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SOCIAL AND HEALTH POLICIES IN OECD COUNTRIES: A SURVEY OF CURRENT PROGRAMMES AND RECENT DEVELOPMENTS

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**DIRECTORATE FOR EDUCATION,
EMPLOYMENT, LABOUR AND SOCIAL AFFAIRS**

OCCASIONAL PAPERS

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SUMMARY

The responses of countries to the OECD Caring World questionnaire, together with other available information, provides a good basis for summarising the main social policy trends with respect to the broad coverage of social protection arrangements, assistance for families, assistance for unemployed people of working age, retirement incomes, health care, long-term care and housing assistance.

In terms of the broad coverage of social security measures, the main developments have been some tightening of eligibility, particularly for new migrants, and increased importance of social assistance measures. Countries have responded to concerns about the incidence of social exclusion, often through comprehensive, integrated measures which include income support as well as measures to assist people back into mainstream activities of society.

With general family assistance measures, some countries have pursued greater means-testing of benefits, at the same time as some payments have been increased, especially for low-income families. In instances, payments for low-earning families also act as workforce incentives for those who take up low-paid jobs. Many countries have sought to improve the administration of maintenance arrangements expected from absent parents for their children, with limited success, at the same time as some countries have increased the scale of financial contribution expected from absent parents. Other countries have strengthened their fall-back government payments provided when absent parents either default on their payment responsibilities or do not have the financial capacity to provide a minimum level of payment for their children.

Lone parents in receipt of social security have received considerable attention by governments over the last decade, with policies such as some restrictions of payment eligibility and duration. These restrictions have sought to limit the time lone parents are dependent on social security assistance. One example of such a restriction is decreasing lone parents' eligibility for payment by lowering the qualifying age of their children. Many countries have also introduced active measures to help lone parents get back into work, such as: increased child care opportunities (which have also been expanded for other working families), places in employment and training programmes, and financial incentives built into the social security system to encourage workforce participation.

There have also been many changes in unemployment benefit programmes. A number of countries have reduced the generosity of payments through cuts in benefit rates, limitations on indexation adjustments, removal of earnings-related aspects or some change in the maximum duration of benefit receipt. This has also been accompanied by restrictions on benefit eligibility in some countries, while a few countries have increased benefit rates. One of the predominant changes across OECD countries has been to tighten the administration of the work test requirement imposed on unemployed people. In some countries, tightened administration has been accompanied by stronger penalties for non-compliance in some countries. Countries have also pursued considerable programme enhancements to encourage and facilitate the entry of unemployed people back into employment. Financial inducements to undertake part-time work or enter full-time employment have been targeted at unemployed people, in addition to increased active labour market programme opportunities. Despite many years' experience with the

provision of labour market programmes for unemployed people, countries are still experimenting with changes to the programme mix and programme administration in order to improve the employment outcomes from these interventions.

Disability pensions and sickness benefits have both been subject to more systematic and comprehensive checks on entitlement, following large increases in programme participants in many OECD countries. With disability pensions there has been some overall restriction on programme eligibility in many countries with greater regard to medical rather than social criteria, new means of assessing medical conditions and tightened notions of work ability. With sickness payments, some countries have reduced the generosity of sickness benefits as well as transferred responsibility for payment for early periods of sickness to employers rather than public funds. Considerable attention has been given to rehabilitation and active measures to assist disability pension and sickness benefit recipients back into work.

OECD countries have been actively reforming their retirement pension systems. There have been reductions in the value of the final public pension benefit in countries. This has been accompanied by increases in the contributory or employment period required to generate the same level of benefit as previously and expansion of the number of years of earnings used in the calculation of final benefits. In other instances, the value of the final pension benefit has been better linked to the individual's previous employment experience. By contrast, public pension benefits have increased in other countries who have been concerned about the adequacy of their basic social security benefit for the elderly. The age of retirement is being increased for both men and women in a few instances, with the more common change being to increase the age of retirement for women up to the same age as men or closer to the male retirement age. This has been accompanied by restrictions on access to early retirement pensions and incentives to encourage longer workforce activity, both before and after statutory retirement ages. One of the most significant developments across the OECD has been the encouragement and development of private pension arrangements, predominantly to supplement the public system.

In the late 1980s and the early 1990s, most OECD countries experienced an increase in total GDP absorbed by their health care systems. Cost containment was pursued by countries through measures such as alternative payment systems for hospitals, limiting the costs associated with new technologies and pharmaceuticals, shifting care to outpatient services and community care, introducing greater accountability, as well as changes in overall health financing arrangements and increased co-payments for individuals. Countries have also introduced increased competition among health insurance funds and health service providers. With the moderation in growth of health-care costs over recent years, countries have been shifting their attention more towards means of improving the quality of care and achieving better health outcomes. Special quality commissions and quality assurance agencies are developing standards for health care and financial incentives are being introduced for improved quality. Greater attention is being devoted to improving the co-ordination of care and measuring health outcomes. In the public health area, many countries have developed national strategies focused on common areas, such as cardiovascular and other chronic diseases, communicable disease, mental health, injury prevention, alcohol and drug prevention and improved health screening. Extension of health care coverage has continued in a number of countries, and despite this continuing trend, there are still concerns about unequal access to health care services and unequal health outcomes across the population.

Long-term care is a relatively recent area of policy attention by OECD countries. The shift towards community-based care, more tailored services for the elderly and the introduction of private provision for greater consumer choice, respond to some of the desires of older people for better quality services. Decentralisation of greater responsibility to local government has sought to introduce greater structural co-ordination of services, while setting up multi-disciplinary teams of professionals is one of the

popular approaches to achieve tailoring of services to individual needs in actual practice settings. Diversification and streamlining of services can enhance the quality and efficiency of long-term care systems. Financial aspects of long-term care have been one of the major concerns of many countries. There are distinct developments in some countries with regard to setting up funding schemes specific to long-term care, either based on general taxation or social insurance. Cost containment has been built into these systems, through the application of strict needs based eligibility criteria, imposition of user charges, shifts towards greater reliance upon community-based care, etc. As part of the general shift towards community-based care, many countries are also providing increased support for family members taking care of the elderly.

In the area of housing assistance, there has been some expansion of housing allowances as well as greater means-testing of benefits to target them to lower-income households. Across OECD countries, there remains an extensive mix of housing assistance policies. These polices range from housing allowances, to assistance with home ownership and construction, to the provision of public and social housing. There has been some shift towards local and regional bodies having greater overall responsibility for housing assistance measures, away from national governments.

Looking at the range of interventions across the wide range of social policy areas shows that governments have been active in reducing eligibility for programmes[1], reducing payments to a lesser extent and improving administrative practices in order to limit programme expenditures and enhance the economic independence of individuals. There has been better co-ordination of services in a number of social programme areas, as well as some changes towards greater local and regional responsibility for social programmes. In some instances, social security payment structures have been modified to increase financial incentives to work. This has been complemented by measures to improve the quality of the services offered beneficiaries, such as programs to improve the attractiveness of welfare recipients to employers and measures such as child care which enable some to undertake work. In health care, measures to restrict payments are often balanced by increased consumer choice as competition increases. There has also been a discernible trend away from public systems towards greater reliance on private social policy arrangements.

[1] With the exception of health and long-term care programs, which have generally extended coverage.

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1. INTRODUCTION[2]

1. At the Lyon Summit of the G7 countries in June 1996, the Prime Minister of Japan, Mr. Hashimoto, proposed the "Initiative for a Caring World". The intention was for a sharing of ideas and experiences on social policies by OECD countries to assist the process of policy development into the next century.

2. There are a number of common features among many OECD countries, such as high and prolonged unemployment, mounting expenditures for social security and health care systems in the context of pressures for fiscal consolidation, the ageing of the population and concerns about how to achieve a well-functioning and inclusive economic and social order. These each provide significant challenges to the development of appropriate social and economic policies in Member countries.

3. As the primary means of pursuing the "Initiative for a Caring World", the OECD was asked to prepare a synthesis report which drew together material from Member countries on recent developments in social policy. The OECD, in conjunction with its Member countries represented on the OECD Working Party on Social Policy, developed a detailed questionnaire for national governments to complete which focused on some of the pressing social policy issues being faced in a number of OECD countries. The detailed questionnaire agreed upon by countries was finalised in May 1997 (reproduced at Annex 2 to this report) and responses to the questionnaire were received from all OECD national governments, except Iceland, in the second half of 1997.[3] The information in this report includes subsequent policy developments until the end of March 1998.

4. This synthesis document seeks to provide a comprehensive reporting of the responses received from national governments, through their social security and health Ministries. The focus of the report is concentrated on the areas dealt with in the questionnaire and the responses in these national government reports form the primary basis for this report. Where necessary and appropriate, other material from previous studies undertaken by the OECD Secretariat and elsewhere has also been included in this consolidated report.[4]

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2 The authors were employed in the Social Policy Division of the OECD during 1997/98 to prepare this report. Responsibility for the report was shared among the authors with David Kalisch contributing to chapters 1-6 and 9-11, Tetsuya Aman contributing to chapters 6 and 8 and Libbie Buchele to chapters 7 and 8. The financial grant from the Japanese government to the OECD for this project is acknowledged as are the contributions from the Australian and United States authorities. This report could not have been prepared without the substantial amount of information provided by national authorities from member countries. We would also like to thank colleagues in the Social Policy Division for their assistance and comments. This report was provided to OECD Social Policy and Health Ministers for their June 1998 meeting under the title "The Caring World: National Achievements".

3 The Slovak Republic, which has OECD observer country status, also responded to the questionnaire, and for ease of reporting is not distinguished separately from OECD member countries.

4 An earlier version of the material on retirement incomes (chapter 6) was presented to a Joint ILO/OECD Workshop on Development and Reform of Pension Schemes in December 1997 (Kalisch and Aman 1997).

5. The intention of this report is to outline the state of play of social programmes as well as major developments in social policy throughout the OECD region. It deliberately takes a very expansive perspective of the range of social policy issues in OECD countries, reflecting the nature of the policy issues being debated in Member countries. It also does not cover some social policy areas outside of the scope of the questionnaire, such as general education policies.

6. The report firstly provides a summary of social policy priorities across the respective OECD countries as well as changes in the coverage of social programmes. The main structure of social programmes and the directions of recent reform are then highlighted, dealing separately with the areas of general assistance to families, income support and other social programmes for those of working age (including people with disabilities and temporary incapacity through sickness), retirement incomes, health-care systems, long-term care, and housing. The document then discusses a selection of other relevant policy issues, such as how to achieve public acceptance of reform and developments in the administration of social programmes. It concludes with an assessment of recent reforms against the selected goals of increasing self-reliance, re-adjusting intergenerational burdens, improving flexibility and economic growth, ensuring basic provision to reduce poverty, improving efficiency and quality of service provision, improving public finances and improving social cohesion.

7. It is hoped that this comprehensive synthesis paper and its companion analytical paper (OECD 1998e) on social policy programmes and reform directions will assist countries to design and implement any necessary changes to their policies which operate up to the next century and beyond.

2. CURRENT AND EMERGING CHALLENGES

8. At the start of the "Caring World" questionnaire, countries were asked to identify the main issues and priorities affecting social policy in their country. This section firstly summarises those responses, before discussing how social policy has been and continues to be influenced by budget stringency and economic growth.

Social policy priorities

9. Countries identified a range of social policy priorities for their respective governments. These ranged from priorities designed to ameliorate the effects of current social and economic difficulties, to planning for longer-term contingencies, to the achievement of broad policy objectives for social programmes.

Table 2.1: Main social policy priorities and challenges

10. Both the stage of economic development and structure of the social protection system already in place influence the nature of current policy concerns faced by countries. For example, countries which are undergoing widespread economic transformation and those with developing social protection systems are likely to be looking to expand the range and quality of assistance. Those countries which already have comprehensive systems, on the other hand, are looking to improve the sustainability of their social programmes (especially in the context of ageing populations) and reduce the level of welfare dependency among the working-age population. A number of policy concerns, such as reducing income inequality and poverty, expanding employment opportunities, and improving health care arrangements, were common across many countries with different social and economic circumstances.

Supporting economic transition and development

11. Those countries undergoing massive economic restructuring, such as the former Eastern bloc countries making the transition to more market-based economic arrangements, emphasised the importance of social programmes to support the transformation process in those countries (e.g. Czech Republic, Hungary, Poland). These transformations have created considerable short term upheaval in the jobs market, and social policies can provide the necessary basic sustenance for people while they find alternative jobs and adjust to a new economic order. They also play a role in limiting the extent to which income inequalities will emerge. Irrespective of how rudimentary such social programs may be at first, they can help deliver greater community and political support for the adjustment process. The introduction and expansion of social insurance, social assistance and other services was also recognised as important in Korea to avoid social conflict in the process of economic development. This priority is particularly relevant in the context of the new economic situation facing many Asian economies since late 1997, and the emergence of unemployment as a critical policy challenge in that country.

12. Turkey, with its earlier stage of social and economic development compared to most other OECD countries, has a particular focus on schooling, reducing its high infant mortality, its very uneven income distribution and the inadequacy of pension arrangements. Against this background, it is also engaged in substantial reform of its social security arrangements with an emphasis on extending program benefits to a greater proportion of the population, ensuring social security programmes are self-financing so they do not impose any additional burden on the government budget, as well as encouraging supplementary private insurance.

13. Social protection systems are also relatively young in Portugal and Spain compared to other European Union countries, providing a degree of social protection significantly lower than most other European Union countries. In this context, Portugal has a number of general social policy priorities. Reform of the social security system is at the top of the list, including emphasis on ensuring the efficiency and financial sustainability of the public system, progressively diversifying financing sources, and strengthening the role of complementary systems. The position of the family, and the value of family support measures has been given greater emphasis through more intensive and diverse interventions. Improved access to housing and greater investment in the human resources in Portugal are two further priorities. Budget constraints remain a relevant factor in Portugal, restricting expenditure in some social policy areas and focusing attention towards more cost-effective interventions. Spain has an objective to at least maintain the current level of social protection, with an expectation that continued economic growth and improvement in employment outcomes would enable enhancements to social programmes over time.

Addressing income inequalities and poverty

14. Policies to address widening and unjustifiable income inequalities are a priority in the United Kingdom, Mexico, Turkey and Hungary. Hungary wants to stop the widening of income inequalities and effectively tackle the problem of deep poverty for some. Other countries tended to focus their attention on very low income households, with a priority to reduce/alleviate social exclusion or poverty (e.g. France, Greece, Ireland, Luxembourg, Mexico, Norway, Poland, Portugal, Turkey). Italy identified a special focus on the level of poverty in the South, especially for families with three or more children, while there was still a high (but declining) incidence of poverty among the elderly.

15. Ireland has developed a *National Anti-Poverty Strategy*, which aims to reduce the level of those who are consistently poor in the population from the current estimated level of 9-15 per cent in 1997 to a level of less than 5-10 per cent by the year 2007. The strategy has identified a number of areas where action is necessary in order to achieve this goal, including educational disadvantage, unemployment (especially long-term unemployment), income adequacy, disadvantaged urban areas and rural poverty.

16. As explained in the next chapter of this document, most OECD countries identified reducing social exclusion as a policy concern, although in most cases it was not explicitly mentioned as a policy priority in their response to this part of the questionnaire.

Assisting the transition back to employment

17. Many OECD countries place considerable attention on generating employment opportunities for the unemployed and those of working age who are dependent on social security benefits (e.g. Australia, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Mexico, the Netherlands, Slovak Republic, Sweden, United Kingdom, United States). Unemployment is at historically high levels in a number of these countries and their policy priorities reflect this fact.

18. While many governments mentioned the objective to reduce unemployment as a major policy priority, few had goals and timeframes against which to measure success. The Swedish government has an overall objective to halve the current level of unemployment by the year 2000, and Norway has a goal to cut its 1995 level of unemployment in half by 1999. Australia retains an objective to achieve full employment, with fiscal strategies aimed to produce high sustainable economic and employment growth (especially in the small and medium sized business sector), complemented by a restructuring of labour market assistance designed to improve its effectiveness. The United Kingdom government has also recently committed itself to the achievement of high and stable levels of employment, as first developed in the 1944 Employment White Paper[5].

19. Among the more developed countries, Norway, Sweden, Australia and the United Kingdom all noted the importance of social policies complementing and encouraging the re-employment of those without jobs, with considerable priority on the coherence of social security and labour market policies in order to achieve reductions in unemployment. The "*work strategy*" in Sweden and the "*work line*" in Norway both emphasise the contribution expected to be made by those individuals who are unemployed to actively look for work and seek to generate their own incomes, as the corollary to the availability of generous social security and labour market program measures. Following more general application of the *work line* in Norway to the unemployed and people with disabilities in the early 1990s, the attention is now being directed to more specific disadvantaged groups, such as those on social assistance, people with handicaps, the long-term unemployed and sole parents. The absorption of other disadvantaged groups, such as lone parents and people with disabilities, into employment is also a policy priority in other OECD countries (e.g. United Kingdom, Canada).

20. Active promotion of employment is the key strategy in a number of countries. Germany is looking to the combined efforts of labour market and social policy together with favourable economic conditions to reduce the very high level of unemployment, with some emphasis on curbing non-wage labour costs and adjusting active employment policy. France is promoting work sharing as a means of trying to reduce unemployment, in particular through introduction of a 35-hour week and sliding reductions of employers social security contributions if they cut working hours by at least 10 per cent and increase staffing levels by at least 6 per cent. The main social policy issue in Ireland is its very low employment rate, of only 56.3 per cent, as a result of relatively high unemployment and long-term unemployment and a low level of female labour force participation. A priority is to adapt the social protection system in ways that will promote and facilitate higher employment and remove elements which cause or prolong unemployment.

21. Reducing the level of dependency on state income support by the working age population is a particular focus in New Zealand, encompassing reviews of all benefits for people of working age (sole parents, disability, sickness, unemployment) as well as attention to policy changes including consideration of the obligations placed on benefit recipients. New Zealand now has around 20 per cent of its adult population dependent on social security as their main form of income, compared to a level of 2-3 per cent 30 years ago (Preston 1997). Some of the key issues being discussed in the New Zealand context are increased obligations on the recipients of benefits, redesigning benefit structures to improve workforce incentives and increased case management and services to encourage recipients into activities which improve their prospects of leaving benefits. Australia and the United Kingdom similarly emphasised the importance of self-provision and the obligations of job seekers to actively contribute to the process of their labour market integration, while Denmark and the United States are placing considerable emphasis on ensuring that work is financially attractive compared to social security. Denmark has an objective to

[5] United Kingdom, Her Majesty's Treasury (1997), *Pre-Budget Report, November 1997*, The Stationary Office, London

reduce the number of working-age people dependent on income support from the level of 966,000 in 1994 to 750,000 by the year 2005 (and it is currently around 900,000). The United Kingdom is concerned that about 20 per cent of working-age households are without an adult in employment, with particular attention on the plight of lone parent households. Sweden is focusing attention to prevent unemployed young people aged between 20 and 25 years from becoming permanently dependent on social security, Canada also highlights combating youth unemployment as a major social policy priority, and France wants to increase youth employment.

22. Education and vocational training are also receiving considerable priority in some countries, not only as the means to help improve the job prospects and long-term employability of some unemployed people, but to enhance the adaptability and productive capacity of the economy. The United States wants to expand post-secondary educational and training opportunities for low and middle income Americans, Turkey is seeking to improve the level of education and vocational training of its potential workforce and Canada has an emphasis on expanding learning and education opportunities. In addition, other countries provide education and training opportunities to jobless people through their active labour market programme interventions. For example, Finland is building education and training guarantees into the system of income security for the unemployed as one of its social policy priorities.

Supporting families

23. A number of countries highlighted the importance of supporting families, particularly those at risk, as well as the importance of child development and welfare. Australia notes the importance of supporting families which are vulnerable or in hardship, while New Zealand also has a priority to strengthen the functioning of families at risk. Family policy is also a priority in Sweden, to create favourable living conditions for children and the opportunity for both men and women to combine parenting and paid employment while Portugal seeks to recognise the key role of families through the support they receive. Improving services for families, including those directed at disadvantaged women, is an objective for Turkey, while the United States is working towards providing health care coverage for up to 50 per cent of the children not currently covered. Italy has recently established a Commission on family policies with the task of devising a more universal child allowance, evaluating best practice in local social services and proposing reforms to the legal treatment of marital conflict.

Challenges to the sustainability of social security

24. Higher levels of unemployment, economic downturns and the prospect of slow economic growth to varying extents and combinations in different countries challenge the long-term funding of social security arrangements (e.g. Italy, Japan, Switzerland). The combination of lower social security contributions and/or tax revenues, together with higher social expenditures by governments has caused some governments to reassess the longer term viability of their systems. This may be more of a problem for those countries which seem to be stuck on a low economic growth path and those countries not well prepared for the next economic downturn whenever it may occur. In some environments, greater control over public finances is seen as central to the achievement of sustainable economic growth. Some countries are making changes to the generosity and/or entitlement rules for access to social security in order to reduce prospective expenditures and bring their social security systems into better fiscal balance. Another approach in Australia is to encourage greater self-provision by those able to afford to do so, particularly in the areas of retirement, aged care and health services. Greece is seeking to maintain a satisfactory level of social protection in the face of adverse demographic and labour market trends, in part through moving from universal programmes towards income-tested ones.

25. The case of Italy highlights the interaction of economic, demographic and social factors which need to be addressed in a co-ordinated fashion. Persistent unemployment, the prospect of slow economic growth, government budgetary consolidation and an ageing population combining to produce expected difficulties with the funding of social insurance entitlements for retirees in the future. Policy attention is being directed at fiscal consolidation, establishing conditions for sustainable growth, increased employment to be broadly shared across all sections of the population and a sustainable social security system for future generations. A number of Ministerial and government commissions have been established recently to study these issues.

Responding to ageing of the population

26. A number of countries highlighted the ageing of the population as one (if not the major) policy priority they face at the moment, with potential implications for pensions, health care and long-term care arrangements. Japan identified the ageing of the population as one of the major factors impacting on its social protection system, in line with the very substantial and swift increase expected in the number of older age people over coming years. Other countries to identify ageing populations as a key policy challenge include Canada, Denmark, Finland, Germany, Greece, Italy, the Netherlands, New Zealand, Norway, Poland, Sweden and the United States.

27. Hungary, Sweden, Norway, Germany and the United States are among the countries which raise ageing of the population and the implications for pension systems as a key social policy priority to be addressed. The focus is largely on securing the medium and long-term viability of pension systems. Despite these demographic pressures, many OECD countries see provision of social security for the elderly as a core component of their social programmes. Increasing the rate of employment of older people is also seen as part of the solution to ageing populations (e.g. Finland, Denmark).

28. Both Japan and Germany have also placed priority on the establishment of long term care insurance to take care of financing the specialised accommodation and care needs for those of old age. Japan has a particular concern over who will take on the burden of caring for the frail elderly in the context of changing family arrangements in that country (and reflected to varying degrees in many other OECD countries). Sweden similarly wants to establish a secure base for the financing of long-term care.

