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***The Open Method of Coordination  
in the Field of Social Insurance***

***Position Paper***

***by the Umbrella Organisations  
of the German Social Insurance Schemes***

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# ***The Open Method of Coordination in the Field of Social Insurance***

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***Issued in May 2002***

### **1. Background and principles of the process**

The open method of coordination is a process in which common goals/guidelines are laid down at EU level, and progress is measured against jointly agreed indicators, while best practice is identified and compared. This is an independent political process, which supplements the Community legislative procedures. Due to a lack of Community powers in this area, this is not a harmonisation of the various social security systems. Rather, the aim of this method is to intensify cooperation between the Member States in the field of social security.

This process draws on the example in the EU's economic and financial policy: in that case, it was used to lay down the stability and convergence criteria in connection with the introduction of the euro, and to verify compliance with those criteria. At several Summits, the Heads of State and Government of the Member States have transferred this procedure into the field of social policy, starting with the fields of employment and social exclusion. Later, pensions were brought into the picture. In that case, discussions are under way at present based on concrete proposals about indicators. The transfer of the method to health care and the fields of health and safety at work is still in the preparatory stages.

This was preceded by efforts to project the mutual control of budget policies far into the future: Member States are endeavouring to take the necessary measures today in the interests of the "sustainability" of public finances, although the stability criteria of the monetary union do not (yet) require this. In this context, and against the backdrop of the well-known demographic trends, it is almost automatic that social security systems will come under scrutiny by Europe's financial politicians, since at European level, the finances of the social insurance funds are considered as a part of state budgets.

### **2. General conditions of the process from the viewpoint of the German Social Insurance Organisations**

The open process of coordination requires a critical approach, taking account of the opportunities to learn from the experience of the Member States, but without overlooking the risk of incorrect interpretation. The umbrella organisations of the German Social Insurance

Organisations wish to make their proposals and contributions in this way to the discussion process throughout Europe.

### **2.1 Increasing transparency and participation**

The goals of the open method of coordination are laid down by the Council of Ministers. They are neither the result of broad discussion throughout Europe and evaluation in the context of a parliamentary process, nor – as far as one can see – is there any systematic linkage to national democratic formation of opinion and decision-making processes. If one underpins the open method of coordination with uniform goals, this implicitly defines an EU standard without any wide-ranging discussion. This fails to take account of national differences in the structure of social security systems, which are based on the socio-political context in individual Member States, and ultimately are also an expression of different preferences in those Member States.

The European Parliament is also calling for greater transparency in the work of the Council and for the Parliament to be involved. Otherwise, the open coordination method may lead to “concealed parallel legislation”, circumventing the legislative procedures established in the EC-Treaty. A comprehensive involvement of the parties concerned also requires a greater inclusion of those institutions which ultimately bear the responsibility for implementation, and are the closest point of contact for individual citizens: the social insurance institutions and their umbrella organisations.

### **2.2 Balanced relationship between social policy and fiscal policy aspects**

The impetus and motivation for the introduction of the open method of coordination was the application and verification of the stability criteria for the creation of the European Economic and Monetary Union. The debate so far shows that financial sustainability is a key concern of the Council. With this approach, there is a risk that aspects of the level of care, the quality, access, equal treatment and social balance and compensation will be treated as secondary. The open coordination process in a Europe that explicitly defines itself as a “People’s Europe” should not be restricted to goals and indicators, which are predominantly decided at the fiscal policy level. The goal of a forward-looking policy for soundly-financed and yet high quality pensions and health benefits is, to borrow the words of Social Affairs Commissioner Anna Diamantopoulou a “social issue with an economic dimension and not the reverse, an economic question with a social dimension”.

### **2.3 Solidarity as a fundamental characteristic of social policy in Europe**

Solidarity and social equality are key elements of the European social model. That means that these elements cannot be reduced to mere avoidance of poverty. Furthermore, in the financing and calculation of contributions to the social security system everywhere, the principle of solidarity must apply instead of the principle of individual actuarial equivalence, where individual or group-related individual risks would otherwise inevitably lead to discrimination. There are many examples of this, such as the longer life expectancy of women or individual health predispositions and conditions, etc. Moreover, in seeking social equality, it must be ensured that persons whose insurance history has gaps in it for socially-relevant reasons are guaranteed reasonable benefits, which must be at a level above the poverty line.

