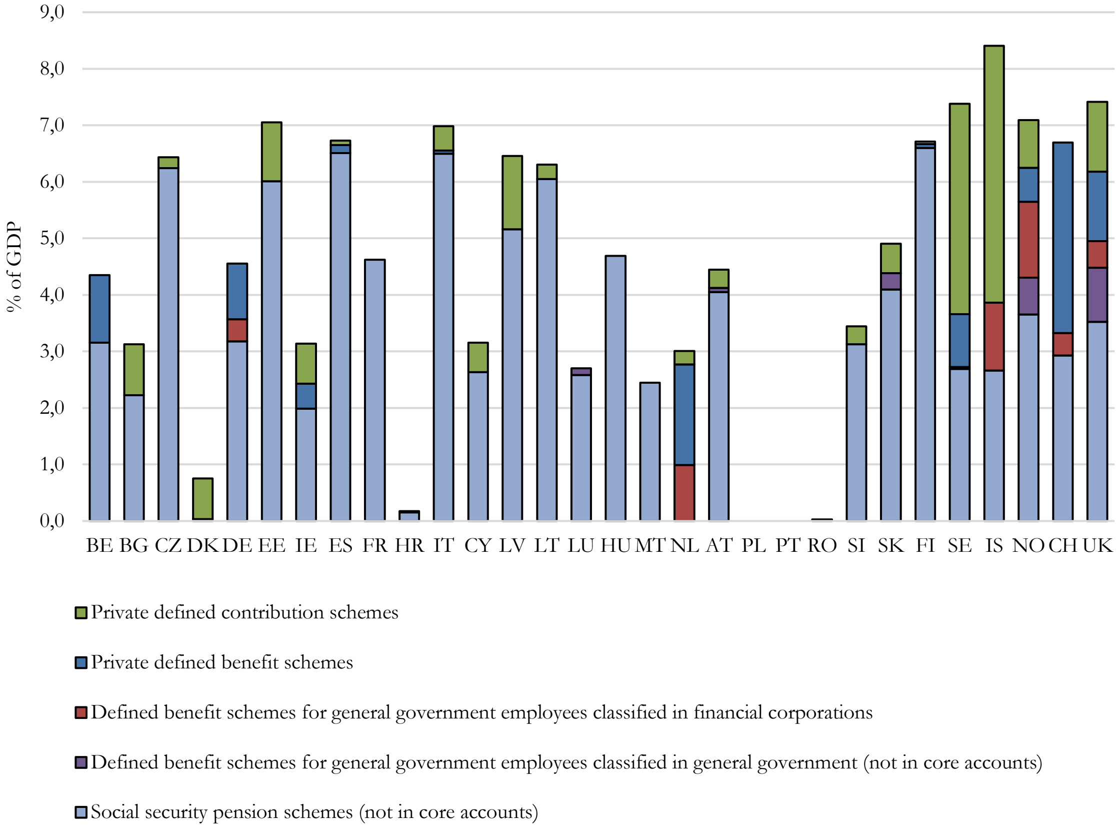
Figure a1.3 Euro Health Consumer Index 2018 (Health Consumer Powerhouse): a dashboard for upward convergence



