



Social policy reforms for growth and cohesion: Review of recent structural reforms 2013

Report of the Social Protection Committee

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ACKNOWLEDGMENTS

This report has been prepared as part of the mandate given to the Social Protection Committee (SPC) by the Treaty on the Functioning of the European Union to monitor the social situation in the European Union and the development of social protection policies (art.160 of TFEU).

The report is prepared by the Secretariat of the Committee on the basis of information and data provided by Committee Members. The list of Members of the Committee appears in this section. The principal authors are Maria Ilies, Dijana Ror Boone, Kornelia Kozovska, David Mosler, Ionut Sasu, and Dimo Iliev. The report benefited from comments from officials from the Directorate-General for Employment, Social Affairs and Inclusion of the European Commission working in the Directorate D Europe 2020: Social Policies led by Dr. Lieve Fransen. The SPC Chair (Mr Thomas Dominique), the Chair of the SPC Indicator Sub-Group (Mr John Bohan) and Dr. Lieve Fransen provided useful comments. The SPC Secretariat is hosted by unit D1 "Social Policies, Innovation and Governance" headed by Mr Egbert Holthuis.

The report was approved by the Social Protection Committee on 18 September 2013 after full discussion in the Committee and written contributions made by its members. The Council of the European Union endorsed the key conclusions of the report on 15 October 2013. These conclusions are the Committee's contribution to the Annual Growth Survey 2014.

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INTRODUCTION

This report is prepared by the Social Protection Committee (SPC) in delivering on its Treaty mission for monitoring the development of social protection policies in the Member State and the Union. It covers the developments of social protection policies over the last eighteen months (January 2012 - June 2013) focusing on recent reforms and drawing on available data at the time of publication. The purpose of this report is to present an overview of the Member States' efforts and to map out the orientations of the on-going structural reforms in the field of social protection. It also aims to reinforce the thematic examination of social protection reforms and policies undertaken by Member States in the last 18 months (1st January 2012-30th June 2013) in order to fully use the opportunities provided by the open method of coordination for policy coordination and mutual learning, thus allowing the Committee to contribute substantially to the preparatory process leading to the adoption of the 2014 Annual Growth Survey (AGS).

This report draws primarily from the National Reform Programmes 2013, the 2013 Strategic Social Reporting and the reporting on social protection and social inclusion reforms assessed by the SPC as part of its work in the framework of the European semester. The report focuses essentially on the reforms enacted throughout the EU in recent months in response to the major challenges faced by the EU as a whole and by its Member States individually. Table 1 shows the overall social policy reforms in the EU over the last eighteen months.

Table 1: Overview of Social Policy Reforms in 2013 (reference period January 2012 – June 2013)

	Pension reforms					Health care reforms					Social inclusion reforms			
	Tightening of early retirement	Pensionable age (planned increases)	Contributory period	Level of pensions	Pension indexation	Stewardship of the health care system	Health service delivery (including e-health)	Investing in the health workforce	Cost-containment and cost-sharing	Enhancement of access to services and of patient's choice	Poverty-reduciton and inclusive labour markets	Investing in children	Housing	Roma inclusion
AT	•		•			•	•		•					
BE	•		•	•			•		•	•	•		•	•
BG	•	•	•	•	•		•	•			•	•		•
CZ	•				•									
CY	•	•	•	•	•	•			•		•	•		
DE						•		•	•		•			
DK	•									•	•	•		
IE									•					
IT	•	•				•			•		•	•		
HU						•	•	•	•		•		•	•
EE														
EL						•			•	•				
ES	•	•	•		•	•	•		•		•	•	•	
FI	•					•					•	•		
FR	•	•		•	•				•					
LT						•	•				•	•		
LV			•	•	•	•	•	•	•	•	•	•	•	
LU	•				•					•			•	
MT							•	•	•	•				
NL		•										•	•	
PL	•	•			•		•	•			•	•		
PT									•		•			
RO										•	•			
SE							•			•		•	•	
SI		•	•	•	•						•			
SK	•	•			•		•	•				•	•	•
UK		•	•			•	•			•	•	•	•	

Assessing national reforms takes place - from a formal point of view - within the European semester and culminates in a Council recommendation on a proposal from the European Commission. Therefore, the purpose of this report is neither to replace this collective assessment mechanism nor to present a critical view on the various reforms and on their objectives. The report's main purpose is to review these reforms by adopting a comprehensive approach to the social protection systems as a whole (inclusion, health and long-term care and pensions). On this basis, the Social Protection Committee draws some policy conclusions (see section 5) which it submits to the Council and to the Commission in view of preparing the AGS 2014.

The main message of this report is that while the economic and financial crisis continues to put strong pressure on social protection systems, the priorities of the EU in the social protection and social inclusion area must move on from the social consequences of the crisis to building modern, resilient, effective and flexible social protection systems relying on solid structures, sound governance arrangements, adequate benefits, sustainable financing and making the right investment choices. National policy makers are considering more and more how to achieve well-designed welfare systems combining a strong social investment dimension with better protection and stabilisation. The extraordinary reform efforts going on in Member States clearly indicate that the scope of the structural reforms in social policy is much larger than the core issues addressed in the framework of the European semester.

This report has another particular feature. It is the first document at EU level which presents the social protection reforms in those Member States implementing an economic adjustment programmes. Chapter 1 examines the structural social policy reforms going on in Greece, Ireland, Portugal and Romania. This country specific focus is based on a series of thematic presentations by these Member States to the Social Protection Committee in the first half of 2013 and reflects the discussion on these reforms. At the time of the preparation of this report Cyprus was negotiating its economic adjustment programme and therefore it is not included in this specific country focus.

The report is composed of 4 main chapters. Chapter 1 deals with the reforms in the field of social protection policies undertaken by the Member States that had concluded an economic adjustment programme. Chapter 2 focuses on social inclusion measures taken by the Member States in order to reduce the risks of poverty or social exclusion faced by an increasing number of people across the European Union. Chapter 3 looks into the pension policy reforms aiming at improving the sustainability of the pension systems and the adequacy of the benefits. Chapter 4¹ describes the reforms that Member States took in the field of health in order to respond to external pressures on their health care systems stemming from demographic trends as well as from the financial constraints arising from the current economic crisis. Finally, the SPC policy conclusions which constitute the Committee's advice for the future priorities of the Annual Growth Survey 2014 are presented in Chapter 5.

¹ Although health and long-term care are both an integral part of the policy strands composing social protection under the open method of co-ordination, long-term care is not addressed in this report because the Committee is preparing a separate thematic report on this policy area.

1. THE IMPACT OF SOCIAL PROTECTION REFORMS IN COUNTRIES UNDER ECONOMIC ADJUSTMENT PROGRAMMES

During the first half of 2013, the SPC has dedicated specific attention to examining the impact of social protection reform measures in EU countries which have signed Economic Adjustment Programmes (EAPs). This chapter summarises the experiences of Ireland, Romania, Greece and Portugal, and identifies common trends and challenges.

The Economic Adjustment Programmes differ between the four countries, with some requiring specific policy adjustments in the structure of social protection systems, while others set out more general aims to achieve budget consolidation in the long-term. While the EAP for Ireland does not include any specific calls for social protection reforms, some measures are having an impact on social protection expenditure. Greece, Romania and Portugal, on the other hand, all agreed to specific structural reforms under their EAPs.

This section will describe the policy developments and their impact on the social situation in the countries which have entered EAPs. There are common trends identified between the countries, which give insight on challenges faced in all Member States.

1.1 Ireland

The Economic Adjustment Programme for Ireland was formally agreed in December 2010. It includes a joint financing package of €85 billion and covers the period 2010-2013². The main objectives of the programme are related to: i) immediate strengthening and comprehensive overhaul of the banking sector; ii) ambitious fiscal adjustment to restore fiscal sustainability, correction of excessive deficit by 2015; iii) growth-enhancing reforms, in particular on the labour market, to allow a return to a robust and sustainable growth. The Irish government is committed to reducing its General Government Deficit to lower than 3% by the end of 2015. In July 2012 Ireland regained access to capital markets and successfully placed sovereign bonds on the market. Recent policy decisions of the EU and the ECB have strengthened market confidence even further. In particular, the Council decision in 21st June 2013, to extend the maximum average maturity of the European Financial Stabilisation Mechanism (EFSM) and, in a parallel decision, of the European Financial Stability Facility (EFSF) loans by seven years.³ This extension provided a strong underpinning to Ireland's return to the markets by reducing the amount that will have to be borrowed over the next decade by EUR 40 bn, according to the National Treasury Management Agency (NTMA) Annual Report 2012 and Midyear 2013 Update (July 2013).⁴

While welfare expenditure increased by 127% between 2001 and 2008, the country now finds itself in major fiscal retrenchment. Social welfare expenditure has overall risen in Ireland since the onset of the financial crisis in 2008, from €17.8bn in 2008 to €20.85bn in 2010⁵, but has recently declined to €20.7bn in 2012. In 2013 social

² http://ec.europa.eu/economy_finance/assistance_eu_ms/ireland/index_en.htm

³ See http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/137563.pdf.

⁴ See <http://www.ntma.ie/news/ntma-annual-report-2012-and-midyear-2013-update/>.

⁵ <http://www.cso.ie/en/statistics/healthandsocialconditions/expenditureonsocialwelfare/>

protection expenditure is equal to 39% of the gross current Government expenditure, which would represent a decrease of 1.6% to the previous year, after expenditure had risen from 29.5% in 2007 to 40.6% in 2012. Major changes in welfare provision also took place in 2009 and 2010 prior to Ireland entering into the current adjustment programme. While the government has specific welfare expenditure ceilings since 2010, the Programme does not include a commitment to reduce social protection spending to any specific level over the period of the Programme. However, the Programme includes a number of commitments, which have, or will have effects on social protection expenditure. For example, the loan agreement stipulates that the nominal value of the state pension is not to rise during the period of the programme. Without the fiscal consolidation measures that are currently in place social protection expenditure would have been €3bn, or 16% higher.

A very wide range of welfare changes have been introduced over the period since 2009. These have included the introduction of legislation in 2011 to raise the pensionable age to 66 in 2014, 67 in 2021 and 68 in 2028 as well as reduce in the levels of weekly income supports (circa 8%) for all persons of working age in 2010 and 2011.

There was a major reform of child income support. Universal child benefits were cut back substantially (on average 22 per cent, rising to 30 per cent for large families), while supports for childcare costs were reduced. At the same time, payments for children in welfare-dependent families were increased by 24 per cent. Benefits for single parents are also being progressively restricted and will only be paid where the youngest child is under the age of seven. In addition, entitlement to the concurrent receipt of more than one weekly welfare payment has also been abolished where a person is on an employment programme.

Supplementary payments (housing support, energy supplements, etc.) have also been reduced in value. Other reforms have included stricter eligibility conditions for access to some benefits, reductions in the duration for which benefits can be paid or reduced values of some schemes such as the optical and dental services available under the Treatment Benefit scheme.

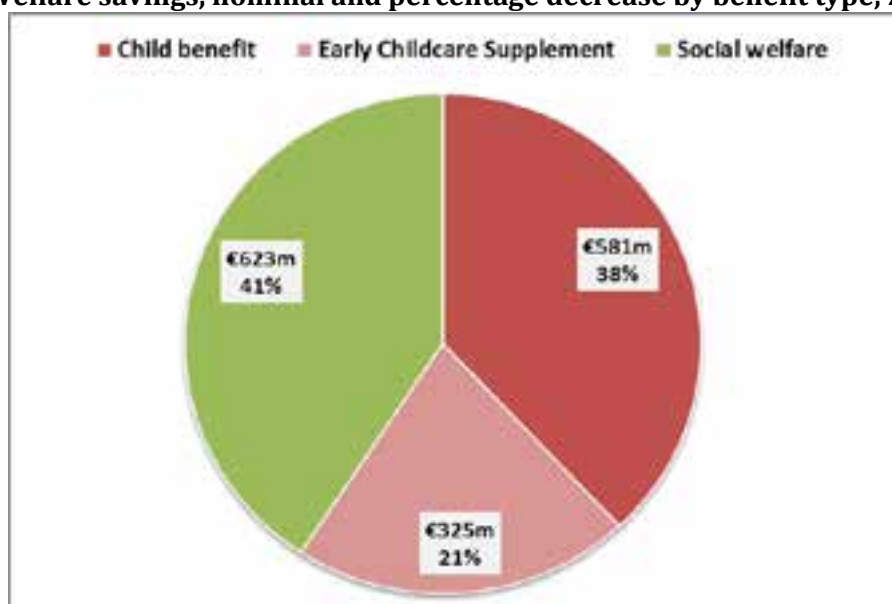
Activation policies and stronger engagement between services and the unemployed play a major role in the way the Irish government has addressed the consequences of the crisis, including by merging the employment and income support services institutions and providing both services through a **one stop shop** model. While, historically, services for the unemployed in Ireland focused on income support, more focus is now given to activation measures. These include the **introduction of active case management, greater targeting** of activation places and opportunities and a stronger focus on relations with employers, among others. Furthermore, penalty rates were introduced for those who do not follow the new measures.

The economic crisis and the related policy measures have had a substantial impact on the working and income situation in Ireland and overall prosperity. Unemployment rose from 6.4% in 2008 to 14.7% in 2012, with the biggest rise at the beginning of the crisis. Consequently the ratio of jobless households nearly doubled from 13.7% in 2008 to 24.1% in 2011. Basic deprivation⁶ rose from 13.8% to 24.5% in the same time, and the

⁶ Those who may be excluded and marginalised from participating in activities which are considered the norm for other people in society are considered to be deprived. The identification of the marginalised or

at-risk-of-poverty rate (AROP) rose from 14.4% to 16.0% from 2008 to 2011 according to national data. The relatively minor increase in AROP is explained by the dramatic drop of the AROP threshold from € 10,901 at PPP in 2008 to € 9,352 at PPP in 2010, before rebounding to € 10,097 at PPP in 2011, wherefore the absolute effect on poverty has been much more pronounced during recent years. While the situation in 2011 seems to have improved slightly, this development masks other structural challenges. Ireland, while ranking second in the EU after Denmark in poverty reduction through social transfers⁷ (61,6% for IE in 2011 vs. 35,7% for EU27), achieves this thanks to good adequacy of the benefit payments. In order to prevent against disincentives to re-entering the labour market, some steps towards active labour market policies have been taken. Analysis based on the Irish micro-simulation model Switch show that almost three-fifths of the total welfare savings were due to cuts in child benefits and early childhood supplements (see **Figure 1**).

Figure 1: Welfare savings, nominal and percentage decrease by benefit type, 2009 – 2013



Source: Calculations based on the Irish Switch model⁸

If one takes into account only welfare savings reforms, the impact was rather regressive with the two bottom quintiles more affected, but when including the increases in direct

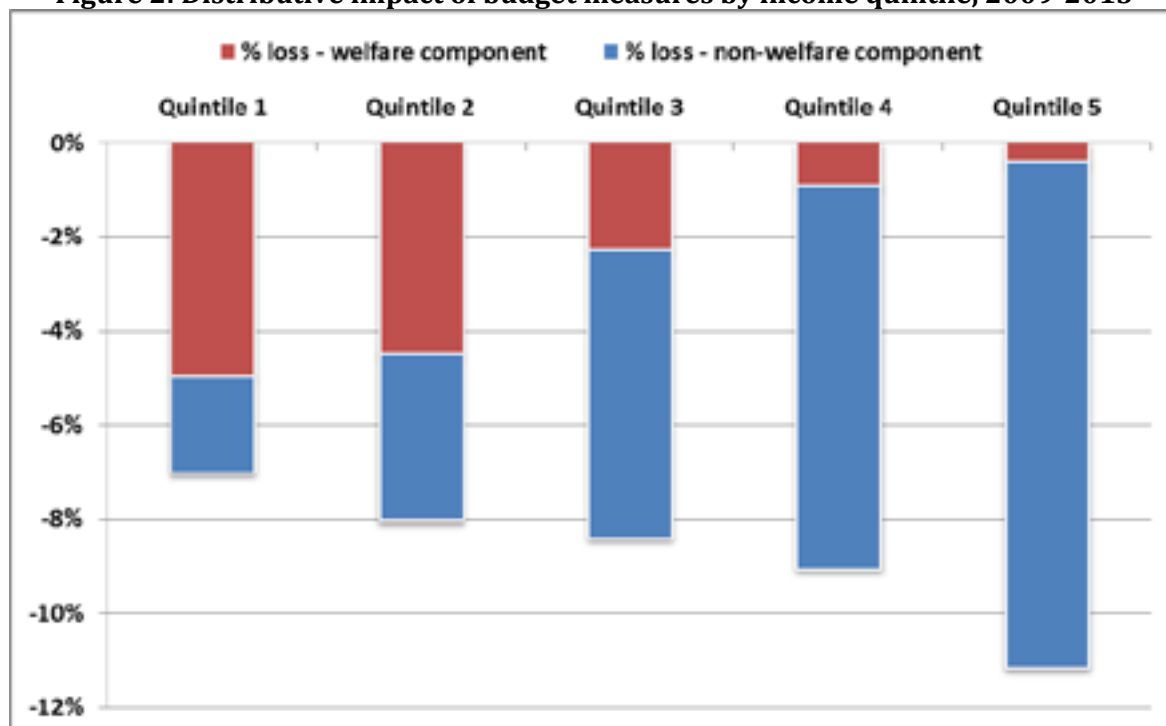
deprived is currently achieved on the basis of a set of eleven basic deprivation indicators: (1) two pairs of strong shoes, (2) a warm waterproof overcoat, (3) buy new (not second-hand) clothes, (4) eat a meal with meat, chicken, fish (or vegetarian equivalent) every second day, (5) have a roast joint or its equivalent once a week, (6) had to go without heating during the last year through lack of money, (7) keep the home adequately warm, (8) buy presents for family or friends at least once a year, (9) replace any worn out furniture, (10) have family or friends for a drink or meal once a month, (11) have a morning, afternoon or evening out in the last fortnight for entertainment

⁷ Impact of social transfers is defined as the reduction in the at-risk-of-poverty rate in % due to social transfers, calculated as the percentage difference between the at-risk-of-poverty rate before and after social transfers.

