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***European Commission communication
of 22 December 2005
Working together, working better: A new framework
for the open coordination of social protection and
inclusion policies in the European Union
[COM (2005) 706 final]***

Joint opinion

***of the German Social Security
Umbrella Organizations***

presented in May 2006

I. Preliminary remarks

The communication consists essentially of two parts. First of all, it analyzes the opinions received from stakeholders concerning a Commission questionnaire on evaluating the Open Method of Coordination (OMC) and then presents, while taking account of these reactions, their proposals on streamlining the OMC process while integrating them into the revised Lisbon process.

The German Social Security Umbrella Organizations take this opportunity to comment on the trends which can now be clearly read from the current communication and to make concrete proposals for improvement in the individual sectors in which they are affected.

II. Individual observations

1. General

By way of criticism it can first of all be noted that the analysis of the stakeholders' reactions to the OMC evaluation process carried out in Chapter 1.3 emphasizes too one-sidedly the voices or passages of the opinions which support the new Commission strategy. As a result, however, a "distorted" picture of opinions is given. The actors are to a large extent in agreement above all about the wish to learn more from one another and to step up exchanges of experience. At the same time, many stakeholders attach importance in their replies to the statement that competence for structuring the areas of social policy covered by the OMC should continue to be the responsibility of Member States and should be subject there to the consensus-driven democratic formulation of policy. Finally, it cannot be ignored that between the often expressed wish for the streamlining and simplification of the process on the one hand and the concern on the other hand which has also been expressed as regards preservation of the independence and special features of the individual policy areas (poverty, pensions, health), clear tensions can occur which are by no means resolved everywhere. This applies also to the statement in the communication that there is allegedly a general consensus concerning the interaction between the OMC and the revised Lisbon strategy. If a general acceptance of subordination of the social area to the objectives of "growth" and "employment at any price" is thereby meant, this cannot in any case be read from the replies on evaluation of the OMC. In the view of the German Social Security Umbrella Organizations social protection, as a major pillar of the economic and political success of European integration, must also remain in future as an independent and balanced area in addition to the areas of growth and employment. The confidence of citizens in the social protection schemes contributes greatly to social peace and promotes an economic environment favourable to investment and innovation.

The ambitious growth and employment objectives of the Lisbon strategy cannot be achieved without workable and trustworthy social protection schemes. A successful policy relating to growth and employment is possible only if - also at European level - social protection objectives are pursued in a balanced way in the sense of a "triad" along with growth and employment objectives. None of the three dimensions can dominate the others in the sense of a one-way street. Thus, for example, sustainable employment growth must be measured by whether it stabilizes the financial basis of the social protection schemes.

For these reasons, it is necessary that evaluation of the social protection schemes should, by reference to the achievement of their social objectives, remain an equal pillar in addition to the streamlined economic and employment policies. In future, the success of OMC social protection as well as the attractiveness of the European idea generally will be under scrutiny. Both will have to be measured by whether the current impression among the population is

confirmed that the European Union is essentially geared to economic and financial policy objectives and considers the social situation of people to be secondary.

In all considerations relating to the further development of the OMC, the assessment of May 2004 of the High-Level Group on the Future of Social Policy in the enlarged European Union, which was chaired by *Olivier Duthillet de Lamothe*, should receive attention. This assessment emphasizes that the European countries which hold the leading places in the ranking of competitiveness ascertained by the World Economic Forum make uniformly large investments in social policy and social security schemes and at the same time have high employment rates as well as low poverty rates after social transfers. The independent value of social policy as an economic productivity factor should therefore be appreciated more clearly and receive corresponding attention. Only an integrated concept of the areas of economy, employment and social affairs represents the key to the further development of the European Union into a European values community and therefore a "citizens' Europe". On the other hand, a policy which puts economic development in opposition to social progress or even accepts the reduction of social protection as inevitable collateral damage in global competition has already squandered the future of the European social model.