Improving health care arrangements

29. Health care arrangements also feature among the social policy reform priorities of many governments. Rebuilding the National Health System, tackling the root causes of illness, equal access to health services and reducing inequalities in health outcomes between groups in society are policy priorities in the United Kingdom. Canada is also placing attention on measures to preserve and maintain their universal health care system, particularly directed at modernising the system and reducing any perverse incentives, as well as more general measures to improve the health of Canadians. Legislative measures came into force in Germany in summer 1997, with the aim of securing medical progress, the quality of medical services and limiting health costs, leading to a surplus of contributions over expenditures of 1.1 billion DM in 1997. In the context of continuing pressures on health services, New Zealand is paying attention to choices in health care resourcing and accessibility for health services. Following some changes to the funding of services and health care organisation, further debate is underway on the roles of the different parties in the delivery of health services. Japan is also looking to overhaul its health care system.

30. With respect to specific objectives, Denmark and Norway want to reduce waiting lists for all important services. Finland's restructuring of health services is to place greater attention on client needs and outpatient services. On the other hand, Hungary is seeking to halt the deterioration of the health status of their population, with a particular problem of high mortality among middle-aged men. The United States is to allocate over US$24 billion to improve health service coverage for uninsured children, with the target to cover up to 50 per cent of the total number of 10 million.

Housing

31. The availability of suitable housing for low income households was also raised as a policy concern by a number of countries. In Portugal, the inadequate housing situation for some is one of the main factors causing social exclusion and improved access of impoverished groups to housing is a priority. Turkey is to enhance housing production and ownership through new financing arrangements. Improving housing conditions for specific categories of the population -- migrants, and young couples' access to housing finance -- is an issue of concern for Greece.

Simplifying social security arrangements and improving administration

32. On a practical level, both Australia and Finland note the importance of simplifying their social security systems, to improve community understanding of the system as well as reduce administrative burdens. Improving service delivery is a specific priority noted by Australia, while Hungary also emphasised its social security reforms, including decentralisation of administration.

The impact of budgetary and economic factors on social policy

33. Following the item requesting information on their social policy priorities and challenges, countries were asked to comment on whether they have targets for social policy expenditure and the extent to which their social programmes are influenced by budget stringency and the rate of economic growth.

34. Most countries do not have explicit targets for their level of social expenditures (e.g. Australia, Germany, Sweden, Norway). This at least partly reflects the nature of social security to provide for people in different circumstances and the unpredictability of economic events and some of these social outcomes. Japan is one of the few exceptions, where they have a long run target to keep the ratio of the total tax and social security burden below 50% of national income even at the peak of population ageing. Japan is also attempting to keep its health expenditure in line with the growth in national income as well as hold down the increase in social security expenditure to the level necessary to deal with growing numbers of elderly people, while the Czech Republic is seeking to reduce ratio of GDP accounted for by social expenditures. The social partners in France are committed to control of health expenditures by the medical profession. Despite the lack of explicit targets for social expenditures, a number of OECD countries do seek to keep the growth of social expenditures in line with growth in GDP (e.g. Germany, Hungary, Italy and Norway).

35. There is a consensus in Ireland that those dependent on welfare payments should receive their fair share of the increased wealth generated by economic growth and in any periods of economic downturn have their income maintained in real terms.

The impact of budget stringency

36. Many country responses highlighted their recent experience with fiscal consolidation processes. In these broader fiscal consolidation exercises social programmes have generally been targeted for expenditure reductions (e.g. Australia, Canada, Denmark, Finland, Italy, Mexico, Poland, Sweden, Switzerland). In most cases, social programmes are cut because they comprise a large proportion of the budget and fiscal consolidation would not be possible if social programmes were exempt from expenditure reductions. In other cases, such as Italy and its pension programmes, social programmes have been targeted for reductions because of recent expenditure growth. Denmark commented that any additional social programme expenditure needs to be offset by proposed reductions in other social programmes so there is no net increase in the public financing requirement. One exception is Spain which has also been engaged in Budget stringency, but this has not affected expenditures on social security measures, and health expenditures have continued to grow at a high rate.

37. Some countries noted that budget stringency and its resultant reductions in social programme expenditures had provided the impetus for programme efficiencies and improvements in services, rather than necessarily leading to a diminution of benefits to the public. This was noted to be the experience of Portugal, as well as for the health area in Canada, and New Zealand has a policy goal to more effectively use existing funds available to government.

38. A number of countries noted that they face constraints in pursuing social programme expenditure reductions. Austria endeavours to strike the right balance between pursuit of economic growth, budget stringency and social justice, while both Finland and Australia noted the importance of maintaining a strong, effective safety net for those in need after expenditure reductions have been achieved.

39. OECD countries are at different stages in the process of fiscal consolidation. The "reconstruction program" in Sweden since 1994 to stop the cycle of ongoing Budget deficits has reduced the overall level of transfers to households through the social security system in addition to the taxation increases. This fiscal goal of a Budget in balance or surplus is expected to be reached in 1998 and may lessen somewhat the current budget pressures on social expenditure programs. Ongoing budget stringency in the United Kingdom is one factor affecting the development of social policies in that country. Both Switzerland and the United States are engaged in processes to bring their budgets into balance next century. Switzerland is aiming to balance its budget by the year 2001, while the United States is bound by the commitment of the President and Congress to a balanced federal budget by 2002 which includes guidelines for expenditure and revenue levels over the next five years. In Canada, the federal budget is expected to be balanced in 1997-98, and balanced budgets are projected for 1998-99 and 1999-2000.

40. France has some form of budget discipline both as a policy principle and in order to meet European Monetary Union criteria, which could potentially affect social policy. When there was significant public opposition to possible reductions in social security benefit entitlements in France, the government instead introduced a tax surcharge of 0.5 per cent on all income over 1996-2008 intended to remove the accumulated debt of the social security system. Germany has pursued fiscal consolidation despite the additional financial burdens of reunification. While Norway is attempting to avoid overheating its economy at least partly through fiscal stringency, the North Sea oil revenues are also causing pressure for increased pension payments.

41. A number of countries which have improved fiscal capacity have subsequently increased their social expenditures, including Canada, Hungary, Ireland and Mexico. While fiscal consolidation has been

an important element in some cases, so have improvements in the economic environment which expanded government revenues.

Sharing the burden of social policy reforms

42. Most OECD countries reported that they either support the principle of equity in social policy arrangements and equitable sharing of the burden of support, or alternatively that they do not face difficulties with this aspect at the current time.

43. Sweden indicated that it is seen as one of the most equitable countries in the world and sees an equitable distribution of the burden of support as a very important policy issue. It has sought to achieve budgetary restraint (*Reconstruction programme*) in an equitable fashion, with cuts in benefits for lower-income people accompanied by tax increases for those on higher incomes. A government declaration in Sweden in September 1996 also indicated that there is now financial scope to restore some benefits in order to improve the income distribution.

44. Japan recognises that it has some disparity between the benefits available to those who are employees and those who are self-employed respectively. Other countries which indicated that the principle of equitable distribution of the burden of support was important in social policy included Austria, Hungary, Italy, New Zealand, Norway, Switzerland and the United Kingdom. The United States also supports the view that equal distribution of the burden of support is a major policy concern, but indicated there is no shared national consensus on how the burden should be distributed.

45. The structure of social security arrangements was also suggested as instrumental to achieving an equitable burden of the distribution of support. Australia emphasised its social security system paid from general tax revenues, with the predominant feature of means-tested payments, and recognition of the extra costs faced by families and disabled people as major factors contributing to vertical equity and horizontal distribution. Germany noted that there may be different perceptions of equity, but suggested that a high degree of equity is achieved through a strong correlation between contributions and benefits through the insurance principle which dominates their social security provisions. Finland suggested that income transfers in that country have limited the extent of increasing income inequalities and helped prevent general impoverishment, with little change in income distribution during and after the recession experienced there in the early 1990s. The standard of living has not declined despite mass unemployment and cuts in social expenditures

46. A number of countries indicated that they are facing a major problem with the intergenerational sharing of the costs of social programmes with the ageing of their population and the smaller number of people expected to be in the working-age population.

47. Achieving intergenerational equity, with the prospective increase in the burden of support on a declining working-age population for the increased proportion of elderly, is the most important challenge facing Japan's social security system. Korea is also concerned about the increase in the burden on future generations and the prospective bankruptcy of its pension system in the mid 2030s, and is considering policy measures to deal with the prospective intergenerational inequity and financial crisis with its pension system. Germany has sought an outcome to the ageing challenges on the pension system where the cost of reforms are shared between the retired and the working-age population. There is some concern from the younger generation in Germany that reform of pensions will lead to them paying higher contributions during their insured life and then also receiving lower benefits in their old age.

48. Other countries which indicated intergenerational equity as a major social policy concern include Canada, Finland, Hungary, Italy, New Zealand, Norway and Poland. Intergenerational income distribution is a relatively new theme in Finland where it received some impetus in 1993 with a working group set up by the Prime Minister's office to analyse the trends in intergenerational income distribution and the main problems involved with this issue. Italy is pursuing reform of its pensions system to improve the financial basis of the scheme and to free up funds to increase expenditure on families with children and to encourage employment.

49. By contrast, other countries indicated that intergenerational equity was either not a policy concern for them, or alternatively was a much lower priority than other policy concerns. The United Kingdom does not face problems related to ageing which are as acute as for other countries, intergenerational equity is not a current policy concern in Australia and the Czech Republic, intergenerational issues are only minor considerations in the broader fiscal consolidation and welfare debate in the United States, while Greece has higher priority policy issues such as gaining entry to the European Monetary Union, major restructuring of the social security system and education policy.

The impact of economic growth

50. The relationship between social programmes and economic activity is complex, and this is reflected in the range of country comments on this item. The achievement of persistent economic growth as an important factor in generating stable social programmes was recognised by Finland, Mexico and Portugal among others. Growing economies have a dual effect in minimising the proportion of the population likely to be seeking social security as well as ensuring a strong revenue or contribution base from which to pay for those expenditures.

51. Both Japan and Switzerland noted the pressures they are facing with funding their social programmes in the context of (the relatively new environment to them of) higher unemployment and slower economic growth rates. High and persistent unemployment remains the major constraint to the large-scale reduction of social expenditures in many countries (e.g., Finland, France). The loss of full employment in particular has created considerable financing problems regarding the social security system in Hungary.

52. New Zealand also commented on the contribution social programmes can make to economic progress in their country. One elaboration of this includes the contribution of social programmes to facilitating labour market adjustment and job matching as well as the achievement of a sound and well functioning social order. They place a particular emphasis on social programmes designed to promote economic growth.

3. COVERAGE OF SOCIAL PROTECTION

53. Socio-demographic changes in many OECD countries over recent decades are challenging social security arrangements. The greater incidence of people seeking social security protection because of changes in labour market and social arrangements has led to fewer people being covered by the mainstream social insurance schemes operating in most OECD countries. Instead, more people are having to rely on social assistance benefits to meet their immediate income needs.

54. Many social assistance programmes are especially important to the strategy of governments in reducing social exclusion, in their general role as assistance of last resort. Both Australia and New Zealand are exceptions to this generalisation, where social assistance programmes are the primary form of income support to the population.

55. Most socially excluded people do not have access to mainstream social security benefits, largely because they have not had recent labour market experience, and so need to rely on social assistance to provide some income support at the same time as they may be undertaking activities designed to equip them for greater social and labour market interaction. For groups such as the young unemployed who have yet to establish a work history, women who have been undertaking home-based activities and recent immigrants, the eligibility rules for social insurance (specifically relating to the entitlements of those who have not made contributions to the system) may preclude them from eligibility for benefits. Instead, they have needed to increasingly resort to social assistance benefits.

Combating social exclusion

56. Nearly all countries which responded to the questionnaire highlighted a policy concern to combat social exclusion, although the specific terminology of social exclusion was not widely used in a number of countries (e.g. New Zealand, Norway, Poland, Switzerland) which noted policy concerns with poverty and/or marginalisation.

57. Combating poverty has been a major political priority in Belgium since 1995, with a number of relevant processes. A General Report on Poverty produced recommendations to be the focus of future policy formulation, which also drew upon a dialogue with poor people. The Prime Minister subsequently chaired an inter-ministerial conference on social integration.

58. Most countries did not provide a functional definition of “social exclusion”, and many noted the absence of such a definition. Those which provided a working definition for social exclusion showed considerable similarities in what they understood to be social exclusion. Greece suggested that it covered exclusion of groups from both the labour market and social activities and in the case of Hungary, the exclusion from events (such as education and training) which lead to the attainment of necessary conditions of life, such as work, home life, and health care. In Luxembourg, social exclusion refers to restrictions on access to education, training, employment, health, accommodation and income. New Zealand suggested a definition of groups within society precluded from participation in day to day life, through problems accessing goods, services or employment or who are affected by cultural or social

isolation, whereas Portugal suggested that social exclusion goes beyond poverty to encompass difficulties in exercising the range of citizenship rights (including economic poverty, kinship poverty and severed social links). Further, the nature of many replies from countries which did not have a working definition for social exclusion indicated a broadly shared understanding of the concept.[6]

Those at risk of social exclusion

59. There is some similarity between the groups identified by countries as at most risk of being subject to social exclusion in their country. These include people with disabilities (including those with mental illness), drug abusers, homeless people, refugees/immigrants, indigenous populations and ex-prisoners, women, children and young people and long-term unemployed people.[7] A full listing of the key groups identified as at risk of social exclusion in some countries is provided in Table 3.1.[8]

Table 3.1: Groups identified at significant risk of social exclusion, selected OECD countries

60. The United Kingdom has a particular concern that over the 20 per cent of working age households have no adult in employment, and has recently announced new policy priorities for young unemployed, older long-term unemployed and lone parents without work. The Czech Republic is concerned that low income groups, especially those families with children, may be vulnerable to poverty and social exclusion during their economic transition phase. In the case of Norway, which has a well developed social security system and free/cheap health services, the focus is on those of working age with marginal attachment to the labour force, such as drug abusers and those with psychiatric illnesses.

Measures to assist those at risk of social exclusion

61. A number of countries have specific programmes which attempt to directly address the problem of social exclusion, with the nature of many of these policy responses broadly-based and comprehensive interventions in response to the often multiple problems faced by those characterised as social excluded. The emphasis is nearly always on cash benefits together with other measures to try to resolve the causes of the exclusion.

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6 While the term social exclusion has been used for some time, particularly in a European context, it is rarely defined. One such definition, referred to in Berghman (1997), suggests "social exclusion is the failure of one or more of the following systems: the democratic and legal system which promotes civic integration; the labour market which promotes economic integration; the welfare state system which promotes social integration; and the family and community system." Another recent definition by Duffy (1997) stresses the distinction between poverty and social exclusion, where "social exclusion goes beyond exclusion from the consumer society, to encompass exclusion from a place in society, thus the emphasis on the social role of employment or work. It is possible to be poor but not excluded, and vice versa, though many disadvantaged people will experience both simultaneously".

7 For comparison, the review study by Barr (1992) suggested that there was some consistency across countries in the groups at risk of poverty, including the elderly, unemployed, those with health problems, lone parent families and non-white racial minorities.

8 A number of countries did not identify those groups most at risk of social exclusion.

62. Some of the more prominent measures include the minimum income guarantee and reinsertion programs in a number of European countries, such as Belgium, France, Luxembourg, Portugal as well as the Latin cantons and certain Germanic cities of Switzerland.

63. The Revenu minimum garanti (RMG) introduced in 1986 in Luxembourg provides social assistance, with complementary social measures designed to foster access to employment for those who are fit for work and of working age. An agreement (in the form of a joint undertaking rather than a formal contract) is struck between the National Social Action Service and the benefit recipient on the social and vocational integration package, drawn up within three months of the benefit being first paid. Social support services are also available including personal counselling, help with managing their personal budget and provision of social services to help overcome personal problems. Recipients of RMG who are fit for work are required to perform work of use to the community for 40 hours a week, or alternatively they may be sent on training programmes in private enterprises or attend other training likely to improve their changes of gaining employment. Those assigned to perform community work are paid an integration income equal to the minimum wage, and they are required to contribute to the social security system (and build up eligibility for future entitlements).

64. Draft legislation on reform of the RMG proposes to replace the current objective of the scheme to combat poverty with the broader objective to combat social exclusion. There are three main elements to the Government proposals to reform the RMG which are yet to be passed by the Chamber of Deputies: to broaden the eligibility rules for RMG through reviewing the residence qualification and lowering the age of entitlement, simplifying enforcement procedures and introducing quicker processing of claims, as well as developing further complementary social activities for recipients to undertake which promote their social and vocational integration as much as possible. The current reforms also provide for earlier intervention, with placement on a social and vocational integration scheme within one month of filing the application for benefit.

65. In Finland, an expert group in the Ministry of Social Affairs and Health has been working since early 1996 on a project on the extent of poverty and social exclusion and possible remedial measures. This group continued its work into 1997, to develop measures to combat social exclusion.

66. Italy is putting in place a number of measures designed to combat social exclusion, with a focus on labour market measures called the “Treu Package” which were negotiated with the social partners. A 1,000 billion lire fund has been established to create almost 100,000 training places and temporary jobs for young people in regions of high unemployment, and after a year, these opportunities can be changed to regular jobs. There is some interest in activities with some broader social benefit, such as work in caring services, the environment, national heritage and urban refurbishment. There was some earlier interest in increasing unemployment compensation in the context of using it as the basis for more active labour market opportunities, and the possibility of a third tier of social security (between social assistance and social insurance) for those who have exhausted their insurance entitlements after losing a job. One income support change which will be introduced is a pilot minimum insertion income for individuals and families in poverty. This will provide an allowance to those in poverty as well as integration measures such as training or placement into socially useful jobs, but no requirement to take any job offers. This initiative will be piloted in some regional localities over an 18 month period, with locations selected to represent different economic and social circumstances.

67. Portugal has a two-pronged approach with its National Fight Against Poverty programme and introduction of a guaranteed minimum income. Some of the objectives of the National Fight Against Poverty programme are to promote the social integration of at-risk groups, support self-employment and assist with the construction and restoration of buildings. It seeks the involvement and co-operation of

both the public and private sectors, with responsibility sought from local groups and communities to ensure the interventions are suitable for the local area. After a period of experimenting with a Guaranteed Minimum Income in some parts of Portugal in 1996, it has now been extended to the whole country since July 1997, to ensure a cash benefit offering minimal survival income and a social and professional integration programme to every citizen. Some attention is given to the actions of the benefit recipients to contribute to a positive outcome.

68. Swedish welfare policy is designed to fight against social exclusion, through its aims to prevent poverty and integrate as many citizens as possible into active participation in economic and social life. Health care, social services and education have all received additional government funding, designed to increase employment and improve the quality of welfare services. This has included an additional 10,000 new adult education places especially for the long-term unemployed and special measures to prevent young unemployed people becoming dependent permanently on social security.

69. With respect to the balance of support to those who are socially excluded, some countries reported no change in the distribution of support between cash income and other services (e.g. Australia, Austria, Denmark, Japan). In other countries, there had been a switch towards relatively greater expenditure on non-cash services and programmes, particularly with the expansion of employment-related services (e.g. in Switzerland, Germany, Italy, Portugal). Both Norway and Sweden noted a strong preference for assistance in the form of active employment measures over simply cash benefits. While the United States also indicated that there had also been a shift towards services in that country, cash benefits still accounted for the majority of social assistance expenditure.

70. The approach taken in France is one example of a very broad strategy to combating social exclusion. Many departments of central government have a role in devising, preparing, directing and evaluating policy measures to counter social exclusion. For example the *Délégation à l'Emploi* manages employment programmes, the *Direction de la Population et des Migrations* manages schemes concerning reception and integration of foreigners, the *Direction de la Sécurite Sociale* manages benefits (including social minima such as the *RMI*) and the *Direction de l'Action Sociale* has policy responsibility for the handicapped, elderly and people with social difficulties. Other Ministries such as Culture, Health and, in particular, Education are also increasingly pursuing measures to limit social exclusion. A new government unit has been established by the central government to administer the *RMI* which bypasses normal administrative arrangements.[9] The local authorities in the departments are also significant given their responsibilities for social assistance and the requirement that they match 20 per cent of the central government funding of *RMI* payments. Many voluntary and non-profit groups also play a key role in the process of combating poverty and social exclusion through the accommodation and social services they provide.

71. The new package of initiatives announced in France in March 1998 of a programme of prevention and fight against exclusion (*le programme de prévention de lutte contre les exclusions*) will operate from 1998-2000 with a budget cost of FF 51.4 billion. The new initiatives emphasise the need for comprehensive and consolidated measures to reduce social exclusion. There are a number of distinct elements to the package, including guaranteeing access to some fundamental rights (e.g., employment, education and training, housing, health care coverage, culture), initiatives which seek to avoid exclusion (e.g., increasing certain payment rates and encouraging re-entry back into employment, combatting illiteracy, and access to sport and leisure opportunities), improving emergency social services and establishing an observatory research mechanism on poverty and exclusion. Some of the specific measures

[9] Other special administrative units have been established for the administration of policies for young people and urban social policy.

include up to 18 months training and employment assistance for disadvantaged young unemployed (*TRACE*), increasing employment opportunities (through the *nouveaux emplois nouveaux services* programme, expansion of the *les contrats emploi-solidarité* programme and reconfiguration of the *le contrat emploi consolidé* programme), seeking to improve the qualifications of adults aged over 26 years who have been unemployed for at least six months, increasing the value of the *ASS* and *AI* payments, as well as a new initiative to allow *RMI*, *ASS* and *API* recipients to continue receiving social security payments in addition to their earnings for up to 12 months (of decreasing amounts after three and nine months) after they enter work paying less than the minimum full-time wage.

72. Other countries also noted the importance of co-operation and involvement of various sectors in delivering comprehensive services to those people who are socially excluded. The valuable role to be played by municipal or local government services was emphasised by Finland and Italy, while the United Kingdom has a cross-government approach to tackling exclusion which encompasses education, health, housing and social services. The private sector is an integral part of the approach in Portugal while the voluntary/non-government sector also has a significant role in Finland.

Increased importance of social assistance measures[10]

73. Although there is no widely accepted definition of social assistance, one recent suggestion is of a "range of benefits and services available to guarantee a minimum (however defined) level of subsistence to people in need, based on a test of resources" (Eardley *et al* 1996a). Social assistance may be available generally to all those who meet the means test, or may be targeted further to those who meet other categorical requirements of being unemployed or sick, or for specific purposes such as to make housing affordable for low income households.

74. Total expenditure on social assistance has generally increased strongly throughout the OECD since 1980 (Eardley *et al* 1996a), especially in Spain, Finland, Norway, France, Germany, Portugal, United Kingdom, and Sweden. Few countries have had a reduction in relative expenditure on social assistance measures (e.g. Japan, with Canada also having little change).