⁸ In Ireland, the Economic and Social Research Institute has developed a micro-simulation model of the Irish tax and benefit systems, Switch (Simulating Welfare and Income Tax Changes). The current Switch database uses data from the EU Survey on Income and Living Conditions (EU SILC).

taxes⁹ and reduction in public sector pay, this outcome is largely transformed into a progressive impact with the higher income quintiles paying the most (see **Figure 2**).

Figure 2: Distributive impact of budget measures by income quintile, 2009-2013



Source: Calculations based on the Irish Switch model

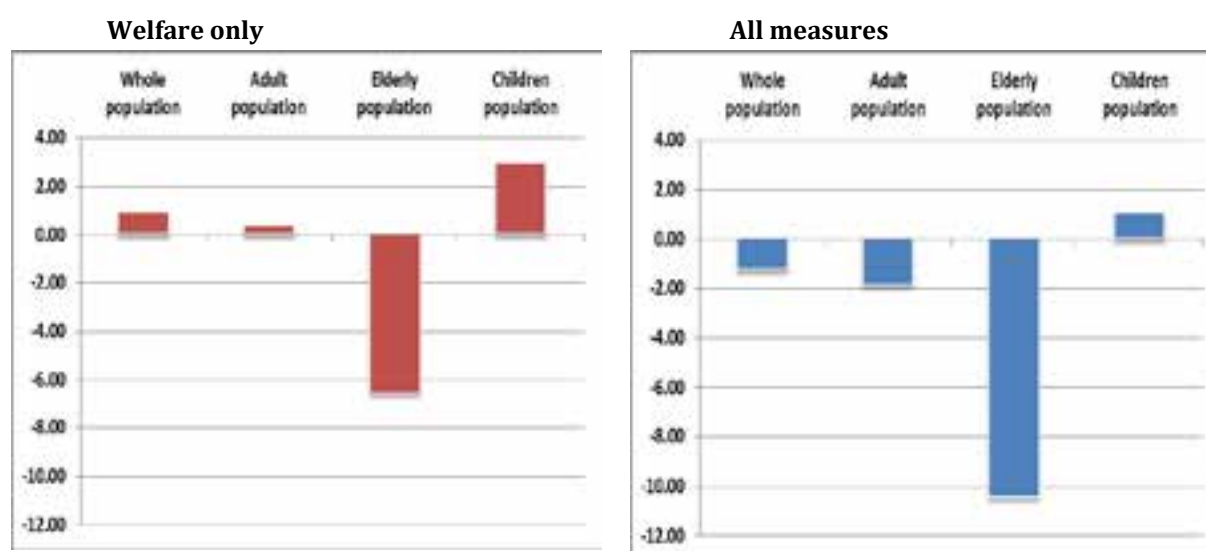
In terms of the at-risk-of-poverty rate, welfare reforms have impacted the children population the most, while the elderly population suffered the least. The latter can be explained by pensions remaining stable, while the working population and their children suffered much more under the pressures in the labour market.¹⁰ The poverty impact of the combined welfare, tax and pay measures is for a small reduction in the at-risk-of-poverty rate. However, this outcome is a result of the fall in the poverty threshold, rather than a rise in the incomes of those below the threshold¹¹. (see **Figure 3**.)

⁹ Direct taxes include income and property taxes. Indirect and capital taxes are not included in the analysis

¹⁰ Labour market forces are not visible in the Switch model, which only focuses on policy changes.

¹¹ The at-risk-of-poverty poverty threshold in the welfare only analysis fell by 2.6 per cent and in the analysis of all measures, it fell by 9.2 per cent.

Figure 3: Poverty impact of budget measures, 2009-2013



Source: Calculations based on the Irish using Switch model

1.2 Greece

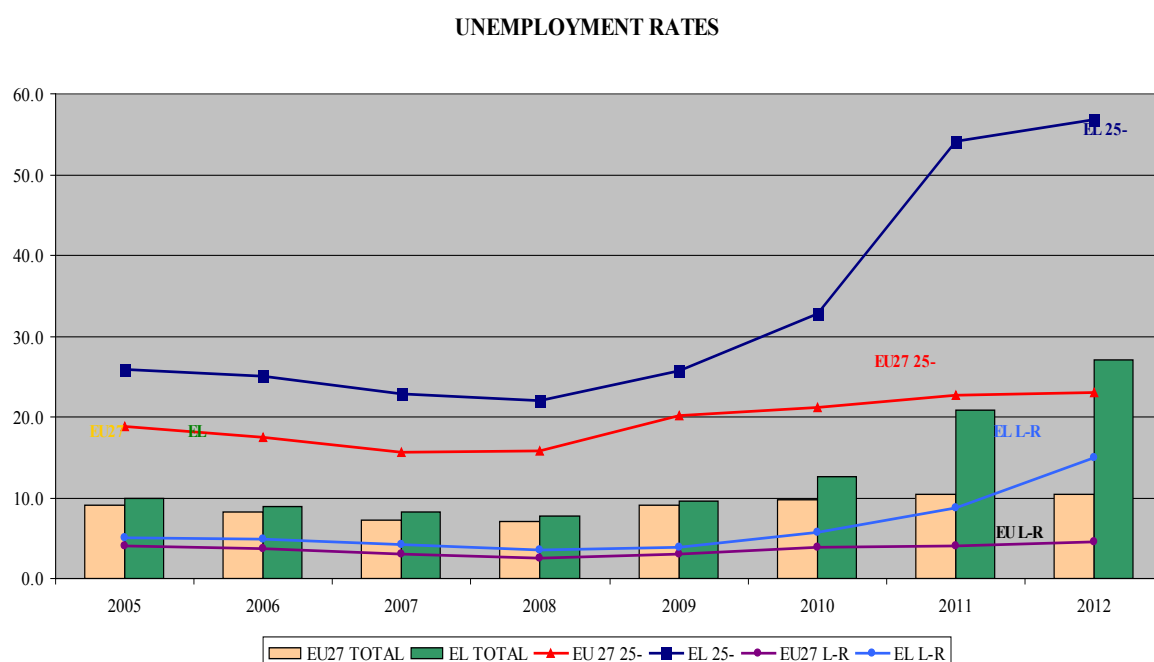
Greece has signed an Economic Adjustment Programme in May 2010 which lays out two strings to tackle the fiscal deficit. One is fiscal consolidation, while the other calls for specific structural reforms. The latter cover a privatisation programme, the labour market, the social protection system with specific focus on the expenditure side, social benefits and taxes, public administration, and reform of the fiscal framework.

Since 2009 Greece has witnessed a decline in households' disposable income (both for those active in the labour market as well as for pensioners). This is the result of *reduced salaries* in the public and wider public sector, of the *reduction of the minimum wage* (especially for those younger than 26 years of age) in the private sector -which has affected all wages- combined with *a new framework for firm-level collective agreements*, that has led to distortions in wage settings and also of *increased taxation and levies* (imposed on both income and property).

These have led to a decline in Unit Labour Cost, in a labour market overrun by high unemployment. In-work poverty has declined, which might be due to the dismissal of unskilled and low-pay workers and/or the decrease of the at-risk-of-poverty threshold.

Unemployment has proven to be the most persistent problem the country faces. While in 2008 the unemployment rate in Greece was only slightly higher than in the EU overall, since then the gap has dramatically widened. The unemployment rate in April 2013 stands at 27.0% in Greece, in contrast to 11.0% in the EU-27, and the gap is equally wide in long-term unemployment (EL: 14.4%, and EU-27: 4.6%). The unemployment rate has more than tripled since 2008 while long-term unemployment has increased from 45.8% (2010 Q4) to 63.9% (2012 Q4) of the total unemployment. The most affected population is the youth. The unemployment rate for those below 25 years, although higher than the European average before the crisis, has more than doubled since 2008, and reached 57.9% in the end of 2012 (see **Figure 4**).

Figure 4: Unemployment rate, Greece, 2005-2012

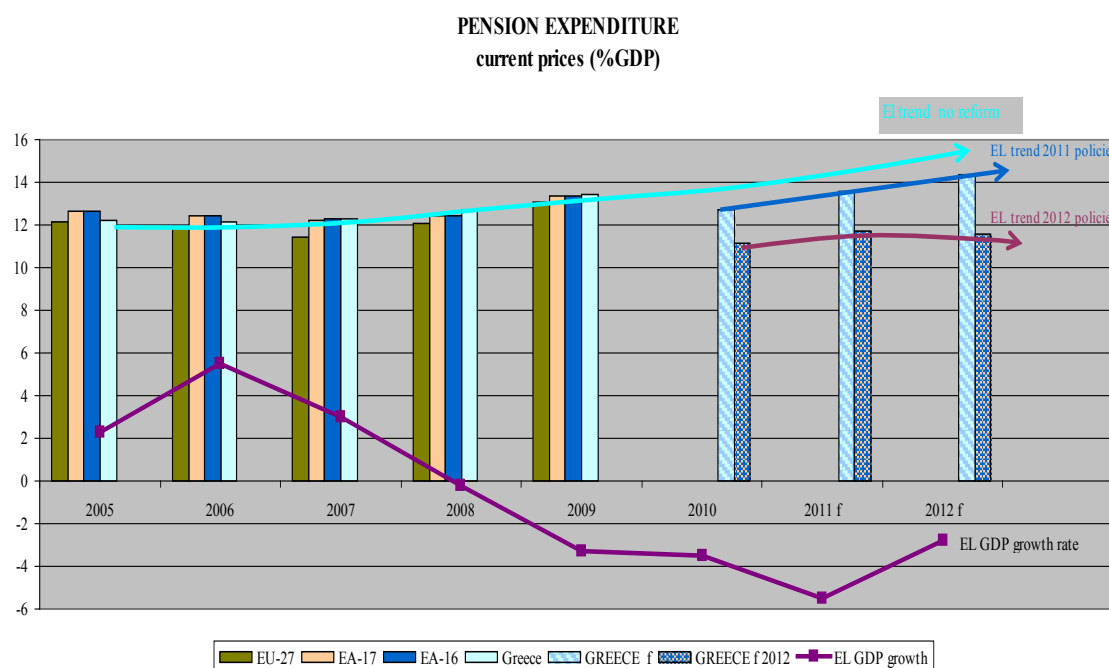


Source: Eurostat

Social protection measures under the EAP can be divided in three parts. The first addresses pensions, where levels (especially of higher pensions) have been cut, statutory retirement age has been increased to 67 from 2013 onwards, rules for invalidity pensions have become stricter and new lists for heavy and arduous work have been drawn up. The second relates to health care provision, where reforms are being implemented to enable health care cost to come down below 6% of GDP. In the process a new single health care body has been introduced, new pricing rules for pharmaceuticals and medical services have been implemented, and more and more use is being made of e-prescriptions to save staffing costs. Lastly, welfare benefits have increasingly stricter criteria, with reduced family and child benefits, and stricter eligibility criteria for pension-type benefits to those older than 65.

The pension reforms have a strong positive impact on the expenditure side. Without the reforms Greece was more and more diverging from the expenditure levels of the EU-27, while the reforms lowered the projected pension expenditure from above 15% of GDP to slightly below 12% of GDP in 2012. This also puts Greece well below the average expenditure on pensions across Europe (see **Figure 5**).

Figure 5: Pension expenditure, Greece, 2005-2012



The graph depicts the estimated development of pension expenditures in Greece, separated by the projected effects of the pension reforms of 2011 and 2012, in contrast to no such reforms taking place. The forecasts are based on Greek government calculations.

Source: EUROSTAT-AMECO & EL NAA, 2012 data

One reason for this downward shift in the long-term pension expenditure is the raise in pensionable age, while more immediate effects are influenced by tighter eligibility regulations for pension receipts and cuts in pension levels especially for those pensioners with high pensions. While this has led to a projected increase in the effective retirement age in Greece by 1.1 years between 2008 and 2012, to 62.5 years of age¹² (see **Figure 6**), the picture in reality is less clear.

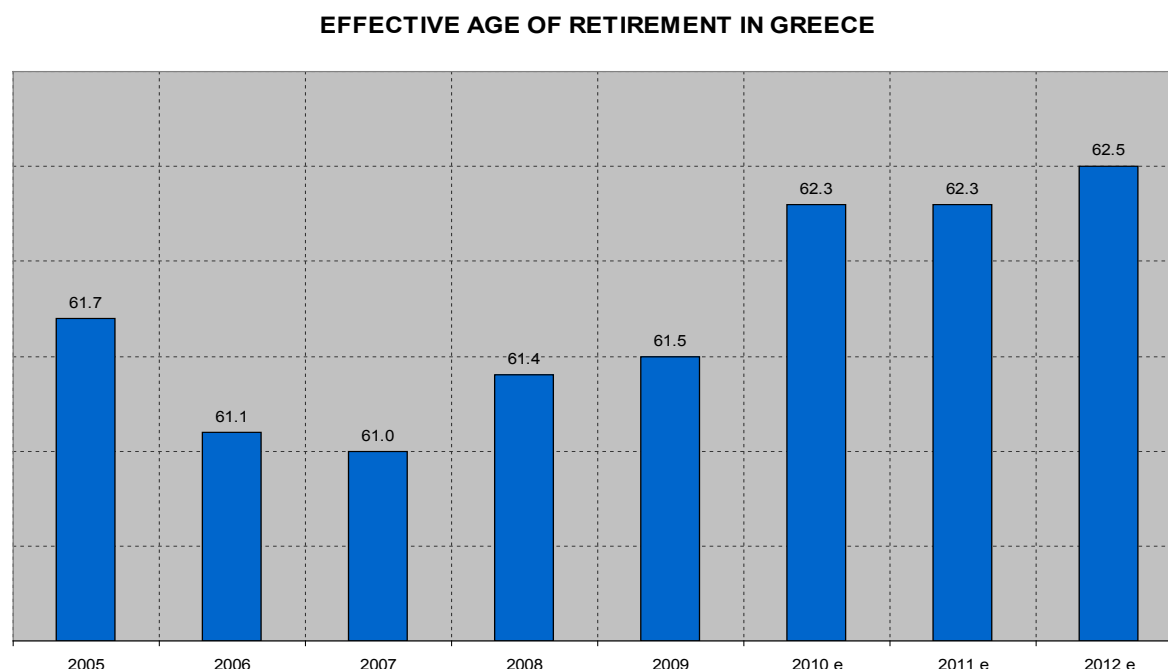
With the pension reform of 2010 - which has introduced higher retirement ages following an adjustment period of 5 years and has provided for extra notional insurance time - and the levies that were imposed on higher pensions that year, many people with mature (or approaching mature) pension entitlements have chosen to retire since the top up in their pension from staying longer would be counterbalanced by the levies imposed on higher pensions. In addition to this, cuts in auxiliary and lump sum pension entitlements resulted in more retirement decisions, as people attempted not to lose pension entitlements. Following this pension reform, in 2012 the adjustment period was reduced (with maturing from 2013 instead of 2015), increasing the fear of losing pension entitlements, which has been resulting in even more retirement applications.

This is not fully reflected in the available data because the increased number of pension applications has led to delays in processing pension decisions. An application from 2010 may only have been finalized in 2011 or 2012. Therefore, the full effects of these reforms will only show with a considerable time lag. In addition to this, the number of employed

¹² Data in figure 6 are 2012Q1 estimations only.

people aged 55 or older has declined during the crisis, as they either retire or join the pool of the unemployed.

Figure 6: Effective age of retirement in Greece



Source: Eurostat (EU SILC, EL NAA)

Poverty has been negatively influenced in both relative and absolute terms. The at-risk-of-poverty rate threshold has actually risen between 2007 and 2010, due to the fact that those in low income jobs were also hardest hit by the crisis in the labour market. The higher rate of job losses in low skill sectors, in contrast to the rest of the labour market, moved the median income up. This has affected pensioners, many of whom slid below the poverty threshold due to the significant shift. Data for 2011 shows that the poverty threshold has gone down to levels similar to 2007. Additionally, levies on pensions have increased and only very low pensions have been unaltered. According to data from the Ministry of Labour, the median old age pension of IKA-ETAM (pensioners of the private sector) fell from € 900 in 2010 to € 826 in 2011 and 2012 and has further slid to € 795 in June 2013¹³, hence putting an increasing number of pensioners, especially those on survivors' benefits, at the brink of poverty.

¹³ This refers to pension amounts before income tax and health contributions are paid.

1.3 Romania

The sudden increase in risk aversion during the financial crisis caused market participants to become increasingly concerned by Romania's large internal and external imbalances in the form of a 5.7% of GDP budget deficit and an 11.6% of GDP current account deficit. As a result, capital inflows fell markedly and the exchange rate of the RON against the euro depreciated by more than 30% between August 2007 and January 2009. Consequently, the Romanian authorities applied in spring 2009 to the EU, the IMF and other international financial institutions for financial assistance.