The German Social Security Umbrella Organizations in principle endorse the principles of openness, transparency and inclusion of all actors as expressed in Chapters 1.3 and 3.4 of the communication. Mutual learning and the exchange of best practices are the key elements of added value of a European approach.

The German Social Security Umbrella Organizations also support the wish expressed by many stakeholders for simplified reporting. This concern has, however, not been adequately reflected in the planned new framework for the OMC. It is not enough simply to "lighten" the annual progress reports to be submitted during the three-year cycle in the field of social protection as long as they must continue to cover all areas, i.e. pensions, health and social inclusion. On the other hand, it would be a real relief for the participating governments and stakeholders if the annual reports could focus on only one of the sectors indicated.

Finally, also in the context of streamlined reporting, certain minimum requirements have to be directed at the choice of objectives and indicators. Objectives which have been defined should therefore not simply be subsequently corrected only because no suitable indicators can be found. Conversely, indicators should not be used simply because comparable data are available for this purpose. A sufficiently large number of valid indicators should be provided in order to obtain an adequate picture of the social protection schemes. Otherwise there is a danger that systematic errors due to improper reductions of data and information will distort the results. System neutrality can therefore be achieved only through a sufficiently large number of indicators and their balanced selection.

2. Old-age protection

It should first of all be stated that in many Member States old-age protection is not only a topic of traditional old-age protection schemes but is also an intimate part of the sphere of responsibility of social protection schemes which ensure protection in the event of industrial accidents and occupational diseases. These schemes – like, for example, statutory accident insurance in Germany – are faced with the task of providing in certain situations old-age protection which is at the same time socially adequate and can also be financed. At the same time, however, special features of the obligations auf these schemes justify answers which need not necessarily be identical with those of the general old-age protection schemes.

Before the formulation of the new framework for the OMC, within the area of “old-age protection” account was taken in principle of the mutual dependence of the policy areas of social protection and economic development with the balanced assessment of the common objectives of "adequacy of pensions" and "financial sustainability of the pension schemes". As a result of subordination now (also) of pension strategies in the context of the OMC to the overarching objective (b) of "growth and labour market" (see point 2.1 of the communication), this balance is now, however, called into question.

This subordination - to the extent that this is not already the case today - will in the near future be expressed in a misleading explicit assessment of individual contributions to old-age protection as "an obstacle to employment". Already in the context of the employment strategy, the marginal burdening of income from gainful employment with taxes and social charges is being recorded and is being reinterpreted with the aid of specific indicators, especially those developed by the OECD as regards low-income, inactivity and unemployment cases. It is therefore only a short step to maintaining that contributions to old-age protection or even old-age protection itself reduce the attractiveness of taking a job and therefore tend to be inimical to employment. Such a way of looking at things is not only contrary to the European pension strategy which requires a direct connection between the amount of pension payments and the amount of the pension contributions previously paid in. It also destroys the cognition that out of income from gainful employment the consumption not only during the (active) employment phase has to be financed, but also during the retirement phase.

For this reason, with view to continuing of the streamlined OMC-Process and particularly in view of the dominance of the revised Lisbon strategy, the German Social Security Umbrella Organizations call for contributions to compulsory pension insurance not to be assessed as a "tax" in the context of the measurement of the marginal burden on the "work" factor. This must be avoided also for reasons of “system-neutrality” required throughout Europe as regards the indicators applied, irrespective of whether contributions are paid to public pay-as-you-go pension schemes, or to funded schemes.