Table 3.2: Total social assistance expenditure as a proportion of social security, 1980-92

75. Among the reasons cited by countries for the growth in social assistance over recent years, the most frequent responses related to changes in the population seeking assistance and their non-eligibility for other social security measures. This included large increases in benefit claimants who are young unemployed and immigrants without social security coverage (Sweden), long-term unemployed (Switzerland) or those affected generally by poor economic conditions (Finland). Some changes in social insurance arrangements have also been important as an explanation for increased social assistance in some countries, such as changes to unemployment insurance arrangements in Belgium, general cuts in social security programmes (Finland, Sweden) and recent reductions in social insurance benefits in the United Kingdom. Benefit cuts in New Zealand in 1991 are expected to have increased the importance of

10 More detailed information on social assistance arrangements in selected OECD countries can be found in OECD (1998a), *The Battle Against Exclusion: Social assistance in Australia, Finland, Sweden and the United Kingdom*, OECD, Paris and OECD (1998c forthcoming), *The Battle Against Exclusion: Social assistance in Belgium, the Czech Republic, the Netherlands and Norway*, OECD, Paris.

supplementary in-kind assistance from voluntary welfare agencies, but not had any impact on the relative importance of social assistance measures in that country.

76. Despite the increases in social assistance measures in most countries, looking across the OECD as a whole, they still comprise a limited share of total social security in most countries. For example, social assistance accounts for as low as 1 per cent of total social security spending in Greece to as high as 100 per cent for New Zealand, with most other countries well below 50 per cent with the exception of Australia. For some countries the low level of social assistance is partly a function of the limited overall social security provisions (e.g., Turkey), while in other countries there are very limited and subsidiary publicly-provided social assistance once social insurance entitlements are exhausted (e.g., Greece, Japan, Switzerland).

77. There are also some marked differences in the way social assistance is structured across OECD countries. A number of countries have highly centralised social assistance arrangements, such as Australia, Mexico, New Zealand and the United Kingdom, where the rates of assistance and eligibility criteria are set by the national government to apply across the whole country. These national governments are also responsible for the full cost of the respective social assistance measures.

Table 3.3: Summary of social assistance arrangements, selected OECD countries

78. By contrast, Austria and Canada do not have any national standards or framework legislation. Each state/province sets its own benefit rates and eligibility criteria, and there is substantial variation between areas in terms of the assistance which can be provided.

79. In between these two contrasts are many other countries which have an established role for both national and local government in the provision of social assistance (e.g. Denmark, Finland, Germany, Hungary, Norway and Poland). Some of the characteristics of social assistance in these countries are that they generally have national guidelines for benefit eligibility and payment rates, local authorities have the discretion and opportunity to adjust amounts in line with their judgements on individual needs, local authorities have the programme delivery responsibility and the cost of social assistance is shared between local and national governments.

Social security provision for women

80. Women who do not have a history of participation in the paid workforce may have inadequate social security coverage from social insurance provisions. While some married women gain coverage through the accumulated entitlements of their husbands, this does not help those women who are not married and not in paid work for other reasons such as caring for a frail parent. The rights of women to social security entitlements after divorce is a particularly important matter to resolve fairly.

81. While the labour force participation of women is increasing, there may still be barriers to women undertaking paid work as well as meeting their family responsibilities. The generally lower earnings of women compared to men also introduces lower social security entitlements in earnings-based schemes. Switzerland also notes that women are over-represented among the long-term unemployed and other groups such as lone parents who are at risk of marginalisation.

82. A number of countries have broader policy stances to promote the rights and opportunities for women. The Canadian *Charter of Rights and Freedoms* provides women with protection against discrimination, and the 1995 *Federal Plan for Gender Equity* introduced a requirement that all relevant legislation proceed after an analysis of the impacts on women and men. Japan also has a *National Plan for Gender Equality Towards the Year 2000* which seeks to facilitate a social system which promotes gender equity; gender equality in the workplace, home and local community; and promotion and protection of the rights of women. The *National Program for Women* in Mexico promotes full and effective participation by women, and is binding on all Federal government agencies.

83. Sweden has a long history of gender policies, starting with the policy on equality between men and women (*Jämställdhet*) created during the 1970s, which emphasised equal rights, responsibilities and opportunities of women and men to pursue work which provides economic independence, care for children and home, and participate in politics, unions and other societal activities. This was developed further in the mid 1980s, with a focus on relations between men and women and developing an understanding of gender and power. The Ministry of Health and Social Affairs has also developed a programme (*Gender Programme for Social Prosperity*), with the objective of ensuring a conscious gender perspective in the entire administrative process.

84. Denmark noted that the principle of individual rights permeates all Danish welfare policies, and Luxembourg has had a law since 1986 to oversee the gradual implementation of the principle of equal treatment in social security for men and women.

85. Germany has a priority to improve the social security coverage of women in their own right. Australia also changed benefit entitlements for couples in 1995 to provide individual entitlements to both members of a couple, in recognition of the increasing economic independence of women, including those who are married, and with the purpose of reducing financial disincentives in a means-tested social security system which can discourage labour force participation of married women. As part of the recent pension reforms in Italy, women with a contributory record are given an extra three months notional contribution for each child they have had, up to a maximum of twelve months. Ireland has extended social insurance coverage to part-time employees who are predominantly women and excluded periods spent caring full-time for children from pension calculation.

86. Most countries report that there are few, if any, distinctions in the social security benefits and eligibility criteria applying to men and women respectively. Where there are differences, the main one revolves around the age of eligibility for old-age pensions with the retirement age for women often around five years earlier than that applying for men. However, as explained in the later section on retirement pensions, many countries are taking steps to reduce or eliminate this distinction. In a few countries there are also distinctions around the provision of benefits with some benefits only being available to women, such as widows pensions (being phased out in Australia and Sweden) and provisions for fatherless families (in Japan).

Social security provision for immigrants

87. Recent immigrants to a country are another group who may have inadequate social security coverage. These immigrants can be ineligible for social insurance support because they not have sufficient contributory history, and they may not have full access to social assistance because they do not meet minimum residence periods. Special protection is generally given to those who enter because they are recognised political refugees, who may be provided with access to either the range of social assistance benefits available to all citizens in the country or special programmes designed for refugees.

88. It is recognised that there are widely divergent patterns of international migration between countries, and the social security coverage of immigrants is not a pressing issue for some OECD Member countries which do not have significant levels of immigration (e.g., Czech Republic, Korea, Slovak Republic). For other countries with larger immigration programmes, new migrants of workforce age generally have higher unemployment rates than the native born, especially if they do not have sufficient proficiency in the language of their new resident country. Some immigrants would be above workforce age with limited capacity to provide for themselves, while other immigrants may have been subject to restrictions on the level of savings and assets they could withdraw from their previous country, making it difficult to establish themselves financially in their new resident country. This is in addition to the pressures of adjusting to the culture and the ways of living in a new country which may also reduce the ability of individuals and families to obtain gainful employment quickly and provide financially for themselves.

89. In addition to the special position often accorded to recognised political refugees in most OECD countries, as noted above, all immigrants generally are given the same access to social assistance benefits as nationals in a number of countries such as Norway, Ireland, Sweden and Portugal. European Law also protects those who move between countries which have signed the European Economic Area Agreement.

90. In other jurisdictions, migrants may get reduced payments compared to other residents or face a number of additional eligibility criteria such as qualifying resident periods. Within New Zealand, new migrants can only get access to emergency assistance if their circumstances change after arrival in New Zealand, and they have no cash reserves of their own. In the United Kingdom, migrants are precluded from a number of benefits, such as Income Support, Housing Benefit and Council Tax Benefit. In February 1996, the list of excluded benefits was extended to also include Attendance Allowance, Disability Living Allowance, Disability Working Allowance, Family Credit, Invalid Care Allowance and Severe Disablement Allowance. Asylum seekers in the United Kingdom can claim means tested payments if they are in hardship while their claim is being assessed, with those granted case payments paid at a lower rate compared to other social assistance benefits. In Luxembourg, there is a residence qualification period for immigrants seeking social assistance that they must have been in Luxembourg for at least ten years in the previous 20 years to be eligible for the Revenu minimum garanti.

91. In the United States, the Personal Responsibility and Work Opportunity Reconcilliation Act of 1996 and the Illegal Immigrant Reform and Immigrant Responsibility Act of 1996 introduced a number of new and complex social security eligibility rules for legal immigrants. Non-refugee immigrants need to become citizens before they can access Food Stamps, and Supplemental Security Income is also denied to non-citizens effective from October 1997 until they become US citizens, with certain exceptions. Other Federal Government means-tested programs (such as Medicaid and Temporary Assistance for Needy Families - TANF) are also generally precluded from new immigrants for a period of five years. However, State jurisdictions do have the flexibility to provide Medicaid and TANF to new immigrants within this five year band from their own state funds.

92. Australia has one of the largest immigrant shares within their population compared to countries in the OECD, with persons born outside of Australia comprising around one quarter of the resident population. With the extensive system of means-tested social assistance benefits in Australia, immigrants generally have to reside in Australia for ten years before they can get access to the age pension, with a five year wait before access to sole parent pension and disability pension (but immediate access where the disability or lone parenthood takes place in Australia after migration). Recent changes have extended the resident waiting period on other allowances such as unemployment and sickness allowances from the previous six months to now be two years for a wider range of allowances. Those who have a change of circumstances beyond their control after entry into Australia, such as the bankruptcy of their employer or

the death of a financial sponsor in Australia, can have the waiting period waived. Immigrants can still get access to Family Payments and access to the universal health care system when they enter the country.

93. As one example where a country is seeking to expand social security access for migrants, Austria plans to amend its law to give foreign workers access to assistance benefits if they become unemployed, with effect from the year 2000.

International influences on social security arrangements

94. A number of international instruments have implications for national social security, such as international standard-setting instruments (often referred to as charters, codes or conventions) as well as multilateral and bilateral social security agreements (sometimes referred to as co-ordinating instruments).

95. International Labour Organisation (ILO) conventions provide a minimum standard by which countries can assess their national law and practices, as well as creating binding obligations for the countries which ratify them[11]. In the case of most OECD countries, which have very developed and sophisticated social security arrangements, these conventions provide a guide to the minimum level of protection expected in both developed and developing countries.

96. Through the Council of Europe, European countries developed their own conventions: the European Code of Social Security in 1964 and the Revised Code in 1990.[12] These codes have mandatory elements which must be agreed by all contracting states and optional sections which countries can accept at their discretion. The original code was modelled on ILO Convention No. 102. The revised code, available from 1990, sought to introduce higher social security standards as well as improved flexibility (Council of Europe 1995) -- although no country has yet ratified the revised code[13].

97. The Treaty of Maastricht stipulates that the European Community shall promote "...a high level of employment and of social protection, the raising of the standard of living and quality of life, and economic and social cohesion and solidarity among Member States". More recently, the European Community adopted a recommendation on 27 July 1992 which called for greater convergence of social protection objectives and policies among Member States[14] (Commission of the European Communities 1994).

98. These international guidelines can create some tension between the responsibility of national governments to establish and provide suitable social protection systems in their country (with them ultimately responsible for their choices through democratic elections) and the interests of the international

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11 Some of the main ILO social security conventions are No. 17, 18 and 19 on Workman's Compensation and Accident Compensation 1925, No. 102 Social Security (Minimum Standards) 1952, No. 128 Invalidity, Old-age and Survivors' Benefits 1967, and No. 168 on Employment Promotion and Protection against Unemployment Convention 1988.

12 More detail on the nature and development of the European Code of Social Security, its Protocol (which sets higher standards than the code), and the European Code of Social Security (Revised), as well as information on countries who are signatories to these agreements is found in Council of Europe (1995)

13 Seventeen member States of the Council of Europe ratified the original European code (with seven of these ratifying the code as amended by the protocol) and 14 States signed the revised code (Council of Europe 1995). There is considerable variation between member States in terms of the degree to which they have ratified optional parts of the codes.

14 This recommendation also recognised that some diversity between countries would remain, and that each country would still reflect their own needs in the structure of the social security system.

community to see that certain minimum standards are provided more or less universally. Where countries have policy perspectives which differ from the nature of these conventions, the general response from countries to ILO conventions and the European Social Security codes has been that they opt not to ratify them or to accept only selected parts.

99. The international mobility of workers, either permanently through migration arrangements or short-term assignments of workers in a different country, has implications for social security coverage and entitlements. The main issues are how to ensure appropriate social security coverage in the new country of residence as well as the proper arrangements to provide co-ordination of social security benefits (especially retirement benefits) when these are accrued in a number of countries over a working life. The rights of new residents to social security coverage is often linked to employment participation, as is general access to social security coverage in most OECD countries. However, other countries also have residence qualifying periods and possibly other requirements, as discussed in the previous section. With respect to the establishment of co-ordinating instruments, some of the aspects considered include equality of treatment between nationals of the contracting states, preservation of acquired rights, totalisation and proratisation of benefits between the states, and the exportation of benefits.

100. Countries have negotiated bilateral or multilateral social security agreements to provide a firm, predictable basis for the rights and responsibilities of individuals and families who move between countries, as well as establish clearly the responsibilities of countries. Some OECD member countries, such as a number of European countries, Canada and the United States, have finalised many bilateral social security agreements with other countries, while there is a multilateral social security agreement within the EC and also the European Economic Area for EU and EFTA nationals (except Switzerland)[15]. The Council of Europe has also prepared a framework and is in the process of finalising model provisions for a bilateral social security agreement. The co-ordination of social security in the EC was a necessary outcome following establishment of the freedom of movement for EU citizens operating between EC States. Within the EU there is predominantly full exportation of benefits, with few exemptions. With other bilateral agreements, there are usually some limitations placed on the exportation of benefits.

[15] For some examples, see Kalisch and Aman (1997).

4. GENERAL ASSISTANCE TO FAMILIES

101. One general feature of social security in most OECD countries is the extensive assistance provided to families. This reflects the priority accorded to the family as the predominant unit in many societies, recognition of the costs associated with bringing up children, the desire that children develop with adequate nourishment and shelter, and in some instances incentives to increase the birth rate in the population.

102. Such assistance directed towards families can take many forms, including:

- payments to families on the basis of the characteristics of their children (i.e., number of children, which often vary according to the age of children);
- additional payments to low income families with children, directed at those without earnings, those in work or both groups but with a low income restriction;
- income support payments to low income parents primarily caring for the child(ren) at home;
- tax relief for families, with eligibility ranging across those with a dependent spouse, children and/or where both partners are working to subsidise child care costs;
- mechanisms to ensure/encourage provision of continuing financial support for children from absent parents
- special payments to families around the time of the birth of the child to reflect reduced capacity to work; and
- subsidised access to child care facilities, to encourage and facilitate workforce participation among parents with the primary caring responsibility.

103. Families with dependent children can receive considerable public assistance through these different programmes. These interventions predominantly reflect the perceptions of the community in OECD countries to assist and protect children. A number of measures are broadly available to all families, reflecting the additional costs borne by those families with children and their reduced capacity to pay tax. Other measures are available to meet the special needs of some families, such as those with low incomes, lone parent families or where there is an absent parent. A number of families with children are among low-income earners precisely because they have young children, and they either choose to have one parent care for their children at home or face impediments (e.g., lack of suitable child care) which restrict their active labour force participation.

The nature of family assistance measures

104. Few countries admit that they use their family assistance measures to improve fertility and birth rates among the population, and to achieve certain outcomes on family size. One exception is Korea which deliberately encouraged families to have no more than two children through its policy design. These disincentives and incentives included public employees receiving family and educational allowances if they had two or less children, income tax exemptions for families again limited to those with two or less children, and priority for public housing allocations, housing loans and free medical services for eligible families if the family has two or less children and one parent has undergone sterilisation. These aspects have now been withdrawn since 1996 as new population policy challenges have emerged with the ageing of the population in Korea.

105. An example of a country which has measures in place which provide significant support for larger families is Spain. Families with three or more children (previously four or more children) can receive a range of concessions, such as reduced fares on public transport, reduced university fees (which can be of considerable value), as well as priority for scholarships and public housing allocation. Spain has also recently introduced higher tax deductions for larger families, with the third child now attracting a tax concession around 20 per cent higher than the tax concession for the first or second child. A still higher tax deduction is given for the fourth and each subsequent child which is around 45 per cent higher than that available for the first two children, with a total value of Pta30,000 in 1995. Greece provides additional income-tested benefits for families where the third child is still under the age of 6 years (40,000 drs a year) and also to families with four or more children (28,000 drs a month), while universal tax relief is generally provided at a higher rate for later children (varying between 20,000 drs a year for the first child up to 70,000 drs a year for the fourth child). Many other countries provide higher rates of family allowance for large families through either a large family supplement (as in Australia) or higher rates of assistance for later children in larger families (e.g., in Belgium, Norway and France).

Table 4.1: Summary of assistance to families with children, OECD Countries

106. Family assistance is generally provided through the government sector and available to all families. Two exceptions are Hungary and Korea, where in both instances family allowance payments are provided selectively by employers to workers in the public sector and major private sector firms, with amounts determined on the basis of negotiations between employers and workers. In Korea, selective employment-based payments are complemented by tax relief available more generally. The situation in Greece is somewhat similar with only employees who have the necessary social insurance contributory history qualifying for family assistance benefits administered by social security funds, although this has full coverage of the employed population and is not restricted to particular industries.

107. Benefits are available for each child in a family, and may increase with the age of the child as well as the size of the family. OECD countries take varied approaches to the age of children they will support. At one extreme, in Japan, Child Allowance cash benefits are available to those families with children aged under three years of age in families with incomes below ¥2,396,000 (for a four person household). On the other hand, in Belgium and Switzerland tax benefits and/or payments can extend to families with children up to age 25 if the young adult is engaged full-time in higher education or up to age 27 in Austria if in full-time education. Similarly, young adults up to age 27 in Germany can entitle their parents to payments if they are still doing full-time studies, professional training or performing a voluntary social or ecological year. Recent reforms in Italy have increased the amount of the tax benefit

available for children and removed the previous age limit of 26 years if he/she is still in education so there is now no upper limit. Certain allowances for children in Ireland, but not the main Child Benefit, are payable up to age 22 if the child is in full-time education. By contrast, most countries provide support to families with children aged up to 16-18 years, reflecting the stage at which children finish compulsory education or leave school.

108. Benefits often vary according to the age of the children. They may increase with age, reflecting the higher direct costs associated with the upbringing of older children compared to the direct costs of younger children. This is the most common approach and a number of countries also distinguish between age ranges among older children and pay the highest rates for the oldest children. Alternatively, if countries wish to also compensate for some of the indirect costs faced by families for bringing up children, such as foregone earnings of parents at home caring for young children, there is a case for providing more significant payments to families with younger children. This latter approach is more common in the Nordic countries, such as Denmark, Finland, Iceland and Norway, which have higher labour force participation rates for women than most other OECD countries.

109. Italy is just one example of an OECD country which provides higher cash benefits to families with lower incomes (as well as families with higher numbers of children). This is a common approach to reflect the additional needs of low income families through higher cash benefits for these families. This is in addition to other assistance measures available through the social security systems to assist low income households, irrespective of whether they have children. Other countries, such as the United States, Ireland, United Kingdom and New Zealand, also provide additional assistance directed to low income families in employment, as an incentive to encourage the take-up of low income jobs. These "in-work benefits" are discussed in more detail in the next Chapter and in Table 5.8.

110. Family assistance interventions fall into two different categories of cash benefits available to all if not most families and, in some countries, tax relief which is primarily directed to the main income earner. In assessing the total value of family assistance package, it is important to aggregate the total cash benefits and tax relief to provide the full picture. Tax assistance for families with children can be very significant in those countries with family based taxation arrangements (e.g., France) or special tax concessions for children (e.g., Spain). In the case of Spain, the value of cash benefits for families has declined substantially in value (largely as a result of non-indexation/uprating for changes in the cost of living) at the same time as tax concessions have increased in value, with the net result that the combination of the two was worth about the same real value to families in 1994 as it was in 1981 (European Commission 1996). Over the years in Austria, cash benefits, together with in-kind services related to education and transport, have gained in prominence; tax credit for children is of a much lower value and in any case is paid regularly as a supplement to family allowance. In Belgium, families have a choice of receiving assistance in the form of cash benefits or tax relief, but receipt in the form of cash benefits is more beneficial to all but the top 10 per cent of families on higher incomes.

111. Across the OECD, cash benefits are a much more common form of family assistance than taxation relief. Cash benefits do have some advantages over tax concessions in terms of the ease of providing benefits directly to the parent with major responsibility for caring for the child(ren), the transparency of benefits and if the benefits have complex eligibility and administrative rules. On the other hand, tax concessions may be particularly useful if a major policy objective is to encourage higher workforce participation of families with children. Low income earners need not miss out on the full value of tax concessions if there is a system of refundable tax credits.

112. Family assistance is generally available to families irrespective of income, reflecting the additional expenditures and responsibilities of those families with children compared to households

without dependent children. Although not common in OECD countries, some countries, including both developed nations as well as a number of those countries in transition in eastern Europe, apply means tests to family assistance benefits. In Australia, the basic amount of child benefit and tax relief for families are both means tested to exclude approximately the top 20 per cent of higher income families. In 1997, family benefits in Greece were substantially increased in real terms at the same time as eligibility for some payments (third-child benefit and large family benefit) was restricted to families below around 7-8,000,000 drs a year. Italy also has means tested its family allowances and limited them to wage earners and pensioners since 1988. Tax allowances for dependent children in Luxembourg provide a maximum of LF243,600 for low income families, families with higher incomes receive reduced amounts and nothing is given to those families with incomes above LF2.4 million. However, this approach is not universally popular. In France, the former government proposed measures in 1995 to limit social expenditures through treating family assistance as part of taxable income or means testing family assistance, and both proposals ended up being politically unacceptable at that time. The current Jospin government in France has since announced proposals to means test family allowances. Austria reduced the level of family allowances, to levels prevailing about 2-3 years earlier, but again as part of a protracted public and political debate.

113. In addition to these general family assistance measures provided to families with children, many OECD countries also provide substantial cash benefits to families for children with disabilities. These cash benefits for children represent only some portion of the provisions available in OECD countries for families with disabled children, not including the provision of additional services, special schooling, and in some instances payments to the parent who may be caring for the child at home.

Table 4.2: Summary of special cash benefits for disabled children, selected OECD countries

114. As shown in the table, many countries have special provisions for disabled children within their family assistance programmes. This can take the form of increases in the age at which disabled children can entitle their parents for family allowances compared to qualifying ages for other children, and supplementary payments for each disabled child. Spain also provides three gradations of payments according to the assessed level of disability of the child. In addition to their family assistance measures, other countries have special programmes of financial support for families caring for disabled children at home.

115. One interesting feature of these measures is that they are universally available, with countries which means test their general family assistance provisions including even those countries which have a strong tradition of means testing benefits (e.g., Australia, New Zealand) providing benefits for disabled children on a universal basis as long as they meet the necessary disability and age criteria.