## **2.4 Giving the plurality of structures a chance**

Institutional questions are not addressed explicitly in the open coordination process. The focus is rather on a results-oriented observation of the social security systems. In any case, the issue of organisation of social security systems is certainly not “neutral” in relation to the “output” produced. Therefore, the decision about a public or private form of organisation has direct repercussions on not only the directly associated administrative and miscellaneous costs, but usually on the benefits structure itself. If one accepts solidarity and social equality as key elements of a European social model, then there are good arguments for public, pay-as-you-go schemes for providing benefits.

## **2.5 High methodological requirements in the formation of indicators**

Indicators are indispensable in the open coordination process for comparative measurement of best practices and the success of reforms. The experience so far shows that:

- indicators are either not present or, where present, often measure differently due to different national definitions;
- a standardisation of the statistics can only lead to correct results if it is considerably refined and supplemented on a case by case basis with numerous parameters, for which considerable political, methodological and financial efforts need to be undertaken;
- and even then, unrestricted comparability – partly due to the different systems that have grown historically – will not be created in the near future;
- quantitative comparisons entail a risky suggestive impact, and can be misleading, if due to aggregation, complicated content has to be expressed in an apparently simple way, but in reality often conceals a high level of evaluation and interpretation.

Using as few indicators as possible in the open coordination process is an understandable aim. However, against the backdrop of the actual significance and necessary system-neutrality of these indicators, this aim cannot be an end in itself. In addition, it must be taken into account that all areas which are not measured by indicators are disregarded in benchmarking and possible ranking. Therefore, the choice of appropriate indicators must be carried out with the utmost care.

## **2.6 More sustainability: a complex matter**

The endeavour to be able to finance social insurance in the long-term against the backdrop of the well-known demographic trends must be taken seriously. However, it must be carefully investigated whether making savings in one place may not merely generate or displace costs elsewhere.

- From the labour market policy viewpoint, social security systems need to be made more employment-friendly, and a reduction in social charges is required, mainly (but not only) in low-paid jobs. From the viewpoint of sustainable financing of social security, this option would be risky in the longer term.
- Making social security systems employment-friendly means instead that these systems must make a contribution to avoiding the insured contingency to occur. Therefore, the

various branches of the German Social Insurance Funds are spending high amounts to prevention and rehabilitation. These are devoted to helping people not only to re-enter the world of work, but also to facilitate their social integration. Savings in this sector would be counter-productive.

- A precondition for a healthy financial basis is to increase the employment rate. Such a development will only contribute to guaranteeing the financing of the system if additional jobs are subject to payment of social security contributions.
- A European social model must stand out by providing a high level of social protection for its citizens with the aim of social progress. Against the background of European budget policy focused on sustainability, particular emphasis must be placed on investigating what additional costs will have to be paid by society and the citizens if a reduction in the benefit levels of public systems has to be compensated by higher personal co-payments or by additional private provisions.

### **3. Pension schemes**

The open coordination process is furthest advanced in relation to pension schemes – by comparison with accident and sickness insurance. Therefore, certain remarks in this field may also point the way for the treatment of other initiatives which are currently in the initial planning stage. In this context, it should be taken into account that when shaping the indicators in the retirement pensions field, there are already standards established by the work of other committees at European level. In the context of the process of forming indicators, it should be ensured that these indicators are not adopted without restriction and untested. The significance and system-neutrality for the specific field of retirement pensions should be investigated and – despite the previous work – specific requirements should be formulated for these indicators.

In addition, the open coordination processes used so far, for example in the field of labour market policy, has had very diverging implementation mechanism in terms of time-span. The timing in the labour market field is very short-term, while for retirement pensions, the relevant periods are very long. The same applies for the complex interactive connections of financial sustainability. While changes in the index-linking dynamic of pension or a shift in emphasis to the second or third pillar of retirement pensions provision in forecast calculations lead to an immediate reduction in the expenditure on the public pensions system through old-age pensions, findings about the impact on the insured in terms of income distribution, maintaining living standards and prevention of poverty will only be available much later.

It is undeniable that pensions policy must react to demographic, economic and social changes. The open coordination process can contribute to answering the questions of how this can be achieved, which options are promising, which ones could contribute to define ‘best practice’, and which are entitled to co-exist in a culturally diverse Europe.

Various statements by European institutions could create the impression that at European level, it is less a matter of creating a future-proof pensions policy demonstrating social solidarity than addressing budget and financial policy aspects, associated with a strengthening of the finance and capital markets. In particular, the stance of the Directorate-General of the European Commission responsible for Economic and Financial Affairs – most recently in its review of the EU Economy in 2001 and its recommendation for the 2002 Broad Economic

Guidelines – give the impression that maintaining living standards for pensioners will be achieved by strengthening pensions pre-funding and at the expense of the pay-as-you-go system. The issue of solidarity and social equality seems to be restrained into the background. Apart from the aim of combating poverty, so far at European level, neither have ambitious socio-political goals been proposed, nor relevant indicators developed.