As regards the strand entitled "financial sustainability of the pension schemes" (overarching objective (h) under point 2.2.2 of the communication), within the pension-specific list of objectives developed elsewhere¹ a concentration could be made down to on three individual objectives – and this would not at all limit the effectiveness of the OMC. As objective 4 (raising the employment level) and objective 5 (longer working life) essentially pursue the objective of raising the level of employment, combining these two objectives appears to be possible. Further streamlining could take place with the amalgamation of objectives 6 (making pension schemes sustainable in the context of sound public finances) and 7 (adapting benefits and contributions in a balanced way). The concern emphasized in objective 6 of reforming pension schemes by reference to the necessary sustainability of public finances is closely related to the aspect described in objective 7 of not over-burdening either the gainfully employed or pensioners through charges. These two objectives can therefore be combined. The result altogether would be that the three higher strands of adequacy, financial sustainability and modernization of pension schemes would also be in balance as regards the number of the individual objectives assigned to them. In addition, it would be helpful to clarify expressly the relationship between the individual objectives laid down in 2001 and the objectives (compare 2.1 and 2.2.2 of the communication) now formulated in the Commission communication.

¹ Compare, as an initial publication of the pension-specific objectives, the Joint Report of November 2001 of the Social Protection Committee and Economic Policy Committee: "Objectives and Working Methods" (Laeken-Objectives) of 23.11.2001, 14 09/01. SOC 469-ECOFIN 334.

On the other hand, the wish for simplification and streamlining should not lead to a situation in which major aspects relating to the success of adequate and sustainable old-age protection are lost sight of or cannot be further developed. Thus, among other things, the "reliability" of old-age protection should be included in the list of OMC objectives.

If it is desired to better cover not only the degree of achievement of the overarching objectives but also conduct a comprehensive "impact assessment" of the previous measures, this can require in individual cases a readjustment or specification of the available indicators. For example, in the context of objective (h) (compare point 2.2.2) indicated in the communication, the affordability of funded and private schemes should be promoted. At the latest, this gives an opportunity to modify in future the indicator used for projecting State expenditure on old-age protection up to the year 2050 (as a percentage of GDP). At the present time, only expenditure on official pension schemes is included. This approach results in a heavily distorted picture as only one – and moreover in the individual Member States very varied - part of State expenditure on the pensions is covered.

Moreover a comprehensive description of the burdens arising for the State budgets as a result of the old-age protection schemes would have to include all expenditure on older people. This includes particularly not only public expenditure on old-age protection but also the State promotion of additional provision in the second and third pillars which is favoured in objective (h) of the communication. In this connection it should be pointed out that means-tested benefits designed to meet the needs of older people should be taken into consideration to a greater extent and above all in a manner equally applicable to all Member States. Both aspects indicated are currently completely disregarded not only in the projections but already in the description of the current actual situation.

To summarize, the previous objective of the OMC of comparing the success of Member States in achieving the common agreed objectives while at the same time identifying "best practice" solutions is, in the view of the German Social Security Umbrella Organizations, in principle still to be welcomed. However the OMC could easily create distorted and misleading results if there is no generally accepted set of indicators comprehensively describing national strategies and schemes. Even after five years, however, for most objectives there are only insufficient or, for the overarching objective of modernization of the old-age protection schemes (objective (i) of the communication), no indicators at all. The last-named is particularly regrettable in view of the fact that European institutions are currently strongly supporting additional flexibility in the employment sector.

3. Health

The objectives (ensuring access, high quality and sustainability of financing of care) pursued with the OMC in the field of health are welcomed in principle. However an urgent warning is given against the method of implementation as provided for in the "streamlined process" due to serious methodological difficulties in relation to the collection, comparability and therefore validity of the data involved. Streamlining provides for drawing up a single social protection report on the areas of "Fighting social exclusion/poverty", "Old-age protection" and "Health and long-term care". With such streamlining there is a danger that the area of health will in future be considered only from the standpoint of poverty avoidance and social inclusion with which the financial expenditure will then be compared. The danger of a systematic subordination of care and quality aspects to tax and budget policy aspects is further increased by the synchronization of the area of social protection with economic and employment policies in the context of the revised Lisbon process.

Above all, the reformulated "streamlining" of the OMC should not lead to a situation in which existing indicators in the area of social inclusion and pensions as well as indicators which are already used in the context of economic and employment-policy coordination processes are transferred to the health area without a detailed examination.

