

## The Social Dimension of the Europe 2020 Strategy

### Summary of the Report by the Social Protection Committee (2011)

#### Key Definitions

##### Open Method of Coordination on social protection and social inclusion (Social OMC)

The open method of coordination on social protection and social inclusion provides a framework for national strategy development, as well as for coordinating policies between EU countries on issues relating to poverty and social exclusion, health care and long-term care as well as pensions. It is a voluntary process for political cooperation based on agreeing common objectives and common indicators, which show how progress towards these goals can be measured. National governments translate the common objectives into national plans.

##### Social Protection Committee (SPC)

The Social Protection Committee is a Treaty-based Committee which serves as a vehicle for cooperative exchange between Member States and the European Commission in the framework of the Social OMC. The Committee plays a central role in preparing the discussion in the Council on the annual Joint Report on Social Protection and Social Inclusion. The Committee also prepares reports, formulates opinions or undertakes other work within its fields of competence, at the request of either the Council or the Commission or on its own initiative.

##### People at-risk-of poverty or social exclusion

Individuals who are at-risk-of poverty and/or suffering from severe material deprivation and/or living in household with zero or very low work intensity.

##### At-risk-of poverty rate

Share of people with an equivalised disposable income below 60% of the national equivalised median income. Equivalised income is defined as the total household income (including all sources of current income available to the household after social transfers and direct taxes) divided by its "equivalent size" to take account of the size and composition of the household.

##### Severe material deprivation rate

Share of people who experience at least 4 out of 9 deprivations: people cannot afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish, or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour tv, or ix) have a telephone

##### People living in households with very low work intensity

Share of people aged 0-59 living in households where the adults work less than 20% of their total work-time potential during the previous 12 months.

##### National Reform Programs

National Reforms Programmes aim at setting out the future three-year strategy planned by Member States to implement the integrated guidelines for economic and employment policies. The guidelines form part of the Europe 2020 strategy for smart, sustainable and inclusive growth.

##### Active Inclusion

Active inclusion is a policy strongly supported by the EU. In their 2007 communication “Modernising social protection for greater social justice and economic cohesion” they stated that “*to promote the integration of the most disadvantaged people a comprehensive active inclusion strategy, entailing the provision of an adequate level of income support with a link to the labour market and a better access to services, is needed.*”

## Persistent levels of poverty in Europe

One of the lessons to be drawn from 10 years of Lisbon strategy is that despite economic and employment growth, the 2000 original objective of reducing poverty significantly was not met:

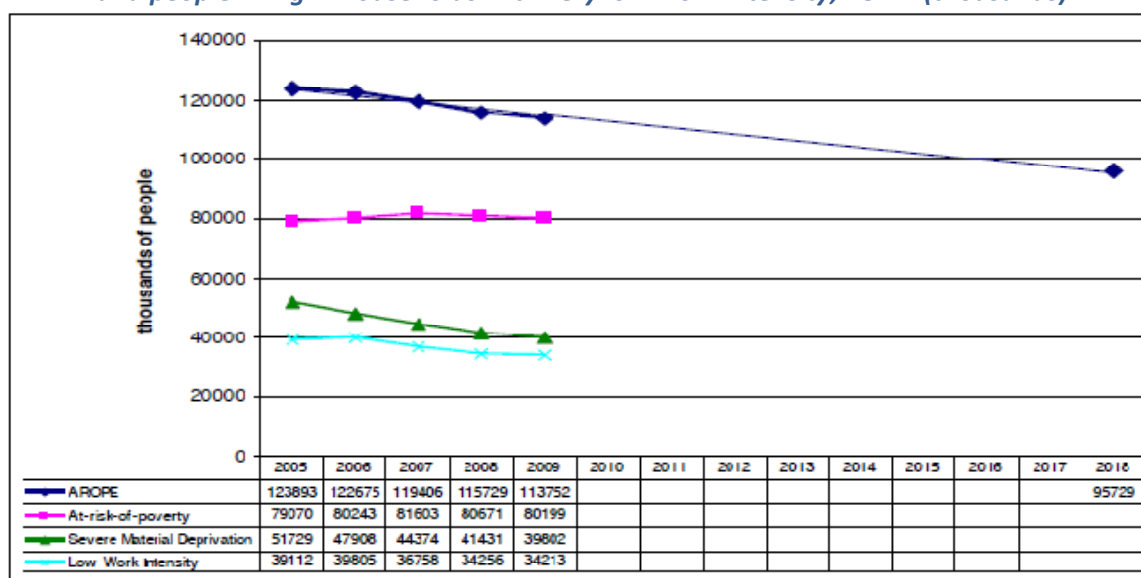
- One in five people in the EU is at-risk-of-poverty or social exclusion and 40 million people are in a condition of severe deprivation. EU heads of State and Governments have committed to lift at least 20 million people out of poverty and social exclusion by 2020.
- 25 million children are at risk of poverty or exclusion in the EU. In order to break the intergenerational transmission of poverty, Member States need to prioritise early childhood intervention in areas such as health and education, to enhance the availability of quality child care and enabling services, to promote the labour market participation of parents, and to guarantee adequate income support to families with children through a combination of well designed universal and targeted benefits.
- A rapid return to growth and well designed employment and education policies are crucial to reduce poverty and social exclusion. At the same time, efforts to restore sound public finances and reform social protection systems should both aim at ensuring their sustainability and adequacy.
- The success of the Europe 2020 Strategy depends on an integrated and coherent approach between all relevant policy areas in particular social, employment and economic policies as well as close cooperation between all levels of government, social partners and civil society.
- As Member States pursue recovery, active inclusion strategies combining income support, access to the labour market and health and social services are needed to prevent long-term exclusion while increasing the efficiency of social spending.
- Policies to tackle the most persistent and severe forms of poverty and social exclusion require a combination of universal and targeted approaches.
- Maximising employment years and minimising the effects of career breaks is crucial in ensuring future pension adequacy and long-term financial sustainability of pensions systems.
- Ensuring universal access to quality care for all will require renewed efforts to maintain an efficient health sector. Increasing effectiveness, sustainability and responsiveness of health care and long-term care in the context of austerity and ageing will be necessary, including through innovative and coordinated health and social care delivery, such as integrated pathways for the treatment of chronic diseases. Investing in health promotion and disease prevention (including mental health problems) can bring high returns in both in social and economic terms.
- The Commission and Member States should consider the need to strengthen their capacity to *assess the social impacts* of their major policy and spending decisions as part of overall impact assessments.

## Monitoring progress towards the EU headline target and national targets

In the light of the draft National Reform Programmes (NRPs), a majority of Member States have set realistic targets for the reduction of poverty and social exclusion, close to the EU level of ambition. Most have used the same definition as the EU headline target, based on the three agreed indicators<sup>1</sup>. But the draft NRPs also reveal that more effort would be needed to meet the level of ambition collectively agreed by the European Council in June. Finally, several countries have still not set their target and it is urgent that these countries rapidly finalise the process.

The **monitoring of progress towards the EU headline target** will be based on past trends of the number of people at-risk-of-poverty or exclusion (AROPE), for the total population and for the main groups at risk at EU level. This will allow keeping track of progress overall and for the different components of the targets, thereby highlighting which dimensions would require further efforts.

*The EU deadline target and its three components: at risk of poverty, severe material deprivation and people living in households with very low work intensity; EU-27 (thousands)*



Source: EU-SILC

The **monitoring of progress towards the national targets** will be based on similar graphs presenting the evolution of the indicators underlying the national definitions of the targets. A majority of countries have set their target on the basis of the EU definition. Others have set their target on the basis of national indicators or on single components of the target (the at-risk-of-poverty rate). Work on assessing the contribution of the national targets based on national indicators to the EU target will involve the estimation of possible scenarios on how the EU target can be reached, taking into account

- The national targets and their trajectories as indicated by Member States,
- The relation between the social inclusion and poverty reduction target (and its components) and key macro-economic and social indicators (GDP/capita, GDP growth, employment, current and projected size and structure of social protection expenditure, and unemployment, early school leavers, etc).

## Main priorities and policy measures envisaged by Member States

<sup>1</sup> The at-risk-of poverty rate, severe material deprivation and people living in households with very low work intensity

Children, elderly, single women, lone parents, the low skilled, the unemployed, inactive people of working age, among whom people with disabilities, people living in rural areas, and migrants face the highest risks and are overrepresented among the people at-risk-of-poverty or exclusion. The experience of this decade has confirmed that **having a job remains the best safeguard against poverty and exclusion**, since the poverty risk faced by unemployed working age adults is more than five times higher than those in work (44% against 8%), and the inactive (other than retired) face a risk-of-poverty that is three times higher than that of the employed (27% against 8%). Nevertheless, having a job is not always a guarantee against the risk of poverty and the **working poor** represent one third of the working age adults at-risk-of-poverty. In 2009, 8.4% of the people in employment were living under the poverty threshold.