Other family services

116. The range of payments, benefits and tax concessions provided to families in OECD countries is also usually complemented by a range of other services for families. In terms of access to basic services, families generally benefit from free or concessional access to education and health care services for at least their children, while families may receive preferential treatment to help them get suitable housing. Many urban environments also provide recreational facilities for general use, such as parks for children to play, and increasing attention is being given to the preservation and creation of green areas in cities.

117. There are a range of other services, provided selectively, to families in need in OECD countries. This includes child protection services, assistance for those family members subject to domestic violence, counselling facilities for overcoming difficulties in relationships between adults and child/parent relationships and parenting education. Family budgeting advice and debt counselling may also be suitable for families on low incomes, especially if they need to adjust to a substantial reduction in income and/or cope with a significant period on a lower income.

118. The Mother Child Education Foundation (MOCEF) in Turkey provides one example of a successful family service. It is a partnership between a non-government organisation and government ministries; in this case the collaboration is with the Turkish Government Ministry of National Education, Social Services and/or Child Protection Agency, also utilising funding from the World Bank. MOCEF was established in 1993 with the aims to extend early childhood education, as well as improving functional literacy among parents. The programme in part responds to the very low rate of participation of children in pre-school education in Turkey (of around 8 per cent) as well as targeting participation in the programme to very disadvantaged segments of Turkish society who historically have low rates of education participation among their children. In the short time the MOCEF programme has been operating, it has been found to increased the literacy and numeracy skills of the children in the programme (as well as neutralise any negative effects from an adverse family environment), improved the self-esteem of mothers as well as modified mothers' child rearing techniques. The programme is now being expanded to also include a specific element directed at fathers to improve their parenting skills.

Support for children from absent parents

119. A consistent principle espoused in OECD countries is for absent parents to continue contributing to the upkeep of their children who no longer live with them. There is concern to minimise the economic impact potentially felt by children in the event of relationship breakdown, with parents rather than the state primarily responsible for the financial support of their children where they have the economic capacity to do so.

120. There are a range of approaches used to determine child support liabilities, differing in the extent of involvement of the parents, legal system, administrative processes and government responsibility.

Table 4.3: Summary of child support arrangements, selected OECD countries

121. Many countries determine liable amounts solely through a judicial-based court process, where each case is assessed and determinations made which can be legally enforced. Hungary, the Czech Republic and Korea provide three examples of this method of operation. In Hungary parents may be obligated for up to 50 per cent of their income to pay child support, and if there are irregularities in payment or non-payment, the government may pay an advance to the custodial parent. The Czech Republic also relies exclusively on a court process although effective enforcement can still be a problem in some cases. Korea requires child support orders to be finalised before divorce is legally permitted. Changes to custodial arrangements in Korea, towards shared parental responsibility away from the previous system of custodial rights to the father, may lead to child support becoming a contemporary issue in that country in coming years.

122. A number of countries (e.g., Australia, United Kingdom, New Zealand, United States) have sought to take this role away from the law courts and largely institute an administrative formula. This has been introduced at least partly to achieve higher levels of child support than was apparent through the previous court-based processes, as well as to move child support determinations out of a confrontational and potentially costly legal environment for the parents.

123. In the United States, states have the primary responsibility for family and domestic law, but federal laws do require the states to have child support arrangements. While the states have considerable flexibility in the formula they implement, the level of child support liability is relatively uniform across states for middle-income absent parents but there can be considerable variation for low-income absent parents (e.g. a non-resident father earning US$750 a month may be liable for US$50 in one state and US$300 a month in another state). There is no automatic provision of child support, with the caring parent or the state required to take action to pursue support. If the caring parent is in receipt of welfare assistance the federal law requires states to pursue child support. Paternity must also be established in births outside of marriage before a child support liability can be imposed, with changes introduced in 1993 seeking to simplify the process. In the United States, the proportion of lone mothers with children aged under 18 who received any child support in the previous year increased from 23 per cent in 1976 to 38 per cent in 1991.

124. New Zealand introduced its comprehensive administrative formula in 1992, replacing a previous dual system of an administrative formula where the custodial parent was on income support (similar to the current system) and a court-based system in other instances. In Australia the number of lone parents on benefits who declare receipt of child support has increased from 30 per cent in 1988 before the scheme began to the current (1996) level of around 43 per cent. These administrative formulas are still legally binding, and applications can still be made to the family court for review or variation of the formula amount. Other countries which operate a court-based process also draw upon child support formulas for guidance when amounts are being determined (e.g. Canada).

125. Irrespective of the process, regard is given to the capacity to pay of the absent parent, and presumptions of the broad costs of raising children with varying degrees of importance attached to the income or wealth of the parent caring for the child. Some formula systems are more complex than others (e.g., the United Kingdom formula): there is a trade-off between apparent procedural fairness to deal with different circumstances of the families and the ease with which parents understand the arrangements and the formula is administered. Formula based arrangements can have the advantage of greater consistency of judgements and freeing up the court system to deal with more significant and difficult cases, however these countries have to a greater or lesser extent all faced difficulties in terms of public acceptance of the formulas themselves (with some modifications made to the formulas in some instances) and the effectiveness of the authority established to administer the process. Sweden has introduced reforms in February 1997 to place greater responsibility on absent parents to support their children.

126. The Nordic countries (e.g., Sweden, Finland, Norway), as well as Ireland and Japan all seek to put greater onus on parents agreeing privately to child support arrangements. Where parents cannot agree, there are fallback arrangements of a court process in Finland, Ireland, Japan and Sweden, or a Maintenance Enforcement Officer in Norway can intervene at the request of either party to determine child support liabilities based on a formula assessment. In Sweden, the child is guaranteed to receive at least 1173 SEK a month if the parents have not agreed an alternative amount, or the parent cannot afford to pay that much. To ensure the fairness of parental agreements in Norway, they need to be approved by the social welfare board.

127. Greece provides an example of more direct government involvement, as a substitute for parental responsibility in some circumstances, with a government payment provided as a child support measure where the custodial family income is less than 80,000 drachmas a month and the father is absent because of divorce, prison, or military service.

128. Government payments are also made in other countries, where the parent providing care for the child can receive either advance maintenance payments or top up payments from the government, to cover contingencies of non-payment, slow payment or insufficient payment (e.g., Austria, Germany, Hungary, Sweden, Norway, Denmark, Finland, Iceland). Where the absent parent has not met their obligations and the government intervenes, they then have a debt to the government rather than the other parent, although the extent of repayment by absent parents under this arrangement is still generally poor. These arrangements may be long-standing. For example, in Austria, the Advance on Maintenance Act has been operational for around 20 years, providing an advance on uncollected child support to the eligible parent funded from the Family Assistance Fund. The cost to governments may also be substantial - a total of 1.557 billion DM was provided in advance payments in Germany in 1996.

129. There are common problems in OECD countries relating to difficulties in the enforcement of child support liabilities, irrespective of the system used to determine liabilities. Most countries report high and/or increasing debt levels to the government or the custodial parent as many non-custodial parents fail to comply fully with their child support liabilities. Those countries with judicial processes to determine liabilities tend to rely on the formal legal process (and its sanctions) to influence rates of compliance.

130. In Italy, the courts can intervene after a complaint has been lodged, but procedures are subject to lengthy delays. In other countries (e.g., Norway, Canada, Australia, United Kingdom, United States) there is an elaborate system of compliance activity and means by which child support liabilities can be extracted from a variety of income or wealth sources, such as deduction from wages, social security payments, tax credits or bank accounts or the seizure of property. In Canada, enforcement of family support orders and agreements is a provincial responsibility, with support provided by the federal government through the *Family Orders and Agreements Enforcement Act* which allows for tracing of defaulting payers, garnishment of financial assets, and denial of federal licenses. The 1996 federal budget in Canada introduced additional measures, such as a new license suspension initiative, extended tracing of defaulters and expanded powers to redirect federal pensions to meet child support arrears. The Inland Revenue Department in New Zealand has wide powers to collect child support debts, but there are recognised limits on how quickly the overall level of debt can be reduced.

131. The scope of enforcement activities in Ireland is more limited, with attention on recouping from the liable parent some contribution to the cost of social welfare payments made to the supporting parent since November 1990. Until October 1997, these enforcement activities only covered formerly married couples who separated, but it now also applies to cases where the parents have never been married. In determining the amount required from the liable parent, their financial situation is assessed in detail, and those liable parents who themselves are in receipt of social security payments are not liable for any maintenance contribution. Supporting parents receiving welfare payments are required to surrender maintenance payments received to the Department of Social, Community and Family Affairs.

132. A series of changes to United States federal law over the last twenty years have increased the responsibilities on states to have substantial enforcement remedies as well as enhanced the potential means of enforcement. This includes many of the types of measures noted above which are applied in other countries, such as garnisheeing of wages and tax refunds, withdrawals from bank accounts, revocation of licenses, and the imposition of penalties and late payment fees. In the United States context,

with a state-based system, considerable effort has also been devoted recently to setting up arrangements for greater enforcement co-operation across states with a number of measures expected to be in place before October 2000

133. It is apparent that even with strong measures in place to achieve high child support compliance rates, there can still be high levels of outstanding debts. This is a major concern given the possibility that non-payment of child support may be an important contributor to the high incidence of poverty among sole parents.

134. Austria provides a financial incentive for absent parents who pay maintenance for their children and do not receive family allowances for the child(ren). They are entitled to receive a tax credit for maintenance paid, with the tax credit worth ATS 350 for the first child, ATS 525 for the second child and ATS 700 for any subsequent child. This contrasts with the recent decision by the Canadian government to withdraw the tax deduction available for the last fifty years on maintenance paid, but only for new child support orders or agreements made after April 1997.

Programmes for lone parents

135. OECD countries have experienced a growth in the number of lone parent families over recent decades. This may be due to a number of factors, such as the increased incidence of breakdown of relationships, continuing high rates of childbirth outside of marriage or cohabitation in some countries, and the influence of social security benefits available for lone parents. Limited employment growth, compounding other disadvantages lone parents may face in getting a fair share of the available jobs, may have also contributed to an increase in the number of lone parents accessing social security in some countries if they have limited opportunities to derive earnings for the support of their family.

136. Lone parents are predominantly women. This feature influences assessments of the needs of lone parents, as many may have limited recent workforce experience (as they have been undertaking caring duties at home), have low levels of education and other qualifications, and may receive lower earnings than men for the same work. They may also be subject to conflicting views in society about how they should manage their role as mothers and as economic providers for the family.

137. Most countries did not indicate that there is any particular problem with teenage births in their country. There have been general declines in the teenage birth rate in Australia, Finland, Norway, while Italy, New Zealand and the Netherlands indicated that they have low teenage birth rates. The OECD country often associated with high teenage birth rates, the United States, has also had declining teenage birth rates over the last five years, reporting a decline in teenage births of 12 per cent since 1991. However, the trend towards reduced teenage births is not universal. After many years of decline, the pregnancy rate for 15-17 year olds in Canada has increased and the teenage birth rate has also increased in Portugal over the last few years. Ireland has also reported an increase in the birth rate for teenagers from 9.6 births per 1,000 in 1981 to 13.9 births per 1,000 in 1994, however the rate of increase for teenage lone parents was below average compared to the overall increase in births to lone parents.

138. Most countries pursue general sex education and information campaigns as the main strategy to reduce teenage pregnancies, and some countries complement this with access to birth control measures. This approach is being improved through developing forms of communication which are appealing to young people (e.g. public television in Germany) and extension of current measures to provide better coverage across all teenagers. In the United States, the Clinton Administration has recently introduced a

campaign to encourage adolescents to remain sexually abstinent, together with positive messages about the value of school and work preparation.

139. The extent of poverty among lone parent families is a key concern in many OECD countries. This often relates to the difficulties lone parents can have in generating sufficient earnings from work, while also meeting other caring responsibilities they have, especially if their children are young. Lone parents may face significant disadvantages in the labour market if they do not have recent employment experiences as a result of the full-time child care duties they have been undertaking, while other lone parents may suffer from structural labour market deficiencies because of lack of skills or education. For other lone parents, work may not be a viable proposition if they cannot access suitable and affordable child care, if they live in geographical locations which make it difficult to access employment opportunities or if work does not provide additional disposable income for the family.

140. Most OECD countries provide some form of social security for lone parents, apart from the payments they may be able to access for their children akin to those received by other parents in that country. These income support provisions respond to the difficulties lone parents may have in combining workforce participation with caring for their children, particularly if they have very young children or in the early (transitional) stage of their lone parenthood.

141. There are generally restrictions on the provision of ongoing payments for lone parents, with payments only until the child reaches a certain age or payment only for a limited period in much the same way as other social insurance benefits for the unemployed have time limits. For example, Norway now has a three year limit on special (and now higher) payments for lone parents (and until the youngest child is aged 8 years), which can be extended for a further two years if they are undertaking a necessary education programme. New requirements were introduced in the New Zealand so that from April 1997 lone parents need to look for work when their youngest child turns 14. Since 1996, the Netherlands has required lone parents on social assistance with children aged 5 and over to look for work, in association with additional resources directed to improve access to day-care facilities.

142. These benefits are generally means tested which may introduce financial disincentives for lone parents to get paid work. In Australia, benefits are reduced by 50% for every dollar earned above an indexed free area (currently A$100 a fortnight) to encourage lone parents to take up part time and casual work opportunities. In New Zealand, income test arrangements for lone parents were relaxed in 1996 to encourage greater part-time employment. Single parents in Germany can also work more than the usual limit of 19 hours a week attached to eligibility for the child raising allowance. The new One Parent Family Payment introduced in Ireland in 1997 has a design feature to encourage lone parents to participate in the workforce. They can retain the first £Ir 115 a week of earnings without any reduction of benefit, while earnings of between £Ir 115-230 leads to a reduced social welfare payment.

143. Austria provides a single parent tax credit of ATS 5,000 a year which is available to all lone parents in receipt of family allowance with no income restriction, providing some economic compensation for the difficulties lone parents may face in pursuing workforce participation. This is in addition to the special expenditures payment of ATS 80,000 for sole earners, which is increased by a further ATS 20,000 if there are three or more children. The Netherlands also provides special tax deductions for working lone parent families to improve the financial attractiveness of working, with additional tax measures to be introduced in the next budget year.

144. Across the OECD there are a range of programmes in place specifically for lone parents to support and facilitate their transition back into employment, with most of them providing a comprehensive range of assistance which reflects in the general case the multiple disadvantages and obstacles lone

parents can face in getting a job and retaining that job on top of the responsibilities they have for their children. They also recognise the time limitations placed on receipt of social security by lone parents, as well as the desirability that lone parents obtain greater financial returns from work compared to prevailing benefit levels.

145. Some programmes aim for more immediate returns to employment while other programmes seek to provide lone parents with longer term labour market benefits through greater attention to their education and training needs. Expansion of child care provision, especially for those with pre-school aged children, is a common element with the objective to improve the rate of employment among lone parents. Child care may still be relevant for those lone parents with children of school age, to cater for before and after school hours and the extensive school vacations. Against this background, many OECD countries give lone parents priority access to the available child care places.

146. Japan has many facets to their assistance for fatherless families: on the job training, securing employment opportunities and housing assistance all with the intention of promoting their economic independence. Sweden provides substantial assistance to lone parents to enable them to earn a living rather than rely on allowances, including access to housing and child care as key elements of their approach. Sweden also encourages education participation to increase the long-term ability of lone parents to support their family. Ireland allows lone parents to participate in employment and training programmes on the same basis as other unemployed people.

147. Australia has a comprehensive programme for lone parents called the *Jobs Education and Training (JET)* programme, which has been in place since 1989, with emphasis on improved access to education and training, child care, and employment opportunities, managed through a JET Adviser who has the role of assessing the needs of the lone parent and co-ordinating access to whatever assistance is necessary. A 1996 evaluation of the JET programme concluded that the scheme contributed to higher employment rates and earnings among sole parent pensioners.

148. The new United Kingdom government has also recently announced the introduction of a *New Deal* programme for lone parents, with emphasis on practical help and advice on jobs, training and child care for lone parents who want to work and have school age children. At a much earlier stage of development, New Zealand is currently engaged in a review of sole parent policies designed to examine how lone parents can best meet their child-rearing and workforce aspirations, which will be complemented by a broader review of child care policies. Evaluation findings from these types of programmes operating in OECD countries suggests that they can be effective in increasing the employment and earnings of lone parents.

Support for working families - reconciling work and family responsibilities

149. In addition to special programmes for lone parents, some countries also provide special assistance to women wishing to return to the workforce especially after a substantial period engaged in child rearing activities. In Germany, this can include access to further training or retraining programmes to update their skills, child care subsidies when in training, and wage subsidies for employers hiring those who return to the workforce if they need a period of adjustment as they ease back into the workforce. In some countries this has also coincided with calls for fathers to also be able to take up a greater share of family responsibilities, assisted by more flexible working arrangements. Some countries are also improving the conditions of work attached to part-time workers (e.g. Canada with improved access to Employment Insurance benefits), or are simply improving the legal basis of part-time work (e.g. Denmark, Germany). Ireland has also extended social insurance coverage to part-time employees and

introduced special pension calculations for women who have spent periods caring full-time for their family.

Child care

150. Child care provision is often seen as the predominant means by which parents can reconcile their work and family responsibilities. Child care also goes beyond this facilitating role, contributing to economic development by enabling some people to work. Within this context, some countries have specific targets for the expansion of child care places to specified levels as at a particular date. In some countries the distinction between child care and pre-school education is blurred, and child care can be an important part of the early childhood education of young children, complementing the role played by parents and other family members.

151. Korea has recently invested the equivalent of US$140 million on expanding nursery care services in order to achieve a target that 60 per cent of the children who require nursery care services will have access to facilities. Workplaces with over 300 female employees are also encouraged to established day care centres by 1997 and after school care programs are to be implemented by the year 2000. Mexico offers all children aged 43 days up to the age of 4 years with an entitlement to day care services, but existing capacity cannot satisfy the demand for places and steps are being taken to enhance the current child care services. In Turkey, firms with over 100 female workers need to have nursing rooms and those with over 150 should have nurseries. In Norway, the objective for the year 2000 is that all parents who want pre-school care for their children will be able to access it. Norway also requires each school to offer before and after school care for every child aged 6-10 years, with approximately 70,000 children utilising this service. The Netherlands has also increased its after-school child care places. Denmark has legislation which states that state-subsidised day-care facilities must be available for children throughout the country. Finland has been able to provide all pre-school children with access to municipal day care since 1996, but prior to that those with special needs were given priority access to care opportunities.

152. The Greek government finances kindergarten services for around 50,000 children, complemented by other kindergarten services which provide priority access to working and single parent families. Austria spends around ATS 600 million creating additional child-care facilities, which also has the side-benefit of generating new jobs.

Table 4.4: Approaches to child care in selected OECD countries

153. Other countries provide cash or taxation subsidies to families to reduce the cost of child care, either instead of or in addition to policies which seek to directly expand the number of child care places. For example, the Child Care Expense Deduction in Canada provided 740,000 taxpayers with children with a deduction for child care expenses from employment income which is subject to tax, with a total cost of C$305 million. The maximum deductions are C$5,000 for each child under the age of 7 and C$3,000 for children aged 7-16, with a deduction also available for older children with disabilities ranging between C$3-5,000 depending on the level of disability.

154. Portugal has an arrangement where fees for child care are assessed as a proportion of income and adjusted in line with the capacity to pay.

155. There may still be some evident deficiencies in countries which have experienced marked expansions in the overall number of child care places. Italy reports a serious lack of child care services for very young children (aged 0-3 years), with available places estimated to cover only 5 per cent of children in that age group, but with places for children aged 3-5 years estimated to cover around 80 per cent of that group. Care for babies and very young children is generally more expensive (because of the greater intensity of care) and may be subject to greater regulation, leading to more limited availability of places for these children. Spain has a specific programme, the *Infancy Programme*, which seeks to increase the supply of services for 0-3 year olds. This is half-financed by the Ministry of Labour and Social Affairs and half by autonomous communities and local authorities, for projects run by local authorities. Reforms passed in Italy in July 1997 dealing with the promotion of services for children aim to encourage innovative services for children as well as for adolescents. The availability of child care places may also have a distinct regional dimension, with options for parents much better in some locations than others, and this may be worthy of further investigation where governments are playing active roles in the establishment of new places. In many jurisdictions, sole parents receive priority access to the available child care places, reflecting the more limited care options they often have for their children if they want to undertake labour market activity.

156. Child care policies are subject to further investigation and consideration in some OECD countries. The current New Zealand government has a commitment as part of its coalition agreement to undertake a review of child care policies with the objective to improve employment incentives for women, while the United States has a White House conference planned for 1997.

157. The available child care places also need to be compatible with work arrangements in order to be effective, and Portugal has placed particular emphasis on extending the hours child care centres will operate to allow better meshing of child care opportunities with work commitments. In Japan, there are also short-stay or twilight-stay programmes in place to try to fill the child care need of those parents who find it difficult to leave work early or are required to work late, with particular attention given to the situation of fathers who are single parents. Denmark recognises the changing working patterns of parents, through nurseries and kindergartens with extended operating hours or opening hours through the night.

158. Government may also subsidise child care places, particularly for low income families. The level of the subsidy may be transparent, such as in Australia where up to 85% of the child care costs for very low income families can be subsidised, and in the United Kingdom where in-work benefits disregard expenditure on registered child care of up to £60 a week (and the 1998 United Kingdom budget has signalled a proposed change from a cash subsidy to a higher value tax credit to be worth up to £70 a week for one child and up to £105 a week for two or more children, to apply from October 1999). Germany provides tax deductions for child care costs incurred by single parents and also married couples under particular conditions. In other OECD countries the subsidy may be implicitly built into the fee structure of publicly-provided places.

159. Some countries also recognise the difficulties encountered by parents with work commitments who have a sick child, as they may not be able to utilise child care facilities if they are of pre-school age or the children may be excluded from school if they are older. In Norway, parents can get at least 10 days paid leave a year to look after sick children, and up to 15 days each if they have three or more children. Single parents get an increased leave maximum of up to 20 days a year and 30 days if they have three or more children. In Portugal, workers can use sickness allowance entitlements to look after sick children under 10 years of age. In Finland, parents where both or a lone parent are working outside the home and they have children aged under 10 who are sick can get an additional four days leave to either care for the child or arrange care, but employers are not obliged to pay wages during that time. In Australia, such

arrangements are not provided through the social security system, but selected employers may provide limited paid leave benefits as part of a negotiated remuneration package.

Maternity and parental benefits

160. Complementing child care support is a range of maternity and parental leave benefits in place in OECD countries, mainly available to those with a prior work history and social insurance entitlements. These are in addition to legislation in countries which protects the employment rights of women workers who become pregnant up to a point after the birth of the child.