In May 2009 an agreement was reached to provide multilateral financial assistance to Romania with an overall amount of € 20 billion. The country has managed to bring government deficits under control, wherefore the fiscal assistance programme is currently running out. Under the fiscal consolidation efforts Romania underwent significant reforms in education, the public pension scheme, the health system and the social assistance system.

Reforms in the pension system focused on inclusion and sustainability, and a new pension law entered into force in January 2011. The reform integrates special schemes in the social insurance system and introduces a mechanism for recalculating special pensions. Moreover, the statutory retirement age for women is gradually being adjusted to reflect that of men. The government also put forward legislation to dis-incentivise early and partial early retirement to help consolidate the contribution base. Invalidity pensions were also reformed, and eligibility criteria were tightened.

In health care more responsibility was shifted to citizens, as a co-payment structure was implemented. Especially in the health care sector, due to low wages of doctors and nurses, under-the counter payments are high, proving an additional access barrier for the population.

Romania faced difficulties in the implementation of its social assistance programme, as spending doubled from 1.4% to 2.9% of GDP between 2008 and 2012. These cost increases were due to the introduction of costly, but likely ineffective family policy programme to boost fertility (0.9%), more generous disability benefits (0.4%), access expansion to the targeted programme from the poorest quintile to the poorest half of the population (0.1%), and a guaranteed minimum pension (0.15%). Overall, the number of social assistance programmes nearly doubled to 27 between 2008 and 2012, and the number of recipients increased as well. Meanwhile, the number of staff administering the social assistance programmes barely increased, leaving major effectiveness gaps and a lack of oversight.

To address the shortcomings in the social assistance system Romania has established cooperation with the World Bank on a project focusing on strengthening performance management, improving inequality and administrative efficiency, and the reduction of error and fraud. As part of these efforts **means tests are increasingly used**, although three major programmes (guaranteed minimum income, family allowance and heating benefits), which are all means-tested schemes, are being consolidated into one programme, easing the administrative burden and making the system more accessible to citizens.

The situation in the labour market is addressed through **more active labour market policies**, which are tailored to each socio-economic sub-group. **Work incentives** (i.e., work support) **are also increased** to cover the lowest 20-30% of the population, instead of only the lowest 5%.

The most deprived also benefit from recent legislative changes, as housing support and electricity and gas supplements are employed to protect them. Currently, the government is implementing an emergency ordinance, which has been in force since July 2013. The ordinance was adopted as a means of protecting vulnerable consumers in view of the gradual liberalisation of prices for electric energy and natural gas, and establishes that the guaranteed minimum income and the monthly family allowance will be increased. At the same time, the number of beneficiaries will rise. The increase will take place in two steps; the first on 1 July 2013, and the second on 1 January 2014.

Between 2008 and 2011 the at-risk-of-poverty rate has decreased from 23.4% to 22.2%, and severe material deprivation has declined by 2.5% in the same period, but remains high at 29.4% of the population. Meanwhile the amount of people living in households with low work intensity has further declined from 8.2% to 6.7%, although the decline has slowed down and stabilised between 2010 and 2011.

1.4 Portugal

The Economic Adjustment Programme (EAP) for Portugal was agreed in May 2011. The country has a compliance rate with the EAP of 91%, which contributed to a strong budgetary adjustment. In the meantime the country also witnessed a decreasing rate in the risk of poverty and in severe material deprivation. However, the rate of those living in households with very low work intensity has increased from 6.3% in 2008 to 8.2% in 2011, which is further reflected by a dramatic increase in unemployment, which currently stands at 16,4% (2nd quarter 2013)¹⁴. This is explained by the fact that pensioners saw the largest improvements in their at-risk-of-poverty rate and material deprivation, while the effects were much less pronounced for the working age population and children. As pensioners are not considered in the definition of low work intensity households, this indicator shows more clearly the actual effect of the crisis on the population. Most negatively affected are young workers, for whom the unemployment rate over the past three years nearly doubled, and stands now at 37,1% (2nd quarter 2013)¹⁵.

To curb the cost of this development, the maximum amount of unemployment benefit was lowered under the EAP, and all benefits (except for social unemployment benefit) have been lowered by 10% after six months of receipts. The maximum period of receipts is also being shortened to 540 days, but exempting longer contributory careers. Unemployment protection has been extended to self-employed and small and medium

¹⁴ National data. For Eurostat validated data please refer to the indicator: une_rt_q (http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database)

¹⁵ National data. For Eurostat validated data please refer to the indicator: une_rt_q (http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database)

sized entrepreneurs as well, and the contribution period necessary for eligibility was shortened. (see **Table 2**).¹⁶

Table 2: Number of beneficiaries and level of unemployment benefit, 2010-2013

<i>Unemployment benefits</i>		2010	2011	2012	2013 ⁽²⁾
Beneficiaries of unemployment benefits ⁽¹⁾	total (n°)	626.682	590.033	683.837	420.937
	average (€)	493,01	537,89	541,35	497,44

Source: ISS, Statistics of social security (Beneficiaries of unemployment insurance, Value of allowance - unemployment) - 2010-2013

Note: 2010 to 2012 refer to annual data; 2013 refer to latest monthly data available

(1) Unemployment + social unemployment

(2) February 2013

Meanwhile a Social Emergency Programme (PES) - a dynamic four year-programme - started in October 2011, which serves to protect the most vulnerable parts of the population from the effects of the economic adjustment. It is open to new measures and solutions, or even to customised solutions. The goals of the PES are (i) to focus on the empowerment and promotion of personal and collective competences, and (ii) to prevent duplication of social responses and to maximise their installed capacity. To this end, it will focus on simple and direct measures and solutions that may lessen the social impact of the crisis, by firstly identifying the situations that require a more urgent social response, and then mobilizing the necessary resources and tools. For this purpose, close cooperation between the different levels of government and national solidarity networks in the several decision and implementation stages is essential. This new social model is based on participatory social management. The PES encompasses many measures, including a 10% increase in unemployment benefits for unemployed parents with children, provision of housing at rents below market price in cooperation with banks that have repossessed properties, social rates for electricity, gas and public transport, the reinforcement of social canteens to ensure two meals a day for those in need, an increase of the free distribution of basic goods, development of microcredit, better incentives for volunteering, and the expansion of public childcare and elderly care facilities, among others.

Portuguese reform efforts have focused also on health care and unemployment benefits. The current national health plan, which will be implemented until 2016 as part of the health system reforms, aims to develop programmes to reduce costs in hospitals without affecting quality. As part of this effort some care (mainly primary care and long-term care) is being shifted from hospitals to proximity services. Furthermore, the government aims to increase the market share of generic medicines and introduce electronic prescriptions. New financing structures are currently being developed, which will incorporate solidarity-based funding to ensure the sustainability of the National Health Service (NHS). Another cost saving mechanism is the new focus on the development of the public health sector, mainly in terms of epidemiologic surveillance

¹⁶ The data for 2013 refers to February of the year, and is a projection by Eurostat.

systems. To ensure access for all, exemptions from "moderating fees" given to vulnerable citizens have been widened.

The general pension scheme has also been affected by the crisis, with 12.8% more retiring into old-age pension in 2012 than in 2008. Similar increases can be found in survivors' pensions (+9.0%), while the invalidity pension scheme has observed the opposite effect (-10.7%) (see **Table 3**). Consequently, expenditure on pensions overall has risen between 2009 and 2011, with a first slight decline in 2012¹⁷. Since 2009 pensions have not been updated, except for the lowest pensions (see **Table 4**). The pursuit of specific measures to reinforce the sustainability of the social security system, such as the increase in the retiring age through a sustainability factor based on life expectancy after 65 years, remains a priority.

Table 3: Evolution of the number of pensioners by regime, 2008-2012

Evolution of the number of pensioners by regime 2008-2012							
RGSS	thousand					(%)	
	2008	2009	2010	2011	2012	2012/ 2011	2012/ 2008
Invalidity	247	242	234	228	221	-3,2	-10,7
Old age	1.612	1.674	1.734	1.803	1.819	0,9	12,8
survival	595	607	616	627	649	3,5	9,0
Total	2.454	2.522	2.584	2.657	2.688	1,2	9,5
RESSA							
Invalidity	8	7	7	7	6	-7,7	-19,2
Old age	196	181	167	153	142	-7,5	-27,8
survival	71	68	65	62	62	-0,3	-13,0
Total	275	257	239	222	210	-5,5	-23,7
RNCE							
Invalidity	49	50	50	50	50	0,1	2,1
Old age	61	59	57	54	31	-43,3	-49,8
survival	2	2	2	2	3	44,5	44,5
Total	112	111	109	107	84	-21,9	-25,4

Source: Report's account of social security - 2011

Note: **RGSS** - General social security scheme; **RESSA** - special scheme of social security for agricultural activities; **RNCE** - and similar non-contributory scheme

2012 - provisional data

¹⁷ □ The Social Support Index (IAS) amount is not updated since 2009;

Table 4: Evolution of minimum pensions, 2007-2013

		2007	2008	2009	2010	2011	2012	2013
RGSS	Euros	230,16	236,47	243,32	246,36	246,36	254,00	256,79
	annual variation (%)		2,7	2,9	1,2	-	3,1	1,1
RESSAA	Euros	212,46	218,29	224,62	227,43	227,43	234,48	237,06
	annual variation (%)		2,7	2,9	1,3	-	3,1	1,1
RNCE	Euros	177,05	181,91	187,18	189,52	189,52	195,40	197,55
	annual variation (%)		2,7	2,9	1,3	-	3,1	1,1

Source: Report's Account of Social Security

Note: RGSS - General Social Security Scheme; RESSAA - Special Scheme of Social Security for Agricultural Activities; RNCE - Non-Contributory Scheme and similar

Due to the growing number of pensioners, expenditure on pensions overall has increased by nearly 13% between 2008 and 2011. As a consequence of adjustments in the pension schemes, 2012 marked the first year of pension expenditure consolidation for Portugal (see **Table 5**).

Table 5: Evolution of expenditure on pensions and supplements in each regime, 2008-2012

Evolution of expenditure on pensions and supplements in each regime 2008-2012									
RGSS	thousand of euros					(%)			
	2008	2009	2010	2011	2012	2009/ 2008	2010/ 2009	2011/ 2010	2012/ 2011
Invalidity	1.007.224	1.025.974	1.015.053	1.012.316	972.720	1,9	-1,1	-0,3	-3,9
Old age	7.638.949	8.199.472	8.659.484	9.200.257	9.114.657	7,3	5,6	6,2	-0,9
survival	153.801	1.682.772	1.749.867	1.673.546	1.705.179	6,9	4,0	-4,4	1,9
Total	10.219.974	10.908.218	11.424.404	11.886.118	11.792.556	6,7	4,7	4,0	-0,8
RESSA									
Invalidity	29.161	25.167	24.237	22.928	22.560	-13,7	-3,7	-5,4	-1,6
Old age	694.503	595.280	555.842	498.422	468.436	-14,3	-6,6	-10,3	-6,0
survival	135.368	129.174	124.594	120.546	117.315	-4,6	-3,5	-3,2	-2,7
Total	859.032	749.621	704.673	641.896	608.311	-12,7	-6,0	-8,9	-5,2
RNCE									
Invalidity	389.875	370.088	371.821	363.032	379.354	-5,1	0,5	-2,4	4,5
Old age	1.217.875	1.291.849	1.354.588	1.393.037	1.465.721	6,1	4,9	2,8	5,2
survival	131.396	144.874	156.428	164.279	182.305	10,3	8,0	5,0	11,0
Total	1.739.146	1.806.811	1.882.836	1.920.349	2.027.379	3,9	4,2	2,0	5,6
REGIMES									
Invalidity	1.426.259	1.421.228	1.411.110	1.398.276	1.374.633	-0,4	-0,7	-0,9	-1,7
Old age	9.551.327	10.086.602	10.569.914	11.091.717	11.048.814	5,6	4,8	4,9	-0,4
survival	1.840.565	1.956.820	2.030.889	1.958.371	2.004.799	6,3	3,8	-3,6	2,4
Total	12.818.152	13.464.650	14.011.913	14.448.363	14.428.246	5,0	4,1	3,1	-0,1

Source: Report's account of social security - 2011

Note: RGSS - General social security scheme; RESSA - special scheme of social security for agricultural activities; RNCE - and similar non-contributory sc

Spending on family benefits has decreased from 2010 to 2011 as a result of the social protection reform implemented in 2010¹⁸, and is further sliding (see **Table 6**). However, a temporary increase in unemployment benefit for families with two unemployed parents and lone parents, which is one of the measures taken under the PES, is supposed to bridge the gap for those in need.

Table 6: Family allowance, number of recipients and average level of benefit 2010-2012

Family allowance	Unit	2010	2011	2012
Holders with processing	nº	1.844.107	1.399.364	1.292.045
Average value processed by holder	€	492,20	437,62	484,27

Source: ISS, Statistics of social security

At the same time, Portugal, for the first time since becoming a Programme country, has issued 10-year government bonds to the market in May 2013, indicating the ability to rely on its own financing mechanisms.

1.5 Common trends

The responses to the crisis in Ireland, Greece, Portugal and Romania share the common feature of reduction in social expenditure but the instruments chosen for implementation vary.

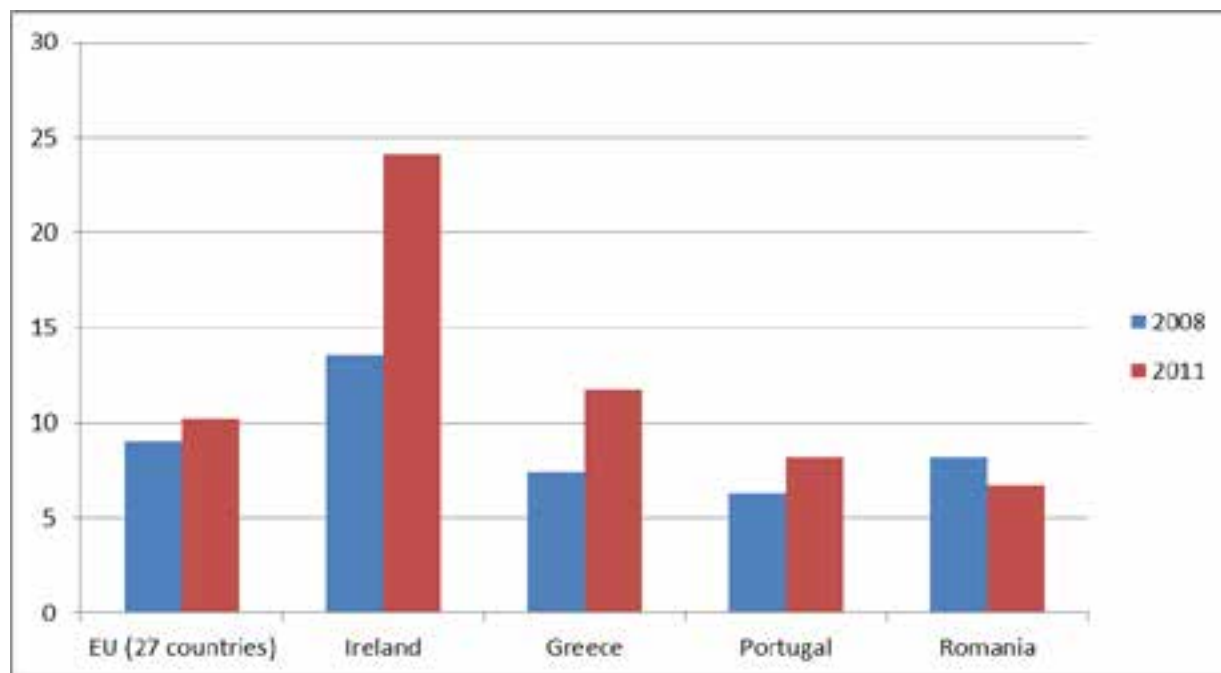
In many respects, however, the policy approaches converge. All of these countries have increased the statutory retirement age, and multiple ones have introduced one stop shops and downsized administrative bodies in care provision. Moreover, in some cases eligibility criteria for some benefits, especially invalidity pensions and child or family benefits, have become more strict in order to address the benefits to those most in need, curb spending and decrease benefit fraud. Part of this exercise is the increased use of means-testing. In multiple cases the amounts of benefits recipients are entitled to have been lowered, putting an additional strain on beneficiaries.

To address the crisis in the labour markets the Member States increasingly rely on active labour market policies, improving the functioning of public employment services, implementing initiatives to promote youth employability, and focusing on the active inclusion of disadvantaged people while at the same also shortening benefit periods and lowering benefit amounts. Nevertheless, unemployment remains the strongest concern in these countries. Low work intensity, which has been affected by increased

¹⁸ As a result of a set of restraining measures adopted in 2010, accordingly to the Stability and Growth Pact 2010-13, in September 2010 it was decided to eliminate the extraordinary increase of 25% of **the child allowance** in the 1st and 2nd brackets (set during in the beginning of the crisis in July 2008) and to eliminate the higher (4th and 5th) brackets of this social benefit.

unemployment, and the proliferation of part-time employment are putting an additional strain on the populations of these countries (see **Figure 7**). In Ireland jobless households are particularly pronounced. Moreover, a common trend is the increase in the coverage gap.

