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**Joint Report on Social Protection and Social Inclusion**

**{SEC(2005)69}**

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## **INTRODUCTION**

At its heart, the Lisbon strategy promotes the idea of a positive interaction between economic, employment and social policies. It aims at promoting a model of sustainable development for the Union which raises the standard of living of all European citizens by combining economic growth with a strong emphasis on social cohesion and the preservation of the environment. In so doing, it stresses the need to improve EU level coordination mechanisms in order to foster consistent and mutually reinforcing policies in the economic, employment and social areas.

While robust economic and employment growth is a vital precondition for the sustainability of social protection systems, progress in achieving higher levels of social cohesion is, together with effective education and training systems, a key factor in promoting growth. In this context, this first Joint Report on Social Protection and Social Inclusion advocates efforts to modernise social protection systems through decisive and credible reform strategies.

Social inclusion and the national strategies to fight poverty and social exclusion feature prominently in the present report, drawing on two rounds of the OMC on social inclusion at the level of EU15, plus its successful extension to the 10 new Member States in 2004. Pensions are also addressed, although to a lesser extent. The basic input is the 2003 Joint report on adequate and sustainable pensions. More recent work by the Social Protection Committee (SPC) provides additional material, together with the results of bilateral exchanges between the European Commission and the new Member States held prior to their accession.

This Joint Report, along with the Joint Employment Report and the Implementation report of the BEPGs, is intended to present a balanced and integrated view of the main challenges Member States have to tackle if they want to reach the ambitious Lisbon goals. It echoes the recommendations of the Report of the High-Level Group of Independent Experts (Kok Group) on the need for a stronger focus on implementation of the Lisbon goals and stronger political commitment at all levels.

### **1. SOCIAL PROTECTION AND SOCIAL INCLUSION: RESPONDING TO CHANGE**

A high level of social protection affords societies with the means to face adversity and to eliminate and prevent the most severe and inhumane forms of poverty. Well-designed social protection systems also contribute to economic development by providing a favourable environment for economic growth, in which people and businesses consume and invest with confidence; they facilitate structural change by cushioning workers against the effects of restructuring; they also stabilise aggregate demand throughout economic cycles and create favourable conditions for recovery. Economic growth, in turn, provides the means required to underpin social cohesion.

In order to achieve their key role in European society and economy, social protection systems need to be responsive to wider social trends. The complex set of demographic, economic and societal factors that have driven and will continue to drive structural changes across the EU have put social protection systems under pressure to adapt and modernise.

Major shifts in the age structure of the population will have important implications for the full range of social policies. The decline in the age cohort 0-14 underscores the importance of creating a child-friendly environment including adequate support for early development and basic education. Decreasing numbers in the age cohort 15-29 amplifies the importance of optimising transitions from school to work. Rapid growth in the age cohort 50-64 greatly raises the importance of active ageing. The increase in those aged 65 years and over accentuates the urgency of making adequate pensions sustainable. Finally, the expansion of the age cohort 80+ will result in a progressive rise of the need for age-related health and long-term care.

Higher net immigration could help address the imbalance arising from such demographic changes by rejuvenating the labour force and, thereby, offsetting labour supply shortages and, in the context of pension reforms, improving the financial sustainability of pension systems. Yet, societies will only reap such potential benefits if they create the necessary conditions for the integration of immigrants and ethnic minorities into the formal labour market and if they learn to manage inter-cultural tensions and are able to break down barriers to their economic and social integration.<sup>1</sup>

Demographic changes are compounded by wider changes in cultural values, social relationships, the organisation of families and the nature of work.

Social demands have become more sophisticated and diversified, with a growing concern for quality of life and work-leisure balance. Individual choice has gained importance. Diversity has an important ethnic dimension, particularly in the big urban centres. The increased feminisation of the labour force is reflected in new social demands (e.g., for care facilities for children, elderly and dependent people) and in a new basis for the division of responsibilities within the household. Notable changes in family structures have taken place, in terms both of a reduction of household sizes and increasing diversity – driven by lower rates of partnership formation and higher rates of dissolution. As a consequence, family links are weakening and, in cases of need, more people have to rely on alternative forms of support. Finally, the working environment has become far more volatile and heterogeneous.