161. Maternity leave payments are available in most OECD countries to provide extra income to families around the time of a new birth as well as recognising the employment rights of new mothers. Payment is usually structured around providing a particular percentage of the woman's prior wage for a set number of weeks, including time before the expected birth as well as time after the birth. In only a few countries are maternity benefits are also available to those who have not been in paid work prior to the birth and payment is via flat rate benefits. Birth grants are also quite common, provided either as part of the social assistance system and more generally available or alternatively as a supplement to maternity leave provisions with the usual prior work requirements.

Table 4.5: Summary of maternity and parental benefits, OECD countries

162. At the more generous end of the spectrum, Norway provides parental/maternity leave of 42 weeks at 100 per cent pay or 52 weeks at 80 per cent pay. This paid leave can also be extended over a longer time in conjunction with part-time work. Both parents can use the scheme and a non-transferable father's component of four weeks has been introduced to encourage men to be involved more in the parenting role. To be eligible, the mother must have been in paid employment for at least six of the last ten months prior to the birth, and for the father to benefit both he and the mother must meet this prior work requirement. On top of these paid leave provisions, parents can also access extensive unpaid leave arrangements.

163. It is common for payments to be provided for 14-18 weeks, particularly in European countries, with either full or near full earnings replacement. The level of earnings replacement may also be higher initially and then decline for the later periods of maternity leave. These maternity leave benefits are sometimes complemented by separate paternity benefits or parental benefits which can be accessed by either the mother or the father. The Netherlands has recently expanded its parental leave provisions.

164. Aside from the Norwegian arrangements mentioned above, other examples of parental leave are Japan where workers can take child care leave to care for a child under the age of one year and receive 25 per cent of their previous earnings, and Korea unpaid leave of up to one year at a time and three years in total is also available. Paid parental leave is also available in Austria and Canada as part of their unemployment insurance arrangements, while fathers can access maternity leave provisions rather than the mother under certain conditions in Iceland, Portugal and Sweden.

165. Much broader financial support for working families is available in France and Germany through tax deductions to help defray the costs of domestic workers which provide home based services. These services may include child care, but also could encompass other services such as home cleaning,

food preparation and gardening, which may be particularly desirable for those families where both members of a couple work and they have limited time to undertake home duties themselves. The tax deduction system may also encourage these workers to become part of the formal economy and Germany has recently improved tax allowances for private households employing domestic helpers subject to compulsory social assistance.

Provision for dependent spouses

166. A number of OECD countries provide tax relief to households with a dependent spouse, irrespective of whether there have dependent children. For example, Austria, Japan, Ireland, Italy, Slovak Republic, Czech Republic and Greece all provide tax concessions for the main, single earner in a couple if they have dependent spouse. Family-based tax systems (such as in France) naturally build in some support for dependent spouses, while Germany allows income splitting between married couples as well as provides significant concessions on inheritance tax liabilities for married persons.

167. The value of the tax concessions do vary significantly between these countries, reflecting the relative importance attached to this intervention as well as the general scale of generosity of tax/benefit assistance in these respective countries. Italy has recently increased the value of tax concessions for dependent spouses, with greater amounts available to lower income families compared to that provided to higher income families.

168. In the United States, the Congressional Budget Office investigated the bonuses and/or penalties from the US taxation system if people get married. For 1996, they found that 42 per cent of couples were disadvantaged, 51 per cent were advantaged and 6 per cent were unaffected by their marital status in terms of their tax liability. For low income couples (incomes below US$20,000), the picture was slightly different, with more couples net winners at 63 per cent, only 12 per cent of couples disadvantaged by being treated as a couple and a larger proportion of couples (25 per cent) unaffected in terms of their tax liability by their marital status.

169. By contrast, the tax arrangements prevailing in Ireland prior to 1980 which treated the joint income of a couple as one income for tax purposes but treated the incomes of two single people separately were found to be unconstitutional by the Irish Supreme Court. Present arrangements provide tax allowances for married people which are twice that for a single person, and the opportunity for transferability of tax allowances and lower tax rates between partners in a couple, which now can produce a slight taxation advantage for couples compared to single people.

170. In most jurisdictions there is no difference in the treatment of legally married spouses compared to cohabiting partners in the tax system and/or the social security system. This trend is also expanding, as from 1 January 1996, cohabiting couples have been treated the same as married couples in France for tax purposes. In Portugal, however, those who cohabit are still treated as two single people in the tax system rather than as married. With the individually-based tax system in Italy, a married sole earner can get a tax deduction for a dependent spouse, but this tax relief is not available for single-income cohabiting couples.

5. SOCIAL SECURITY FOR WORKING AGE PEOPLE WITHOUT JOBS

171. Many Western countries faced the spectre of rising unemployment again in the early 1990s, and tasked the OECD to undertake a major study of the causes of unemployment and possible solutions. By the time the main part of the OECD Jobs Study was finalised in 1994, unemployment totalled around 35 million in OECD countries, representing around 8.5 per cent of the total OECD labour force. Unemployment was the major social policy problem faced by most OECD countries at that time, and it remains so today.

172. In response to unemployment, many countries have benefits to provide income support for the unemployed. They may also have experienced increased take-up of other social welfare benefits as people not able to get jobs as a result of the poor labour market conditions have instead sought other social security payments. This chapter describes these payments in some detail, as well as the measures respective OECD countries have taken to respond to the presence of unemployment.

Social security benefits for the unemployed[16]

173. Social security for the unemployed is primarily available to provide income for people who do not have a job, so they have income on which they and their family can live. Social security provisions provide basic sustenance to limit the extent of poverty and deprivation, and earnings related benefits help individuals and families to maintain close to their previous standard of living during any short periods of unemployment.

174. These social security arrangements do have other, broader influences. On the positive side, income support can encourage job search and maintain labour market contact for those without a job as it is generally a condition of payment. The provision of adequate levels of assistance can also help the unemployed focus more on their job search activity and getting a job rather than the more immediate income dilemma for themselves and their families. Social security benefit arrangements may also have other purposes, in the form of encouragement or sanctions to undertake active labour market measures which can help them to get a job. On the negative side, income support provisions for the unemployed can reduce the intensity of job search if people can rely on alternative sources of income, and means testing associated with such programs (which reduce the gains in disposable income from increased work) can reduce incentives to get a job or increase earnings.

175. With the preponderance of widespread unemployment, particularly high long-term unemployment in many countries, some countries have had a community debate on the adequacy of benefits. This has typically centred around the adequacy of social security for those who are unemployed for long periods of time compared to the financial incentives they face to actively seek work and get a job with the consequent risk of long-term welfare dependency. Other countries have been concerned with the

[16] Much of the information for this Section of the report is drawn from the OECD Jobs Study and other work subsequently done at the OECD on how to promote employment and reduce unemployment.

total level of public expenditure taken up by these benefits, especially with higher unemployment benefit expenditure generally experienced in conjunction with reduced social security funding and tax receipts.

176. There are some clear differences between OECD countries in how their unemployment benefit systems are structured and the level of assistance they offer. Some benefits provide very generous entitlements for a limited period while other benefits provide flat rate benefits which are not time limited. Unemployment benefits are usually treated as taxable income in order to reduce the extent of financial disincentives for the unemployed to replace benefits with earnings from work. There are necessarily very precise rules on who is eligible for benefits, which may be linked to prior employment and/or contributory history to be eligible for insurance type benefits. There is also a universal requirement for people receiving these benefits to be actively looking for work, although there are varied approaches to the interpretation and administration of this requirement.

Table 5.1 : Selected features of unemployment benefit programmes in OECD countries

177. Countries have necessarily made choices with the design of their unemployment benefit arrangements between the competing objectives of the adequacy of payments (primarily reflecting issues of poverty alleviation and income maintenance for the unemployed) and the financial incentives for the unemployed to get a job. Cultural and historical perspectives, including the structure of their broader social security arrangements, are also important factors in attempting to understand the unemployment benefit systems in respective OECD countries. Mexico is one country without an unemployment benefit payment of any type, with some unemployed people resorting to work in the informal sector to provide some income.

178. Most countries provide unemployment insurance benefits to people who satisfy the prior employment or coverage qualifications. In most cases, benefits are related to prior earnings but several countries provide flat-rate unemployment insurance benefits (e.g. Iceland, Ireland, United Kingdom). These benefits are time-limited, but the duration of payment may also depend on the prior employment or contribution history, or the age of the unemployed person. In Japan and Luxembourg, for example, payment duration is longer if the person is judged to have poor employment prospects in the region. The earnings-related benefit may be capped. For example, Hungary has national minimum and maximum amounts for payment and the earnings-related amount declines after one year of unemployment. Denmark provides an earnings-related benefit which provides 90 per cent of previous earnings but up to a ceiling of 525 kronor a day.

179. For people who either exhaust their unemployment insurance, do not qualify for unemployment insurance because of inadequate employment or contributory history, or live in Australia or New Zealand, there may be unemployment assistance or social assistance benefits available. These are generally available for an unlimited duration, pay a flat-rate benefit and usually do not have a prior employment history qualification requirement.

180. In Italy, those without earnings or with reduced earnings from short-time working (mainly working in large industrial firms) may be able to access income support from the Ordinary Wage Supplementation Fund (*CIGO*) or the Special Wage Supplementation Fund (*CIGS*). The recipients of these fund benefits are not strictly included as unemployed because their work contract has not been terminated. These fund benefits are more generous than unemployment insurance benefits, providing 50-80 per cent of previous earnings subject to an upper ceiling and time limits. A *mobility allowance* is also

available to employees laid off as a result of restructuring. This is also more generous than unemployment benefits, providing around 75 per cent of the previous wage subject to a ceiling, but the amount and duration of payment vary with the age and location of the recipient, such that those living in the south and those who are older can access benefits for longer at relatively high rates. The number of people accessing these fund benefits and the mobility allowance exceed those in receipt of unemployment benefits (which provides an earnings replacement rate of only around 30 per cent and is available for shorter periods of time).

Unemployment benefit levels

181. The OECD 1994 Jobs Study provided a very comprehensive review of the impact of unemployment benefit systems on measured unemployment. This focused on the impact of the generosity of unemployment benefit payments[17] as well as the impact of the duration of benefit payments on unemployment.

182. For the Jobs Study, the OECD calculated comparable gross and net replacement rates for a 40 year old, reflecting three different durations of an unemployment spell, three different family situations and two different levels of earnings (average production worker earnings and two-thirds average production worker earnings). The data presented here are net (i.e., after tax) replacement rates which already take account of the effects of the tax system on the disposable incomes of the unemployed and employed respectively.

Table 5.2: Net replacement rates for four family types at two earnings levels in the first month of benefit receipt, 1995

183. These data show considerable differences between replacement rates across the OECD region. For example, for a single person, replacement rates are estimated to range from as low as 33 per cent of the average production workers wage in Ireland to as high as 86 per cent in Luxembourg.

184. Replacement rates are generally higher for couples and those with children, as well as when judged against the benchmark of two-thirds of the average production workers (APW) wage, which may reflect a more realistic entry level wage for the unemployed. For example, for a couple with two children judged against the two-thirds APW benchmark, replacement rates had much less variation across countries, between the low of 53 per cent in Korea to the upper range of 95 per cent in Denmark, with most around the 75-90 per cent range. At these replacement rates, there may be little financial incentive for unemployed people to get a job, particularly once they have factored in the additional work-related costs they may incur as well as the effort of working.

[17] This is generally measured by the replacement rate, which attempts to measure the difference between unemployment benefit rates and available wage rates. As discussed in Martin (1996), there is no standard replacement rate, as unemployment benefit payments and prospective or former wage rates can vary significantly between individuals according to their age, employment history and educational qualifications, as well as many other factors. The replacement rates can also be measured on a before or after tax basis, with after tax measurements showing higher ratios and also more appropriate as they compare changes in disposable incomes. Martin (1996) also explains the methodology used by the OECD to construct replacement rates for the Jobs Study and subsequent work.

185. The OECD Jobs Study found that more generous benefit entitlements contributed to both greater cyclical increases in unemployment as well as higher rates of unemployment maintained during the upswing of the economic cycle (OECD 1994b). This also suggested that there may be a considerable time lag before the generosity of benefits affects the level of unemployment, with the extent of the time lag varying from 5-10 years in Canada, Ireland and Finland or up to 10-20 years in Norway, Sweden or Switzerland. These results point to the importance of replacement rates impacting on unemployment, but only after other more significant factors, such as economic cycles, have caused the unemployment in the first place. After these events, the generosity of UB systems can work to keep unemployment at a higher level.

186. In spite of concerns that high replacement rates can have adverse effects to lock in high unemployment over time, some countries have increased benefits, including Italy and Portugal[18]. In Italy, there has been a reduction in the value of the Mobility Allowance, which previously provided up to 100 per cent of earnings for industrial workers unemployed for up to a year and 80 per cent for subsequent years -- however, it still provides an earnings replacement level of around 80 per cent for up to four years for qualified unemployed people.

187. On the other hand, some OECD countries have responded to these concerns by reducing the generosity of their unemployment benefit systems. Examples where countries have taken the step to reduce the generosity of their benefit systems have been overall fairly modest. As highlighted in OECD 1997 report *Making Work Pay* and other follow-up to the Jobs Study:

- Austria reduced maximum benefit levels in 1993;
- Canada reduced benefit entitlements for couples in 1993, with further more substantive changes introduced in 1996;
- Germany reduced the value of the insurance benefit by 3 percentage points for single people and 1 percentage point for couples;
- Ireland abolished its earnings-related element in 1994, and stopped indexing its benefits more rapidly than inflation after 1993 up until the 1998 Budget when benefits were increased at a rate higher than inflation;
- New Zealand pursued more substantive benefit reductions in 1991, by as much as 25 per cent for young single adults;
- Sweden reduced its benefit replacement rate from 90 per cent in the early 1990s to 75 per cent in January 1996 (which was then partially reversed with the rise to 80 per cent in January 1998);
- Denmark has reduced benefit payments of young unemployed by 50 per cent when they reach six months unemployment duration;

18 Italy still has relatively low unemployment benefit replacement rates, but Portugal has relatively high replacement rates (see Table 5.2).

- Poland first changed its unemployment insurance payment from an earnings-related payment (which declined with duration) to a flat-rate benefit set at 36 per cent of the average wage, and more recently has severed the link to average earnings.

Table 5.3: Recent developments with benefits for the unemployed

188. Many countries also claim that their rates of cash benefits are set with regard to the wages available in the employment market, so as to ensure there are significant incentives for the unemployed to work (e.g. Germany, Hungary, Poland, Portugal, Switzerland, United States).

189. Germany has an approach that the income of a labourer who works full-time should be higher than that of a social assistance recipient. In the setting of social assistance for a household consisting of a married couple with three children, the standard rates plus the average amounts granted for housing and non-recurring benefits should remain below the monthly net earnings of lower wage and salary earners taking into account additional payments such as Christmas bonuses and holiday bonuses as well as any government assistance they receive in the form of child benefits and housing assistance.

Other changes to unemployment benefit arrangements

Payment duration

190. Other countries have reduced maximum benefit durations for their main unemployment benefit programmes, such as the United Kingdom (from 12 to 6 months) and Canada (from 50 to 45 weeks). France, which already had in place an arrangement where benefit amounts decline with duration of benefit receipt, has restructured its benefit payments to have smaller but more frequent benefit reductions, which has seen an increase in payment rates for those of around two years benefit duration and reduced benefit amounts for very long-term unemployed (around 4-5 years). Sweden has introduced a benefit limit of three years, which can be extended to a fourth year if the jobseeker has had considerable prior employment or education participation. Denmark initially increased its maximum benefit duration to seven years and this has now been partially reversed to a five year maximum. Hungary has reduced the maximum duration for both unemployment insurance and unemployment assistance benefits.

191. Complementing some of the recent changes in the maximum duration of unemployment benefit payment, a number of countries have either removed or severely limited the option that people can requalify for unemployment benefits through participation in labour market programmes. This is especially the case in the Nordic region which have a comparatively large expenditure on active labour market measures. There is now the requirement that qualification for unemployment benefits will be through participation in unsubsidised work, in Denmark, Finland, Iceland, Norway and Switzerland.

Qualification for benefits

192. A number of changes have been made to the qualification rules for unemployment benefits, in the direction of making access more restrictive:

- The employment period or contribution required before unemployed people can get access to full entitlements has been extended in a number of countries (e.g., in Austria, Denmark, Iceland, Sweden, Spain, Finland, Norway, the Netherlands, and Canada for new labour force entrants). In some instances, this is linked to changes to restrict qualification for benefits through participation in active labour market programmes, as noted above;

- Young people have been especially targeted as a deliberate strategy to restrict their access to passive income support benefits in a number of countries (e.g., in Australia, Denmark, Finland, Norway, Sweden and the United Kingdom). Instead, they are being directed to education, training, work experience and integrated programmes which seek to improve their long-term employment prospects.

Other changes to financial incentives

193. Countries also have other options to influence the financial incentives surrounding benefits, apart from reducing payment rates. Some examples from OECD countries which have pursued different reforms to the structure of their unemployment benefit systems include:

- modifying the benefit rules to permit greater part-time employment, retention of more earnings from part-time employment or a payment bonus to those in part-time work (e.g., in Australia, Canada, Denmark, Germany, Ireland, the Netherlands, New Zealand and the United Kingdom),

- providing explicit recognition of the costs of social expenses and other work-related expenses in a basic deduction subtracted from income in calculating the amount of benefit to be paid, with the deduction increased in proportion to the earned income to provide an incentive to work longer (Japan);

- providing an incentive for the married spouse of an unemployed person receiving means-tested benefits to have an incentive to work, by providing and assessing individual entitlements to both members of the couple (in Australia) or lessening the impact of spousal income (with the Labour Market Support benefit in Finland);

- making additional payments to those who successfully make the transition from benefit to work, such as in the form of a once-only employment entry payment and continued receipt of concession benefits (Australia), continuation of some payments for a limited time in the United Kingdom and Ireland or a degressive social assistance subsidy for up to six months (Germany); and

- experimenting with alternative uses of benefit finances, such as for 20,000 long-term unemployed in Netherlands to try to help them find work.

194. Finland has complemented reductions in benefit amounts as part of recent welfare reforms with changes to the burden of taxation to make it more profitable for people to take up low paid work. The taxation reductions include general tax scale reductions as well as reductions in municipal taxation aimed at low income groups, as well as reductions in the contributions of insured people.

Tighter administration of the work test

195. Over recent years, many countries have placed considerable emphasis on reforming their unemployment benefit system through tighter administration of the job search requirement and, in some countries, also a tightening of the definition of an acceptable job. Job search requirements were tightened in Spain in 1992 and Australia in 1996 (tightening of the legislative job search requirements, introduction of a Jobseeker Diary). Other countries which have pursued this policy approach include Austria, Canada (selected regions), Denmark, Germany, Portugal, Switzerland and the United Kingdom.

196. In addition to mandatory requirements that benefit recipients be registered with the relevant employment or benefit agency as job seekers, there is also a trend towards the establishment of individual return-to-work plans for unemployment benefit and social assistance recipients. This is usually in the form of a contract or agreement, which sets out the respective responsibilities of the jobseeker and the benefit/employment agency.

197. Checks placed on the unemployed should be effective and desirably contribute to higher employment outcomes. Switzerland has introduced some changes to federal laws to enhance the amount of advising and job placement assistance for the unemployed, especially through the establishment of regional job placement offices (ORPs). Unemployed people are required to meet with their adviser at the ORP at least once a month, to have their record cards (*carte de controle*) stamped, with further follow-up interviews arranged if necessary. Excessive and inefficient control formalities were abolished in favour of more thorough advice to the unemployed person. This provides the opportunity to check that the jobseeker is diligently seeking work, while also helping them to re-enter the workforce.

198. In Belgium, around 35,000 people lost access to their unemployment insurance payments in 1993 following more effective administration of the job search requirement. In the Netherlands, some 90,000 lost payment in 1993 compared to 40,000 just three years earlier for failing the work test, and more detailed requirements of proof of job search activity have subsequently been introduced in 1996. In a number of countries, increased effort has been placed on detecting fraudulent claims for unemployment payments by those who already have a job and are not reporting that or the earnings, using matching of computer records held by the government and/or review and audit activity.

199. As detected by checks on fraudulent claims in Norway, applicants and recipients of unemployment benefit who give incorrect information or withhold information relating to their entitlement to benefit may be denied the right to benefit for as long as two years and may have to pay back the amount received. A special control unit has been established to undertake systematic checks based on an electronic comparison of public registers.

200. The new Employment Insurance system in Canada contains stronger penalties for fraud, including where recipients fail to declare earnings from work and employers knowingly issue a false Record of Employment. Penalties can apply to both the unemployed and employers, and such penalties on employers can also extend to company directors who do not exercise due diligence in preventing fraud if the business cannot pay the penalty. Austria has also introduced stronger sanctions for unemployment insurance benefit recipients who undertake illicit work or who do not accept job offers.

201. In New Zealand, the work test requirement has been extended from unemployed persons to sub-sets of those in receipt of widows pensions and domestic purposes benefits (sole parents), while the United States has also significantly strengthened the work test requirements for lone parents seeking federally-funded assistance, with few exemptions.

Package of reforms

202. While most countries have pursued selective or limited reforms of their unemployment benefit arrangements, Canada has overhauled its unemployment insurance arrangements, with the introduction of the Employment Insurance benefit in July 1996. This has included a reduction in the maximum insurable earnings, clawback of benefits paid to high income earners through the tax system, increased coverage of part-time workers, new labour force entrants require 26 weeks employment rather than the previous 20 weeks to be eligible for payments, increasing the period of time taken into account in determining earnings for the level of payments, reducing the benefit replacement rate for those who have already had more than 20 weeks unemployment over the previous 5 years, decreasing the maximum benefit duration from 50 weeks to 45 weeks (with a corresponding increase in the length of social assistance) and a new payment supplement to the basic benefit for families with children to be phased in up to the year 2000 and finally worth on average about C$800 a year.

Alternative social security benefits

203. The OECD Jobs Study pointed to the impact of the presence of alternative non-work benefits to substitute for and take the role of unemployment benefits for many without work. There is considerable risk that these people will permanently lose attachment to the labour market and not be assimilated back into jobs when labour market prospects improve. These benefits can depress employment rates, particularly for older workers.

Disability pensions

204. OECD countries provide social security provisions for those who cannot work because they are permanently or long-term disabled. This is intended to provide income for those who cannot earn sufficient livelihood in the market because they have a particularly severe disability. However, over the last decade, many OECD countries have become concerned about the blow-out in the number of people receiving disability pensions and the expenditures on these programmes. In 1990, recipients of invalidity benefits outnumbered those in receipt of unemployment benefits or in labour market programs in 12 of the 23 countries for which data was available at that time (OECD 1997a).