Such a development would be to the detriment of solidarity and social equality. On the other side, the compulsory retirement pension insurance scheme in Germany is provided with a number of important factors that should be taken into account: equal contributions and benefits for men and women, taking account of periods of unemployment, sickness, bringing up and looking after children, contributions not related to pre-existing medical conditions, and a contribution to the funding of pensioners' health and long-term care insurance.

The solidarity and social dimension of retirement pensions is closely linked to the funding process. There is not sufficient space here to discuss the advantages and disadvantages of each financing procedure for retirement pensions – pay-as-you-go or pre-funding. To the extent that systems move away from pay-as-you-go in favour of pre-funding, the associated risks become more important. Even pre-funded systems are not immune to the foreseeable demographic trends: as life expectancy rises, if we take the example of a private pensions scheme, either the monthly benefits during retirement must be cut, or the rate of contribution during gainful employment must be increased. To that extent, as far as longer life expectancy is concerned, they are no different from public, pay-as-you-go pensions.

Another aspect, which shows the demographic dependence of pre-funded retirement pensions, can be seen from a long-term view of the capital markets. The question is, during the phase with the greatest demographic shifts, i.e. from about the year 2030, who will buy the capital investments acquired by the heavily-employed generations until that date, when a large number of sellers faces by a much lower number of (potential) buyers. When a large number of sellers and few buyers are present in a market, this has an immediate effect on prices and therefore yields and rate of return. Any reference to global investment opportunities is not very convincing in this context, since the demographic distortions are not just a national or European challenge. Instead, they are happening worldwide, as it is shown by UN-studies.

One of the key aspects of policies to maintain the financial balance of retirement pensions systems will be efforts to maintain or improve the financial basis despite the demographic developments. A series of reform options are being discussed. They range from family policy measures, via changes in education policy to a new immigration policy. Furthermore, an increase in retirement age is also under discussion, as well as the expansion of the group of people insured and the extension of the basis for paying contributions. Further policy measures are aimed at increasing the number of people in gainful employment, in particular by increasing the number of women in work.

#### **4. Accident insurance**

The compulsory accident insurance in Germany deals with accident prevention, medical, vocational and social rehabilitation and compensation, including payments of survivors' pensions and retirement pensions, possibly for the lifetime of the people concerned. Although not formally included as a branch of insurance in the open coordination procedure, it is affected, since it covers certain tasks in the social field which are included in the process. From this viewpoint, the new European "examination-method" in the field of pension

insurance (old-age pensions), in the field of investment in more and better jobs (job quality) and also with regard to measures aimed at social integration (protection against social exclusion) have an impact on accident insurance. If the open coordination procedure is extended to cover health protection, accident insurance is or will be affected as a player in occupational health protection and a player in medical rehabilitation for the victims of accidents, either via clinics that insurance organisations operate themselves, or via contracts with third-parties.

The issues dealt with when discussing the different types of benefits provided by pension insurance - and the indicators relating to it - should be transferable, in principle, to compulsory accident insurance. However, some of the indicators, aims, etc. will be different here, since they have to deal with the specialised branch of protection against occupational risks and system-inherent coverage of business liability insurance for losses or injuries sustained, and must also be oriented towards the principle of compensation. On the other hand, the interest situation and variables and goals to be described per indicator are comparable, for example, when it is a matter of describing the results of investment in human capital (e.g. benefits for vocational rehabilitation), or when dealing with the problem that for a social insurance system, some decisive factors cannot always be described in an indicator, such as social equality. Even if indicators are result-oriented, and do not take account of the resources used to achieve a goal, particularly for compulsory accident insurance, it will need to be examined to what extent institutional issues play a role for individual benefits in the examination procedures.

It should be emphasised that for accident insurance, the combined system - accident prevention/medical, occupational, social rehabilitation/compensation are provided by the same organisation – is also result-oriented, due to the efficiency involved. Above all, the non-compensatory part of their range of tasks, in other words the services relating to accident prevention and medical and occupational rehabilitation are affected by the fundamental issue of the European examination procedure: the task of modernising the social security systems by measuring their contribution to safeguarding employment and the employability of individuals in a way that would promote more employment. Just as accident prevention is a prime means of safeguarding the employment rate and the employability of the individual, the medical and occupational rehabilitation services after an insurance claim are an importance means of restoring employability.