In this changing context, social protection systems need to be shaped so as to respond to the economic and social needs of the future. Social inclusion policies, for instance, are not only important to prevent and combat poverty but may also contribute to increasing labour supply, through developing people's capacity to work and action to make work pay. Reforms to ensure sustainable and adequate pensions should aim at providing the right incentives both for workers to stay active longer and for employers to hire and retain older workers. Accessible, quality and sustainable health care systems play a vital role not only in combating disease and vulnerability to social exclusion but also in maintaining a productive workforce.

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<sup>1</sup> See the Commission' proposal for an in-depth discussion on economic migration in COM(2004)881, "Green paper on an EU approach to managing economic migration".

## **2. PROMOTING SOCIAL INCLUSION**

### **2.1. The situation of social inclusion in the 25 Member States**

The fight against poverty and social exclusion remains a major challenge for the European Union and its Member States. The numbers affected by poverty and social exclusion across the Union are very significant, with more than 68 million or 15% of the EU population living at risk of poverty in 2002. They range from 10% or less in the Czech Republic, Sweden, Denmark, Hungary and Slovenia and 20% or more in Ireland, the Slovak Republic, Greece and Portugal.<sup>2</sup>

The risk of poverty tends to be significantly higher for the unemployed, single parent households (mainly headed by women), older people living alone (also especially women) and families with several dependants. Children tend to be more exposed to poverty: children who grow up in poverty are more likely to suffer from poorer health, do less well educationally and are at higher risk of future unemployment and of anti-social behaviour. There is also evidence of a link between environmental pollution and social deprivation.

The measure of poverty risk only shows part of the picture and recent data illustrate the extent of material deprivation particularly in those countries with significantly lower levels of the national poverty threshold.

Poverty and material deprivation are often compounded by an inability to participate fully in social life, as a result of an inadequate access to employment, education and training, housing, transport or healthcare.

Employment is a key factor for social inclusion, not only because it generates income but also because it can promote social participation and personal development and contributes to maintaining adequate living standards in old age through the accrual of entitlement to pension benefits. Shifting from unemployment to employment considerably lowers the likelihood of being exposed to the risk of poverty; furthermore, the well-being of the unemployed or the inactive of working age is even more at risk if there is no income from work within the household. A considerable group still has difficulties in entering employment. The share of long-term unemployed has remained practically stable (at around 4%) between 1999 and 2003. Although some countries have managed to reduce their long-term unemployment rates, the situation has worsened or remains serious in others.

Available statistical evidence at EU level on poverty and social exclusion still does not cover some of the most exposed groups. The NAPs/inclusion highlight that immigrants, ethnic minorities and the Roma, people with disabilities, the homeless, victims of people trafficking, people in or leaving care institutions and subsistence farmers face very particular risks. Also important is the concentration of disadvantage in particular

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<sup>2</sup> The figures for poverty risk rates reported here are based on the latest available data drawn from various sources, either national sources or the European Community Household Panel (ECHP). Due to the absence of a common data source, they cannot be considered to be fully comparable amongst themselves, even if every effort has been made to maximise consistency. Another factor affecting comparability is that the data refer to a mix of periods (2000 in the case of ECHP and 2002 for most of the new Member States). More fundamentally, the income data currently available does not reflect the money that one saves on rent by living in one's own accommodation, which can make comparisons between countries difficult if the share of owner-occupiers in the total number of people at risk of poverty varies significantly.

communities and geographic areas, both urban and rural, where people are confronted with deep-seated factors of exclusion that tend to be transmitted across generations.

The years immediately preceding the set-up of the new strategy have witnessed a trend reduction in the level of relative poverty, with the average for the EU (15 Member States) declining from 18% in 1995 to 15% in 2000. This can be attributed to a large extent to the significant improvement of the labour market situation. There is now the clear risk that the recent economic slowdown, accompanied by rising unemployment and fewer job opportunities, puts more people at risk of poverty and social exclusion and worsens the position of those who are already affected.

The challenge is even greater in many of the new Member States, where rapid economic growth is underpinned by widespread industrial and agriculture restructuring, which, if not flanked by appropriate social inclusion policies, may result in rising numbers of people at risk of poverty.