205. In their country questionnaires, a number of countries highlighted the increase in disability pensioners over recent years:

- Hungary had a doubling of the number of permanent invalidity pensioners between 1990 and 1996;

- In Sweden, after rising numbers in the 1980s, there was a slowing in the early 1990s before reverting again to an increasing number since 1994 (partly the result of policy changes with Rehabilitation benefit);

- In the United Kingdom the number receiving Invalidity Benefit (or its equivalent) rose from 570,000 in 1980/81 to 1,809,000 in 1994/95;

- In Luxembourg, the number of disability pensions granted over the last ten years is greater than the combined number of grants of old-age and early retirement pensions, and the average age of those qualifying for a disability pension has fallen.

206. It is difficult to make generalised assessments of this matter across the OECD as a whole as some countries, such as Japan and Korea, do not collect data on the number of pre-retirement disability pensioners. There are also some countries, such as the Slovak Republic, which report decreases in the number of disability pensioners over recent years.

207. OECD countries have largely adopted two policy approaches to deal with the increased number of people on disability pensions. First, attention has been given to the eligibility requirements related to granting of a disability pension, and in many cases these rules have been tightened significantly. Second, programmes have been introduced to increase the rate of employment among people with disabilities, so they can rely more on their own earnings to support themselves rather than relying on social security. Following are examples from OECD countries of these two approaches as they have been put into practice.

Table 5.4: Recent disability benefit trends -- selected countries

208. As is shown in the table, some countries have not just reduced their rate of growth of disability pensioners but have in fact recorded declines in beneficiary numbers. Other countries which have also been active in policy changes for people with disabilities, such as Australia, the United Kingdom and more recently in Norway, continue to record rising beneficiary numbers.

Changes to disability pensions

209. Many countries have taken steps to change the eligibility criteria for their disability pensions to re-establish the payment as only for those with substantial impairments which restrict labour market opportunities.

210. Norway introduced tighter eligibility criteria in 1990 and 1991, to restore medical conditions as the primary requirement for older applicants, replaced availability for "suitable work" by the possibility of undertaking any work, applied stricter rules on geographical and occupational mobility (such as requiring the person to undergo vocational training), and required that the reduction in work capacity be due primarily to medical conditions. Australia tightened the medical eligibility requirements for its disability pension in 1991 through introduction of a new medical impairment table, and is now seeking to introduce further amendments to this table. Australia has also begun to medically review those granted pension before 1991 who were previously informed they would not have to conform to the new tougher rules. Canada changed its eligibility requirements to put more weight on medical factors and de-emphasise socio-economic factors, as well as introduce a new administrative review structure. The United Kingdom introduced an All Work Test in April 1995 which is used to check capacity for work by determining the impact of a medical condition on a range of work-related activities. In the Slovak Republic, which reports decreasing numbers of disability pensioners, considerable emphasis is placed on very strict assessment of the medical conditions of the applicants, as well as ongoing monitoring of the health and earnings of current pensioners. Portugal similarly has introduced tighter controls on disability and sickness allowance

eligibility, primarily through more rigorous medical checks, which has contributed to reductions in the number of invalid pensioners below retirement age.

211. The experience of Italy shows that it is possible to have success with reducing the number of people on disability pensions in an environment where there are prevailing labour market difficulties. Over the ten years 1984-94, the ratio of people in receipt of disability pensions as a proportion of the number receiving old age benefits halved and the rate of new applications is declining. Systematic controls and checks on those in receipt of payments led to the withdrawal of large numbers of beneficiaries, the government has adopted strict assessment of the degree of impairment in determining eligibility for pensions, recipients of benefits are required to provide regular income statements and confirmation of recent hospital treatments and those civilians receiving a pension need to maintain registration on special job placement lists. One other aspect is relevant to the situation in Italy: unlike many other countries the benefits to people with disabilities are relatively low and cash benefits are subject to very low income ceilings such that a person will generally not qualify if they have declared earnings. There remain some problems with payments for disabled people in Italy, with accompanying persons allowances rather than disability pensions. This accompanying persons allowance, which provides relatively generous non-means tested benefits to severely disabled people, has had significant take-up by the elderly over the last decade and is currently the subject of debate and reform proposals.

212. Canada similarly reports a reduction in its disability caseload after it introduced a range of measures, including both changes to payment criteria as well as new incentives for disabled people to participate in the labour market. The Netherlands has similarly had some recorded decline in their disability pensioner population since reforms were begun in 1993.

213. Despite the relative generosity of disability pensions compared to other social security benefits in some jurisdictions, countries have generally not pursued policies to reduce disability pension payment rates. This reflects concerns to protect those who may need to rely on disability pensions for long periods of time because they genuinely cannot expect to access employment opportunities. One exception is Greece where persons with lower level disabilities (of between 67 per cent and 80 per cent as established by medical criteria) are entitled to 75 per cent of the normal pension payment from 1990. This, together with stricter testing, has altered the incentives to seek disability pensions, with the result that the proportion of new disability pensioners in total new pension awards has fallen from a level exceeding 30% in 1990 to 10-12% in 1997. The only other example where benefit rates have changed is in Mexico where increased protection for disabled persons was associated with growth in disability payments.

Programmes to assist disabled people into employment

214. Many OECD countries recognise the contribution many people with disabilities can make to the production of goods and services in the country, as well as the social and community benefits from disabled people being more closely integrated into the day to day activities of the population. Some disabled people may also need to supplement their social security benefit with earnings to get out of poverty or respond to a desire to improve their standard of living. Nevertheless, employment prospects vary considerably among people with disabilities, as some people with disabilities will achieve employment in the open market without much difficulty, others will require considerable assistance to improve their employment prospects while some may only have prospects of viable employment in very restricted environments.

215. In the Nordic countries (e.g., Sweden, Norway) there is a strong policy emphasis on access to active labour market programs for the disabled, including vocational training and education suited to their

needs, as well as measures to promote their integration into open employment. Norway reports positive outcomes from the transfer of greater responsibility for assisting the disabled to the public employment service. Greece offers subsidies for employers to hire handicapped people, as well as subsidies to enable the employer to modify the physical nature of the workplace as necessary to cater for their new disabled worker. People with disabilities are also given priority access to vocational training. Rehabilitation is a key feature of interventions for people with disabilities, and Finland provides a one-third payment supplement for those undertaking rehabilitation.

216. Japan also has an extensive range of measures in place to increase the rate of employment of people with disabilities. Wage subsidies for a year are available to employers who hire people with disabilities who have had difficulty finding employment, with larger subsidies available to small/medium sized enterprises and for those with severe disabilities. These subsidies were also increased in February 1994 to respond to the more difficult labour market conditions in Japan. Employers can also receive grants for employing people who have recovered from mental disorders on a full-time basis, and these are to be extended to part-time employees from April 1998. A system of employment quotas for the disabled, which operates currently for national and local governments as well as employers in general, will be extended from July 1998 to also encompass people with mental retardation.

217. As for unemployment benefits, changes have been made to the financial incentives of disability pension arrangements to encourage people back into the workforce in a number of countries. They may be able to retain a greater proportion of their part-time earnings (e.g. New Zealand), there may be continuation of benefits for a period after they get into work (e.g. Canada, United States) or at least continuation of some of the non-cash benefits (e.g. Australia). Australia also provides the opportunity for easier return to benefit if the work experience fails within the first two years.

Sickness benefits for the temporarily incapacitated

218. As well as disability pensions, social security provisions in OECD countries also generally provide sickness benefits to those unable to work temporarily and for shorter periods of time. At the same time as some countries have experienced a growth in the take-up of disability pensions there has also been an increase in the take-up of sickness benefits in a number of OECD countries (as noted in Japan, New Zealand, Denmark, Australia, Austria, Spain and the United Kingdom). However, for other countries, there has been a decline in sickness benefit numbers (such as in Italy, the Netherlands, Hungary, Germany and Portugal).

219. Just like a number of countries have been pursuing policy changes affecting their disability pensions, there have also been many changes to sickness benefit arrangements.

Table 5.5: Recent sickness benefit trends -- selected countries

220. Information for Italy shows that there has been a reduction in the number of sickness benefit payments in that country in 1995, which is presumed to be due to the precarious nature of employment which encourages workers to stay away from work only in times of serious emergencies, the impact of fewer people in work as well as reduced average age of employees, and a series of controls in the agricultural sector. For public sector employees, the rate of sickness benefits was reduced by one-third for the first day of absence, however this is now being reversed to restore full payment for the first day.

Where sickness absences are for less than two weeks, employees receive only their basic pay and no over-award or supplementary wage payments. Germany and Sweden also note that a more difficult labour market situation contributed to falls in sickness benefit usage, in addition to the contribution from programme changes.

221. One of the more common policy changes has been to move more of the cost of paid leave in the case of short term sickness and illness to the employer and away from publicly managed schemes. Employers can be made responsible for the provision of paid leave for short term absences of workers, and some changes have also been made to extend this period:

- in Austria, in the 1980s employers' responsibilities were increased to cover the first 2 weeks rather than the first week

- in the Netherlands, employers have been required to cover the first 6 weeks of sickness since 1994 and this was extended to the first 52 weeks in 1996;

- in Germany, employers have been required to cover the initial period of sickness for some time, but since October 1996, they have been required to provide equal treatment to all workers and the legal obligation on the level of benefits has been reduced from 100 per cent of the wage to 80 per cent;

- in Belgium employers pay for the first 30 days of sickness;

- in Sweden, employers' responsibility was extended from the first 15 days to the first 28 days in January 1997, but was reduced again to 15 days from April 1998;

- the United Kingdom extended the payment responsibility of employers from the first 8 weeks to the first 28 weeks in 1986, although employers were still reimbursed for much of these costs. The level of refunds to employers was then subsequently reduced from 100 to 80 per cent in 1991 and then to nil in 1994.

222. In the early 1990s, Ireland also investigated the possibility of shifting responsibility for the early period of sickness benefit payments to employers, but did not progress this policy proposal due to a number of identified difficulties for that country.

223. Sweden has also reduced the generosity of its sickness benefits from providing 90 per cent of previous earnings to the current level of 75 per cent of income, partly reversed with the increase to 80 per cent from January 1998. The United Kingdom removed the earnings-related component of sickness benefit in 1980. Ireland also phased out a pay-related supplement payment with sickness benefit, finally abolished in 1994. Italy and Finland have also reduced benefit amounts to constrain expenditure and limit the attractiveness of the benefit. By contrast, Hungary increased benefit amounts, in association with steps to tighten administrative arrangements, and has recorded recent falls in sickness benefit costs.

224. Measures introduced in Finland in 1990/91 placed a greater emphasis on rehabilitation as a means of reducing sickness benefit expenditure. Reforms in Australia in 1991 also introduced more rehabilitation opportunities, together with a time limit of one year on receipt of publicly-funded sickness allowance. The work strategy in Sweden includes rehabilitation as an active measure for those who are sick and Austria has also expanded rehabilitation options.

225. A number of other countries have not changed benefit entitlements directly but rather sought to introduce more stringent administration of the rules and in some cases changed medical requirements akin to changes more widely introduced for disability pensions. A number of these changes have just been introduced and it is possibly too early to assess the effectiveness of some of the measures:

- Hungary established senior supervisory medical staff to review determinations, detect unjustifiable leave and direct people to available treatment;
- Belgium has health checks on the person receiving income support, from either an accredited medical unit or an adviser to the medical fund;
- Austria has introduced better checks on those workers on sickness leave;
- New Zealand tightened administration in 1995/96, with more extensive information required on the nature of the medical difficulty, reduced time between medical checks and need for a second opinion in cases of long-term illness;
- The Netherlands requires each company to subscribe to *ARBO-services* which monitor sickness absence and provide advice and recommendations to companies;
- Denmark introduced a higher priority to earlier follow-up of sickness benefit cases, now within the first 8 weeks, and this is the responsibility of local authorities who are also responsible for meeting half of the payment costs;
- Sweden introduced regulations in October 1997 to increase the powers of the Social Insurance Office to investigate cases; and
- Spain has also introduced measures in June 1997 such as new medical reports concerning the absence from work, extended absence and termination of absence, with four-monthly medical reports monitoring temporary incapacity. Workers are called in for medical examinations by the benefit managing body or the Mutua, with an absolute requirement for an individual medical report before benefit is extended beyond 12 months. The bodies responsible for managing the benefit are empowered to check and monitor benefit arrangements.

The transition from work to retirement - the growing incidence of early retirement

226. As recently as the 1970s and 1980s, many Member countries were putting in place policies to encourage older workers to leave the labour force to supposedly free up scarce job opportunities for younger unemployed. This approach has since come under serious challenge over recent years, as the policy has not generally led to the generation of employment opportunities for others. There is also now a concern over the development of a large pool of older people dependent upon income support for long periods of time. The increased life expectancy for older people is causing a review of previous notions of retirement and the age at which healthy people should reduce labour market participation.

227. These payments, together with the take-up of disability pensions and sickness benefits by many older people, contributed in association with other factors to a large exodus of older men from the workforce in many OECD countries. As described in the next chapter, and outlined in summary form in Table 6.10, many countries have been changing their early retirement pension arrangements. In most cases, reforms have been introduced to remove them or diminish the financial attractiveness of such

pensions. In other instances the age at which people can access early retirement pensions has been increased in association with more general increases in the statutory retirement age. Often, the prior work qualification has been adjusted so that early retirement is only available to those close to the age of 60 and with a substantial previous work history.

Measures to facilitate participation in employment

228. One fairly universal feature of the policy approaches of OECD countries to people of working age in receipt of social security benefits is that there is a preference for them to be in employment and supporting themselves rather than dependent upon public assistance for their livelihood. Over recent years, many OECD countries have complemented reforms to their unemployment benefit systems and other social security programmes to provide greater incentive and opportunity for people of working age to re-enter the employment market. As described earlier, some countries have pursued changes to unemployment benefit systems through requirements placed on beneficiaries and reforms to benefits to encourage workforce activity.

229. Many countries have pursued the development of active labour market programs including those facing particular difficulties in the labour market, specific interventions to support the transition from education to work for young people as well as special measures for older unemployed people, as well as financial incentives to encourage the unemployed to accept low wage job offers.

Development of active labour market interventions

230. One of the predominant features of social policy across OECD countries is the considerable effort pursuing the re-integration of social security recipients back into work. Nearly every country which responded to the Caring World questionnaire provided examples of the interventions they have in place to assist people from benefits into work, and as is evident from the summary table below, they are usually complex programmes which may offer a number of options to social security recipients reflecting the difficulties some people may face to get back to work and their differing needs.

231. Some of the common types of interventions available in many countries to assist social security recipients back into work include:

- wage subsidies or reductions in social security contributions for employers who hire eligible jobseekers;

- training or education programmes, ranging from intensive literacy or remedial education to vocational training providing expertise in skills in demand in the economy to formal post-school educational/professional qualifications;

- work experience in the voluntary, community or public sector, which may also be linked to other public or community goals such as the development of community utilities, restoration of historical buildings or house construction;

- financial assistance to people to establish their own business, providing a means of supporting themselves through their own initiative and activity; and

- in some instances, assistance with jobseeking activities, such as facilities to locate jobs possibly including methods to match individual skills and attributes with available job opportunities, as well as possibly financial assistance with job search costs and relocation costs if job search is successful.

Table 5.6: Changes to labour market measures

232. A number of countries also have specific initiatives which complement broader policies supporting changes to working hours. For example, the Finland Council of State is encouraging municipalities to experiment with working hours, with the intention that unemployed people will be hired to make up the reduced hours. These experiments are operating in 20 municipalities, together with the opportunity for employees to get a temporary job allowance if they shift to part-time work and share the job with a previously unemployed person. The German government introduced a part-time work offensive in June 1994 to encourage greater part-time work across the entire population, involving improved legal conditions for part-time workers. This has been accompanied by assistance to employers where an older worker moves from full-time to part-time employment and they hire an unemployed person to take up the previous full-time job.

233. These active labour market programme interventions are usually not available to the entire population of social security recipients of working age, but are often targeted at specific sub-sets. This may include the long-term unemployed, social assistance recipients (particularly in association with minimum income integration initiatives), lone parents and people with disabilities. Those who are at extreme risk of social exclusion may be eligible for particularly intensive social as well as employment assistance.

234. While a vast array of OECD countries offer many of these types of active labour market programmes to disadvantaged jobseekers, they are not offered on the same scale across countries. For example, Korea provided training opportunities for 3,400 persons and small business loans to 5,000 families in 1995. By contrast, Mexico provided 673,000 temporary jobs in rural areas for the unemployed, in addition to 254,000 training scholarships for the unemployed to enhance and upgrade their skills. Canada intends to re-invest C$800 million from unemployment insurance savings flowing from introduction of the new *Employment Insurance* scheme to enhance its active employment measures.

Specific interventions for younger and older unemployed

235. Measures supporting the transition of young people from education into work and measures which attempt to assist older unemployed people get back into work are much less common than broadly based active labour market programmes in OECD countries.

Table 5.7: Special measures for young and older jobseekers

236. Where there have been special labour market-related interventions for young people in OECD countries, these have usually been focused on the vocational training and education qualifications. Some

examples include measures to improve the quality of vocational training in Australia, additional training places in Austria, and special, more intensive assistance available to young people who do not have vocational qualifications in Denmark and Italy. Germany indicated the importance of successfully completing intensive vocational training for the job prospects of their young people, with 80 per cent of those who completed training in western Germany in 1995 getting a job immediately, with the success rate for eastern Germany slightly lower at around 67 per cent.

237. In past years some OECD countries have changed social security arrangements to limit the access of young people to cash benefits for job search activity. Rather, they have been encouraged to continue in education or training activities. Australia is to introduce a *Youth Allowance* with the features of encouraging young people to continue with their education and training for as long as they are able, and largely removing the current short-term financial incentives in the cash benefits arrangements for young people to choose unemployment over further study.

238. Other labour market programmes for young people are often focused on those still looking for their first permanent job (e.g. in Austria, Canada, Germany). A number of interventions seek to directly improve the employment prospects of young people looking for work. Germany has made temporary employment arrangements easier to arrange for young unemployed, while Italy has introduced greater employment contract flexibility when employers hire young unemployed people. Greece offers special incentives for employers who hire young people, while Portugal offers social security reductions.

239. Canada has a wide array of work experience programmes, with the *Youth Internship Canada* offering mainly work placements in the public sector, *Youth Service Canada* giving participation in community service projects and the *Student Summer Job Action* providing much larger numbers of short-term work experience options in either the public, private or not-for-profit sectors.

240. While these measures for young unemployed people are not pervasive across most OECD countries, they are nonetheless significant in some countries. For example, Austria spends around 20 per cent of its total active labour market expenditure on the young unemployed and school leavers. The United Kingdom has also recently announced that it intends to expand its activity in this area with the *New Deal* programme to provide more opportunities for those aged 18-24 who have been unemployed for at least 6 months. The *New Deal* programme will include employer wage subsidies, work opportunities in the voluntary sector and a place on the Environment Task Force with these placements lasting for at least 6 months, or for those with limited education or training the opportunity to undertake full-time education or training for up to 12 months.

241. Positive labour market interventions for the older unemployed are much less common again in OECD countries than special measures for the young unemployed. Nevertheless, the recent French initiative against social exclusion announced in March 1998 (*le programme de prévention et de lutte contre les exclusions*) included initiatives directed at both disadvantaged young people and unemployed people over 50 years of age.

242. Canada introduced a pilot programme in 1994 to run over five years for displaced workers over the age of 50 to test interventions which seek to keep them active through participation in community work projects. They receive an annual benefit in exchange for work placements of at least 6 months during the year. Finland is also trialing measures to improve the employment situation of older workers, with interventions ranging from labour market information to education to various experiments. The Finnish Council of State decided the programme should run from 1997-2001 as a first step.

243. Greece has structured its employment programmes so they provide greater incentive for the hiring of older workers compared to other unemployed people. In the Netherlands, the government provides financial inducements for employers who train employees who are over the age of 40. This is complemented by measures to combat unjustified age discrimination in employment (including recruitment) practices.

In-work benefits to make work pay

244. In-work benefits can be an effective way of increasing the living standards of those caught in low paid jobs and increasing financial incentives for the unemployed to take up such jobs. They can be provided in many forms, such as tax credits or benefits. They may be available only to those in low income employment or be available to those in low-income employment as well as low income beneficiaries.

245. Tax credits and benefits for only those in low-income work are in use in Canada, Ireland, Italy, New Zealand, United Kingdom and the United States in various forms and scale (OECD 1997b). The nature of these in work benefits are that they are only available to those in employment (sometimes with a minimum hours of work requirement), they are usually available only to families with dependent children (who generally face higher replacement rates than single people). They are provided through the tax system in Canada, New Zealand and the United States and in the form of cash benefits from the social security authorities in the European countries of Ireland and the United Kingdom (although from October 1999 this will change to a higher value tax credit). Italy provides both cash benefits and tax credits for low income earners. These in-work benefits are targeted on those with low incomes and their value is reduced as income increases above a threshold level.

Table 5.8: Range of in-work benefits

246. Ireland introduced its *Family Income Supplement* in 1984 to provide an incentive for employees on low incomes with families to remain in employment. Take-up of the benefit was lower than expected with only 7,221 families receiving payment in May 1993. There have been a number of extensions to the eligibility criteria since inception of the programme, such as reducing the required number of working hours from 30 a week to 38 hours in a fortnight, making the scheme available to job sharers, reducing the qualifying employment period from 6 months to 3 months before payment could be made and increasing income limits on a regular basis. These changes, combined with a new marketing strategy from 1993 which emphasises the employment incentive aspect of the scheme, have contributed to the increase in participant numbers, which now number 11, 847 families in 1996.

247. Canada modified its *Working Income Supplement*, which is the part of the *Child Tax Benefit* scheme available to low-income working families, in July 1997. The maximum benefit amount was changed from an annual amount of C$500 for an eligible family to provide higher benefits which are structured on a per child basis of C$605 for the first child, C$405 for the second child and C$330 for each additional child. The income threshold for maximum payment and taper arrangements were not adjusted.

248. The 1998 United Kingdom government budget has announced a substantial change to its in-work benefit, replacing the existing cash payment, *Family Credit*, with a more generous tax-based measure, the *Working Families Tax Credit (WFTC)*, from October 1999. Families on low incomes where the main

earner works more than 16 hours a week will be entitled to a basic tax credit of £48.80 a week, with additional tax credits for each child (of £14.85 if aged 0-11, £20.45 if aged 11-16, £25.40 if aged 16-18), with an additional credit of £10.80 if the adult works for 30 hours or more. The *WFTC* is withdrawn at the rate of 55 per cent for each pound of net earnings above net family income of £90 a week (not including the *WFTC*). A separate childcare tax credit will also be available to those families eligible for the WFTC, subsidising 70 per cent of eligible childcare costs up to set limits, replacing the lower value childcare disregard in *Family Credit*.