The vast majority of Member States (more than 2/3 of countries) indicate that efforts to raise employment rates overall and to foster inclusive labour markets are expected to contribute to the reduction of poverty and social exclusion.

Areas of intervention that are considered especially relevant include:

- Fighting labour market segmentation to facilitate entry on the labour market and promote the upward mobility of low income earners.
- Modernising social security systems so that they provide the right incentives to work, to avoid benefit dependency, but at the same time ensure adequate income support.
- Increasing the participation of specific groups (e.g. women, people with disabilities, lone parents).
- Improving access for vulnerable groups (low skilled, migrants, etc) to public employment services and training.

A majority of Member States list **reforms to ensure the long-term adequacy and sustainability of the social protection systems** as a priority area. This especially concerns:

- Pensions reforms
- Reforms to increase the poverty reduction impact of social transfers. In most countries this entails implementing policies that can increase the efficiency of social spending in all areas, and especially in health care, active inclusion, etc.

A majority of Member States indicate **access for all to high quality services** as a priority area. A number of them highlight the need to tackle **regional disparities** in the provision and quality of services. This especially concerns health care and long-term care as well as housing.

In continuity with past reporting under the social OMC, **active inclusion strategies** remain a priority for the vast majority of Member States (more than 2/3 of countries). Measures include:

- Adopting or continue to implement integrated active inclusion strategies.
- Strengthening labour market support for all, including the most vulnerable, and linking social assistance to activation measures and access to enabling services.
- Reviewing and improving where needed the design, coverage, and adequacy of social safety nets.
- Ensuring the sustainable financing of social services and the quality of intervention.
- Supporting the social economy.

Also in line with past reporting, **fighting child poverty** is another very important priority for a vast majority of Member States (more than 2/3 of countries). A number of countries have set their national target or sub-targets in relation to child poverty. Many countries also highlight the role of education in preventing the inter-generational transmission of poverty.

Measures include:

- Strengthening early childhood intervention in areas such as health and education.

- Supporting the labour market participation of parents, especially lone parents and second earners (addressing financial disincentives, child care provision, reconciliation of work and family life).
- Investing in the availability and quality of child care (quality standards, professionalization of staff, etc).
- Ensuring the financing and the quality of other services (housing, health care, etc) that are important for families and children.
- Guaranteeing adequate income support to families through a combination of well designed universal and targeted benefits.

**Fighting poverty** in old age is a priority for a majority of Member States. Measures include:

- Increasing the labour market participation of older workers (addressing disincentive to work longer, fostering job and training opportunities for older workers, etc).
- Addressing the negative impact of career breaks and broken carriers on pensions entitlement, especially for women.
- Improving minimum income provisions for the elderly, especially for women.
- Improving access to quality services and long-term care.

Less than half of the countries have highlighted policies **to support the inclusion of groups at risk (migrants, people with disabilities, Roma)** as a priority.

Measures include

- Supporting the labour market integration of groups at risk (targeted measures for access to training and PES, etc).
- Targeted social inclusion measures.
- Enforcement of anti-discrimination laws.

The first analysis of the provisional NRPs tends to indicate that Member States are not giving enough priority to the modernisation of social assistance and income support mechanisms, and to the role of coordination of social services, including integration services, with employment services in the implementation of active inclusion strategies.

