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#### COVER NOTE

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from: The Social Protection Committee  
to: Permanent Representatives Committee (Part I) / Council EPSCO  
Subject: Europe 2020 Strategy: Mid-term review, including the evaluation of the  
European Semester  
(b) Review of recent social policy reforms for a fair and competitive Europe  
(SPC report)  
- Endorsement of key messages for the 2015 Annual Growth Survey

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Delegations will find attached the above-mentioned key messages for endorsement by the Council (EPSCO) on 16 October 2014. The full report will be found in doc. 13693/14 ADD 1.



# Review of recent social policy reforms for a fair and competitive Europe

*2014 Report of the Social Protection Committee*

## *Key Messages*

**Stronger attention to the long-term social policy priorities of the EU needed in the Annual Growth Survey: towards ensuring adequate social investment for smart, sustainable and inclusive growth**

- Overall, while dealing with the impact of the crisis has dominated the type of policy actions implemented by Member States in recent years, testing the resilience of social protection systems, the future focus should be on structural reforms and moving beyond the crisis towards ensuring the social protection systems are oriented by clear social investment priorities while ensuring adequate protection in times of need.

- The social policy priorities of the next Annual Growth Survey should pay much stronger attention to the long-term social priorities of the EU as outlined in the Europe 2020 Strategy and the Social Investment Package. Acknowledging the broader scope of social policy structural reforms at national level, the Annual Growth Survey should recognize that social protection has an important role to provide adequate safeguards to citizens across their life-cycle against the economic risks of loss of employment or income, health deterioration or disability, as well as effective support in their transitions from education, inactivity, or unemployment to work and between jobs. However, it also has an important role in ensuring adequate social investments which prevent as early as possible hardships. Women and men should benefit equally from the investments in all relevant policy fields in order to achieve smart, sustainable and inclusive growth
- There is a clear need for an integrated approach, and better coordinated economic, fiscal, employment and social policies in order to effectively progress towards the mutually reinforcing Europe 2020 objectives. Tax and benefit systems remain among the most important instruments to prevent and address income poverty.
- In order to strengthen the gender dimension within the already existing framework of the Europe 2020 strategy, the gender dimension should be mainstreamed when implementing, monitoring and evaluating policies developed within the Europe 2020 strategy.

### **Improving the effectiveness and efficiency of social protection**

- The Annual Growth Survey should recognize that social protection systems should ensure an adequate level of protection for all groups of population: those that retired from the labour market, the present and future population on which wealth production depends, and those for whom participation in the regular labour market is not an option.

- Providing the right kind and level of support remains very challenging for Member States, and the impact of social protection varies greatly across the EU. With current strong pressure on social protection budgets, it is important not only to maintain the economic stabilisation impact of social policies, but also to ensure that expenditure does indeed deliver the best outcomes (effectiveness), at the lowest cost and with maximal positive impact on employment and growth (efficiency).

**Need for social protection systems which provide effective protection for all groups in the society and adequate investment in human capital**

- Against the background of slow recovery threatened by deflation and lack of investments, social policies need to protect all groups in the population and restore human capital threatened by recent increases in poverty, long-term labour market exclusion, and severe material deprivation; otherwise future growth will be constrained by reduced human capital, making labour market policies less effective. Member States have shown strong policy effort to improve activation, access and adequacy of minimum income schemes. Social protection systems (including minimum income and unemployment benefit schemes) should, in fact, lead to labour market and social inclusion. To this end, ensuring and improving coverage and take-up of these benefit schemes should be a policy priority through simplifying access to benefits, avoiding very strict low income targeting and careful consideration of the adequacy of benefits. Continuous support for labour market reintegration (through job training, job search, etc.) should be an integral part of social protection, thus avoiding loss of human capital.
- In line with the active inclusion concept, Member States' experience and good practices show that access to enabling services, such as healthcare, early childhood education and care, and education, combined with benefits and tailored active labour market policies, can ensure return to the labour market and social inclusion.