Figure 7: People living in (quasi-) jobless households, % of total population (0-59)

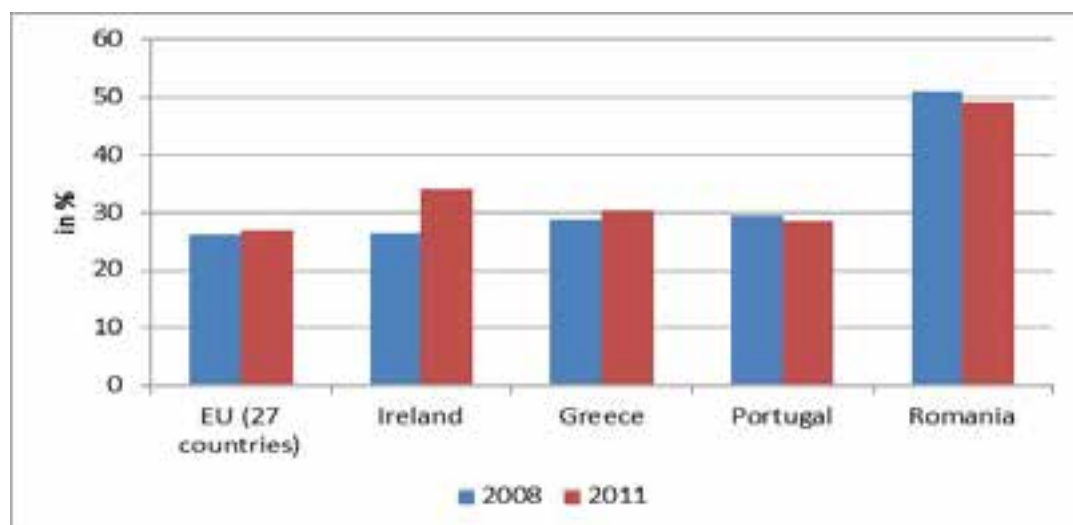


Source: Eurostat (EU-SILC)

Unfortunately, this development also affects the living conditions of children negatively. In Greece and Ireland the number of children living in poverty or social exclusion has increased between 2008 and 2011, while it remained stable in Portugal and fell slightly in Romania which registers one of the worst situations in the income and living conditions of children in the EU (see **Figure 8**).

The reasons behind these developments vary in the different countries. In Ireland, for example, the increase is mainly driven by the increase in the number of jobless households, a consequence of the higher unemployment. Children growing up in poverty and social exclusion are less likely to do well in school, enjoy good health and realise their full potential later in life, when they are at a higher risk of becoming unemployed and poor and socially excluded. Their presence among the poorest members of society also increases their chances of joining the stock of young unemployed.

Figure 8: Children (0-17) at risk of poverty or social exclusion

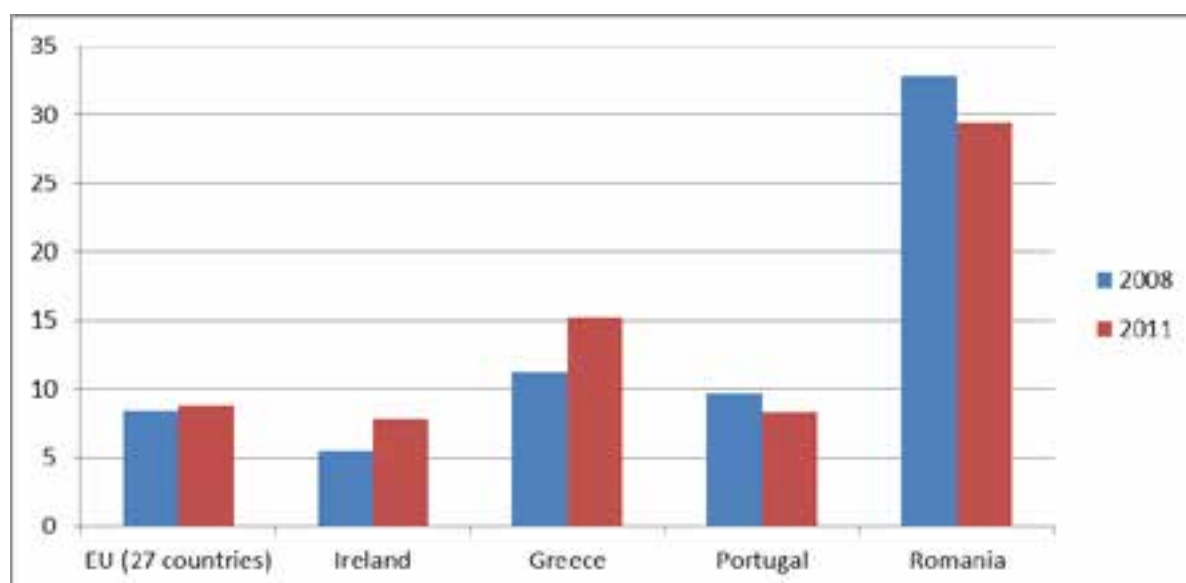


Source: Eurostat (EU-SILC)

Note: For the at-risk-of poverty rate, the income reference year is the calendar year prior to the survey year (i.e. 2010) except for Ireland (12 months preceding the survey).

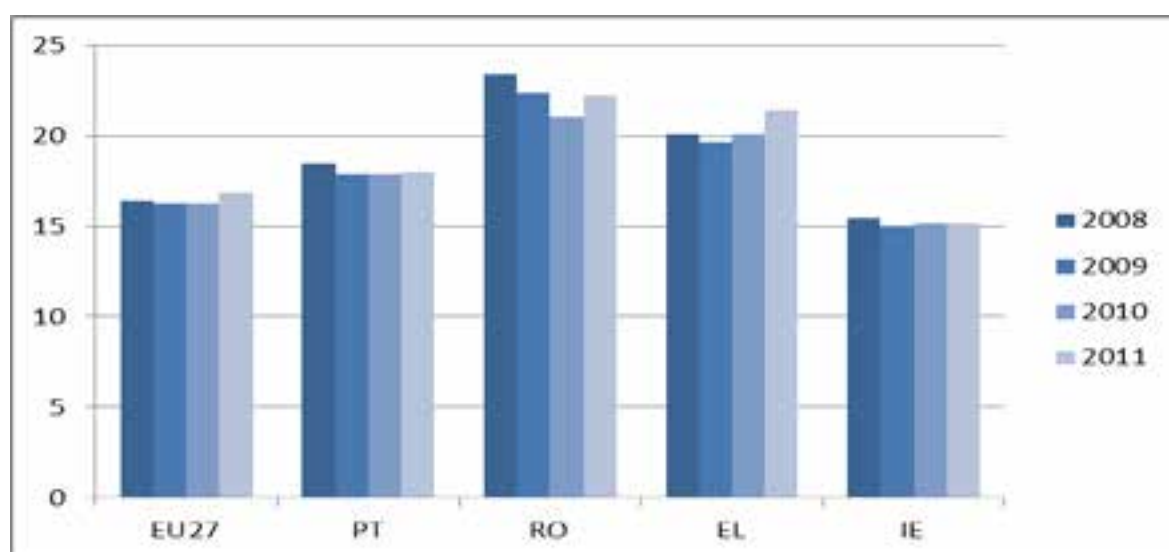
The picture is somewhat similar for the number of people suffering from severe material deprivation (see **Figure 9**) and the overall at-risk-of-poverty rate (see **Figure 10**). Ireland and Greece see negative development but Ireland still has a rate below the EU average. The situation in Portugal and Romania is improving but the severe material deprivation rate in Romania remains much higher than in the other three countries. As aforementioned, the changes in AROP are relatively minor, as the AROP threshold has decreased in Ireland and Greece due to economic contraction over the observed period and increasing unemployment levels. While severe material deprivation does not provide a proxy for AROP, it gives an indication of the effect of crisis on the most deprived.

Figure 9: Severe material deprivation rate, % of total population



Source: Eurostat (EU-SILC)

Figure 10: At- risk-of-poverty rate, after social transfers, % of total population

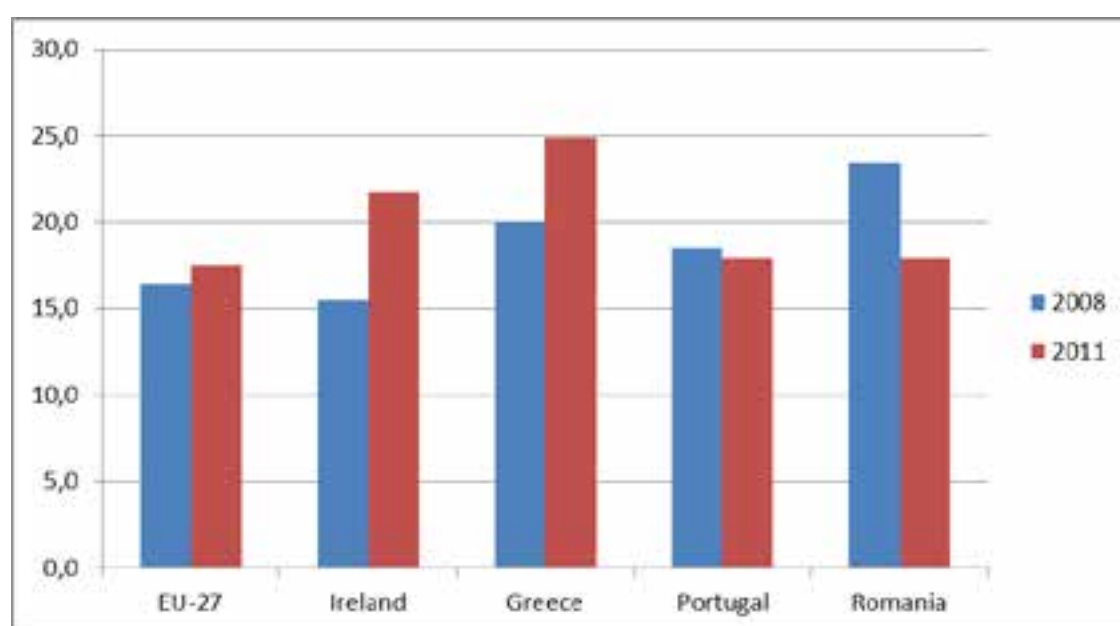


Source: Eurostat (EU-SILC)

Note: For the at-risk-of poverty rate, the income reference year is the calendar year prior to the survey year (i.e. 2010) except for Ireland (12 months preceding the survey).

As a useful complement to the analysis of the relative at-risk-of- poverty rate, which is based on the level of median income for the given year, figure 16 shows the developments of the at-risk-of-poverty rate anchored in 2008, which allows for following the evolution of poverty based on changes in real income and which is more sensitive to the effects of worsening economic conditions on the living standards of the poor. The analysis shows a strong increase in the anchored poverty risk in Ireland and Greece is much more pronounced. The data also shows stronger positive development in Romania pointing out to increases in the median income in the period 2008-2011.

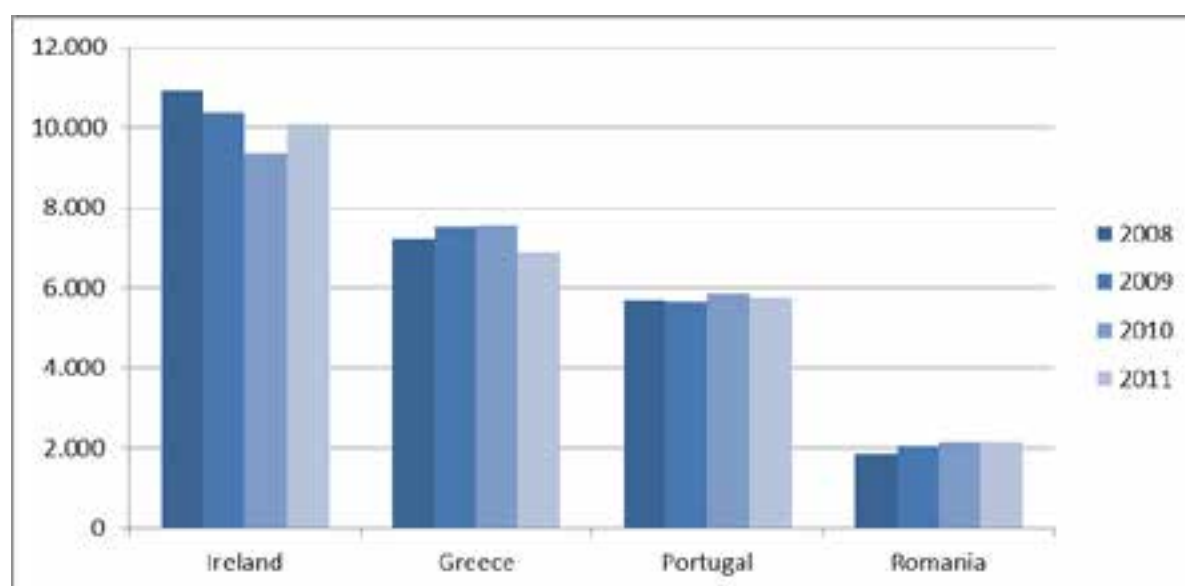
Figure 11: At-risk- of- poverty rate anchored at 2008



Source: Eurostat (EU-SILC)

A similar picture emerges when looking at the development of the poverty threshold from 2008 to 2011 (see **Figure 12**).

Figure 12: At-risk-of-poverty threshold, in pps, 2008 to 2011



Source: Eurostat (EU-SILC)

A recent study by EUROMOD19 finds that the progressive effect in disposable income reduction for Greece and Romania is primarily due to public sector wage cuts. In Greece this effect is further aided by progressive tax cuts and cuts in public pensions. The latter is the case in Portugal as well. The results show that in Greece and Romania wealthier

¹⁹ Avram, Silvia et al (January 2013): *The Distributional Effects of Fiscal Consolidation in Nine Countries*, EUROMOD Working Paper No. EM 2/13. For details on the simulation of the progressive distributional effect in Greece, Portugal and Romania, see, p.12 – Figure 2.

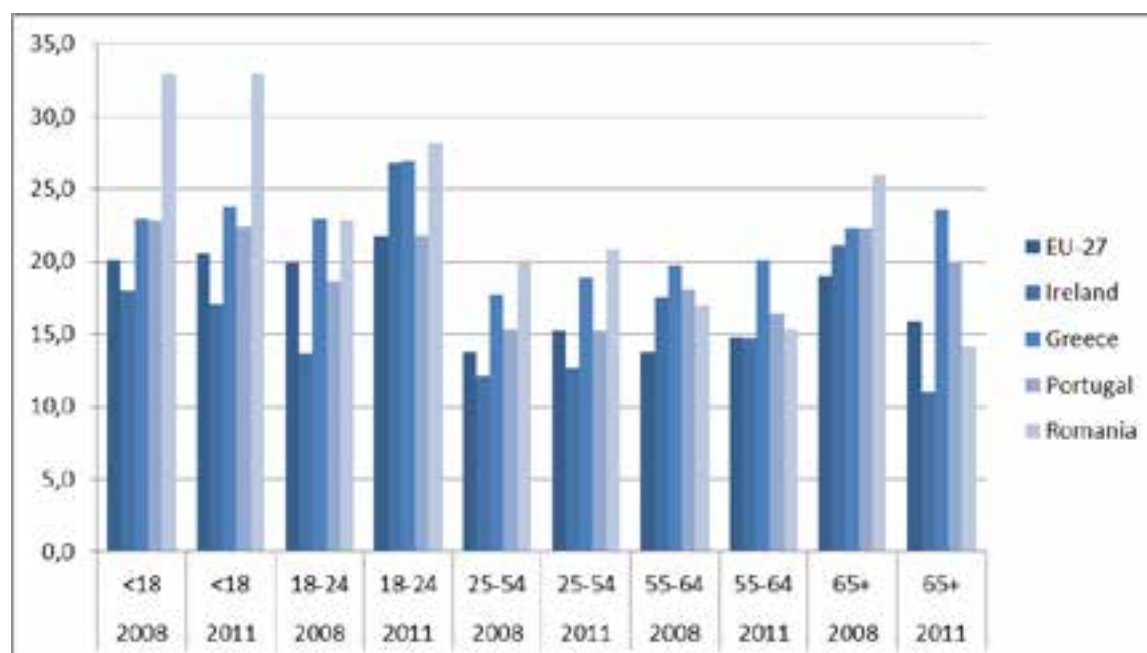
parts of the population contribute comparatively more to fiscal consolidation, while in Portugal it is both the poorest and the wealthiest parts of the population, with the middle income groups contributing less. In those countries where the poor lose a lower proportion of their income than the rich, it is important to point out that the scale of reductions for the poor is nevertheless still high reaching 8% for the bottom decile in Greece and more than 5% in Portugal.

The most common, but not used in all analysed countries, benefit cuts have taken place in public pension schemes, decreasing the purchasing power of pensioners, but not immediately exposing them at risk of poverty. Mostly these were not direct cuts, but rather the suspension of indexation or higher taxation of pensions. Portugal and Ireland stand out as countries that have cut non-pension benefits as well, including family benefits. In Portugal a freeze of means-tested benefits resulted in regressive effects.

One of the main challenges emerging from the economic crisis is the risk of creating a lost generation and emerging segmentation of social protection coverage with children, young persons and working age persons more exposed to economic hazards compared to pensioners. Those youths that are entering the labour market in this time of crisis are hit most severely by the crisis, and receive the least protection. **Figure 13** shows that the at-risk-of-poverty rate for those aged between 18 and 24 has dramatically increased in all four countries, and nearly doubled in Ireland. Meanwhile, pensioners have suffered much less under the crisis, with an increase in the risk of poverty only present in Greece, while a decline has taken place in the other three countries.