## **The much needed mutual coherence of policies**

### **Education and skill levels**

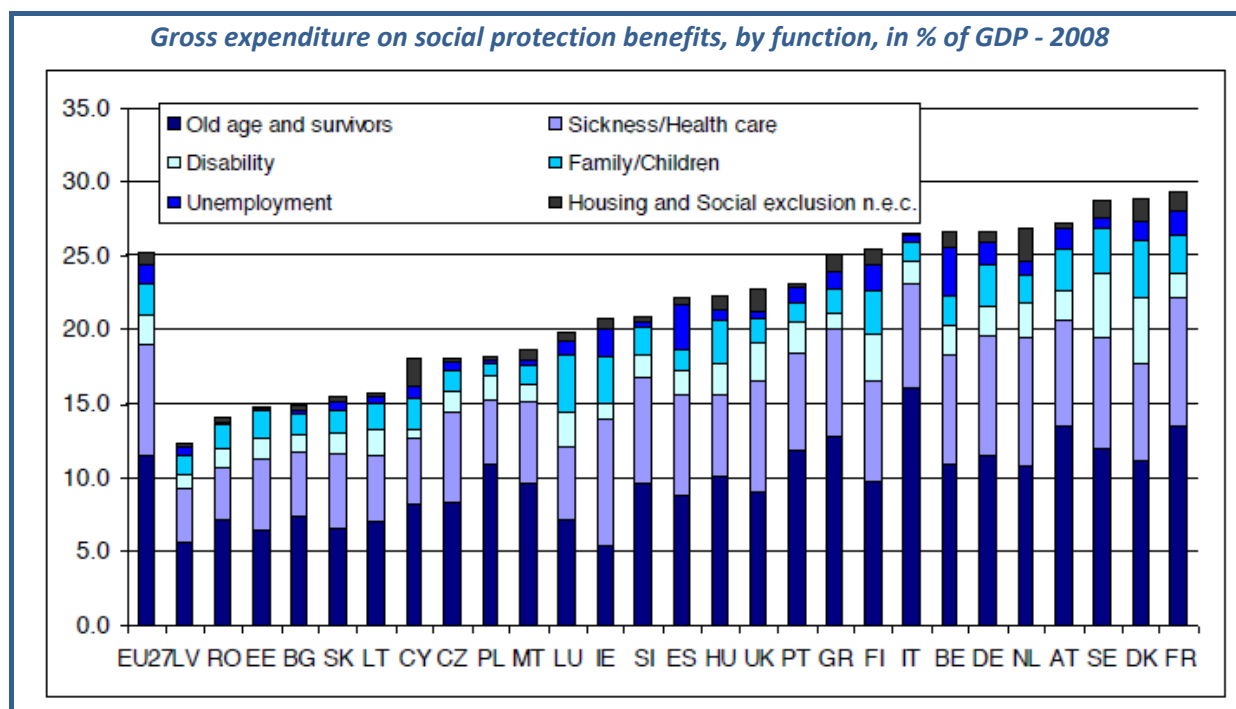
Europe 2020 is an integrated strategy whose success depends on all its goals reinforcing each others. Positive interaction between the employment, education and poverty targets is especially important. Economic growth and the design and success of labour market and education policies play a crucial role in fighting poverty and social exclusion. Reducing poverty will support the employability of workers and improve the chances of children to do well in school.

Improving education levels and ensuring access to lifelong learning for the low skilled will help reducing poverty in the medium and long-term. Education and training systems are crucial to help break, rather than reinforce, the cycle of disadvantage and to ensure equal opportunities for all. At present, a learner's socio-economic background has a big impact on his/her chances to access and succeed in education and training: at whatever level. Strengthening access to early childhood education and care is essential to support a sure start in life for all. It is also important to make education and training systems more inclusive at all levels and for all ages (primary and secondary school levels, higher education, vocational training and adult learning).

### **The redistributive role of social protection**

Social protection plays a redistributive role over the life-cycle; insuring people against social risks and helping reduce poverty. Generally, richer countries spend a larger share of their GDP on social

protection and recent economic growth has allowed many governments in the EU to devote more resources to social policy interventions. **The structure of social protection expenditure shows that old-age pensions and sickness and healthcare benefits represent the bulk of spending in all EU Member States and are also the areas in which most reforms are taking place.**



The design of the tax-benefit system is crucial in determining the way and the extent to which it affects income inequalities and redistributes resources to the poor. Reshaping social protection systems so that they encourage activity and inclusion is also essential. However, it is also clear that good economic and employment performance is a precondition for their well functioning. Hence modernisation of social protection needs to go hand in hand with rapid progress with effective strategies for growth and more and better jobs. The crisis has had a strong impact on the number of recipients of both unemployment and social assistance benefits. It is important to ensure that both unemployment and social assistance schemes are responsive to the business cycle; by increasing the duration and coverage in the downturn and the opposite in an upturn) and by reinforcing safety nets at times when most needed.