- The alarming increase in child poverty in a majority of MSs puts at risk the future growth prospects of the EU. Member States need to step up their investment in children, so that human capital can develop to its full potential. This requires a preventative and integrated approach which encompasses policies that support the employment of parents, reduce in-work poverty and ensure a minimum income which protects families and children against poverty and social exclusion. Access to high quality, affordable and inclusive Early Childhood Education and Care services, health care, education, adequate and affordable housing and other social services is essential, especially for children from disadvantaged backgrounds.

### **Health and long-term care reforms ensuring access to effective and sustainable high quality services**

- Europe's health care systems are likely to undergo profound changes over the next decades. Member States will have to address similar challenges posed by ageing coupled with a rise of chronic diseases. At the same time, new opportunities occur, such as technology development, increased expectations from patients which create stimulus and a rising interest from patients and their relatives to be involved in their own care. Health inequalities and inequalities in access to health care need to be addressed within this context and, in most Member States, within constrained health budgets.
- Future policy efforts need to focus on ensuring universal access to and equity in quality health services while securing their adequate and sustainable financing. Health reforms should aim at rationalising the use of available resources by making the provision of health services more cost-effective. This will require most Member States to strengthen health promotion and disease prevention, to reduce the unnecessary use of specialist and hospital care and to improve care coordination, to ensure an adequate and skilled health workforce, to make better use of eHealth and health technology assessment and to secure stable funding mechanisms. Improving the effectiveness of these policies can benefit from a better use of health systems performance assessment at national level, in line with the June 2014 EPSCO Conclusions, and sharing of best practices at EU level.

- Against the background of ageing populations, the already large gap between the need for, and the supply of, long-term care is likely to widen. Closing this gap requires an increasingly pro-active policy to contain the growth in needs and to meet them in the most efficient way. Such a proactive response to social protection against long-term care dependency includes strengthening prevention and rehabilitation, promoting age-friendly environments, boosting cost-effective provision of home and institutional care, ensuring a sufficient long-term care workforce and enhancing support for informal carers. To find the right mix of these measures, policy makers will need sound information on their cost-effectiveness.

### **Pension reforms delivering sustainable and adequate benefits, including through facilitating and encouraging longer working lives**

- While reforms of public pension are necessary to avoid that the impact of ageing endangers the stability of public finances, there is a growing concern that more needs to be done to ensure the adequacy of future pensions. To avoid that replacement rates drop too much and the risk of poverty increases it will be important to find ways to achieve a better balance between sustainability and adequacy concerns in policies. Pension schemes can uphold their legitimacy and attractiveness by relying on a smart mix of measures that reinforce both their adequacy and sustainability. Reforming only the pension systems will not be enough. The adequacy and sustainability of pensions are closely linked to economic performance and labour market developments. Reducing youth unemployment and discouraging early exit from labour markets today will therefore be crucial for the future sustainability and adequacy of pension benefits. Further to that, policies promoting cost-effective and safe complementary savings for retirement are an important part of the necessary mix of measures to ensure future pension adequacy.

- The overall goal is to change retirement patterns so that the balance between years spent in work and retirement is improved and maintained as life expectancy continues to rise. Different policy options and instruments can be used depending on the concrete country-specific sustainability and adequacy challenges. These generally include: raising the pensionable age and aligning or linking it to developments in life expectancy while strengthening incentives and opportunities for longer working careers and later retirement; keeping the pensionable age while concentrating on closing the gap between this and the effective retirement age, pension indexation; tightening 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, career breaks 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.
- 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.

## **Youth exclusion calls for reinforcement of the social protection arrangements for young people**

- Young people have been among the age groups most affected by the crisis. After years of high youth unemployment rates, young people today are increasingly exposed to poverty and social exclusion. Delayed transition to the labour market and frequent periods of unemployment during a person's early working life may have lasting adverse effects on future employment and earning prospects. It also affects their access to income support, unemployment benefits, health care services and the accumulation of pension rights. Social protection systems should pay specific attention to the potential need for targeted support for young people, for example by establishing one-stop-shops for young people with close link between benefit support and assistance in job hunting and for career development, in finding adequate education and training possibilities.

**The European Commission is invited to take into account the above policy priorities in the preparatory work of the 2015 Annual Growth Survey.**