High youth unemployment disables young people to contribute to their own pensions for the future, while also taking a revenue loss now. Current social protection systems are, in fact, very often not designed to tackle long-term unemployment spells for young people. This bares the risk of creating a permanent disadvantage for those currently in their youth, and hence the creation of a lost generation. As social protection systems can only offer temporary relief to the long-term youth unemployed, there is a need for serious reform of the labour market. Otherwise these countries face the break-up of the solidarity chain, which will also impact the generation of their children.

Figure 13: At risk of poverty rate, by age group, 2008 and 2011



Source: Eurostat (EU-SILC)

1.6 Concluding Remarks

Member States implementing Economic Adjustment Programmes (EAP) have shown an extraordinary commitment to painful reforms. Lessons should be learned from their experience. Many of the measures strengthened their social protection systems while others failed to halt the rise of poverty and in particular child poverty. Social impact assessment must become part of the Economic Adjustment Programmes in order to choose the most appropriate path of reforms and adjust the resulting distribution impact across income and age groups. Micro-simulation models, at national (e.g. Switch in Ireland) and EU levels (e.g. Euromod) could for example provide an evidence base for such assessments, and their increased use could be reviewed.²⁰ The EPSCO Council should also review the progress of the aspects pertaining to social protection within the EAPs regularly.

It is paramount to decrease the burden for those already most disadvantaged. Increasing the risk of poverty for the youth adds to the risk of future unemployed persons. If no extensive ameliorating measures, such as the Youth Guarantee, are put in place to recoup the impact of the increased exposure to poverty of young people, this generation will be exposed to poverty as pensioners, because of the forgone pension contributions resulting from long spells of unemployment.

The experience also show that social protection reforms under the Economic Adjustment Programmes need to be adequately sequenced in order to avoid the risk of creating segmented social protection across social security branches and the life-cycle.

²⁰ <http://ec.europa.eu/social/main.jsp?catId=1024&langId=en&newsId=1417&furtherNews=yes>

Also see for Ireland: [Social Impact Assessment of Budget 2013](#)

Implementing the Social Investment Package, adopted by the Commission in February 2013, and especially the Recommendation on Investing in Children as well as the Active Inclusion Strategy can provide a way to ensure inclusive recovery and future growth.

2. RECENT REFORMS IN THE AREA OF SOCIAL INCLUSION, POVERTY REDUCTION AND ROMA INCLUSION

The Union is facing a substantial increase in poverty and social exclusion. **In 2011, there were 4 million more people at risk of poverty or social exclusion in the EU.** This compromises not only the achievement of the EU 2020 poverty and social inclusion target, but also the capacity of some Member States to maintain good outcomes in containing poverty and social exclusion. The deepening of poverty and social exclusion, including in good performing Member States, erodes public confidence in on-going reforms. This calls for urgent political attention.

In this context, improving the functioning of social protection systems and reducing poverty was part of the 2012 and 2013 Council recommendations issued to a number of members states²¹. These recommendations mirror the worsening social situation in Europe throughout the past years. Most recently, in July 2013 the Council made recommendations linked to tackling poverty and social exclusion and to improving the functioning of social protection systems to 12 Member States (**BE, BG, EE, ES, HU, IT, LT, LV, PL, RO, SK and UK**). Three recommendations make specific reference to **child poverty** (HU, LV, UK), while three refer to the specific **needs of the children** (BG, IT, RO). The CSR proposed for HU has also a focus on **Roma**, while three other MS have received Roma-specific CSRs (BG, RO, SK). BE has received a recommendation on the social inclusion of **migrants**.

The SPC analysis of the social inclusion measures taken by Member States' in order to help reducing the number of people at risk of poverty or social exclusion is based on the Strategic Social Reporting submitted by SPC Members. Overall, these measures can be broken down to the following groups of measures: **encouraging labour market participation** (especially that of people with disabilities, the youth and Roma), **improving access to schooling and pre-schooling education for some disadvantaged people** (e.a. children from poor families and Roma children), **improvement of housing conditions** and the mitigation of risk of exclusion by **increasing certain social benefits and allowances**.

The main policy actions used by Member States throughout 2012 and 2013 are presented in **Table 7**.

²¹ http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/2012/index_en.htm

Table 7: Overview of social inclusion reforms (January 2012-June 2013)

		Member States
Fostering social inclusion	Poverty-reduction and supporting people entering into the labour market	BE, BG, CY, DE, DK, ES, FI, IT, LT, LV, HU, PL, PT ²² , RO ²³ , SI, UK
	Investing in children	BE, BG, CY, DK, ES, FI, LT, LV, NL, PL, SE, SK, UK
	Housing	BE, ES, HU, LU, LV, NL, SE, SK, UK
	Roma	BE, BG, HU, SK

2.1 Measures for reducing poverty and supporting people's entry into the labour market

In **BE**, the second Federal Plan for combating poverty was proposed to the federal Council of Ministers in September 2012. It contains actions by all members of the government and is structured around six strategic objectives (ensuring the social protection of the population, reducing child poverty, facilitating accessibility of the labour market through social and professional activation, combating homelessness and inadequate housing, guaranteeing the right to health and providing government services that are accessible for everyone). This plan should contribute to reaching the European poverty target.

BG, PL, SI ES and PL adopted respective national strategies (BG and ES both received poverty recommendations in 2012 and 2013). The **BG** strategy combines measures such as income support, access to services and active labour market measures, targeting thus an active inclusion-type of approach.

ES's National Action Plan for Social Inclusion 2013-2016 is based on integrated actions in the field of social protection, access to quality services and employment at all levels of government (local, regional and national). Furthermore, it will include a new specific target dedicated to child poverty in order to promote the welfare of children at risk of social exclusion, thereby preventing the intergenerational transmission of poverty and loss of human capital. The poverty recommendation received by ES in 2012 focuses also on the need to achieve the well-being of children.

In **PL**, several strategies have already been adopted to reduce poverty and support people's entry into the labour market: the Strategy for Sustainable Rural Development, Agriculture and Fisheries for the period 2012-2020 (adopted by the Council of Ministers on 25 April 2012), the National Development Strategy 2020 (adopted by the Council of Ministers on 25 September 2012), the Social Capital Development Strategy (adopted by the Council of Ministers on 26 March 2013). They include tackling poverty and exclusion

²² For Portugal, please refer to section 1.4

²³ For Romania, please refer to section 1.3

of children and the elderly, integration through social and professional activation of groups at a risk of exclusion, development of high-quality social services, development of social capital and promotion of social economy. There are also few documents to be adopted in 2013: the Human Capital Development Strategy, the National Programme of Social Economy Development, the National Programme against Poverty and Social Exclusion 2020 (MLSP).

LV made an assessment of the current poverty thresholds to identify weaknesses. As a result, changes will be made to the minimum income level which is used to measure the required support for people at risk of poverty and social exclusion. The future measures (changes in the social security legislation) for reducing the high poverty risk in Latvia will be evidence-based using research from the World Bank (*“Who is Unemployed, Inactive or Needy? Assessing Post-Crisis Policy Options”*). As of 2013, LV implements a more targeted approach in order to encourage different target groups of unemployed returning to the labour market. This includes an improved profiling system for an efficient and rapid fulfilment of vacancies, offering the best labour market policy measures for each individual, financial incentive for reinforcing activation of those who are able to work but are NEETs and an improved cooperation between social services offices of local government and the Employment Agency.

In **SI**, the National Programme of Social Protection for the period 2013-2020 is the main national development document in the field of social protection, defining the key objectives in the field of social protection and social welfare as well as qualitative and quantitative goals for the development of social system in general and social services and programmes in particular. Its implementation plans will detail the objectives for the development and modernisation of social services and programmes focusing on their expansion (where needed), introduction of modern innovative approaches, strengthening the professional autonomy of providers of services and programmes and the further development of various forms of community care services.

CY undertook several emergency relief-types of actions taken in response to the crisis. The **CY** authorities have also recently announced new measures to stimulate employment of an estimated budget of €30 million to be funded by the European Social Fund. Also, the reform of the Social Welfare System is one of the main priorities of Cyprus as well as one of its obligations in the framework of the Memorandum of Understanding it signed with its partners, the European Commission, the International Monetary Fund and the European Central Bank. The Ministry of Labour and Social Insurance has developed a plan for this reform, which was approved by the programme partners. According to the plan the new system will be implemented as of 1st July 2014.

DE has also increased its efforts for supporting people to re-enter into employment - job centres have been given greater scope to find work for long-term unemployed persons or at least activate these persons to integrate them in the labour market in the future. **ES** increased unemployment protection combined with active labour market policies by extending the PREPARA Program. **FI** conducted a municipal trial with the aim of enhancing the employment of long-term unemployed persons in order to find new models based on local partnerships for integration into the labour market in order to reduce structural unemployment. The trial will offer local authorities better

opportunities to influence how services for long-term unemployed persons can be provided.

In April 2013, **DK** amended existing provisions and voted new ones as part of the cash benefit reform with the aim of helping youths obtain an education or find employment.

In 2012, **LT** launched the Cash social assistance reform to increase work incentives, strengthen the links between social assistance and activation measures and better targeting. The cooperation between local employment offices and municipalities was enhanced making the integration of the social benefit recipients into the labour market a priority. An additional social benefit was allocated for 6 months to the new employed with children. From 1 June 2013 this benefit is provided for all long-term unemployed who return to the employment market. The municipalities were also entitled to grant social benefits in cases where the income of the beneficiary exceeds the legally required amount. The gradual reduction of social benefits for inactive working age people was introduced (children are excluded from this reduction). In addition, the municipalities were allowed to maintain social benefits for long term unemployed if the employment office was not offering a job or a participation in active labour market policies. In 2012 a pilot project involving 5 municipalities was introduced authorising them to grant social assistance benefits. Based on the positive results obtained so far in terms of expenditure savings and targeting of the beneficiaries, draft legal acts were prepared authorising the remaining 55 municipalities to grant social benefits from 1 January 2014.

Since the beginning of 2012, **IT** implements a reform of the main means-tested mechanism (i.e. ISEE, indicator of the equivalent economic situation, introduced by Legislative Decree No 109/1998). The aims of this reform include the increasing of the efficiency and effectiveness of the delivering of social protection benefits according to the economic situation of households. The ISEE leads to assessment criteria for determining the economic status of households that require financial support or other services (child care, LTC services, etc.). It looks at the income and wealth of the household members using an equivalence scale. The provision is intended to increase the targeting ability of the instrument and the fair distribution of fiscal relief and social benefits. In addition, IT undertook a comprehensive reform of its insurance-based system of unemployment benefits (law from June 2012). The reform addressed the equilibrium between flexibility and security in the labour market. On one side, individual dismissal rules were reviewed, safeguarding fundamental workers' rights and respecting employers' needs. On the other side, social protection provisions were extended and strengthened in order to support unemployed during job search. The reform established a universal unemployment insurance benefit (Assicurazione Sociale per l'Impiego-Aspi). The reform extended the coverage of the workforce and the duration of benefits: 12 months for those under 55 and 18 months for more senior workers. It shortened the duration of benefits granted to workers close to retirement but who were made redundant.

Also the **NL** took measures for a more activating social security. The government intends to increase the activating nature of social assistance benefits: the obligation to look for work, as well as the duty to contribute according to one's ability in return for benefits, will apply for everyone. Only people who are fully and permanently incapacitated for

work will be exempted from the duty to cooperate with the process of labour market reintegration.

Some Member States (**HU**, **EE**, **BE**, **UK**, **ES**) have taken steps towards administrative simplification. **HU** has instituted a *common social database* with the aim to improve the effectiveness of social benefits and to simplify their administration – this exercise covers family benefits, social and child protection allowances, and benefits related to disability and changed working capacity. **EE envisages** reforming the administration of benefits linked to the incapacity for work (both short-term e.g. sick leave and long-term incapacity) – such benefits would be transferred to the Estonian Unemployment Insurance Fund. In **BE**, a considerable transfer of powers from the federal government to the federated entities is being prepared that will also have an important impact on social policy. In the **UK**, the Universal Credit will ensure that everyone is better off in work and the work programme will provide tailored support to those out of work the longest. To support this, local authorities will have a strengthened financial stake in lifting people out of poverty. **ES** has approved a Reference Catalogue on Social Services which lists the reference benefits of social services as well as establishes principles of good quality and common use.

2.2 Investing in children's welfare and in childcare

The analysis of the development of the social situation in the Member States indicates the need for investing continuously in policies aimed at improving the living conditions of children. Some Member States have adopted a social investment approach by refocusing spending in an attempt to improve the social situation of children in a targeted and efficient way in order to break the intergenerational transmission of poverty. This has been one of the main recommendations by the Commission in its Social Investment Package²⁴.

In **BE**, on June 10th of 2013, a national child poverty action plan was presented to the inter-ministerial conference 'Integration in society' that consists of ministers responsible for social integration from all levels of government in Belgium. The plan, which explicitly refers to the Commission recommendation 'Investing in children: breaking the cycle of disadvantage' contains 140 concrete actions aimed at improving access to adequate resources, access to affordable quality services and children's right to participate and at fostering cooperation between different levels of government. In 2013 **LV** implemented income support measures for families with children in order to reduce the high poverty rates for children. These include: real estate tax relief to large families (three and more children), doubling of the mandatory social insurance payments for parents raising a child (up to 18 months of age) and of the maximum amount of maternity, paternity and parental benefits as well as doubling of the minimum amount of parental benefits and an increase of the amount of benefits granted to new-borns until they reach 18 months.

IT launched a new Social Card introduced by a law in 2012 which is now geographically extended covering the whole of south of Italy for a total amount of EUR 167 million. The ordinary social card consisted in a pre-paid debit card that can be only used to purchase

²⁴ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52013DC0083:EN:NOT>

food products, electricity and gas, infant formula and diapers. It was limited to children aged 0-3 or persons aged 65 and over with a very low income. The card holder disposes of EUR 80 credited on the card. The new Social Card will follow a different approach combining a more substantial monetary support with social services managed by local authorities. The main target is to tackle child poverty as it mainly addressing the needs of households with children furthest from the labour market. The credited amount depends on the number of persons in the family and ranges from € 213 for families of 2 persons to € 404 per month for families with 5 or more members.

SE has focused on developing the rights of the child. During 2012-2014, the Ombudsman for Children will increase knowledge on how strengthening the rights of the child can be used by municipalities, county councils and government agencies to safeguard the rights of the child. The government has also taken several initiatives such as appointing the National Board of Health and Welfare in order to formulate guidelines for social services, health and medical care, dental care and the school system.

In September 2012, **DK** reinforced its legal framework in order to ensure extensive, early and preventive measures in the area of child protection against abuse and neglect. In **FI**, a working group has been put in place in order to develop the effectiveness of municipal family work, ways of operation of the child welfare system and the Child Welfare Act. In addition, a subgroup has been set up to complete the quality recommendation for child welfare. Based on its investigation the working group may propose changes to improve the Child Welfare Act and the methods of child welfare.

In **ES**, the Strategic Plan for Children and Adolescents 2013-2016 has been approved by Council of Ministers. The defence of child interest in adoption processes, to foster child care or state guardianship as well as child protection and help in cases of domestic violence, and the creation of a Unified Register of Children Ill-treatment and a Register of Sexual Exploitation Cases are some of the fundamental pillars of the new Plan.

LT, FI, LV, SK, UK and **PL** have taken measures regarding childcare. In **LT**, the models of child care currently used are being mapped out and analysed in order to determine the possible child care solutions enabling flexible child care service for families (including the day care service for children of 1.5 to 3 years of age). **FI** reformed early childhood education and care and child day care. A working group for drafting new legislation on early childhood education and care services has been put in place. The possibility of making pre-primary education for 6-year-old children compulsory is being explored with the aim to secure the participation of the whole age cohort in pre-primary education. The **UK** implemented a major welfare reform centred on the Universal Credit focussing on extension of childcare use by disadvantaged families and elimination of financial disincentives to work. Amendments to the **PL** law on family support and foster care system effective from January 2012 strengthened the support provided to marginalised families and improved the family-based foster care and adoption procedures. In addition, **PL** plans to raise enrolment rates of children in both early childcare and pre-school education by improving the different forms of care for children under the age of 3 years in order to enhance the labour market participation of parents. The amended Act on care for a child under the age of 3 (entered into force in July 2013), introduced 1) reduction the amount of municipality's own contribution from 50% to 20% when applying for funding from the state budget for the establishment and

operation costs of care institutions, 2) expanding the list of companies able to apply for funding from the state budget for the establishment and operation costs of care institutions or 3) extending the list of entities that may employ a childminder (daily career). In **LV**, local governments (since September 2013) co-finance the cost for the enrolment in private facilities of children from 1-4 years in cases where there is a waiting list for public facilities. Also (since January 2013) parents of children (5-18 years old) with disabilities can benefit from an assistant providing support equivalent to 40 hours per week. In **SK**, in order to balance work and family life and improve access to childcare services for children up to three years of age, direct financial support will be provided to families through a childcare allowance in order to increase families' income.

2.3 Measures related to access to housing

The analysis of the 2013 Strategic Social Reporting shows that significant policy actions have been taken to improve access to housing and reduce homelessness in Member States.