### The rationale for reforms

Firm policy intervention and the automatic stabilizers embedded in European welfare systems have limited the economic and social impact of the crisis. The European Commission forecasts that social expenditure is likely to reach 30.7% of GDP in 2011, against 27.5% in 2007. With growth resuming, and with the termination of crisis specific measures, social expenditure should start decreasing again as a share of GDP even though a time lag is to be expected. Fiscal consolidation which is on the agenda of most Member States will also put pressure on social spending. Labour markets were severely hit by the crisis. At EU level, the employment rate reached its lowest point in the first quarter of 2010 at 64.3%, to increase slightly again in the second quarter, after nearly two years of contraction. Following the continued rise in unemployment, the number of unemployment benefit recipients continued to increase between June 2009 and June 2010 in most Member States. The number of recipients of social assistance schemes also increased significantly in a majority of Member States. People on social assistance face higher risks of long term exclusion unless measures are taken to maintain their link to the labour market through active inclusion strategies.

### Reforms to ensure adequate and sustainable pensions

Overhauls of the pension systems are ongoing in many Member States and a number of countries have progressed in the implementation of already adopted or planned pension reforms in 2010. The major trends in pension reforms encompass the strengthening of the link between contributions and benefits, the raising of the statutory and effective retirement age, the establishment of automatic adjustment mechanisms to life expectancy and/or GDP developments and enlarging the future role of pre-funded private schemes in pension provision.

**An effect of such trends in recent pension reform is that vulnerable groups and people with short and broken labour market careers will become more dependent on minimum pensions and minimum income provisions for older people. Older women are more vulnerable than men due to the persisting gender pay gap, the persistence of sectoral and occupational segregation on the labour market, and the impact of career breaks on women's pension entitlements. Pensions are crucial for preventing the inflow of older people into the at-risk-of-poverty zone, for lifting people out poverty and for mitigating material deprivation affecting older people and to ensure them adequate income. Hence, minimum income guarantee pensions and minimum income provisions play a major role in the prevention and mitigation of poverty and material deprivation.**

The adequacy of a pension benefit cannot be assessed in isolation. The adequacy will depend on the type of cost it is supposed to cover. If older people have access to free health and long-term care when they need it, receive housing and heating allowances, get discounts on public utilities such as water, transport, radio and TV, pensions can be adequate in a poverty protection sense even though their monetary value fall below the at risk of poverty threshold. Access to supplementary benefits in cash and kind therefore play a large role in the poverty preventing adequacy of pensions and here differences between Member States are large.

### The role of health care and long-term care

Health risks for poor people and vulnerable groups are particularly high. Likewise people with physical and mental health problems may end up poor. Tellingly in this regard, data show that health expenses are highly concentrated, with about 5% of patients accounting for nearly half of all costs. Long-term poverty is likely to impact seriously on the health status of those affected. Access to quality health services is a key element in efforts to lift people out of poverty and to prevent that they slide into it.

**In order to achieve the objective of inclusive growth and in response to the widening gap in health status between rich and poor in many member states Europe 2020 identifies the need for a major effort to reduce health inequalities. This requires concerted action across policy areas including equitable access to affordable high quality health services. Overall, the question of cost-effectiveness is crucial if countries are to ensure universal access and equity in health in a context of constrained resources.** Given the links between poverty and poor health status poor people are likely to be at higher risk of developing chronic disease and/or require long term care and support from health services, social care services or both. Conditions for access to health and social care services are therefore of particular importance in a poverty and poor health perspective. **Another important question concerns the quality of long term health and social care provisions.**

Even two years into the crisis it is still difficult to give a full picture of the effects on the health status and health-related behaviour of specific population groups. It remains difficult to evaluate the specific impact of the crisis compared to other possible factors or already existing health trends. However, **Member States have identified negative impacts of the crisis on citizens' mental health status, notably in the following areas: depression, anxiety, increased alcohol consumption and suicidal behaviours. In some Member States particularly affected by the crisis provisional data show a clear and very worrying increase in suicides.**

In the context of reforms of the health care and social services sectors, long-term care represents a key area for intervention in many Member States. The purpose of these reform processes is to improve the efficiency, access, effectiveness and sustainability of the long-term care and social service provision and to improve quality of life of service users. Several measures have been implemented with the aim of supporting the de-institutionalisation of the long-term care sector, of promoting home and community based care and of improving end-of- life care. The increasing costs associated with long term health and social care has become a pressing issue across Member States which has prompted comprehensive policy and strategy reforms in recent years, regardless of constraints generated by the crisis.