## 2.2. Key policy priorities

A positive result of the social inclusion process has been the emergence of greater clarity as to the key policy priorities for tackling poverty and social exclusion, as reflected in the policy approaches being adopted by Member States. *Seven key policy priorities* stand out across the Union:

1. *Increasing labour market participation:* Seen as the most important priority by most Member States, this translates into expanding active labour market policies and ensuring a better linkage between social protection, lifelong learning and labour market reforms so that they are mutually reinforcing.
2. *Modernising social protection systems:* This means ensuring that sustainable social protection schemes are adequate and accessible to all and that benefits aimed at those who are able to work provide effective work incentives as well as enough security to allow people to adapt to change.
3. *Tackling disadvantages in education and training:* Emphasis is being laid on preventing early departure from formal education and training; facilitating the transition from school to work, in particular of school leavers with low qualifications; increasing access to education and training for disadvantaged groups and integrating them into mainstream provision; promoting lifelong learning, including e-learning, for all. Many recognise the need to invest more, and more efficiently, in human capital at all ages.
4. *Eliminating child poverty:* This is seen a key step in combating the intergenerational inheritance of poverty. Particular focus is given to early intervention and early education in support of disadvantaged children; and enhancing income support and assistance to families and single parents. Several countries also put increasing emphasis on promoting the rights of the child as a basis for policy development.
5. *Ensuring decent accommodation:* In some Member States attention is being given to improving housing standards; in others, to the need to address the lack of social housing for vulnerable groups. Several Member States are developing more integrated approaches to tackling homelessness.

6. *Improving access to quality services:* This includes improving access to health and long term care services, social services and transport, improving local environments, as well as investing in adequate infrastructure and harnessing the potential of new, accessible ICT for all.
7. *Overcoming discrimination and increasing the integration of people with disabilities, ethnic minorities and immigrants:* The fight against high levels of exclusion experienced by such groups involves a mixture of increasing access to mainline services and opportunities, enforcing legislation to overcome discrimination and developing targeted approaches. The difficulties faced by the Roma require special attention.

In pursuing these priorities, Member States need to develop integrated and co-ordinated strategies at local and regional levels and especially in those urban and rural communities facing multiple disadvantages. Such strategies should adapt policies to the local situation and involve all relevant actors. It will also be essential to ensure that gender is mainstreamed throughout these priorities with a view to promoting gender equality. An agenda based on a balanced development of rights, obligations and responsibilities is required.

### **2.3. Strengthening the social inclusion process**

The development and implementation of NAPs/inclusion by all Member States clearly shows the intention to increase efforts to tackle poverty and social exclusion. In particular, the strong political commitment demonstrated by the EU10 Member States has given new impetus to the process and, more generally, underlines the relevance of the OMC.

The approach adopted by the Member States varies widely depending on the initial situations, the welfare regime and the experience of developing anti-poverty strategies. Most Member States have developed a comprehensive approach to tackling poverty and exclusion covering a wide range of policy fields. Institutional arrangements for mainstreaming social inclusion concerns into national policy making are being strengthened. More attention is being paid to the co-ordination of different government departments and levels so as to achieve a more integrated response. Finally, increased attention is being paid to encouraging the participation of key stakeholders (social partners, NGOs and enterprises).

Overall the OMC on social inclusion has made a useful contribution to date and provides a good basis for further action. The Community action programme on social exclusion has contributed significantly in this regard by promoting studies, peer reviews, transnational exchange projects and EU level networking. However, it is also clear that if the social inclusion process' overall aim of making a decisive impact on the eradication of poverty by 2010 is to be achieved, much more will be needed both at national and at EU level. In this regard Member States should:

- *Establish stronger links with economic and employment policy:* Such links need to be strengthened, most notably by introducing greater transparency on the budgetary resources necessary to achieve the objectives and targets set in the NAPs/inclusion and on how Structural Funds are being used to address social inclusion goals.
- *Strengthen implementation capacity:* this will include strengthening administrative and institutional capacity – including social protection systems,

minimum guaranteed income schemes, social services and instruments for assessing gender mainstreaming -, better co-ordination across different Government branches and levels (i.e., national, regional, local); improving mechanisms for involving stakeholders.