249. Other types of in-work benefits are provided to those who have previously been on some form of social security payment and have since moved into employment. For example, Ireland provides a *Back to Work Allowance* for adult long-term unemployed and lone parents with ongoing payments which decline in value over a three year period when they take up self-employment or a new job. Japan provides a *Re-employment Allowance* to people on unemployment insurance benefit who get a job and they still have a long period of benefit entitlement remaining, with this measure recently enhanced as a special measure with an additional bonus available until 31 March 1998 for those who have more than half of their possible payment duration remaining when they get a job. Luxembourg continues payment of some *Revenu Minimum Garanti* (*RMG)* if their earnings are below the *RMG* income ceiling. The March 1998 initiatives announced in France to combat social exclusion include a new measure to allow *RMI*, *ASS* and *API* recipients to continue receiving at least some social security benefit for 12 months after they get a job paying less than the minimum wage. The financial incentive is to be structured so that, in addition to their earnings, they also receive the full benefit for the first three months after entering work, then retain 50 per cent for the next six months and 25 per cent for the following three months.

250. Other types of in-work benefits extend the same assistance as is available to social security recipients to low-income earners. This includes *Family Payment* and *Rent Assistance* for families with dependent children in Australia and *Housing Benefit, Council Tax Benefit and Disability Working Allowance* in the United Kingdom.

251. A number of countries are undertaking experiments with these types of benefits. For example, Canada has been operating a pilot programme since 1992 of earnings supplementation for long-term welfare dependent lone parents who take up full-time paid work, with the earnings supplementation available for a period of three years. Preliminary results seem encouraging, and the pilot is funded until the year 2000-01.

252. The United Kingdom is also experimenting with an *Earnings Top-Up*, which is somewhat similar to its Family Credit scheme, but instead targeted at people without children who are in low-paid jobs of at least 16 hours a week. The pilot scheme has been operating in eight areas in the United Kingdom, in the North East, Yorkshire, Wales, Essex, the South Coast and Scotland, since October 1996. Two different schemes are being tested in separate areas, with scheme A providing maximum rates of assistance of £23.35 a week for single people under age 25, £28.75 a week for single people aged 25 and over and £47.65 for a couple. Thresholds setting the upper limit of earnings for maximum payment for these three groups also rise progressively, being £49.45, £59.70 and £77.15. Scheme B is more generous, providing a higher maximum payment for couples of £57.50 and the same earnings threshold for all three groups of £77.15. The amount of benefit is reduced by 70p for each pound of earnings above the thresholds. Where they work more than 30 hours a week, they can also get an additional £10.55 added to their payment. Earning Top-Up will be paid at the same rate for 26 weeks, irrespective of changes in circumstances. As at 30 November 1997, there were 19,547 payments being made, with most to single people (85%), split fairly evenly to those aged 25 and over and those aged under 25 years. The average amount of payment was around £23-24 for single people and £37 for couples, with around 42 per cent of cases in the scheme A area and 58 per cent of cases in the more generous scheme B areas.

Range of policy interventions

253. From the preceding discussion it is evident that many countries have been actively pursuing policies designed to facilitate the (re)employment of people of working age who are without work.

Chart 5.1: Countries taking policy action for people of working age, as a proportion of countries reviewed

254. This is a priority activity from governments wishing to at least constrain the growth and hopefully reduce social security payments for people of working age without jobs, as well as recognition that the best option to ensure financial security and well-being for those without work is re-insertion into the workforce. However, as shown in Chart 5.1, countries have attached varying importance to different policy approaches. Active measures (except specifically for older jobseekers) are common in OECD countries, as have been policy changes which place restrictions on programme eligibility, tightened administration and improved financial incentives to get a job[19].

19 While this chart gives an indication of the number of countries which have pursued these types of policies, it does not indicate the scale of the respective interventions. This requires a more complex assessment of expenditure devoted to each programme type and the number of people assisted over a period.

6. REFORMING RETIREMENT INCOME SYSTEMS

Introduction

255. All OECD countries, as well as many other countries, have institutional arrangements in place to provide income for older people in their later years. The mere fact that retirement pensions are available in so many countries, economically developed and developing alike, signals their importance to many communities.[20] When social protection systems emerged in OECD countries, the first element to be introduced as a matter of priority was generally income support arrangements for those who are older. Similarly, development of a stable, adequate and well-functioning system of retirement income has been a priority for social programme reform in eastern European countries moving from command to market economic structures, and in other developing countries seeking to expand their social provisions.

256. There are clear differences in the history of pension development between OECD countries, although there are specific clusters of time around which pension systems were first introduced. Germany, Denmark and New Zealand acted to introduce pension arrangements prior to the 20th Century, and old-age pension systems were operating in a large number of OECD countries prior to World War I. Other countries soon followed, such that by 1950 all but one of the current OECD countries had established pension systems covering at least part of the population. The one exception, the Korean pension system, has been in place since 1988.

257. While all other countries have had pension systems for at least 50 or so years, in many countries, earnings-related and supplementary pension systems were introduced at a later time than flat-rate benefits and/or may have started with only limited industrial coverage. Since the inception of the programs, most of the countries have developed their system by enhancing the amount of benefit and extending the coverage of population, among other items. As a general trend in the member countries, this enhancement of the programs continued until just before the world-wide economies encountered the beginning of stagflation caused by the first oil shock in the early-mid 1970s. Thus, these pension arrangements in total may only now be coming towards the stage of maturation in a number of countries.

258. Old-age pensions are the single largest social security benefit in OECD countries, even in those countries with significant labour market difficulties which have high unemployment benefit expenditures. This reflects the larger number of retirees compared to the unemployed in OECD countries, the long average duration of receipt of old-age pensions, and in some countries the relative generosity of old-age pensions compared to the value of other social security benefits.

259. Old-age pensions are also a significant contributor to economic activity in OECD economies, comprising between six and ten per cent of GDP in most OECD countries. Sudden changes in this level of expenditure could have a significant immediate impact on domestic consumption and economic activity, in addition to the very direct impact on the financial well-being of many older people. To provide a picture

[20] Further explanation of some of the rationales for and challenges facing retirement pension systems is found in Kalisch and Aman (1997).

of the total magnitude of retirement savings and economic resources which is available for older people, the total value of private pensions and other forms of retirement savings should be added. However, it is nonetheless important to recognise that retirement benefits are not equally distributed among the older population, so that some older people may have a very satisfactory level of income in their later years while other older people may be in poverty.

Features of retirement income arrangements in OECD countries

260. There are several typologies of the pension programs which are often used. This paper initially classifies the programs from the perspective of management entities as well as the level of program co-ordination. First of all, as the basic element, public pension programs are identified as those which are managed by public entities and/or with a great extent of national-level co-ordination. Significantly, those schemes with national-level financial co-ordination based on pay-as-you-go funding (e.g. managed by *Association des régimes de retraites complémentaires*(ARRCO) in France) are regarded as public schemes in the System of National Accounts even if they are primarily managed by the private entities. They are divided into flat-rate basic schemes and earnings-related schemes[21] according to their function and respective roles. The pension programs managed by private entities with the role of the public body often confined to that of supervision,[22] or private pensions[23], which have grown in significance in income maintenance and income replacement for the elderly over time, are then identified. The latter will be further classified into two categories: corporate private pensions and personal savings.

261. Public flat-rate basic pensions are intended to ensure the minimum level of income for the elderly. Their funding is tax-based or contribution-based, and, significantly, their eligibility requirements are often based only on age and/or a certain length of the residence in the country, with a means test in many cases. By contrast, earnings-related pension schemes are primarily intended to raise the income to "adequate" or "desirable" level. In those countries which have flat-rate basic pension schemes, the earnings-related schemes often serve as the second tier of the whole structure of pension programs. The amount of benefit is related to the income which is earned before retirement, and the funding is usually contribution-based (with subsidies from government in some cases). Eligibility requirements are based on a certain length of employment or vesting period in which the insured pays contributions.

262. The following provides a general overview of the public pension programs which member countries have established.

Flat-rate pensions

263. Looking over all the member countries, 25 countries have flat-rate pension schemes, which do vary significantly in terms of their features and characteristics:

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21 Strictly speaking, defined-contribution schemes are only indirectly related to the earnings of the insured people: contributions and the return from them determine benefits, not earnings histories. However, since contributions are themselves a function of earnings, this paper includes defined-contribution schemes among the earnings-related schemes.

22 It has to be noted that private schemes are sometimes made compulsory (at least to some extent) based on statutes (e.g. Australia) or collective agreements (e.g. Denmark), as stated later.

23 Schemes for public sector employees, while managed in the public sector, are more akin to private schemes provided by an employer to employees as part of the remuneration package.

1. Some countries (for example, Canada, Denmark and New Zealand) have flat-rate basic pension schemes funded by general taxation but separate from general social assistance schemes. They are all means-tested in some way or another.[24] Eligibility requirements for the benefit generally include a certain length of residence in the country.

2. Nordic Countries except for Denmark, as well as the Netherlands, have schemes which accept contributions, but do not require any proof of prior contributions when providing the benefit. This scheme is different from the former one in that they are funded by contributions specifically imposed for the scheme, but similar to it in that there is no actual linkage between contribution and benefit. Again, they require a certain length of residence in the country[25], but do not impose a means-test for the payment of the benefits (except for Finland[26]). In the Netherlands, entitlement is accumulated at the rate of 2% for each year of insurance, based on residence.

3. Denmark has a contribution-based supplementary pension scheme (ATP) which provides benefits linked to contributory history rather than earnings, on top of the basic flat-rate pension scheme.

4. Ireland, Japan, and UK have a totally different style of basic flat-rate pension scheme than those of other countries. They are regarded as the basic pension in each country, but unlike other schemes mentioned above, the elderly cannot receive this benefit if they do not accumulate contributions before they retire. None of these countries use residence eligibility criteria, as they already have contribution requirements, and the basic flat-rate pensions are not means-tested (although the tax-financed, non-contributory pensions in Ireland and the United Kingdom are means-tested).

5. Other than the above three categories of basic pension programs, there are other schemes which are not old-age pensions *per se* but have functions similar to them within the social security system. They consist of those parts of the general social assistance scheme, funded by general taxation, which are specifically targeted to the elderly and designed for long-term benefit provision. They are called *social pensions*[27] in some countries, and are usually administered differently from conventional social security administration for pension programs. All of them are means-tested and function as the last resort of the state to ensure minimum income of the elderly. In the Netherlands, social assistance may supplement the basic flat-rate pension for those with insufficient insurance coverage. In Italy, the social pension was amended in January 1996 to provide higher benefits with a stricter means test for new recipients.

Table 6.1: Public flat-rate pension programmes in Member countries

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[24] The basic pension scheme in Canada (Old-Age Security) was not originally means-tested, but has been since 1989 when the wealthy elderly were required to pay-back entitlements. Also, the Old-Age Security and other benefits and tax relief are to be replaced by a new means-tested Senior Benefit Scheme by 2001.

[25] They have a three year minimum residence requirement for payment of benefits.

[26] Finland has taken a similar path to that of Canada, with the pay-back of benefits introduced in recent reforms.

[27] Strictly speaking, they are not usual "pension programs" which serve as income maintenance for the elderly. Under this notion, Italy has changed the name from *social pension* to *social allowance.*

264. Pensionable age, eligibility requirements or other details of each program are shown in Table 6.1. These demonstrate great variety of practices with respect to both the funding and entitlement in schemes which assure the minimum income for older people. Pensionable age is often around 65 years, with eligibility requirements often linked to residence periods and/or means testing. In most cases, the government is responsible for the full cost of the scheme, or where there are contributory requirements the government usually covers any funding deficit.

Earnings-related pensions

265. All of the member countries except for Australia, Ireland, the Netherlands and New Zealand have some form of public earnings-related pension program. Some apparent similarities and differences do appear for the purpose of comparison, which are as follows:

1. The countries which do not have a scheme of flat-rate basic pension (apart from social assistance measures) have generally followed a different path in terms of the development of earnings-related pension programs (e.g. Germany and France). In these countries, distinct schemes were at least initially established in separate sectors of the workforce. These distinctions are mainly of historic origin; the individual schemes were established initially in particular industries and coverage was then expanded over time. In countries with only earnings-related pension benefits, social assistance schemes usually guarantee minimum income levels for older people.[28]

2. The majority of the member countries have set the pensionable age at 65 years old at least for men (including Canada, Finland, Sweden). However, in some of the transitional economies (such as the Czech Republic and Hungary) the age is lower than 65, while a few other countries have a pensionable age of 67 (Iceland and Norway). There are also gender differences; about one third of member countries still set different pensionable ages between men and women (for example, in Austria, Finland and Greece). This is changing in a number of countries, and will be discussed later.

3. Some countries require full or partial retirement before they will pay benefits when the older person reaches the standard pensionable age (e.g. Czech Republic, Finland, Spain). Other countries allow ongoing workforce participation together with pension receipt after the statutory pensionable age, though the rate of benefit may be reduced somewhat to reflect the level of earned income (e.g. United States).

4. A certain portion of the working population -- self-employed persons in most cases -- is not covered in about half the cases. Other countries exclude very low income earners from coverage (e.g. Austria, Finland and the United Kingdom).

5. All of the countries require a minimum "vesting" period. This is represented by *employment* in Hungary and the Slovak Republic and *contribution* or *coverage* in others.

6. The method by which final benefits are calculated according to prior earnings can vary considerably between countries. The benefit formulas used by countries are often complicated, however, as a

[28] Japan has a unique transitional feature in this regard. Historically, Japan had managed a system based on the arrangements of many individual insurers, learning from the corresponding systems of Germany. However, in order to pursue more egalitarian approach, it underwent a drastic change of the system and introduced the basic pension. This is also a reason why the basic pension in Japan requires individual contributions, while 1/3 of the payment is subsidised from the government as statutory arrangement.

general rule, the formula reflects the amount of average earnings as well as length of coverage and contributions made by the retired person.

- Some schemes base the final payment on a percentage of average earnings over the entire contributory history (e.g. Japan, Luxembourg), while other countries take into account average earnings over part of the coverage period (e.g. 10 years for France (*Régime Général*) and 20 years for the United Kingdom[29]).

- Some other countries use a two step method of calculation which first uses average earnings drawn from the latest and/or best 5-10 years of earnings history and then has a separate part of the calculation which takes account of (all, or a part of) the remaining number of coverage/contributory years (e.g. Greece, Hungary, Portugal, Turkey and the Slovak Republic). Those parts are then added to generate the final benefit.

- Some other countries first produce a base amount determined by the government which is then multiplied by the "pension points" calculated for the individual, with these points calculated on the basis of prior earnings, length of coverage and contributions among other factors (e.g. Germany and Sweden).

- Some countries have provision to deliberately exclude a limited number of low or no earnings periods from the benefit calculation (e.g. Canada) or count some periods outside the labour force because they were unemployed or caring for young children or close family members as still building up pension rights (e.g. Finland, Belgium, Switzerland).

- Many earnings-related schemes have some element of income redistribution in the benefit calculation. For example, there may be a simply a maximum limit on final benefits (e.g. Canada, Italy, Luxembourg); a maximum limit on earnings in the calculation of final benefits but no limit on prior contributions based on earnings (e.g. Czech Republic); a minimum amount of benefit or a fixed component in the calculation to which is added an earnings-related component (e.g. Luxembourg, Switzerland); a wage floor for accepting contributions while still taking such periods into account for the calculation of benefits (e.g. Canada); supplementation of the pension benefit up to a minimum level for all who meet the qualifying contributory period (e.g. Italy); and differential weighting given to prior earnings in the middle and low income range compared to high earnings (e.g. United States). These measures can skew the value of benefits to provide higher replacement rates for prior lower income earners as well as constrain the level of public earnings-related benefit available to those who were previously very high income earners.

7. There are two distinct methods of indexing final benefits, according to changes in price inflation or wage growth. Countries uprate benefits according to changes in inflation to maintain the purchasing power of the pension (e.g. Sweden, the US), in line with wage movements (e.g. Austria, Germany) or both (e.g. Finland, Turkey)[30].

Table 6.2: Public earnings-related pension programmes in Member countries

[29] As is described later, there is a tendency to extend these periods of average earnings used in the calculations.

[30] Flat-rate public pension schemes can also have this feature (e.g. Australia, the Netherlands).

The level of final benefits from public pensions

266. These public schemes, both flat-rate and earnings-related, are designed to provide a particular level of benefit to those who retire. This is often measured in terms of a replacement rate, which provides a comparison between the level of pension benefits and the prior earnings of workers.

267. ILO Convention No. 102 (established in 1952) recommends that public old-age pension schemes should ensure a replacement rate of at least 40 per cent for a couple of pensionable age.[31] The Council of Europe European Code of Social Security has adopted a similar standard.

Table 6.3: Replacement rate of public pension programmes

268. The way in which pension systems determine the level of benefits is very much influenced by the structure of the pension system, and in particular whether there is an earnings-related benefit, and the degree to which governments seek to influence the distribution of retirement incomes through either raising the level of benefits to low income earners or reducing the benefits available to very high income earners.

269. The conclusion from an examination of replacement rates is that most OECD countries generally (and quite easily) meet the ILO Convention recommendation on the value of public pensions. Many countries provide far in excess of the recommended minimum level of benefit, providing replacement rates in the region of 60-80 per cent, such as in the cases of Denmark, Germany, Italy, Korea, Norway, and Sweden.[32] Of course, countries with low public pension replacement rates may in fact have high replacement rates through private schemes and these are not reflected in this comparison of public pension benefits only.

Financing arrangements for public pensions

270. Almost all public retirement income pensions in the OECD are funded on a pay-as-you-go (PAYG) basis, where current pension financing sources (either current contributions and/or tax revenues) from the current working population are used to fund the retirement benefits of the currently retired population. Denmark is the one exception with a fully-funded supplementary public pension scheme[33], while a small number of OECD countries also operate buffer funds which provide a level of reserves to assist with the payment of pension benefits.

271. PAYG funding means that the currently working population provides the financial provision for the retirement pensions of the older generation. Any prior contributions of the current retired population are not recycled as benefits at a later stage. With fully-mature schemes with a long history, the now older generation when they were working funded the retirement pensions of the previous generation of older people. Alternatively, with schemes that have been more recently developed or enhanced, the current older generation may now be receiving higher benefits without the burden of funding during their working life more generous benefits to previous retired cohorts.

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[31] More than two-thirds of OECD Member countries have ratified this ILO Convention.

[32] In most cases, the high replacement rates are funded through the high contribution rates for employers and employees to these schemes, rather than through subsidies from the general budget. Also, high rates in some current schemes (e.g. Korea) will not be sustainable when the schemes mature.

[33] The Danish basic flat-rate public pension scheme has a PAYG funding basis.

272. With flat-rate benefits, PAYG arrangements can have the advantage that full rate benefits can be provided to the currently retired soon after the introduction of the scheme. With earnings-related benefits this is often not the case, as 30-40 years generally needs to elapse for schemes to mature and for people to build up contribution rights and receive the maximum benefits.

Table 6.4: Funding arrangements of selected public pension programmes

273. The mechanism by which pension payments are funded can often be confused with the contributions made to establish eligibility for payments. In a PAYG-financed system, the contributions made by the working population serve a dual purpose - to contribute towards the pension payments of the current retired population as well as establish the future pension rights of the contributors. These contributions do not fund the pensions of the contributors, an aspect which is not well understood by many in the community, including many retired persons. Nevertheless, irrespective of the details of the financing aspects, many of these contributors believe they have entered into a contract for future delivery of pension payments under certain agreed conditions, which can explain why some proposed changes to future conditions may be strongly resisted.

274. In a number of OECD countries (such as Germany, Canada, Belgium, Sweden and Spain), contributions alone already do not cover the full cost of current public pension payments, with this expected to become a stronger feature in many OECD countries in the context of ageing populations (OECD 1996). These contributions are in some sense a hypothecated tax[34] which is supplemented by general revenue sources to pay the entire pension bill in these countries. In other countries, such as Australia and New Zealand, there are no individual contributions to the public pension system, with all payments sourced from general tax revenue.

275. There have been some questions raised about the desirability of maintaining full PAYG funding arrangements in a number of OECD countries (e.g. Sweden, Canada). Some countries which have sought to enhance their retirement income systems have tended to place greater reliance on semi- or fully-funded pension systems. In some instances, this has been a function of necessity, as countries seeking to expand their retirement income provisions have not able to finance markedly expanding pension provisions from national budgets in the initial phases of the new scheme. New provisions have been introduced on the basis that future pension payments will be matched by available contributions through funded schemes. There has also been some expectation that funded schemes will contribute to higher domestic savings and sustainable economic growth, however the evidence is far from clear on this aspect.[35] Other countries have seen the continuation of PAYG funding as important, and have adjusted benefits and/or contributions to achieve greater funding balance (for example in Japan, Germany).

276. In funded schemes there is a clear relationship between contributions and payments, with many funded schemes delivering payments which rely on the long-term investment performance of the specific contributions. The neatness of the link between contributions and final payments may be quite attractive, as well as the feature that there is generally no prospective additional liability for government.[36] However,

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34 A hypothecated tax is one which is collected for a defined purpose, such as for pensions or health care, but the resulting revenues are not quarantined to be only used for that purpose.

35 A recent survey by the Economics Department of the OECD on the "Macroeconomics of Ageing, Pensions and Savings" concluded that promoting private pensions, especially with tax concessions, will more than likely have no impact on aggregate national savings, but there may be a net increase for low-income earners in mandatory schemes.

36 There may be some liability for government in limited circumstances, for example if government acts as guarantor for private funded schemes that subsequently fail because of poor management of funds or fraud.

this does place all of the risks on the contributors, and fund managers in other ways, with government effectively taking no share of the risk of providing future pension payments. Full or partial funding is more common in private pension systems, where there is not so much opportunity to draw upon alternative financing sources if contributions do not cover promised payments at a later stage.

Private pension schemes

277. In a number of OECD countries, private pension arrangements are becoming more important in the total scheme of retirement income provision. Some of the attractions of private pensions include:

- providing a mechanism for individuals to make greater provision for their retirement in relatively safe forms of saving;
- encouraging long-term saving in mechanisms which have restrictions on early access;
- introducing retirement income provisions where the end-benefits are generally fully-funded and where the level of benefits is predominantly determined by the earnings on prior contributions;
- some expectation that greater private pension provision may raise the level of national savings and the internal capacity of the nation to provide investment capital for ongoing economic growth (although as mentioned earlier the findings from recent studies cast doubt on this perspective).

278. The form of these private savings and their interaction with public pensions also can vary significantly between and within countries. Private pension schemes may be largely limited to particular occupational groups or industries, or alternatively some form of private pension scheme may be legislatively mandated for all but very temporary employees. Some occupational groups, such as the self-employed and small business owners, may still have very limited or no public or private pension entitlement, but rely on savings for their retirement in the form of private savings or the proceeds from the sale of a business. The nature of the direct interaction between public and private pension schemes can also vary, as private savings may be available to supplement a public pension available to all; alternatively it may substitute for public pension benefits. The key elements determining this outcome is the extent of universality of public pension arrangements, as well as the degree of means testing of public pension payments according to the level of income they have from other sources.