### **Ensuring access to high quality social services**

Access to social services which address the special situation of those excluded from society and the labour market is an essential part of a comprehensive strategy to fight poverty. It is therefore important for Member States to continue and strengthen their efforts in the organisation and financing of high quality, affordable and cost-effective social services, "designed to respond to vital human needs, in particular the needs of users in vulnerable position".

A crucial challenge for the sector is the ageing of the population, associated with an increased risk of chronic disease. If not adequately tackled, there is a risk of an increase in the number of European citizens suffering from chronic disorders such as neuro-degenerative diseases (Alzheimer/Parkinson), cancer and cardiovascular diseases. This would in turn lead to an increasing demand for social services and, consequently, to a greater need for a well-qualified and sufficiently large workforce in this sector. The growth in the demand for social services also reflect other deep-rooted trends in the EU's economies and societies resulting from changes in gender roles and family structure (e.g. an increase in single-person households and greater participation of women in the labour market), from more flexible labour markets and from technological change and globalization. Owing to those trends, the demand for social services is becoming more complex: an increasing number of people will require efficient services adapted to diversified needs and choices.

Other important challenges that the sector is facing are the uneven gender balance of its workforce as well as its ageing. However, the challenges posed by an ageing workforce and the existing gender bias may be turned into opportunities for increasing the labour market participation of groups currently under-represented in many Member States, such as women and older workers.

On top of these structural challenges, in all Member States the economic crisis has put social services under serious pressure. As the economy has contracted, both the need and demand for social services has increased. At the same time, cuts in social spending have limited the sources of finance available to social services, which are for the most part funded by public budgets. In this context of rising demand and limited financial resources, the quality, accessibility and availability of social services may be seriously affected.

Moreover, the effect of the economic recession on social services varies greatly among the Member States and even among various regions within the same Member States, which may further exacerbate regional discrepancies and put additional strain on social cohesion. Most Member States have included specific measures in their recovery packages to mitigate the impact of the economic crisis on the social services sector. Such measures are targeted at the most vulnerable categories of people, such as families with children, young people, jobless families, the low-skilled and older workers.

### **Breaking the inter-generational transmission of poverty**

25 Million children were at risk of poverty or exclusion in 2009. Experiencing poverty and deprivation in young age affects children's well-being and can have long term detrimental impacts on their educational achievements and future life chances. This is why it is important to put in place broad strategies to support children and families. This entails supporting the labour market participation of parents, including of lone parents and second earners; investing in the quality of child care (quality standards, professionalization of staff, etc), and in early childhood intervention in

areas such as health and education, and guaranteeing adequate income support to families through a combination of well designed universal and targeted benefits. However, the monitoring of the crisis has shown that, in some countries, fiscal consolidation measures will affect child and family benefits and other benefits that are important for families (housing).

Besides, efforts to tackle child poverty have to go hand in hand with the development of education systems, starting from pre-primary school. Currently, one in seven young Europeans drops out from school with less than upper-secondary education, and this rate is particularly high for young people with a migrant background or Roma children. While the number of higher education students from disadvantaged backgrounds has increased, their access and graduation rates remain lower, and important differences can be found across Member States. More efforts are needed to ensure that education systems break, rather than reinforce, the cycle of disadvantage. This involves in particular preventing and tackling early school leaving, while making education and training systems more inclusive at all levels and for all ages.

### Investing in active inclusion strategies

Poor economic conditions and high unemployment create risks of long-term exclusion, affecting the employability and skills of the work force and undermining the mental and physical health of populations. Active inclusion strategies combining adequate income and labour market support and access to enabling service can prevent long-term exclusion and increase the efficiency of social spending. The active inclusion approach has proved to be a step in the right direction, especially during the economic crisis: workers in precarious forms of employment were the first to lose their jobs and received only limited protection, such as unemployment benefit, from social insurance schemes. Minimum income schemes have provided invaluable safety nets, which now need to act as springboards to employment. However, more needs to be done to implement the active inclusion strategy fully, as increasing numbers of people have to rely on social assistance and face long-term exclusion (with attendant risks to health and employability).