- *Focus on key issues and set more ambitious targets:* The process would be significantly strengthened by Member States identifying the issues that are crucial for them and setting quantified outcome targets for each of these. Progress towards their achievement should then be monitored and reported on. Member States who are lagging behind in certain areas could usefully consider the performance of the best performing Member States as a benchmark.
- *Strengthen monitoring and evaluation of policies:* A key to better delivery will be putting in place more effective arrangements for monitoring and evaluating policy impact, involving all stakeholders including the social partners, and developing more timely and relevant data.

At the EU level, the Commission and the Council should:

- *Strengthen the mainstreaming of social inclusion objectives across all EU policies:* Taking social inclusion into account in the design and implementation of EU policies is essential for ensuring that they are supportive of national efforts to promote social inclusion. This will be assisted by enlarging the OMC to health care and long-term care, aiming to ensure accessible, quality and sustainable systems.
- *Make greater use of the OMC's potential to contribute to effective delivery:* The exchange of good practice needs to be supplemented by a transparent identification of good and bad practice in order to be of effective use for Member States in policy making. The common indicators should play a key role in this regard.
- *Ensure that Structural Funds continue to play a key role in promoting social inclusion:* The potential contribution of the Structural Funds, especially the ESF, to address poverty and social exclusion by increasing employment and developing skills needs to be enhanced and fully exploited. Without prejudice to the negotiations regarding the future financing of these funds, this key role will need to be taken into account in the debate on the future financial perspectives for 2007-2013.
- *Further develop common indicators and enhance data sources:* In spite of improvements to indicators and the underlying statistical capacity, most notably through the launch of EU-SILC, there are still gaps in the timeliness and relevance of data that hamper comparative analysis. There is in particular the need to better capture the multi-dimensional nature of social exclusion and poverty.

### **3. PENSIONS AND ACTIVE AGEING**

#### **3.1. The sustainability and adequacy challenge to pension systems**

Member States have long been aware of the consequences of demographic ageing for their pay-as-you-go pension systems and are now also realising the challenges that it

poses to funded schemes as well. This requires credible reforms aimed at securing adequate future benefits in a financially sustainable way. In the context of the Lisbon strategy, the OMC on pensions was developed to promote such reform efforts centred on three major strands of common objectives: adequacy, financial sustainability and modernisation so as to accommodate changes in society.

The first Joint Report on adequate and sustainable pensions showed that most EU15 Member States have already made significant progress in curbing future trends in public pension expenditure. Since then, a number of Member States have adopted further reforms. The next round of national strategy reports will carry out a fresh assessment of progress achieved, including in the EU10 Member States.

The Joint Report stressed the inseparable nature of sustainability and adequacy. Future pension systems can (continue to) provide adequate pensions only if they are financially sustainable and if they are well adapted to the changing societal context; conversely, if pension systems fail to provide adequate incomes to the retired, there will be additional costs, for instance in the form of increased social assistance spending. A major challenge will therefore be to achieve financial sustainability without jeopardising adequacy.

The joint report noted that many reforms since the 1990s aimed at curbing future expenditure rises will result in lower replacement rates from statutory schemes at a given retirement age. These reforms were often accompanied by measures to prevent poverty by strengthening minimum income guarantees for older people. To prevent future adequacy problems, Member States can encourage people to retire later and ensure that there are the resources for financing pensions by consolidating their public finances or by increasing the contribution of private pension schemes to the income of older people. The latter can be achieved through the collective bargaining process or by supporting individuals in making their own decisions about their retirement provision.

### **3.2. Two main policy responses: longer working lives and increased private provision**

The modernisation of social protection systems can help to promote later retirement. It is important that pensions are only paid before the standard retirement age or before having fulfilled the standard working career to people who are genuinely unable to earn a living or who accept a fair reduction of their pension. At the same time, pension systems should offer opportunities to earn higher pension entitlements by working longer. Thus raising the effective retirement age represents the key tool for reconciling adequacy and financial sustainability. Given the current differences in the health status and employability of older people a flexible retirement age may be more appropriate. This will be an important issue in the modernisation of pension systems, alongside better incentives for longer working lives and policies aimed at preserving the health and employability of older workers.