In **SE**, the Government is continuing to support efforts by municipalities to combat homelessness and exclusion from the housing market. It has appointed a national coordinator who, in 2012-2013, will help them take preventive action. County administrative boards have been instructed to give municipalities support and advice in planning measures to combat homelessness, particularly with regard to families with children affected by eviction. **ES** also took measures against home evictions, facilitating mortgage debt restructuring and providing the debtor with a more beneficial repossession process. In addition, **ES** is also preparing a state plan promoting rental housing, rehabilitation, regeneration and urban renewal for the period 2013-2016. Recently the Parliament of Spain passed three laws in order to promote housing access and permanency for the most deprived. The new legislation deals with mortgage debtors protection, debt restructuring and social renting, promotion of rental housing, rehabilitation, regeneration and urban renewal, fighting substandard housing and accessibility for the disabled. The **NL** introduced income-dependent rent increases aligning rents with household incomes in the social housing sector to improve sustainability and improve targeting of the social housing sector. In **BE**, the *Flemish Action Plan for Combating Poverty* introduced a substantial automatic rent subsidy for people that have been on a waiting list for social housing for a long time. In the **UK** through the Housing Benefit, the government is monitoring market rents to track the impact on affordability of accommodation, monitoring and controlling growth of Housing Benefit in the private rented sector as well as in the social rented sector.

HU is implementing complex programmes of segregated slums and developing a connecting housing strategies aimed at the decrease of housing and spatial disadvantages, with a particular focus on the Roma community. **SK** also took measures to improve access to housing, building rental housing and social housing, especially targeting low-income households. In **LV** there are planned initiatives in order to promote housing availability through the elaboration of common criteria for the reception of housing benefits and the development of a state program for new parents in

order to provide them with the first house, thereby addressing the problems of housing exclusion and promoting the social inclusion of families with children. In **LU** the Government has endorsed the national strategy against homelessness and housing exclusion for the years 2013 – 2020. The four objectives of the strategy are 1) to create long stay, suitable and sustainable accommodation with floating support for formerly homeless people, for elderly homeless people, for people living in insecure and inadequate housing and for people released from institutions ; 2) to respond adequately and swiftly to an emergency situation ; 3) to prevent homelessness and housing exclusion and 4) to strengthen the on-going measures and to match resources more appropriately to existing services.

2.4 Measures related to Roma inclusion

BG, HU and **SK** put in place policy measures related to improving Roma inclusion. National strategies for Roma inclusion were developed in **BG** and **HU** in order to achieve policy co-ordination at national level. **SK** focuses its efforts on improving the access to, as well as the quality of education. It also developed support for enhancing the employability and employment levels of disadvantaged groups (such as the Roma communities and people with disabilities).

In **BE**, Flanders has developed an integrated action plan to activate the Roma in particular. The action plan is inclusive, with measures have been taken in the area of education, housing, integration, wellbeing, employment and international cooperation.

2.5 Measures targeting people with a migrant background

FI aims to improve the situation of immigrants through a programme which requires the different administrative branches' commitment to equal treatment, non-discrimination, prevention of racism and promotion of good ethnic relations. An implementation plan for this strategy will be prepared in 2013.

2.6 Measures in the area of education and training

In the area of education and training, Member States have taken measures ranging from intervention in early childhood education to policies targeting the youth.

In **DE**, early childhood education as part of public welfare will be reinforced by a legal right to a day-care place for every child over the age of 1 as of 1 August 2013. High-quality nearby facilities will be set up as part of expanding child care as jointly planned by national and federal state governments. This will facilitate access to education, help prevent social inequality during schooling, have a preventive effect and improve the chances for better social inclusion.

HU and **SK** took measures in supporting access to education for disadvantaged people, in particular children from marginalised Roma communities. In **SK** for instance, a call for a development project was issued – support for the creation of a positive social climate

and motivation in multicultural classes in primary schools. 23 projects received support amounting in total to EUR 60 500. Support included cooperation with nongovernmental organisations working in the area, whose partnership in the proposed project was a necessary condition of applications. In 2013 a call was again issued for the development project “Support for the upbringing and education of pupils from socially disadvantaged backgrounds in primary schools 2013”.

3. RECENT PENSION REFORMS IN THE EU

The crisis pushed the pace of pension reforms in practically all EU Member States. The initial financial crisis gradually developed into economic and then fiscal crisis. The fiscal challenges (increasing budget deficits and government borrowing) faced by many Member States prompted the need for fiscal consolidation with implications for both pension and health care policies.

For the last eighteen months new reforms of the pension systems were launched, though the level of ambition varies. The multilateral surveillance of the SPC and the strategic social reporting are the main sources used for monitoring and assessing the pension reforms over the last eighteen months. However, the pace of pension reforms goes beyond the recommended policy actions within the European semester. Further, pension reforms are also undertaken by Member States which did not receive a Council recommendation in this area. Therefore this chapter presents the main features of the pension reforms across the EU.

The pension reforms undertaken over the period 2012 mid 2013 combine different actions which converge toward the following six policy levers: a) early retirement; b) pensionable age; c) contributory periods; d) level of pension benefits; e) pension indexation; f) second and third pillars pensions. Of course, an alternative presentation of these policy levers would combine 'level of pension benefits' with 'pension indexation' because changing the pension indexation mechanisms impacts directly the level of pension benefits.

Table 8 below shows an overview of Member States' reforms with reference to the six policy levers described above. Through these main policy actions, Member States pursue enhanced adequacy and sustainability of their pension systems. While putting public finances on a sustainable path is a top economic priority, there is an increasing recognition that unless future pension adequacy is addressed now policy-makers will face a delicate political situation in the future stemming from an increasing risk of poverty among pensioners.

Table 8: Overview of pension-reform measures, 2012-2013

		Member States
Early retirement	Tightening	AT, BE, BG, CY, CZ, ES, FI, FR, LU, PL, SI, SK, IT
	No changes in 2012-2013	DK, LV, MT ²⁵ , NL,
Pensionable age	Reduction	FR ²⁶
	Increase (legislated in 2012-2013)	BG, CY, ES, FR ²⁷ , NL, PL, SI, SK, IT, UK ²⁸
Contributory period	Reduction	none
	Increase	AT, BE, BG, CY, LV, ES, SI, UK ²⁹
	No changes in 2012-2013	CZ, DK, LT, LV, LU, MT, NL
Level of pensions	Reduction or freeze	CY
	Increase	BE, BG, FR, SI, LV
	No changes in 2012-2013	AT, CZ, DK, ES, FI, LU, MT, NL, PL, UK
Pension indexation	Changes	BG, CZ, CY, ES, FR, LU, LV, PL, SI, SK
	No changes in 2012-2013	AT, BE, DK, FI, MT, NL, UK
Funded pensions	Changes	CZ, LV, LT, SK, the NL

3.1 Reducing early retirement possibilities and increasing the duration of contributory periods

AT, BE, BG, CZ, DK and **SI** reformed the eligibility criteria for disability pensions and/or tightened the channels to early retirement by increasing the qualifying age for disability pensions and the lengths of contributory periods required to qualify for early retirement (**AT, BE, BG, CY, ES, SI**). **DK** introduced a minimum age requirement (40 years) in order to qualify for disability pension unless it is evident that no working ability is left. In addition, special measures are put in place for delaying the exit of workers from the labour markets (Fit2Work in **AT**), for combining pension benefits with work-related income (**BE** and **SI**) or for providing incentives for additional months spent at work after the retirement age.

²⁵ In Malta's case, the 2006 pension reform increased the pensionable age to 65 years for both genders by 2026, lengthened the contribution period (40 years) and increased the average exit age from the labour market.

²⁶ In the case of FR, the reduction of the pensionable age in this case concerns a very limited category of workers who fulfilled the requirement for full contributory period before retiring.

²⁷ FR legislated in 2010 an increase of the retirement age for the overall population despite the reduction of the retirement age for some workers as explained above

²⁸ UK introduced legislation in May 2013. This has not yet completed its passage through Parliament.

²⁹ Legislation introduced in UK also provides for basic and part-earnings-related components of state pension system to be replaced by a "single-tier" flat-rate pension. New pension contribution period longer than current basic contribution period, though no limit on current earnings-related component

CY and **ES** extended the penalties for early exit. **ES** also increased both the eligibility age for and extended the length of the contributory period (the number of years of contributions to the pension scheme) required for early retirement. **FI** raised the minimum age for partial early pension and abolished some early pension benefits. In addition, **FI** amended its Health Insurance Act and Occupational Health Care Act with the view to strengthen the role of occupational health care in supporting re-entry into work. If absences from work due to illness occur repeatedly or are prolonged, the occupational health service must evaluate the employee's work ability and explore the employee's possibilities to return to work.

LU introduced in 2012 a regressive rate applicable to the salary segment of the pension benefits: the longer the working career is, the higher the rate would be. **PL** introduced a minimum age requirement (55 years) and increased the length of service (from 15 to 25 years) required to qualify for early retirement in special scheme for uniform services. **SK** abolished in 2013 the possibility for early retired persons to receive income from 'atypical employment' which reduced their number.

Finally, the extension of the contributory period for pensions (the number of years a worker contributes to a pension scheme) is also among the policy options of the forthcoming pension reform in **FR**.

The experiences of Member States show that policy-makers consider different options for enhancing the sustainability and adequacy of their pension systems. As described above, the extension of the length of the contributory periods for pensions (the number of years a worker contributes to a pension scheme) is a structural measure used by many Member States in the policy-mix of their pension reforms. Both the increase of the retirement age and the extension of the contributory periods required to access certain pension benefits are measures signalling to workers that the access to a pension without an actuarial reduction depends on their stay in employment. Further analysis is needed on the exact impact of each of these measures on both the sustainability and adequacy of pensions.

3.2 Pensionable age

Table 9 presents the statutory age for retirement for men and women in force in the Member State as of 1st of January 2013. The columns 'current' in the left and right parts of the table indicate the statutory retirement age as of 1st of January 2013. The columns 'future' show, where relevant, the increases of statutory retirement age for those Member States that legislated such increases of the retirement statutory age.

Table 9: Overview of statutory age for retirement for men and women

	Men			Women		
	Current	Future	Year of implementation	Current	Future	Year of implementation
AT	65	n/a	n/a	60	65	2033
BE	65	n/a	n/a	65	n/a	n/a
BG	63,8	65	2017	60,8	63	2020
CY*(b)	65	65	*(b)	65	65	*(b)
CZ	62,5	no age limit	n/a	61,3	no age limit	n/a
DE	65,2	67	2029	65	67	2029
DK*(a)	65	67	2022	65,2	67	2022
HR	65	67	2038	60,9	65	2030
EE	63	65	2026	61	65	2026
IE	66	67(68)	2021(28)	66	67(68)	2021(28)
EL*	65	67	2020	60	67	2020
ES*	65,1	67	2027	65,1	67	2027
FI****	63	n/a	n/a	63	n/a	
FR**	60,4	62	2017	60,4	62	2017
IT*	66,3	67	2021	66,3	67	2021
LV	62	65	2025	62	65	2025
LT	62,9	65	2026	60,5	65	2026
LU	65	n/a	n/a	65	n/a	n/a
HU	62	65	2022	62	65	2022
MT	62	65	2026	62	65	2026
NL*(c)	65	67	2021	65	67	2021
PL	65,1	67	2020	60,1	67	2040
PT	65	n/a	n/a	65	n/a	n/a
RO	63,4	65	2030	58,4	63	2030
SI	65	n/a	n/a	65	n/a	n/a
SK*(d)	62	63	2025	57,6	63	2025
SE***	65	no age limit	n/a	65	no age limit	n/a
UK* (e)	65	68	2046	61,5	68	2046

Note: The sources for this table are : SPC multilateral surveillance, NRP(s) and National Social Reports

* This means that this country decided to link the statutory retirement age to longevity growth. In Sweden there is no upper retirement age limit

** The retirement age is linked to the duration of the insurance period

*(a) : adjusted to life-expectancy gains every 5 years, starting 2030

*(b) : adjusted to life-expectancy gains as of 2018. In the case of CY the statutory retirement age of the first pillar of the General Social Insurance Scheme (GSIS) is 65 years for both sexes. This however does not concern the second pillar – the Government Employees pension scheme.

*(c) : adjusted to life-expectancy gains every year starting 2022

*(d) : adjusted to life-expectancy gains every year as of 2017

*(e) Pensionable age equalises at 65 for both sexes in 2018. Pensionable age then rises to 66 in 2020, 67 in 2028 (under proposals currently in Parliament) and 68 in 2046.

*** : flexible retirement age linked to the benefit level

**** :The statutory retirement age in FI for earnings-related employment pensions is 63-68. The statutory retirement age for the 'national pension' is set at 65. 'National pensions' are granted to those without an employment-related pension or in cases where the amount of the latter is below a threshold.

While all Member States are committed to increasing the length of working careers, they use different approaches to achieve this goal. In total, 20 Member States have legislated future increases of the statutory retirement age. Among them, seven countries decided to align their statutory retirement age and life expectancy (**CY, DK, EL, ES, IT, NL** and **SK**). **SE** and the **CZ** are the only Member States without an upper age limit. As regards **FI**, the statutory retirement age is 63-68 as regards the earnings-related employment pensions. The statutory retirement age for the 'national pension' is set at 65. 'National pensions' are granted to those who do not receive an employment-related pension or in cases where the amount of the latter is below a threshold.

The comprehensive pension reform of **IT** legislated in 2011 came into force on 1st of January 2012. The reform raised the pensionable age by tightening the eligibility conditions through an increase of the age for old-age pension, the establishment of an automatic link between the age of retirement and growth in life expectancy and the abolition of the early retirement possibility (the so called 'seniority pension'). The reform also harmonised the pensionable age for women and men and the rules for retirement ages for different professional categories. Accordingly, the projected standard age for old age pension will raise from 66,3 years (male – public sector in 2013) and 66,3 (women – public sector in 2013) to 69,9 in 2050 for both men and women

The **UK** abolished the Default Retirement age (age at which employers could compel employees to retire) in 2011. The latest possible retirement date that could have been set using the DRA procedure was 5 October 2012. The UK is currently legislating for a review of State Pension age (age from which people become eligible for the state pension) to take place in every Parliament. The reviews will take into account life expectancy and other relevant factors.

Currently, all other Member States consider that the statutory retirement ages as set by their legislation are high enough and therefore the policy efforts must focus on closing the gap between the effective retirement age (this is the age at which people retire on average irrespective of the statutory retirement age) and the statutory retirement age. Raising the effective retirement age is in fact considered as the main policy option to delay exiting the labour market through either tightening the early retirement age or by increasing the duration of insurance periods required to access pension benefits without an actuarial reduction or introducing sanctions through the pension indexation mechanisms in cases of early retirement.

Figure 14: Legal retirement ages in EU countries (1st of January 2013)



With respect to the future evolution of the statutory retirement age and its linking to growth in life expectancy, Member States can be grouped in the following clusters (see **Table 10**):

Table 10: Evolution of statutory retirement age across MS

		Member States
Statutory retirement age	Future increases	AT, BG, DE, DK, HR, EE, IE, EL, ES, FR, HU, IT, LV, LT, MT, NL, PL, RO, SI, UK
	No planned increases	BE, LU, PT, FI ³⁰ ,
	Aligning with life-expectancy	CY, DK, EL, ES, IT, NL, SK
	No upper retirement age limit	CZ, SE

³⁰ In Finland a pension reform is under preparation aiming at legislative changes effective from 2017.

Member States which decided future increases in their statutory retirement age will achieve this through progressive increases of the statutory retirement age over time using different time horizons (see **Table 10** for further references): the aligning of the statutory retirement age will first take place in **SK** (in 2017) and **CY** (in 2018). In **CY**, the first adjustment will depend on the increase of life expectancy between 2018 and 2023. The only Member State which decided to decrease the legal age allowing workers to retire earlier is **FR** which adopted a measure applicable only to a very specific category of workers driven by equity considerations. However, the **FR** social security legislation (since 2010) provides for an increase of the retirement age of the overall population to 62 years in 2017. Therefore, **FR** is shown in the cluster of Member States planning future increases of the retirement age.

The cases of **SE** and the **CZ** are also very specific because these countries have no upper age limit for retirement.

BG announced further measures following the legislated in 2011 increase of the statutory retirement age from 63 to 65 for men by 2017 and from 60 to 63 for women by 2020. **ES** also increased the statutory retirement age with a gradual increase from 65 in 2012 to 67 in 2027. **CY** linked the pensionable age to life expectancy as of 2018 (the decision was taken in 2012) while **SK** decided to establish this link in 2017. **LV** legislated the increase of the pensionable age to 65 years by 2025 while in **LT** it should reach 65 years for women and men in 2026 according to the 2011 pension reform law which came in force beginning of 2012. **LU** introduced a link between working time and longevity sanctioning pension adequacy in case of early retirement. **NL** legislated a gradual increase of retirement age from 65 in 2012 to 67 in 2023 with links to longevity gains afterwards and created incentives for employers to retain and hire older workers. **PL** legislated the gradual increase and equalisation of the retirement age for men from 65 to 67 by 2020 and from 60 to 67 for women by 2040. **SI** decided to equalise and raise the pensionable age to 65 by 2020.

FR laid the ground through a consultative process for a new pension reform planned for 2013 and reintroduced the possibility of retirement at 60 for a limited number of people (110 000 workers in 2013) with full contributory period. This measure is based on equity considerations as these workers started their careers very early and reached 40 years of pension contributions.