Source https://www.mercer.com.au/our-thinking/global-pension-index.html

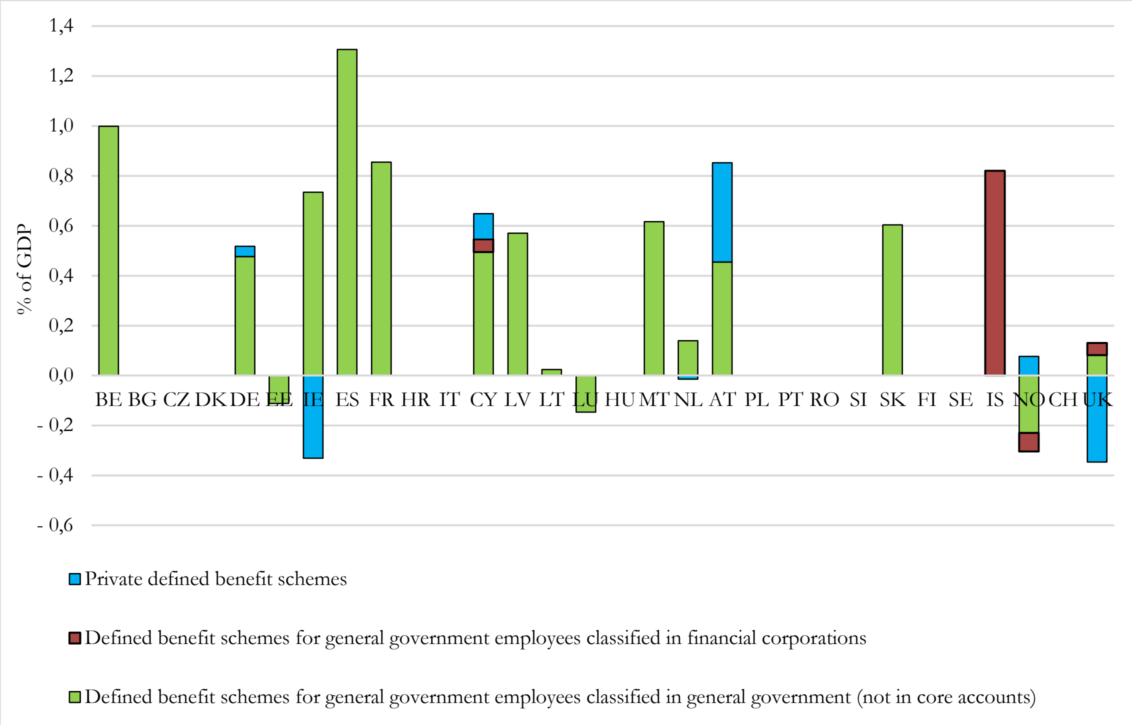
appendix 2 Role of the first and second pension pillar in contributions

Figure a2.1 Employer's actual pension contributions, % of GDP, 2018



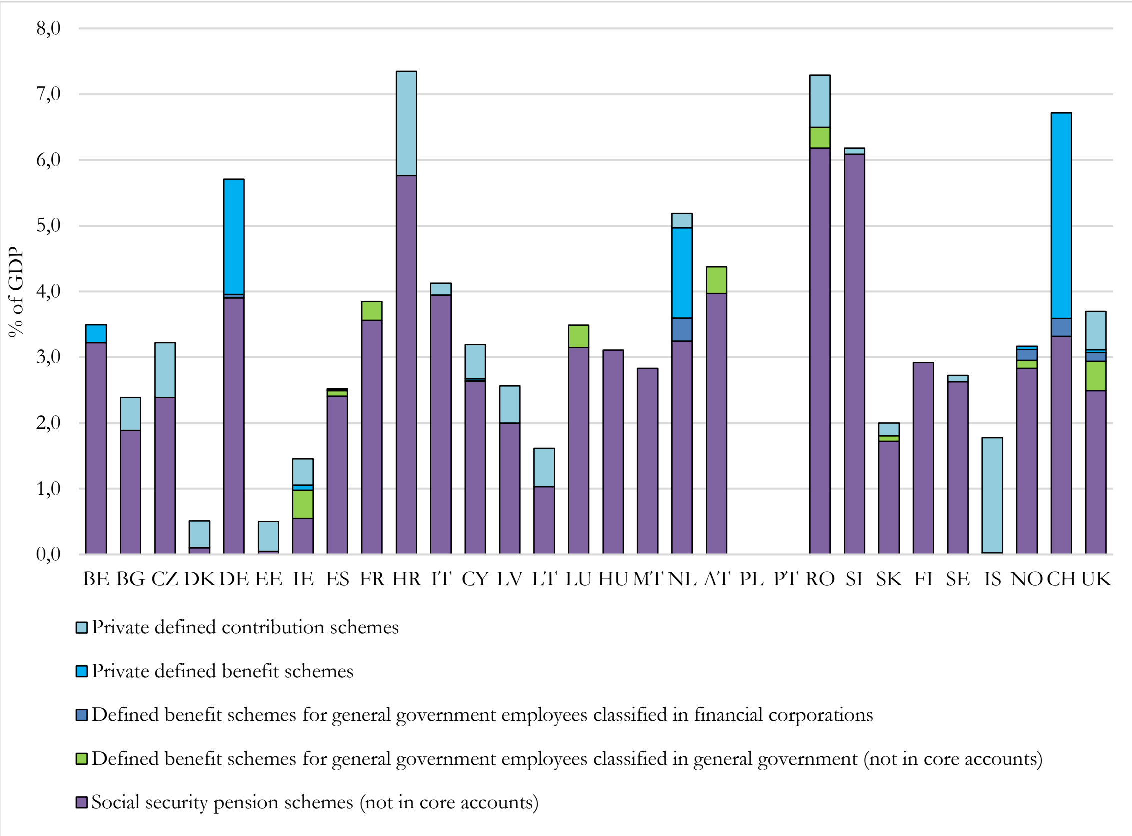
Source Eurostat [nasa_10_pens1]