A study by the SPC showed that the main early labour market exit pathways – in particular early retirement schemes, unemployment benefits and invalidity benefits – are being critically reviewed in most Member States. At the same time, more opportunities for achieving higher incomes to pensioners are being offered, by granting pension increments for deferring retirement or by allowing the combination of earned income with a pension (gradual retirement or part-time working after retirement). However, there is still much scope for reform in many Member States.

The SPC is also examining the role of privately managed pension provision. Most Member States expect private provision through occupational or personal schemes to play

a more important role in the future, although public schemes will remain the most important source of pensioners' income in all but a few countries. Increased private provision should not make pension systems less transparent, both at an aggregate level and at the level of individuals. At an aggregate level, better information is required on the level of private provision and on the links between private provision and public finances, notably through the tax treatment of private schemes and the interaction between private pension benefits and public income guarantees for pensioners. Information is also extremely important for individuals, enabling them to make difficult choices with long-term consequences on their incomes and living standards.

### **3.3. Modernising pension systems**

Adequate and equitable pensions for all can only be achieved if pension schemes are well adapted to the evolving needs of individuals. They need to take into account the greater diversity of employment patterns and the desire for greater gender equality. Moreover, governance issues need to be considered, in particular the need to base reforms on sound information and a solid consensus.

The modernisation of pensions and, more generally, social protection systems must also be seen as a crucial element for achieving the goals of the Lisbon strategy. Responding to the challenge of ageing calls for a review of the traditional life cycle patterns, with phases devoted to learning, working and caring becoming less distinct. Social protection systems have to accommodate such changes and allow and encourage people to make the most of the opportunities generated by a dynamic economy and labour market.

## **4. KEY POLICY MESSAGES**

- Improving social protection is essential for growth and employment as well as for social cohesion. Raising employment levels should remain a key driver of the modernisation of social protection. Conversely through responding to the evolving needs of individuals over the life cycle, social protection systems will facilitate the management of new risks.
- In the area of social inclusion, the results gathered so far suggest that both perseverance and ambition are justified. Perseverance will be needed, because tackling the roots of poverty and exclusion will require concerted effort beyond 2010; ambition, because the process of collective action by all stakeholders across the EU is now firmly anchored. Without prejudice to the negotiations regarding their future financing, the support of the structural funds, particularly the European Social Fund, will be key to sustaining this ambition.
- Policies for social inclusion must adapt to the diversity of challenges in the Member States. Accordingly, the requirement for multi-faceted approaches is a priority. The work undertaken to date confirms the relevance of several key policy priorities. Focussing on these will help to address some of the most pressing issues like preventing child poverty, supporting the caring capacity of families, addressing gender inequalities, tackling homelessness and opening new routes to integration of ethnic minorities and migrants.
- In the area of pensions, maintaining older workers in employment stands as a key challenge across the European Union. It should be given priority in the

process of reforms to secure the future adequacy and financial sustainability of pension systems. Rising life expectancy will demand further increase in labour market exit ages, implying the progressive removal of various incentives for early retirement. Member States should assess the role of social protection systems in promoting longer working lives and active ageing.

- At EU level, the planned extension of the OMC to health care and long-term care and the streamlining of all social protection and social inclusion processes in 2006 should be used to put stronger focus on implementation of objectives and on developing synergies between the different policy spheres. This should be done while respecting the specificity of each strand - inclusion, pensions, health and long term care - within the OMC for social protection.
- The forthcoming evaluation process, to take place in 2005, should focus on delivery in order to prepare for a new cycle of the OMC after 2006. The Member States and the Commission should particularly assess how national strategies can be made more effective by the use of targets, benchmarks and indicators, better links with economic and employment policies, effective monitoring and evaluation provisions and the use of the structural funds. The extent to which national strategies have been able to involve local and regional government, social partners and other stakeholders, and to contribute to raising awareness about the critical issue of poverty and social exclusion should also be reviewed.
- Bringing back people to work, maintaining workers in employment, increasing employability and labour market participation are key for achieving the goals of competitiveness, employment and social inclusion of the Lisbon strategy. The latter still faces huge challenges in an enlarged Union, considering the situation of the most excluded from the labour market. On the basis of the lessons drawn from the OMC on inclusion and from the European Employment Strategy, the Commission should consult in 2005 the social partners, the Member States and all relevant stakeholders on whether and how further action at EU level could be needed for addressing those challenges.