The comprehensive pension reform of **IT** legislated in 2011 came into force on 1st of January 2012. The reform raised the pensionable age by tightening the eligibility conditions through an increase of the age for old-age pension, the establishment of an automatic link between the age of retirement and growth in life expectancy and the abolition of the early retirement possibility (the so called 'seniority pension'). The reform also harmonised the pensionable age for women and men and the rules for retirement ages for different professional categories. Accordingly, the projected standard age for old age pension will raise from 66,3 years (male – public sector in 2013) and 66,3 (women – public sector in 2013) to 69,9 in 2050 for both men and women

3.3 Level of pensions

To maintain or reinforce the adequacy of their pension systems, **BE, BG and SI** took measures to increase the level of the pension benefits. In **BE**, under the prosperity adjustment mechanism, the pensions of salaried workers and self-employed workers, which started in 2007, and the disability allowances for those unfit for work which started in 2006, were increased by 2% in real terms in September 2012. On 1 April 2013, the minimum household pension for self-employed workers was raised to the level of the one for salaried workers.

The minimum old age pension in **BG** was increased as of 1st of April 2013 from BGN145 to BGN150 as well as the social pension for old age which increased from BGN100 to BGN110. These increases will generate increases in all other benefits related to the minimum pensions for old age. The indexation of pensions in **SI** was very modest – 0.1% in 2013. **SK** introduced a new model for calculating pension benefits based on pension points.

As part of its Economic adjustment programme, **CY** decided to freeze the increase of pensions by 2016 and implements a scaled reduction of pensions for early retirement. Furthermore, in order to address the high-at-risk-of poverty rate for the elderly low income pensioners received in 2012 the Easter Grant to pensioners with low income, a one off payment of €270 that was granted to every pensioner in a household whose total annual income was below €13.390 (household of one person). As per the provisions of the Programme there will be further streamlining of the Easter allowance to pensioners by limiting the benefit to pensioners with a monthly per capita pension of at most €500.

In the pension reform of **LU** adopted in December 2012 (applicable as of 1st of January 2013), the Government maintained the principle according to which insured persons with a working career of 40 years will receive a pension equal to at least 90% of the minimum wage. **EL** and **CY** are among the two EU countries which reduced the level of the pensions due to their fiscal consolidation programmes demanding to bring down the share of the pension expenditure in their public expenditure. **LV** is gradually restoring the contribution into the statutory funded pillar at the level of 6% by 2016.

In the **UK**, legislation to replace the current two-tiered pension system with a single-tier, flat-rate pension is currently progressing through parliament. The new pension, expected to be implemented in April 2016, will be set above the basic level of means-tested support to provide a clear foundation for wider retirement saving. The reforms are an important underpin for automatic enrolment, rollout of which started in October 2012 and which is expected to lead to 6 to 9 million people saving more, or saving for the first time, into a workplace pension.

3.4 Indexation of pensions

Some Member States are moving away from a pension indexation exclusively based on growth in wages toward an indexation based on a coefficient reflecting consumer price index and cost of living (BG, CZ, SI and SK). **CZ** revised, temporarily, the pension indexation mechanism downwards. **SK** decided to use an inflation-based indexation of pension as of 2018. **LU** introduced new adjustment mechanism of pensions. **LV** restored pension indexation for small pensions in 2013: all pensions will be subject to indexation based on prices starting from 2014. **SI** introduced a bonus/malus rule in case of shortened or prolonged work careers. In **FR** social partners reached an agreement (applicable to AGIRC ARRCO pay-as-you-go compulsory supplementary schemes) in 2013 on a limited indexation of pensions for the period 2013-2015 (1pp less than inflation). In **LU**, pension benefit indexation was limited to 2013 prices, instead of wages. In **PL** rules of indexation were temporarily changed allowing for an increase of all pensions with the same amount

3.5 Funded pensions

Some Member States have also reformed their funded pension schemes either as part of an overall pension reform or as part of specific measures. In **LT**, the Parliament adopted (end of 2012) changes in the funded pension scheme. From 2014 the contributions to the Pension Funds for the new members will comprise of three sources: 2 percent of obligatory pension contribution, 1 percent paid by the member (2 percent as from 2016) and 1 percent of the country average wage additionally paid by the State (2 percent as from 2016 : so-called “2+2+2” formula). In 2013 the funded pension scheme members were allowed to sign an agreement under the terms of which they would pay additional contribution of 1 percent and receive a State sponsored contribution of 1 percent of the country average wage.

3.6 Conclusions

A big majority of pension reforms is undertaken with the view to improve the sustainability of the pension systems and reduce public deficit. While running unsustainable pension systems compromises future adequacy, a pension system providing inadequate pension benefits with regard to previous income and contributions compromises its legitimacy and attractiveness. Therefore, pension reforms need to include a smart mix of measures reinforcing the adequacy of the system and improving its sustainability.

The future adequacy and sustainability are closely linked to economic performance and labour market developments. If there is no economic growth and labour markets do not deliver higher employment rates, reforming only pension systems will not be enough. Reducing youth unemployment today is crucial for the future sustainability and adequacy of pension benefits. Closing the pension gender gap requires actions to ensure equal opportunities in the labour market taking into account the career breaks of women.

Different policy options can be envisaged for ensuring the sustainability of public finances in the context of ageing populations. Some Member States are considering or have put in place reforms aligning the pensionable age and life expectancy and/or other incentives for prolonging working careers. However, aligning the pensionable age and life expectancy requires broad political and public support which is not always within reach, particularly in cases where the implementation of pension reforms overlaps with other structural reforms affecting welfare policies. In a context of an overall recession in the Euro area and beyond, the mere increase of the statutory retirement age alone will be insufficient to enhance the sustainability of the pension system. Weak growth and subdued labour markets create difficulties for older workers to remain in employment and adversely affect the sustainability of pensions. Yet, both the increase of the retirement age and the extension of the contributory periods required to access certain pension benefits signal to workers that the access to a pension without an actuarial reduction depends on their stay in employment.

Therefore, pension reforms need to be supported by incentives stimulating employers to hire and retain older workers. Barriers restricting their employment must be removed. Working conditions must enable older workers to stay in employment longer and to provide equal opportunities for women and men at all ages.

4. HEALTH CARE REFORMS

Over the last 18 months, many Member States undertook health care reforms to respond to external pressure on their health care systems stemming from the population ageing, the associated increase of chronic diseases, the diffusion of new health technologies and the induced higher expectations of patients. The lack of growth and the protracted recession adds an additional challenge to the sustainability and performance of health care systems. For health systems financed through contributions based on wages, the severe unemployment crisis in some Member States is adversely affecting the inflow of revenues into the health insurance arrangements. For health care systems with tax based financing, the lack of growth reduces the taxes revenues used to fund the health care systems. Against this background, this chapter examines the health care reforms enacted recently in the EU including in Member States which received a health related Council recommendation in 2012. Although health and long-term care are part of the same open method of co-ordination, this particular chapter does not deal with long-term care policies because a special thematic report on this policy area will be prepared by the Social Protection Committee for the end of 2013.

This review of health system reforms is not a critical assessment of progress made. Rather, it shows the areas of health care policy which have been subject to structural reforms and it identifies common trends of policy development at EU level (see **Table 11**). The analysis is undertaken with the view to provide a comprehensive strategic overview on social protection reforms of which health is an important strand. As such the work of the SPC in the area of health does not replace but complements the more detailed analysis of the High Level Group on Public Health. This explains why issues such as public health or health evaluation are not part of the SPC work.

**Table 11: Recent health care reforms in the EU: main developments
(January 2012 - June 2013)**

			Member States
Health care systems reforms	Stewardship of the health care systems	Policy changes	AT, CY, EL, ES, FI, DE, HU, IT, LT, LV, UK
	Health service delivery (including e-health)	Services delivery	AT, BE, ES, HU, LT, LV, UK
		E-Health	AT, BG, ES, LV, MT, PL, SK, SE, UK
	Investing in the health care workforce	Pay increase	HU, LV, SK
		Professional development and better working conditions	BG, DE, HU, MT, PL
	Cost containment and cost-sharing	Cap on health expenditure growth	AT, BE, FR
		Optimising pharmaceuticals spending	BE, CY, EL, ES, HU, LV, MT, PT
		Cost sharing	ES, IE, DE, LV
	Enhancement of access to services and of patient's choice	Access to services	BE, EL, LU, LV, MT, RO, UK
		Patients' rights	DK, SE, UK

As shown in the table above, the reforms implemented over the last 18 months combine one or more of the following policy developments:

1. Stewardship of the health care systems (including structural changes to the financing)
2. Health service delivery (including e-health)
3. Investing in the health care workforce
4. Cost containment (cap on health expenditure growth, costs-sharing and optimising pharmaceuticals spending)
5. Enhancement of access to services and of patient's rights

This way of structuring of the building blocks of health system reforms is of course arbitrary and needs to be seen in the context of this report. Nevertheless it takes into account the four functions of health systems as identified by the World Health Organisation³¹.

³¹ European Observatory on Health Systems and Policies (2012) *Health systems, Health, Wealth and Societal Well-being*, edited by Figueras, J and McKee, M, Open University Press

4.1 Stewardship of the health care systems (including structural changes to the financing)

For the purpose of this chapter, stewardship of the health care systems refers to structural macro changes made to the health systems' design including changes to the governance arrangements and the way the systems are financed. Achieving better overall performance of the health care system is a key priority for many governments. The reforms over the last eighteen months (January 2012 –June 2013) focussed on improving the co-ordination between primary and secondary health services, aligning the health objectives between central and local governments, improving patient's safety by concentrating complex medical procedures and tests requiring sophisticated equipment and knowledge in a few facilities, introducing new arrangements for financing health care services and for improving cost-efficiency of procurement of good and services.

As part of its response to the Council recommendation issued in 2012, **AT** undertook a significant health care reform aiming to overcome the institutional fragmentation of health care services in order to achieve better coordination in the planning, governance and financing of the inpatient and outpatient services. The ultimate aim is to control the growth of health care expenditure. More concretely, **AT** introduced health care management by objectives in its federal law passed by Parliament in May 2013. In addition, in December 2012 the Federal Government and the Länder signed two framework agreements which include a 'health expenditure containment path' intended to align the growth of public health expenditure to the GDP growth.

To respond to critical financing conditions of its hospital sector, **BG** introduced a new hospital care pricing model based on the use of diagnosis-related groups (DRGs). This model will roll-over after its adoption in 2012 and full implementation is expected in 2015. The **CY** intentions to move on with the planned introduction of the National Health System (NHS) have been delayed by the economic adjustment programme. Accordingly, the costs and benefits of the planned introduction of the NHS will be assessed in an updated actuarial study which will also examine the possibility for gradual implementation of the NHS. **CY** continues however to undertake actions with the view to facilitate the implementation of the NHS by preparing an action plan on hospital restructuring, designing 10 new clinical guidelines concentrated on the diseases with high annual volume and costs, introducing diagnosis-related groups (DRGs) payment based system and a network of family doctors to act as gatekeepers.

ES is implementing a National Health System reform as part of its efforts to reduce deficit. The results so far show a reduction in healthcare expenditure of 8%. New initiatives will also be adopted, with an estimated total impact of EUR 3.13 billion in 2013. The implemented measures include the introduction of portfolio of services composed of a basic portfolio of services and a common extra portfolio of services subject to a contribution from users (outpatient provision of diet therapies and orthopaedic prostheses, and the use of non-urgent health transport). These measures alone are expected to generate efficiency gains in the range of EUR 175 million in 2013.

The 2012 health care reform in **EL** made substantial changes to the design of the health social security arrangements: the health directorates of all social security funds were merged in a National Organization of Health Provision Services which now provides a uniform benefit package.

FI launched the preparatory work for a new social welfare and health care reform which will be advanced alongside the reform of local governments. For this purpose, the government set up a working group (April 2013) to prepare a proposal for a bill on provision of social welfare and health care. One of the objectives of the new reform will be to reduce geographical inequalities in the supply of services by local authorities. In addition, FI is also preparing the implementation of the patient Directive (2011/24/EU) concerning the patients' rights to seek treatment in another EU or EEA country and to obtain compensation on the same ground as if the person would have been treated in the home country. Similar preparations were also undertaken by **HU** in the course of 2013.

In September 2012, the **IT** government approved a decree which aims at ensuring a high level of health protection while respecting the need to control healthcare and pharmaceutical spending through greater efficiency and effectiveness. This health care reform focuses on essential levels of care (LEA) and on the monitoring of their effectiveness and efficiency. It also introduces integrated planning of prevention as well as a territorial primary health care unit.

The Statutory Health Insurance Financing Act of 2013 in **DE** fixed in the income-related contribution rate for health insurance premiums on a permanent basis. One of the objective of the new reform is to break the link between growth of health expenditure and labour costs. Further, it is expected that this reform will reduce the sensitivity of the German health care system to the economic cycle.

Over the last two years, a substantial health system reforms is being gradually implemented in **HU**. From 1 January 2013, primary care remains the single mandatory duty of local governments. All inpatient care institutions maintained by the National Institute for Quality and Organizational Development in Healthcare and Medicines (GYEMSZI) operate as budgetary statute institutions, thereby eliminating dysfunctions, inequalities and operational difficulties. One of the results of the centralisation of inpatient facilities is the improved coordination of procurement of medicines and medical devices particularly at hospital level. This can potentially generate significant savings due to the large quantity of procurement of goods and services which should impact on offered prices. Many of the outpatient health care facilities which remain under local government ownerships had new delivery profiles with established health services that they must provide. This also includes previous health services provided by inpatient health care facilities that could be safely extended by outpatient facilities at a lower production cost.

The third stage of the network of health care institutions restructuring in **LT** was implemented in 2012. In order to form a more efficient network of health care institutions, 20 health care institutions were closed down or merged into larger legal entities.

In 2013, **LV** approved the National Compulsory Health Insurance Concept. Accordingly, the health care financing system will change as of 1 July 2014 : taxes will be the main sources of financing of health care. Vulnerable persons exempted from tax contributions will receive state funded health care. The envisaged changes aim at diversifying the resources for health care services, improve their accessibility and sustainability as well as building a financial reserves.

The **UK** Health and Social Care Act 2012 came into force on 1 April 2013 and brought major changes to the NHS in the UK (England) with effects on who makes decisions about NHS services, the commissioning of the services and the way money is spent. Most of the changes took effect on 1 April 2013, although some were in place before then but it will be some time before all the changes are fully implemented. Some organisations such as primary care trusts (PCTs) and strategic health authorities (SHAs) were abolished, and other new organisations such as clinical commissioning groups (CCGs) have taken their place. In addition, local authorities will take on a bigger role, assuming responsibility for budgets for public health and will be expected to work more closely with other health and care providers. NHS services will be opened up to competition from providers that meet NHS standards on price, quality and safety.

4.2 Health service delivery (including e-health)

BE decided to partially de-link doctors' fees from the consumer price index and reduced the fees charged by certain medical specialties. To improve the efficiency of clinical practices, **ES** will introduce the participation of health professionals in the management of resources as well as a new legal framework defining clinical management models applicable to all centres of the National Health System. **DK** and **PT** introduced recently clinical guidelines with varying level of enforcement.

As part of its health system reform, **HU** shifted the financing of general practitioners practices (equipment) to the local governments which are responsible for the provision of primary health care services. This measure reduced the financing burden on general practitioners as it reduced their real expenditure, overheads and equipment costs, thus indirectly impacting their revenues. Health care services in **LT** that require sophisticated equipment and highly skilled professionals are planned to be centralized at national level and university hospitals. Health care services not requiring such equipment will be decentralized. In **LV** since 2013, there is a new quality assessment system of family doctors and a performance based payment to family doctors for timely diagnosis of cancers. In addition LV aims at introducing a Diagnose Related Group-based hospital payment system by 2014.

E-healthcare started to be implemented in 2012 in **BG** with the development of electronic birth registers and of invasive cardiology procedures as well as the development of electronic registers of medical devices and of patients with certain diseases. In 2013, the integrated system for data collection and processing at the national level will be completed. **AT** passed an electronic health record act in November 2012 with the view to improve the continuum of care and information flow between health care providers with expected improvements of patient safety. **ES** will launch a new centralised purchasing platform and the e-Salud (e-Health), which extends the

system of digital clinical history across the whole country and ensures its full interoperability, limiting the need to repeat diagnostic tests and procedures; more extensive use of electronic prescriptions accessible from any pharmacies. **LV** uses the ERDF to support the development of e-health projects which involve e-health website, e-booking and e-assignment information system, electronic health record, e-prescription and integration platform solution information systems.

In 2012, the myHealth Record system was launched in **MT**, thus enabling patients and their doctors to gain access to key parts of personal health records through any computer connected to the internet. **PL** regulated in April 2012 the establishment of the National Interoperability Framework introducing minimum requirements for public records and for exchange of information in electronic form, and the minimum requirements for IT systems. There is also (since December 2012) an On-line Platform for the Services and Resources related to Digital Medical Records (P2).

SE established a personal internet-based health record that people will use to securely access information about their health. The related services are anticipated to be made available progressively during 2013 and 2014. **SK** introduced in 2013 a national health portal as part of its long-term plan for e-health.