**Budgetary constraints are putting pressures on the sustainable financing of social services and the quality of intervention. In order to promote more efficient and effective policy intervention many Member States also intend to promote social innovation and foster public-private partnerships in the delivery of services, as well as to tap into the potential of the social economy. This makes it all the more essential to focus on the quality of services delivery.**

### Preventing and fighting elderly poverty and social exclusion

The maturing of pensions systems has helped reduce poverty risks for the elderly in many countries. However, on average, the elderly experience a risk of poverty which is higher than the overall population (at 17.9%) and in a number of countries, they are particularly exposed to material deprivation. Besides, the crisis and lower growth prospects are likely to impact on all types of pension schemes and aggravate the challenge of elderly poverty, in particular for people with short or discontinuous work careers.

Minimum or guarantee pensions and minimum income provisions play a major role in the prevention and mitigation of poverty and material deprivation among older people. Adequate and well-designed pensions with effective indexation rules are an essential lever in this view. However, the overall design of welfare systems needs to be taken into account in the implementation of poverty prevention strategies. Access to supplementary in-cash and in-kind benefits therefore play a large role in the poverty prevention and pensions reforms need to take into account the design of the welfare systems as a whole. Given the links between poverty and poor health status, the provision of quality and affordable long-term care is crucial for poor people.

### The use of the European Social Funds to support the Europe 2020 strategy

The European Social Fund (ESF) is the main financial instrument at European level to promote employment, social inclusion, equal opportunities and develop the skills and competences of people.

With a total budget of 76 billion Euros for the 2007-13 period, the ESF has a key role to play in delivering the Europe 2020 strategy. The EU budget review outlined a new strategic programming approach for cohesion policy for the next programming period with a view to establishing a closer link with the Europe 2020 strategy, the flagship initiatives and the Integrated Guidelines. In order to foster smart, sustainable and inclusive growth, the EU budget must focus on adding value by identifying where to spend intelligently in order to make a difference for EU citizens. The conclusions of the fifth Cohesion Report call for the concentration of resources on a small number of priorities in order to deliver on the headline targets of Europe 2020. The ESF directly supports the achievements of three of the five headline targets in the field of education, employment and social inclusion. It also contributes to the targets on R&D. The ESF is also the single most important European financial instrument at the disposal of Member States to support social inclusion policies with a view to achieving the poverty target. Most Member States use the European Social Fund to implement tailor-made measures adapted to the needs of the specific target groups combining individual guidance, training and employment support. Experience shows that this pathway approach, which also takes into account the particular needs and personal characteristics of individuals from disadvantaged backgrounds is the most efficient way to re-integrate marginalised groups in the labour market, promote their social inclusion and reduce the risk of poverty. Gender mainstreaming, the promotion of equal opportunities and anti-discrimination measures are also widely supported by ESF in Member States. Beyond measures directly linked to promoting social inclusion, ESF actions aim to prevent exclusion and reduce poverty through early intervention. Investing in skills and knowledge, improving the adaptability of workers to prevent unemployment or fighting early school leaving all have a major role to play in reducing poverty in the medium term.

### The use of other EU funds

Other EU funds can be used to fight poverty and social exclusion in Europe. These include the PROGRESS Programme, the European Progress Microfinance Facility, the European Regional Fund, the European Agricultural Fund for Rural Development and the Research Framework Programme.

### The way forward

High unemployment levels and greater constraints on public finances have put social assistance and the provision of quality services under great pressure. Providing integrated support to the most vulnerable in order to prevent long-term exclusion has become both more difficult and more urgent. Member States should consider:

- Implementing **integrated active inclusion strategies** combining adequate income and labour market support (such as training, job-seeking assistance) and social services such as child care, housing, rehabilitation. This may involve linking social assistance to activation measures and access to services.
- **reinforcing social safety nets** by improving their coverage and the level of the benefits in countries or regions **where they are weak**; improving the take-up of benefits by simplifying rules, improving information of potential beneficiaries and addressing errors in evaluation procedures and discretionary assessment.
- Ensuring the **sustainable financing of social services** and the quality of intervention. Many Member States consider breaking the inter-generational transmission of poverty as a top priority. However, across Member States, policies to fight child poverty are still at very different stages of implementation and considerable differences in outcomes remain.

Member States should consider:

- Strengthening **early childhood intervention** in areas such as health and education,
- Investing in the availability and quality of **child care** (quality standards, professionalization of staff, etc);
- Guaranteeing **adequate income support** to families through a combination of well designed universal and targeted benefits.