The German labour protection system is dual. In addition to the state labour protection laws, the accident insurance companies have the special tasks of prevention of accidents at work and occupational illnesses, and prevention of any job-related health risks. In this field too – it least since the publication of the Commission Communication ‘EU Strategy for long-term investment in raising the quality of jobs and living standards’ of 20 June 2001” – the European verification procedure is imminent and it will be evaluated in conjunction with the process in pension insurance and in relation to social exclusion. In this regard, a number of critical comments already need to be made. The above-mentioned Communication uses the accident frequency rate as shown in the European statistics on accidents at work as a main indicator for the quality of a labour protection system. This indicator cannot meet the requirements imposed for soundness, exactness and reliability imposed by the Social Security Committee for cross-border indicators. Since the European statistics use the national statistics for accidents at work, the different national methods for recording accidents at work are bound to be reflected in different ‘results’, which distort any comparisons. For example, reporting behaviour is different in various European countries: unlike in Germany, often there

is no second channel for notification via doctors, in addition to the notification by employers, although this would be equally important. Other misleading interpretations are caused by the completely different range of people insured in different countries, as well as the disparities in the scope of the definition of “accident at work”, for example in relation to road accidents. Here, the German accident insurers are actively supporting the discussion about equitable indicators that can be applied throughout Europe. In other countries like Spain, the introduction of such indicators for accidents at work is seen as critical as well.

## **5. Sickness insurance**

Against the backdrop of shared present-day problems and future challenges for the health care system in the Member States, a glance across a few borders can be helpful, to pick up some tips for making improvements based on strengths and weaknesses observed. A health policy by the Member States based on best practice could contribute in this way to a closer coordination of health policy in the medium term. The German National Associations of Sickness Funds agree with the European Commission that the goals of universal access, high quality and long-term financial sustainability of medical services need to be reconciled.

The process of the open coordination method in a Europe that defines itself explicitly as the “People’s Europe” cannot be restricted to goals and indicators which are decided on the “meta-level”. Rather, the supply side should take part in the considerations, to gain insight into better quality, more efficient medical care. A restriction on the choice of goals and indicators, e.g. to the financial sustainability of health care systems, does not offer an adequate basis for identifying “best practice” for the care of patients.

The application of the open coordination method in other socio-political fields has already made the basic methodological problems visible. These will become even more serious in the health care field, due to the multidimensional aspects of health, and the frequently-encountered limited comparability of health systems. Unrestricted comparability cannot be created in the short term, partly due to systems that have grown differently for historic reasons. To this extent, in the view of the German National Associations of Sickness Funds, it should be borne in mind that rankings can exacerbate the methodological problems due to the necessary, but value-laden and not unbiased weightings used to aggregate the data. It is generally thought that this makes the required interpretation of the results more difficult, and can lead to incorrect policy decisions.

The German National Associations of Sickness Funds already put forward minimum requirements for establishing common, standardised indicators in their position paper “Open coordination in the field of care” of February 2002. That position paper is available on request. All participants need to be clear about the fact that following the process of the open coordination method, political conclusions can only be drawn in a serious manner after careful interpretation of the results, taking account of specific national features. The open coordination process requires a wide-ranging national and European debate about the goals and guidelines in health care and geriatric care as well as extreme caution in the formation of indicators and the interpretation of the results. The German National Associations of Sickness Funds, which play a substantial role in the implementation of goals and guidelines at national level, must therefore take part in the entire open coordination process.

## 6. Conclusion

The concrete design of social security systems is still – as it was in the past - a task for the member states and their institutions. They are the ones who have to meet the requirements imposed on them by their financial responsibility and by the citizens through the democratic process.

However, to deal with common present-day problems and future challenges, a glance across the borders can be helpful, to pick some ideas for making improvements based on strengths and weaknesses observed. In this way, increased coordination and convergence of social security policies may be achieved in the medium-term. In doing this, in the view of the umbrella organisations of the German Social Insurance Funds, the goals of universal access, high quality and long-term financial sustainability need to be reconciled.

The open coordination process in a Europe that explicitly defines itself as the ‘People’s Europe’ cannot be restricted to goals and indicators that are predominantly decided at a fiscal policy level. The goal of a forward-looking policy for soundly-financed yet high quality pensions and health care services is – to borrow the words of Social Affairs Commissioner Anna Diamantopoulou again – a “social issue with an economic dimension and not the reverse, an economic question with a social dimension”.

The open coordination process requires a wide-ranging national and European debate about the goals and guidelines of social policy, as well as the utmost care in devising the indicators and interpreting the results. The umbrella organisations of the German Social Insurance Funds, which play a decisive role in the implementation of goals and guidelines at national level will take part in these processes.

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