In May 2012 the **UK** Government published its Information Strategy “The power of information: Putting all of us in control of the health and care information we need. The strategy set out a ten-year framework for transforming information services for health and care to meet people’s needs and expectations, for now and for the future. It demonstrated how technology and Information can encourage positive changes to the way we live our lives and also to the way public resources are used on our behalf.

4.3 Investing in the health care work force to improve patients' safety

Some member states are facing a critical situation with regard to the availability of labour force in the health sector. While the needs of an ageing population are on the rise, the number of doctors and nurses is shrinking which results in different strategies being designed to attract and increase the number of medical professionals required to respond to the increasing demand for services. At the same time, other Member States report an emigration of their health workforce. To halt this trend, substantial incentives are put in place with the view to improve the working and pay conditions of the health force.

Since 2012, **BG** uses the ESF programmes to provide training and specialisation opportunities to healthcare professionals. It is expected that by end of 2013, 6000 medical professionals will be trained. The Ministry of health plans also amendments to the rules governing the access to specialisation qualification for doctors to increase the number of specialist. **HU** implemented a wide range of measures to improve the working conditions of general practitioners as well as the attractiveness of this medical speciality in order to retain young general practitioners in the country. The measures include non-refundable subsidy to support the career start of young general practitioners and grants for purchasing equipment by general practitioners (total budget of HUF 300 million).

HU also increased the wage of 90 000 health professionals providing both inpatient and outpatient health care (total budgetary cost: HUF 30.5 billion). These measures seem to have produced positive effects as the number of health professionals asking for the necessary certification required for work outside the country diminished and the numbers of physicians enrolling for specialists training increased.

In 2012, **DE** enacted the Act to Improve Care Structures in the Statutory Health Insurance (GKV-VStG) to address the lack of health care professionals in rural areas (undersupplied regions). The new arrangements include new care structures reaching beyond the traditional medical practice schemes, performance-oriented remuneration and incentives for physicians to establish their practices in such areas as well development of social infrastructure in these areas.

Under the **LV** National Compulsory Health Insurance Concept, provisions are made for increasing the wage of health care workers from 2014. The Latvian National Development Plan 2014 – 2020 includes measures aimed at attracting health care workers to underserved regions.

MT is using EU funds in boosting human capacity in the field of health care. Investments under the European Social Fund (ESF) to ensure that professionals in healthcare and public health are educated to the required levels of skill and knowledge are also being undertaken in particular through the development of structured post-graduate medical training for specialists.

PL also used the ESF to support (2012-2013) over 1200 physicians gaining medical specialization. At the same time, over 8700 nurses and midwives graduated from ESF co-financed bridging studies. All these measures are intended to provide adequate labour force for the health care sector in PL. To halt the shrinking number of physicians, **SK** increased the basic monthly pay of physicians by EUR 300 in two stages in 2012 and a third increase is planned for 2014.

4.4 Cost containment

The recession and the need to comply with the Stability and Growth Pact impact on health care systems. To respond to these constraints, some Member States introduced structural mechanism to contain the rise of health expenditure. Other Member States are using 'cost-sharing' as short-term way of moderating health care demand. However, in some cases, the cost-sharing mechanism was either abolished or reduced. Finally, more and more Member States are looking for ways to optimise pharmaceuticals expenditure.

- *Capping the growth of health expenditure*

AT, BE and FR are among the EU countries using different instruments to cap the overall level of health care expenditure with the view to enhance the sustainability of health care systems. In the case of **AT**, this is the newly introduced 'health expenditure containment path'. **BE** limited the increase of health expenditure by creating a budgetary norm for their growth : this take the form of a cap on the increase of the health care insurance budget to 2% in real terms in 2013, respectively 3% in 2014. From 2015

onwards this cap will be fixed by law. In the most recent budget control (March 2013), the government decided to further lower the budgetary norm for 2013. As a result, the actual increase of health insurance expenditure has been lower than the budgetary norm in the past few years. **FR** has a similar instrument which fixes the overall allowed growth of health insurance expenditure which is decided annually by the Parliament in the social security budget law.

- *Cost-sharing*

Cost-sharing was either reduced or completely abolished in three Member States (BE, DE and IE). While the majority of Member States are seeking to increase the inflow of revenues into their health care systems by shifting some expenditure from collective arrangements to patients, **DE** abolished in 2013 the co-payment (the so called 'doctor's fees') introduced in 2004 to moderate the demand for health services measured as consultations of physicians in the private sector. This measure, which certainly enhances access to services by removing financial barriers, was made possible because of the very favourable budgetary situation of the health insurance arrangements: at the end of 2012, the reserves of the DE statutory health insurance amounted to approximately EUR28 billion. According to the estimates of the Government, the 'doctor's fee' failed to moderate demand for health care services while it induced administrative costs of approximately EUR360 million per year and led to up to 120 hours of overtime work at the surgeries.

New measures to improve access were implemented in the **BE** health law of 27th December 2012. The out-of-pocket payments for hospitalisation of patients with chronic disease and of low income patients were reduced. In addition, since 1 January 2013 physicians charging fees above the agreed ceilings with the health insurance funds can no longer charge supplement fees for patients in common or double rooms. In July 2013, **IE** reduced the fees paid to general practitioners and pharmacists under the Financial Emergency Measures in the Public Interest (FEMPI) Act from 2009. This measure is expected to generate savings of up to EUR70 million for the health budget. The reduction includes 7.5% in fees and allowances paid to GPs, broken down to a reduction in the weighting of patients over 70 years for the purposes of calculating State funding towards GP practice support subsidies from 3:1 to 2:1, the removal of a special fee for GPs dating from 2001 and a reduction in the fee paid to GPs for administering the flu vaccination and the removal of the 20% mark-up paid to pharmacists under the Drug Payment Scheme (DPS) and the Long Term Illness Scheme (LTI).

In **LV** National Compulsory Health Insurance Concept were included measures to reduce patients co-payments by half till 2030.

- *Optimising pharmaceuticals spending*

In the case of **AT** health care reform described earlier, better coordination and collaboration of the outpatient and inpatient sector in the area of pharmaceutical spending is expected to contribute to the overall expenditure containment objective of the AT health care reform. **BE** reduced the prices of pharmaceuticals of 1,95% in 2012 and 2013 and introduced mandatory substitution of the most prescribed drugs with their generic equivalent (since April 2012 this applies to antibiotics and anti-inflammatories). It also reinforced the control over prescriptions and introduced a new

tax on marketing of drugs. Hospitals were imposed limits on their pharmaceutical expenditure. The reform of the pharmaceuticals in **ES** introduced a financial contribution to drugs according to patient's income, age and burden of disease. This measure generated savings of EUR1.97 billion from July 2012 to July 2013 and a reduction in the number of prescriptions by 14,7%. Overall, these measures are estimated to reduce pharmaceutical expenditure by around EUR1.4 billion in 2013, including the contribution from users for medicines prescribed by hospitals. In addition, **ES** will introduce new measures in 2013 such as the new Benchmark Price Order, a system used in other European Union countries to restrict pharmaceutical spending with expected savings of EUR409 million in 2013. **PT** laid down the obligation to use generic drugs in a law adopted in 2012.

As part of its efforts to sustain the growth of pharmaceutical spending, **EL** introduced in November 2012 a compulsory use of International Non-proprietary Name for medical prescriptions. This complements previous measures including the reference-price reimbursement system based on EU price databases and the automatic claw back mechanisms to ensure respect of the expenditure target.

HU intensified the prescriptions of generic drugs by requiring in the legislation the mandatory prescriptions of active ingredients for cholesterol lowering medications from 1 April 2012. As of 1 August 2012, for products available in pharmacies without generic competitors, an additional 10% claw back has been introduced. **CY** has prepared protocols for laboratory tests, with the aim of minimizing the provision of medically unnecessary lab tests. Regarding pharmaceuticals, demand side measures are extensively applied in public sector enabling the control of prescribing patterns, especially for expensive medicines. The existence of public sector formulary obliges prescribers to adhere to protocols and restrictions, aiming at evidence based and cost-conscious prescribing of the available medicines.

LV made its legislation to allow prescriptions of the cheapest drugs with equal efficacy, which gives a similar therapeutic effect and savings funds. **MT** adopted a pricing policy using external reference pricing for medicines purchased by the Government and supplied free of charge. It also centralised the procurement system for medical supplies with expected reductions of the cost of drugs and other medical supplies.

4.5 Enhancement of access to services and of patient's rights

Despite the need to control health care expenditure, enhancement of access to health care services and of patient's rights remains a political priority. **DK** introduced a new patient right guaranteeing a diagnosis within one month. A new National Development Programme for Social Welfare and Health Care, Kaste II, was launched in **FI** at the beginning of 2012. The objective is to reduce inequalities in welfare and health and to develop more client-friendly social welfare and health care structures and services. In 2012 –2015 approximately EUR 58 million will be spent on the programme. A new reform governing the access of low-income patients in **LU** entered in force on 1 January 2013 introducing 'third party payer' for insured persons officially declared to be in an economically vulnerable situation by the competent Social Office. For these persons the 'third party payer' covers the costs of services referenced in the official list of services

(Nomenclature des actes) provided by doctors and dentists. **FR** abolished in July 2012 the 30€ fee to access state medical assistance (AME) for foreigners in an irregular situation and increased in July 2013 the income ceiling to allow more people (approx. 750,000 persons) to qualify for the free public complementary coverage (CMU-C) or to benefit from the financial allowance to acquire private complementary health insurance.

The **EL** authorities are putting in place urgent measures to ensure the access to health care services of the increasing number of unemployed persons who lost their health insurance coverage (the estimates point to 800 000 persons). *Health vouchers* will ensure access of uninsured citizens to primary health care services. The target is 100 000 persons for an estimated budget of EUR23 million for the period 2013-2014. The authorities are trying to secure additional EUR120 million in order to expand the coverage to more people.

In the approved **LV** National Compulsory Health Insurance Concept certain groups were defined, such as unemployed persons, persons receiving state social security benefits, who will receive state funded health care, regardless of the fact of tax evasion. In December 2012, **MT** reached its targeted deadline with the final expansion of Pharmacy of Your Choice Scheme to the remaining 11 localities which encompassed 48 community pharmacies. The Scheme service has nationwide coverage and it is available from 70 localities. The scheme shifts a service formerly provided from Government health centres to any community pharmacy in the patients' place of residence thus ensuring wider and more equitable access to medicines. In **SE** a special committee is examining how the patient's role may be further strengthened which is preparing the ground for a new law on patient' rights clarifying and strengthening the citizens' position and information with regard to health services.

4.6 Conclusions

Although the focus of the last European semesters has been concentrated on fiscal consolidation, health care reforms are focused on responding to structural challenges affecting the delivery and quality of health care services. The analysis clearly indicates that while cost-efficiency and sustainability issues are important, the drivers of health care reforms are much broader.

Future policy efforts need to focus on strategies allowing health care systems to be adequately staffed to meet the requirements of an increasing health demand and to respond to an increasing public expectation for patient's safety. Putting financing of health care systems on a sound footing requires cost-effective spending by the health care system itself. Economic growth strategies and diversification of financing sources are equally important factors for sustainable health systems.

Structural reforms need to be carefully designed and implemented with particular attention on the quality and effectiveness of health care services, their cost-efficient provision and financing.

5. KEY CONCLUSIONS – THE WAY AHEAD

Moving forward towards the Europe 2020 objectives for smart, sustainable and inclusive growth

1. Against the background of highly uncertain and volatile economic environment and fiscal constraints, EU Member States are engaged in unprecedented social policy reforms in order to address the negative social consequences of the crisis and successfully face the future challenges due to the ageing of the European population, the emergence of new demand for social protection and the structural changes in the economy and society. In this context, Member States welcomed the Social Investment Package [1] and its integrated approach to social policy reforms.
2. These reforms illustrate Member States' resolve to reform their social protection systems in order to make them more resilient, more oriented towards investing in people's capacities and skills and better supporting the labour force's adaptation to the needs of flexible labour markets.
3. The economic recession and its repercussions have compounded the need for balanced structural social policy reforms. For the last five years, the economic downturn has structurally constrained many social protection systems putting to test their resistance to protracted economic shocks and the values which they promote. While social protection systems strive to contain the drop of many households further toward poverty, their investment and automatic stabilisers functions have been weakened by financial constraints and by prolonged recession. In the face of current challenges, social protection systems helped sustaining certain degree of social cohesion, thus contributing to the implementation of the Europe 2020 strategy.
4. Member States should now refocus on the smart, sustainable and inclusive growth-oriented Strategy. Their economic, fiscal and social policies need to support the achievement of the Strategy.

Renewing the social policy priorities of the Annual Growth Survey: toward ensuring adequate social investment for inclusive recovery and future growth

5. In line with the broad political objectives for social policies defined by the Council in its policy conclusions on the AGS 2013³², the scope of social policy structural reforms goes well beyond the issues addressed in the European Semester which continues to be dominated by macro-economic and fiscal considerations.
6. Therefore, the social policy priorities of the next Annual Growth Survey ought to shift from the social consequences of the crisis toward building adequate, effective, resilient and flexible social protection systems combining a strong social investment dimension with better protection and sustainability and relying on solid governance arrangements and sustainable financing.

[1] See Council Conclusions 'Towards social investment for growth and cohesion', Brussels 20-21 June 2013

³² Council document 6462/13

7. The Annual Growth Survey needs to pay more attention to the long-term social priorities of the EU stemming from its Europe 2020 strategy. Acknowledging the broader scope of social policy reforms at national level, the Annual Growth Surveys should recognise that the main role of social protection is to provide adequate safeguards to citizens across their life-cycle against the economic risks of loss of employment or income, health deterioration or invalidity, as well as effective support in their transitions from education to work and between jobs. The function of social protection must not be reduced only to 'safety nets'.
8. Further, experience shows that social policy reforms need to be comprehensive, involving both universal and targeted approaches, while avoiding the sectoral fragmentation and the dissociation of adequacy from sustainability. Fragmented approaches hamper the overall effectiveness of the system and can lead to segmented social protection with differing levels of coverage per social security branches and of quality of the protection along the life-cycle. Social policy changes should not create new gender gaps or disadvantages for women and men that could accumulate during their life cycle. Such approaches would not support the goals of the Europe 2020 strategy.
9. Member States implementing Economic Adjustment Programmes (EAP) have shown an extraordinary commitment to reforms which are painful for their population. Lessons should be learned from their experience. Many of the implemented policy measures strengthened their social protection systems, while others failed to halt the rise of poverty and in particular child poverty. Social impact assessment must therefore precede the Economic Adjustment Programmes in order to choose the most appropriate path of reforms and adjust the resulting distribution impact across income and age groups. The EPSCO Council should also regularly review the progress of the social policy orientations within the EAPs and their impact with the view to formulate policy guidance.

Reforms enabling and supporting the most disadvantaged citizens to participate in the labour market and society

10. The number of people at risk of poverty or social exclusion in the EU amounts to nearly one-fourth of the total population. Current levels of poverty and social exclusion jeopardise the achievement of the EU 2020 headline target. In a context of low growth, rising unemployment and in particular long-term unemployment, the adequacy and eligibility criteria of social protection benefits need to respond to the two-fold challenge of stimulating those able to work to return quickly to the labour market and ensuring adequate income support for persons in need both in and out of the labour market. Youth exclusion is a new social challenge with important implications for future sustainability and adequacy of social protection systems. Promoting investments in early childhood interventions and preventing and tackling child poverty and social exclusion must be one of the Member States' key priorities.

Health care reforms delivering safe and effective high quality health care services for citizens

11. Health care reforms need to be focused on responding to structural challenges affecting the delivery and quality of health care services and their capacity to ameliorate health outcomes. This may require Member States to both review the financing and improve access to services, as well as to strengthen health promotion and disease prevention.
12. Future policy efforts need to focus on strategies allowing health care systems to be adequately resourced – both financially and staff wise - to meet the requirements of an increasing health demand and to respond to an increasing public expectation for safety of health care services. Putting the financing of health care systems on a sound footing requires cost-effective spending, diversification of the financing sources and economic growth.

Pension reforms delivering sustainable and adequate benefits and facilitating individual choices for working longer

13. While putting public finances on a sustainable path is a top economic priority, there is a growing concern about the adequacy of future pensions now so as to avoid increasing the risk of poverty among future pensioners. Pension schemes can uphold their legitimacy and attractiveness by relying on a smart mix of measures reinforcing their adequacy and sustainability. The future adequacy and sustainability of pensions are closely linked to economic performance and labour market developments. Reforming only the pension systems will not be enough. Reducing youth unemployment and discouraging early exit from labour markets today is crucial for the future sustainability and adequacy of pension benefits tomorrow.
14. Different policy options and instruments can be used in the context of pension reforms depending on the concrete country-specific sustainability and adequacy challenges. These generally include: aligning retirement age to life expectancy and/or other incentives for prolonging working careers, closing the gap between the effective retirement and the statutory retirement age, pension indexation, the relation between the length of contributory periods and the level of pension benefits, strengthening equity in pension policy with due considerations to working conditions, breaks of careers and equal opportunities for men and women in the labour markets. Pension reforms require broad political and public support. The role of social partners in this respect is a key factor for their success.
15. Further, incentives need to be put in place to stimulate employers to hire and retain older workers. Barriers restricting their employment must be removed. Labour markets policies must deliver better inclusiveness and higher employment rates for older workers and young people in order to raise effective retirement ages, extend working lives and secure better future pensions.

The Commission is invited to take into account the above policy priorities in the preparatory work of the 2014 Annual Growth Survey.

European Commission

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