Figure a2.2 **Employer's imputed pension contributions, % of GDP, 2018**



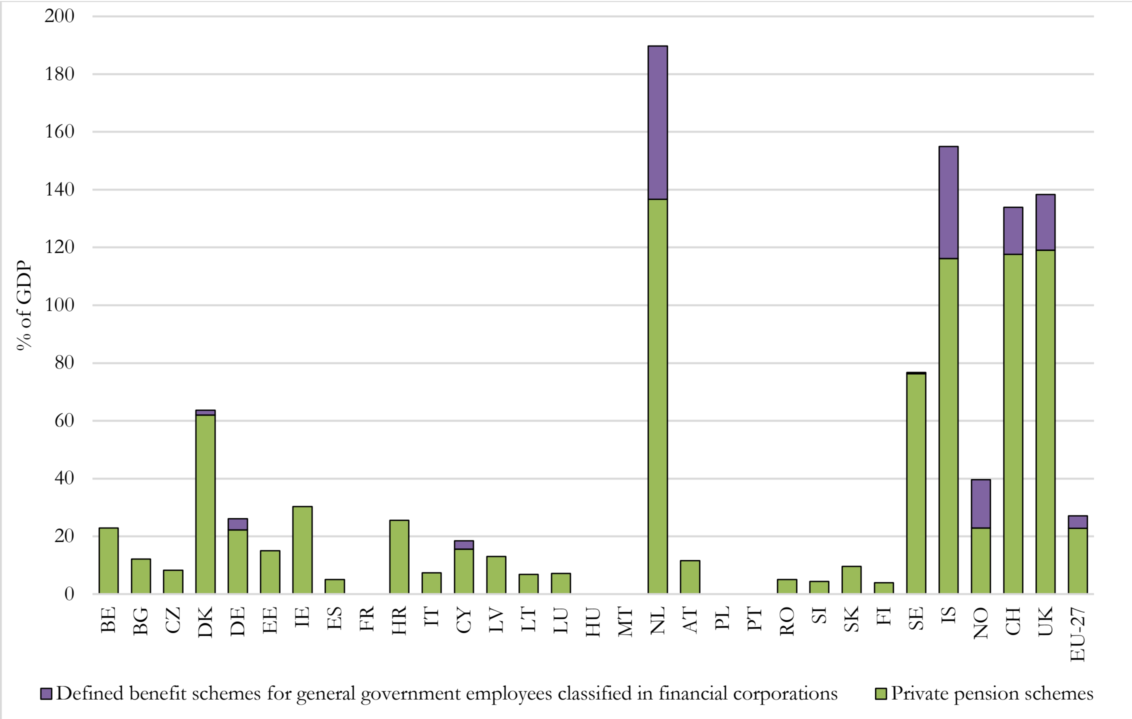
Source Eurostat [nasa_10_pens1]