The organization and structuring of health systems lie within the competence of Member States. The relevant national actors, for example the Social Security Umbrella Organizations which are affected, should therefore be included to a greater extent in the development of objectives and the formation of indicators.

4. Summary

- Within the framework of the Lisbon process, social protection, as a supporting pillar of the economic and political success of European integration, must also in future continue to exist independently and in a balanced way in addition to the areas of growth and employment.
- As a matter of principle, the German Social Security Umbrella Organizations endorse the principle, expressed in the communication, of openness, transparency and inclusion of all interested actors. Mutual learning and the exchange of best practices are the key elements of added value of a European approach.
- The German Social Security Umbrella Organizations support the wish for simplified reporting. It would be a real relief for the participating governments and stakeholders if the annual reporting could concentrate on one of the sectors affected - inclusion, pensions or health.
- In the interest of comparability, great demands must be made as regards the selection of indicators. In order to obtain an adequate and system-neutral picture of the social protection systems, a sufficiently large number of valid indicators should be provided for. As previously, the pursuit of specifically national objectives should remain possible and be expressed within the framework of the OMC.
- In the context of the newly streamlined OMC, the German Social Security Umbrella Organizations call for contributions to compulsory **pension insurance** not to be regarded as a "tax" in the context of the measurement of the marginal burden of the "work" factor. Also for reasons of the system neutrality required of indicators applied throughout Europe, this should not happen regardless whether this relates to contributions to public pay-as-you-go pension schemes or to contributions to funded schemes.
- The indicator used for projecting State expenditure on old-age protection to 2050 (as a percentage of GDP) should be modified in the sense of a more comprehensive picture of the real burdens. It includes not only public expenditure on old-age protection but also State promotion of additional provision for the second and third pillars favoured in objective (h) of the communication. Means-tested benefits designed to meet needs of older people should also be included to a greater extent and above all in a way applicable equally to Member States both in projections and also already in the description of the actual situation.
- The objectives (ensuring access, high quality and sustainability of financing of care) pursued with the OMC in the **field of health** are welcomed as a matter of principle. Nevertheless a warning must be issued against considering, under the "streamlined process", the field of health in future only from the standpoint of poverty avoidance

and social inclusion, thereby subordinating care and quality aspects systematically to tax policy aspects.

- The organization and structuring of health systems lies within the competence of the Member States. The relevant national actors and here above all the Social Security Umbrella Organizations affected must be included to a far greater extent in the development of objectives and the formation of indicators in the context of the parliamentary process.

This position paper has the support of the following German Social Security Umbrella Organizations:

- AOK-Bundesverband** [National Federation of Local Health Insurance Funds]
- Bundesverband der Betriebskrankenkassen** [National Federation of Company Health Insurance Funds]
- Bundesverband der Innungskrankenkassen** [National Federation of Guild Health Insurance Funds]
- Bundesverband der landwirtschaftlichen Krankenkassen** [National Federation of Agricultural Health Insurance Funds]
- Verband der Angestellten-Krankenkassen** [Federation of Salaried Employees' Health Insurance Funds]
- Arbeiter-Ersatzkassen-Verband** [Workers' Private Health Insurance Companies Federation]
- Knappschaft** [Miners]
- See-Krankenkasse** [Seamen's Health Insurance Fund]
- Hauptverband der gewerblichen Berufsgenossenschaften** [Main Federation of Employers' Industrial Liability Insurance Associations]
- Bundesverband der landwirtschaftlichen Berufsgenossenschaften** [National Federation of Employers' Agricultural Liability Insurance Associations]
- Bundesverband der Unfallkassen** [National Federation of Accident Insurance Funds]
- Gesamtverband der landwirtschaftlichen Alterskassen** [National Federation of Agricultural Old-Age Insurance Funds]
- Deutsche Rentenversicherung Bund** [German Pension Schemes Association]