

8th European Regional Meeting

FACTS ON *social protection* in Europe and Central Asia



International
Labour
Organization

Social security is the protection that a society provides to individuals and households to ensure access to health care and to guarantee income security, particularly in cases of old age, unemployment, sickness, invalidity, work injury, maternity or loss of a breadwinner.

Overview

Over the past two decades, social security in Europe and Central Asia has been marked by change. Many countries have reformed social protection policies in response to fundamental changes in the make up of their population as well as domestic economic developments triggered by the globalization of financial and labour markets.

At the same time, countries of Central and Eastern Europe are facing major challenges in the field of social security, including the need to restructure benefits and schemes to reflect the transformation of economic and political systems and adapt to fiscal constraints set by governments and international financial institutions; the rapid growth of informal employment; and ageing populations.

In a significant part of this region, the opening up of economies has led to a systemic change in social protection systems and the development of dual labour markets. A small upper segment is characterized by well-paid jobs with solid social protection against a wide range of contingencies, while a large lower segment is characterized by low-paid jobs that are insecure and sometimes hazardous, without much legal protection and often performed by vulnerable, women, less-skilled people, or minority migrant populations.

One of the most significant issues in many countries in Europe is increased life expectancy combined with a declining number of births below the population replacement level. As a result, the proportion of older (retired) persons in Europe is rising, implying that – in the absence of any change in age specific economic activity rates – those who are active will have to spend a greater share of their earnings to finance the consumption of those who are inactive.

Ageing societies, high unemployment and the challenges of globalization have created similar problems for all European countries, albeit of varying intensity. These have led to similar policy approaches, often consisting of introducing privately managed second pillars to existing pension systems, cost-cutting measures in health systems, and activation of labour market policies as a condition for entitlement to unemployment benefit.

FOCUS ON THE ECONOMIC CRISIS CHALLENGE

As the financial crisis turns into economic recession, workers around the world are to face a double threat – the uncertainties as regards both their jobs and their social security since the revenue bases of their social security schemes are contracting.

At the same time, entrepreneurs are likely to see business opportunities and the flow of investment capital from pension savings simultaneously shrinking, besides a possible increase, sooner or later, of social security related contributions or taxes.

All social security schemes will endure the double burden of declining tax or contribution income and increasing expenditure due to increasing numbers of beneficiaries. There will be increasing demands for early retirement through existing or ad hoc arrangements, to limit effects of job cuts on unemployment. This will place additional weights on the finances of pension schemes – both those managed by social security institutions and occupational ones.

FOCUS ON THE DEMOGRAPHIC TRANSITION CHALLENGE

Europe's population will fall by almost 70 million between 2005 and 2050, which will increase demand for migrant workers.

High levels of unemployment and rising insecurity make it difficult for both Western and Eastern parts of the region to accept this increased immigration, but this may change with the growing pressure of labour shortages and globalization. Enhanced coordination of social security systems will be required throughout the region to ensure the right to social security of all persons, including migrant workers.

However, migration can only provide temporary relief for ageing populations. The creation of suitable jobs for older workers remains a challenge, while an increase in labour force participation rates for men and women of all ages is imperative to maintain standards of living in ageing societies.

Social security expenditure and effectiveness

Social protection systems are effective in reducing exposure to poverty. In general, the greater the investment in social security (in terms of GDP), the stronger the poverty reduction (and prevention) effect, even though some social security systems are more redistributive and focus more on those with lower incomes. While social protection systems of the EU-27 reduce exposure to poverty by almost 40 per cent, this figure varies considerably between countries, pointing to broad variations in the nature and effectiveness of social protection regulations.

Average expenditure on social security for the 47 countries of Europe and central Asia is 25.6 per cent of GDP (slightly lower than for the EU-27), with significant differences between countries. Differences in social security spending are largely reflected in social security coverage and benefit levels. While most countries in Europe spend well above 15 per cent of GDP on social security and meet the minimum requirements set out in ILO Convention No. 102 and the European Code of Social Security and cover the large majority of the population, the gap in coverage in some countries remains substantial.

Social security expenditure throughout Europe is heavily dominated by spending on pensions and health care. There is evidence that this is also the case in non-EU countries. Other programmes, such as unemployment benefit schemes, family programmes, housing and social assistance, are consequently at risk of being crowded out. This is critical for flexicurity policies, which require a substantial investment in labour market programmes to achieve the right balance between cash benefits and high-quality labour market assistance and services.

ILO policy

In 2001, the ILO launched a Global Campaign for Social Security and Coverage for All to promote creation of a social security floor.

The ILO's experience and mandate strongly suggest that there is no automatic trade-off between equity and efficiency in terms of social protection and economic performance. In order to achieve the twin and highly complementary objectives of social development and economic efficiency, national social and labour market reform processes aimed at achieving a new social security policy paradigm should be based on the following basic principles:

1. Universal coverage of income security and health systems
2. Benefits and poverty protection as a right
3. Actuarial equivalence of contributions and benefit levels
4. Sound financing



KEY DATA

- Only one in five people in the world has adequate social security coverage.
- More than half the world's population lacks any type of social security protection.
- Increasing informalisation of work results in lower levels of coverage, especially in countries in economic transition.
- In the EU-27, social security systems redistributed over 27 per cent of GDP in 2005
- Countries such as Estonia, Latvia, Lithuania and Romania spend less than 15 per cent of GDP on social security, while Denmark, France and Sweden, spend over 30 per cent.
- In Central and Eastern Europe and Central Asia, the average level of social security expenditure was only 13 per cent of GDP in 2005, with broad differences

Relevant ILO Conventions and Recommendations

Social security was established as a basic human right in the ILO's Declaration of Philadelphia (1944) and its Income Security Recommendation, 1944 (No. 67). ILO conventions and recommendations relating to social security extension policies include:

- The Social Security (Minimum Standards) Convention, 1952 (No. 102)
- The Equality of Treatment (Social Security) Convention, 1962 (No. 118)
- The Employment Injury Benefits Convention, 1964 (Schedule I amended in 1980) (No.121)
- Invalidity, Old-Age and Survivors' Benefits Convention, 1967 (No. 128)
- The Medical Care and Sickness Benefits Convention, 1969 (No.130)
- The Maintenance of Social Security Rights Convention, 1982 (No. 157)
- The Employment Promotion and Protection against Unemployment Convention, 1988 (No.168)
- Maternity Protection Convention (Revised) 2000 (No. 183)

For more information, please read:

1. «Report of the Director-General to the 8th European Regional Meeting: Delivering decent work in Europe and Central Asia»
- Volume I, Part 1, ISBN 978-92-2-121867-8
- Volume I, Part 2, ISBN 978-92-2-121869-2
2. «Policy responses to the economic crisis: A decent work approach in Europe and Central Asia».
ISBN 978-92-2-122080-0

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