Figure a2.3 **Households' actual pension contributions, % of GDP, 2018**



Source Eurostat [nasa_10_pens1]

Figure a2.4 Funded Pension entitlements in closing balance sheet, % of GDP, 2018



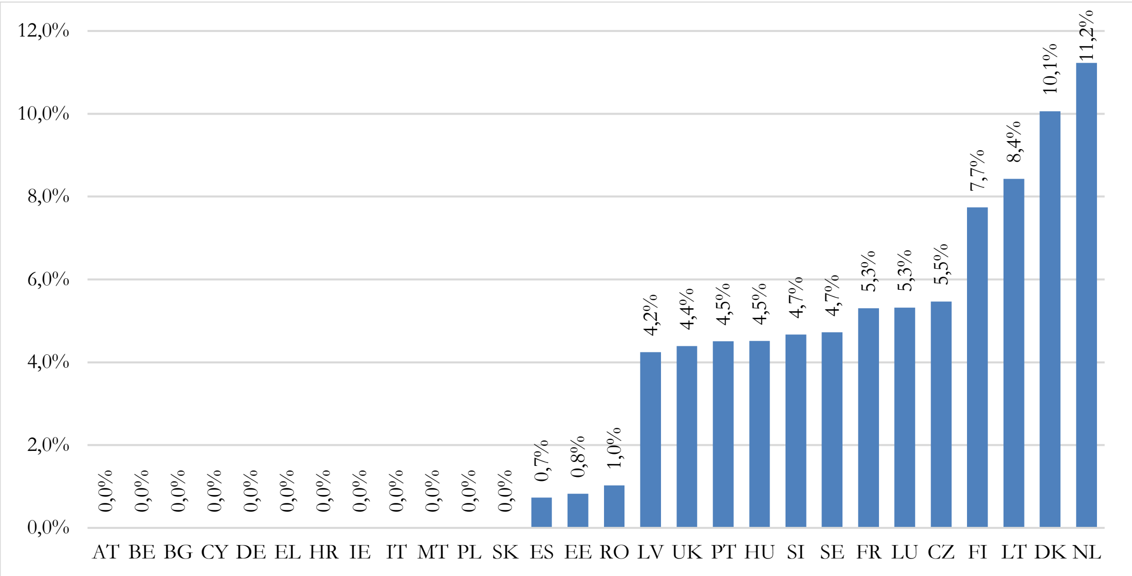
Source Eurostat [nasa_10_pens1]

appendix 3 Importance of healthcare related function (HC R 1 Long-term care social) in SHA

As previously mentioned in section 4.2, Member States are not obliged to publish data on healthcare related functions (HC R). However, some Member States do publish this data. Nevertheless, as the HC R function is not included in the total expenditure published by Eurostat, a comparison between Member States becomes complicated. Especially for Member States that have a high expenditure in the memorandum category. For instance, Figure a3.1 shows that in Denmark, 10.1% of the total including HC R 1 consists of expenditures in HC R 1 (LTC social), the same is true for the Netherlands with 11.2% HC R 1 in total expenditure.

However, the fact that some Member State do not report any expenditure in HC R 1 (see Member States with 0.0% in Figure a3.1) can mean different things. On the one hand, they might not have any expenditures in this category, while on the other hand they might just not report the data, or it is included in the main table of health care. Furthermore, the fact that some Member States do report a high expenditure in HC R 1 does not automatically indicate that the data for these Member States is exhaustive.

Figure a3.1 Share of long-term care social (HC R 1) in total healthcare expenditure including HC R 1, in %, 2018



* For this graph the total healthcare expenditure was calculates as follows: current healthcare expenditure published by Eurostat + expenditure on long-term care (social) = TOT_HC + HC R 1

Source Eurostat SHA