279. Private pensions do not necessarily mean no involvement of government, as private pension savings usually receive some form of government financial subsidy (generally through the tax system) and/or regulatory protection. Governments have an interest in ensuring that retirement savings are available for people when they reach retirement age. This is particularly relevant in those countries where contribution to private funds is mandatory by law. Government may also provide financial subsidies to private retirement savings as a trade-off for the legislative provisions which restrict access to these private retirement savings until retirement age.

Table 6.5: Selected private pension programmes for employees
Table 6.6: Examples of major personal savings programmes

280. The major private pension arrangements in OECD countries have the following features:

- The majority are on the basis of voluntary participation, although countries such as Denmark and Australia (up to a minimum level of contribution) have mandatory requirements which cover most of the workforce.
- The age of eligibility for final benefits is often lower than the statutory ages for public pensions.
- They are almost exclusively fully-funded.
- There is a mix of defined benefit and defined contribution schemes with these private pensions, although there is a clear trend of countries now promoting defined contribution arrangements.
- Tax concessions are provided by government (except in New Zealand) in order to encourage participation in the schemes and/or increase the level of final benefits.
- These private pensions predominantly provide a supplement to public pension schemes, although this appears to be changing with some schemes replacing more of the public benefit, possibly also in the context of reductions in public pension benefits.

281. The major personal savings schemes included in Table 6.6 also have a number of common features with the major private pension schemes mentioned earlier, especially with the possible early access to benefits and the tax-favoured treatment of these savings. While not reflected in this table, some OECD countries have other policy measures to support and encourage other forms of private savings. These may also be important sources of financial resources for many older people.

Taxation of retirement incomes

282. Income tax concessions for the elderly (or pensioners) also influence the living standards of older people. Although the detailed nature of such concessions can differ considerably between countries, many countries do provide tax relief for elderly people or pensioners from their liability for income tax, property tax, etc.[37] [38]

Table 6.7: Tax concessions for pension benefits and other income/savings

[37] However, some countries (e.g. Denmark, Germany) also reported that they had recently made, or would shortly carry out, tax reforms to make the system less favourable to pensioners or to abolish most part of the concession.

[38] Some of the countries reported that they also have concessionary measures in terms of social security contributions which are on the grounds of age or pensioner status. For example, pensioners do not have to pay contributions to the Health Care Services out of their pensions in Italy; the elderly people after the state pension age do not have to pay the National Insurance Contributions in the UK (Ireland also has the same arrangement for the elderly after age 66).

283. The simplest approach is to regard pension benefits as tax-free income. This ensures that pensioners receive the full benefit of their pension in terms of increasing their disposable income. This approach is taken, for example, in Czech Republic, Hungary, Korea, Mexico, Turkey.[39] In other cases, Germany only imposes income tax on a certain portion of pension benefits which corresponds to notional interest for the pension savings.[40] In addition, income-tested supplementary benefits for pensioners (e.g. Guaranteed Income Supplement in Canada, housing supplement in Sweden, etc.) and disability pension benefits (e.g. the UK, the US) are not taxable in these countries. Benefits from private pensions are not given special status as tax-free income, probably the benefits increase retirement incomes on top of the public pension benefits, and because contributions to these private schemes usually gain from tax concessions.[41]

284. One approach which is common among OECD countries is to provide an income tax credit or rebate for pensioners of public pension programs (e.g. Australia, Finland, Japan, Sweden). These options are usually designed to stop taxing pensioners when their only income source is (basic) pension benefits, or the amount of other sources of income is relatively small. The elderly receiving benefits from private pension programs also get equivalent tax concessions in some countries. For example, Australia will introduce "savings rebate" which covers (undeducted) superannuation contributions, or net income receipt from savings and investment, or a combination of both, up to a certain amount (from July 1998). In Canada, "Pension Income Credit" enables taxfilers to claim a credit when they are receiving benefits from corporate-sponsored programs or Registered Retirement Savings Programs.

285. There are other categories of tax concessions that are directly or indirectly related to old-age. First, some countries have an income tax credit/rebate based on the age of the applicant: Age Credit (Canada), Income Tax Age Allowance (Ireland), higher tax deduction for the elderly (the UK, the US), etc. Second, concessions of some other taxes are available in some countries on the ground of age or retirement, such as property tax (Denmark, Turkey, and the US), and capital gains tax (Australia). In addition, there are other special tax deductions or tax exemptions based on specific reasons which can happen to anybody, but with a higher incidence among the elderly: for example, tax deduction based on the reason of physical/mental disability (e.g. Austria).

Retirement income concerns across the OECD

286. Pension systems are being constantly challenged by social and economic developments in OECD countries. The issue with the most public exposure is the ageing of the population, but changes to labour market conditions and employment patterns as well as changes to family structures also can have significant implications for pension arrangements and desirable directions for policy reform.

287. There are many and complex factors impinging on pension systems, emphasising the wide scope of issues facing governments when they are undertaking major reviews of their pension arrangements, and the challenges facing governments when they are considering reform or adaptation of their pension systems.

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[39] Making pension benefits tax-free may be justified as fair in some circumstances. When pre-pensioners have to contribute after-tax money to the pension fund, it is considered unfair to then tax the benefit that will be provided after they retire. Hungary and Korea reported that they do not tax pension benefits for this reason..

[40] *supra*, note 35.

[41] A notable exception about this taxation on private pension benefits is the case in the US. The portion of the benefit which corresponds to employee contributions are not taxable, maybe because employees have to contribute after-tax money to the program except for the cases of 401 (k) plan.

288. From their response to the OECD Caring World synthesis questionnaire, countries have explicitly commented on the main challenges they are facing with their national retirement income arrangements.

Table 6.8: Current retirement income concerns and processes

289. At the forefront of these concerns is the medium and long-term financial viability of public pension systems. This is by far the main issue OECD countries are grappling with as they consider and pursue reform to their pension systems. There is a strong belief among many countries that they should prepare for the impact of the ageing of the population on public pension costs. This is not just related to the expected changes in the financial balance of public pensions funded predominantly on a PAYG basis, but is also linked to other pressures on government such as fiscal consolidation and desires to not overly constrain government budgetary choices in the future because they need to finance a growing pension bill. Issues of intergenerational equity are also related, in terms of concern over the potential burden to be placed on future working generations to fund the public pensions of the large number of future retirees.

290. A lesser, but still significant number of countries are also concerned with the low effective age of retirement in their country. Some of the reasons for this outcome were commented on in the previous section, such as long-term trends for declining labour force participation of older men, high displacement of older workers from employment, public benefits which encouraged early retirement, and possibly greater wealth of the current generation approaching retirement compared to previous generations. Nevertheless, some countries are concerned with the prospective changes in the demographic composition of their population, in particular the increase in the population aged 65 years and over at the same time as they expect a fall in the share of the population aged 15-64 years. In this context, countries are looking for ways to shift the balance between work and retirement so that people will on average work longer.

291. There are a range of other concerns among OECD countries with current pension systems, as shown in the table above. These include:

- the adequacy of pension benefit levels, in the eastern European countries in transition, but also in other developed countries such as Australia, Belgium, Ireland and the United Kingdom;

- improving the size of the population covered by pension arrangements, which may involve elements of extending coverage to other industries not already covered, greater convergence between existing pension schemes and/or expansion of private pensions;

- improving the financial incentives inherent in pension systems for people to work (and possibly work longer), as some pension systems currently provide little benefit to people who reach a certain number of years of employment or contributions, give little increase in pension for contributions made in later years, or may be highly redistributive in providing relatively small additional benefits to those who have worked for many years compared to those with a limited workforce history.

292. Many OECD countries have pursued some reform of their pension systems over the last ten years, as shown in the above table. They are responding to the many challenges facing pension systems. A number of countries have also established national consultative commissions to investigate further

options for pension reform. These arrangements may enable government to make better use of expert advice available outside government, introduce greater transparency to the process of deliberation of the direction for reform, as well as more actively engage the public in the process at an early stage while options are still being developed and considered.

Details of recent pension reforms across OECD countries

293. Pension reforms undertaken in OECD countries over the last ten or so years have taken many different forms. These include measures to increase the age at which people can receive pensions, policies promoting longer employment, reductions in the generosity of benefits through reductions in benefit payments or increases in the number of years of employment to generate the same level of benefit, increases in contribution rates to assist in achieving a better balance between contributions and payments in future years with PAYG systems, and promotion of private pension arrangements together with greater funding of future pension commitments.

294. Comprehensive pension reform usually does not involve a single policy change. It is evident that a number of countries have sought to reduce future public funding commitment to pension payments through a number of measures, which may, for example, involve changes in pension benefits, contribution rates and extension of private pensions. Similarly, policies encouraging longer workforce attachment may involve limiting public early retirement opportunities with public pensions, increasing the standard age of retirement, and introducing higher pension payments for those who work beyond the statutory retirement age.

Table 6.9: Directions of recent pension reforms in Member countries

Chart 6.1: Countries taking policy action in retirement incomes, as a proportion of countries surveyed

Reductions in pension generosity

295. Reductions in the generosity of pension payments have been pursued in a number of OECD countries in order to reduce the financing pressures associated with the future ageing of the population. These have taken a number of different forms, only some of which have involved actual cuts in rates:

- Reductions in the final benefit available after the usual number of years of work and/or contribution, in Germany, Italy, Norway, Canada, Greece and Finland (including means testing of the previously universal public flat-rate benefit since 1989 and 1996 respectively), United Kingdom (reduction in the value of the second-tier earnings-related benefit), New Zealand (both benefit reductions and some income targeting of benefits), Sweden (both reduced benefits and changes to the calculation of payments), and Portugal (reducing the rate at which pensions accumulate by 10 per cent).

- Less generous adjustment of benefits to changes in inflation, in Japan and Germany (with the introduction of net income wage indexation which removes the effects of changes in income

taxes and social security contributions rather than the previous gross wage indexation method), and Finland.

- Increases in the level of contributions and/or years of employment required to generate the same level of benefits, in Turkey (increase in the number of days of premium payment required for maximum payment and no amnesty for unpaid contributions), Portugal (increase in qualifying period from 10 years to 15 years before a pension entitlement is established), and Finland (gradual increase in contributions until 2030). The Czech Republic is contemplating an increase in contribution rates in responses to the anticipated imbalance between payments and contributions in 1997.

- Increases in the number of years of earnings used to calculate final pension payment, in Spain (where it increased from 8 to 15 years), France (*Régime Général*: 10 to 25 years) and Sweden.

- Sweden will transform its present PAYG defined-benefit system to a PAYG defined-contribution system.

- As part of its broader pension reforms to operate from 1999, Sweden is also to incorporate an element in the benefit calculation which adjusts the pension for increases in the average life expectancy of new cohorts of retirees. Germany will also implement a similar life expectancy factor into their pension calculations.

Greater adequacy of pension benefits

296. Other OECD countries have had concerns about the adequacy of pension benefits and responded through increases in the level of benefits over recent years. For example, Australia has a long-standing bipartisan target for public pension payments that they should be set at a value of at least 25 per cent of male total average weekly earnings, so pension payments increase broadly in line with community living standards. The current government has now taken the step to enshrine this target into legislation and set aside provision in future budgets for meeting this requirement. Other countries which have historically had very low retirement pension benefits, such as Poland, have also pursued increases in the real level of benefits over recent years. The Czech Republic has recently introduced price indexation of pension payments as well as the capacity for adjustment in line with increases in community living standards. Greece has also sought to increase the coverage of retirement income arrangements across a greater proportion of their employed workforce. In Greece from 1996, a pension supplement was available using a means-test, the first time such a concept was used in the Greek social security system. In 1997, Farmers' social insurance coverage was brought into line with the rest of the population, through the introduction of a contribution-related pension scheme to gradually replace the current government-financed flat-rate scheme.

Increased funding of public pension schemes

297. As noted above, benefit reductions have been pursued in many of these countries to reduce the anticipated growth in public pension expenditure over coming years. As most public pension schemes operate on a PAYG funding basis, some countries have also sought to combat the expected future funding difficulties through increasing the level of funding of these schemes. For example, Canada is seeking to increase the funded element of its public earnings-related benefit (Canada Pension Plan) from the current

level of two years worth of reserves up to the level of five years of reserves. The Swedish public system is also to introduce new funding arrangements with 2.5 percentage points of the total level of contributions of 18.5 per cent being set aside in a fully-funded component which will grow as the current buffer fund declines with ageing of the population.

Expanded coverage of private pension arrangements

298. An alternative approach to modifying the funding basis of public schemes is to instead place greater reliance on expansion of a fully-funded private pension system. This strategy has been pursued in a number of OECD countries.

299. Countries in transition, such as Hungary and the Czech Republic, are looking to private pension arrangements as a means of supplementing retirement pension benefits for workers without further expanding large public schemes. Reform of the pension system in Poland will rely on the investment earnings of retirement funds to finance the second-tier earnings-related benefits, while encouraging the establishment of a third tier of retirement benefits reliant upon private pensions and voluntary savings. The Slovak Republic allows private pension provision, but the rate of coverage is still very low.

300. Other OECD countries encouraging greater reliance on the private pension system to provide retirement benefits include Australia, Denmark, Mexico, Japan, Korea, Canada, Ireland, New Zealand, Germany, and the United States. Those countries with relatively low replacement rates from their public schemes (e.g., Canada, Australia, Ireland and the United Kingdom) place greater importance on private schemes to supplement the low level of public benefits, particularly for those who want a relatively high standard of living in retirement.

301. In a number of countries, such as Australia, Ireland and the United Kingdom, public policy supporting private pensions has been accompanied by increased public supervision and regulation of private funds to improve the safeguards on the funds managed for contributors. This highlights the decisions these funds may face in attempting to achieve high investment earnings in ways that may have a greater element of risk, compared to lower investment returns and therefore lower final payments for contributors through risk-averse fund management practices.

302. Most of these countries provide tax concessions as a means of encouraging greater investment in these forms of saving. Tax concessions have not been provided in New Zealand which has instead pursued a public education campaign and in the Czech Republic, and over coming years it may be interesting to compare growth of private pension funds and changes in national savings in these countries compared to those countries offering tax inducements.

303. In both Australia and Denmark, the mandatory private pension coverage of most of the workforce has achieved considerable increases in coverage of around 50 percentage points of the employed labour force within the last ten years. Australia has achieved this level of coverage through legislative requirements on employers to provide a minimum level of contributions for all eligible employees, while new collective wage agreements in Denmark have been the means of extending private pension coverage in that country. Other countries with extensive but voluntary private arrangements generally only cover around 50 per cent of the employed labour force at best, well below the 80-90 per cent currently achieved in Australia and Denmark. Mexico has also chosen to pursue the mandatory route from 1997.

Policies to change the effective age of retirement

304. OECD countries have been active in pursuing policy changes designed to increase the financial incentives for individuals to work longer. While most countries have statutory retirement ages at which people can access full public pensions of around 65 years, and slightly lower for women in a number of countries, the average age of retirement in many countries (where information is available) is well below this statutory age. For example, over the last twenty years, the average age of retirement in Canada has fallen from 65 years to 62 years and in Denmark it has fallen from 65 years to 61.5 years. Recent estimates for the Netherlands put it around 60 years there and it is below 60 years in Poland.

Table 6.10: Pensionable age and early/deferred retirement

305. There are relatively few examples of policy changes to increase the statutory retirement age for both men and women in OECD countries. Where this is planned, it is usually to bring the retirement age above the current age of 60 (as in the case of Japan, Hungary and the Czech Republic). Italy will increase the male retirement age from 63 to 65 by the year 2000 at the same time as the female retirement age is increasing from 58 to 60 years. Only the United States has a firm policy to increase the pensionable age beyond 65 (taking it up to 67 over the next 25 years), although Denmark, Iceland and Norway already have statutory retirement ages of 67.

306. More often, the proposed changes to the statutory retirement ages will align (increase) the retirement age for women up to the same age as for men (as in Australia, Belgium, Germany, Greece, Hungary, Japan, Portugal and the United Kingdom). In other instances, the age for women is being increased but will still remain below the retirement age for men (in Switzerland, Czech Republic, Italy). Most of the remaining OECD countries already have an alignment of retirement ages for men and women.

307. Pensions and other income support payments are generally available to people who retire before the set statutory ages. These payments may be part of the broader income support arrangements for the unemployed, with the early retirement benefit available to people within a specified range of the statutory retirement age and who may have exhausted their unemployment insurance entitlements. Alternatively, they may be available as an adjunct to the public retirement pension system. During the 1970s and 1980s, these provisions were encouraged as a means of providing long-term income support for those older workers below statutory retirement ages who had lost their jobs and in the anticipation that more job opportunities would be created for younger unemployed people.

308. During the 1990s, many OECD countries have questioned the merits of these policies and a number have taken steps to reduce the financial inducements in these provisions for older people to retire early. While some of these changes are still to be introduced as a result of slow phasing in of new arrangements, they encompass:

- Increasing the minimum age at which early retirement payments can be accessed, in Finland, Germany and Poland.

- Changing the age at which people can access early retirement pensions or introducing early retirement pensions in association with increases in the statutory age of retirement, in the Czech Republic, Switzerland and Hungary.

- Increasing the number of years of prior employment or prior contributions before individuals can access early retirement benefits, in Belgium, Hungary, Italy and Germany.

- Reductions in benefit payments for those who retire early, in Australia (with the Mature Age Allowance) and Hungary (with the Labour Market Fund) or through introducing actuarially-based payment adjustments, such as in Sweden and the Slovak Republic.

- A requirement that authorities fully explore all relevant possibilities first apart from provision of an early retirement pension, that opportunities for training and rehabilitation are tried and that all measures to assist the applicant to re-enter the labour force must have failed before a decision is taken to provide an early retirement pension (Denmark, from July 1998).

309. The policy changes to public benefits which are designed to reduce the attractiveness of early retirement may have limited effectiveness on the actual retirement decisions of individuals. The extension of private pension schemes, many of which have opportunities for early retirement as in the United Kingdom, Australia, Finland and Sweden, may lead to further reductions in the effective age of retirement. The financial situation of the family, in terms of employment attachment and other private savings could also be more important contributing factors to the retirement decision than the availability of public pensions. Nevertheless, it is desirable for countries to limit the extent of public subsidy for early retirement. Retirement decisions should be taken in an environment where public policy is at least neutral in terms of financial incentives for early retirement.

310. Public and political pressure may limit the extent to which countries can pursue reforms to early retirement provisions. For example, in Norway where the government has a policy stance to increase the effective age of retirement, the lower age limit for access to the early retirement pension is to fall from the current age of 64 to 62 years in March 1998, as part of a recent collective wage settlement.

311. Above the age of statutory retirement, some countries have introduced financial incentives for people to keep working and delay taking up their pension entitlements. This usually takes the form of permanent increments to the pension rate when it is finally accessed, adjusted according to the period of deferment. Some countries have limits on the maximum period of deferment, such as to age 70, but Finland, Sweden (from 1999) and the United Kingdom (from 2010) will allow indefinite delay of pension take-up with commensurate bonuses to be paid from the time when the pension is accessed.

312. In some cases the rate of pension is increased according to actuarial adjustments (in Canada since 1987, Luxembourg and Sweden from 1999) while other countries have set permanent increments according to the number of months the pension is deferred (Finland, Hungary, Germany, the Slovak Republic and Sweden). Australia plans to introduce a single lump-sum bonus for those who defer retirement, payable at the time they initially take up the old-age pension according to a formula which takes account of the number of years they defer and the value of their pension payment.

313. Overall, there have been a number of changes to retirement pensions in some OECD countries to encourage people to work longer. These demonstrate the alternative strategies available, such as reduced access to and reduced generosity of early retirement pensions, extending the number of years people need to work to generate the same level of pension, increasing the rate at which pensions accumulate with additional years of work towards the end of a person's working life and introducing pension incentives for deferred retirement beyond the statutory age. While some changes entail lifting the age of access to pensions (including access to early retirement pensions), other reforms have modified the rate at which pensions accumulate or are paid. In some instances, the policy change has had multiple objectives, such as encouraging longer working life at the same time as improving the fiscal position of the pension fund.

Other employment and pension linkages

314. Some retirement income systems are being adjusted so that they provide greater direct relationship between years of contributions and final payments. Some countries, such as Spain and Hungary, have identified design faults with current arrangements in that they provide only limited increases in pension payments for working longer and/or there is not a clear link between the level of contributions and final pension payments. The imminent pension reforms in Sweden will introduce a greater linkage between contributions and final benefits, by introducing a PAYG defined-contribution system in combination with a fully funded premium reserve system.

315. One way in which some countries are breaking the linkage between contributions and final payments includes recognition of periods of unemployment towards the establishment of pension rights. The Canada Pension Plan allows interruptions to contributions for illness, unemployment and education, and up to 15% of months (with ether low or no earnings) can be disregarded in the calculation of final benefits. Luxembourg and Finland also allow certain periods outside employment (such as unemployment, sickness, disability and training/education) to contribute to pension qualification requirements.

316. Other countries, such as Turkey, Italy and Greece have identified difficulties of very early access to pensions once people have met the necessary number of contributory years, and some reforms provide improved incentives for people to work longer. Switzerland allows people to keep working past the usual retirement age and this enables the people enrolled in the compulsory occupational pension to accumulate a higher pension if they are not eligible for the maximum pension payment (perhaps because of limited prior work or contributory history).

317. Many OECD countries have pension rules which encourage people to phase down their labour force participation gradually, particularly as they approach the statutory retirement age. With respect to those in receipt of pensions above the statutory age of retirement, OECD countries have conflicting approaches to encourage or discourage labour force participation.

Table 6.11: Pensions and employment: linkage in selected countries

318. Availability of partial pensions is one method by which a number of countries attempt to facilitate a smooth transition from work to retirement, enabling people below the statutory retirement age to reduce their hours of work with the loss of income from earnings partially compensated by the partial pension. Examples of countries which currently provide this option include Denmark, France, Japan, Luxembourg, Germany, and Sweden. In many cases, phased retirement has only become available over the last decade or so. In Sweden, where the partial pension arrangement was introduced in 1976, recent reforms restrict access (the minimum eligibility age is increasing from 60 to 61 years) and the generosity of the pension payment is being reduced from 65 per cent to 55 per cent. From 2001, the partial pension option will be withdrawn as part of the set of broader pension reforms to be introduced in Sweden.

319. For those above retirement age, older people already in receipt of a pension may face incentives or clear discouragement to keep working (usually on a part-time basis), aside from the deferred pension incentives discussed earlier. There are clear differences between OECD countries on this aspect of their pension design. Belgium and the United States both provide concessional treatment for earnings obtained by old-age pensioners. Norway also provides incentives for people drawing pension between ages 67 and 70 to keep working through generous limits on earned income. In Denmark, the policy direction is to

encourage older workers to delay retirement through improvements in working conditions. Employers and unions, supported by the government, are to develop specific strategies aimed at making it more attractive to continue to work after the age of 60. Other countries, such as Poland, provide pensioners with the opportunity to earn extra income without significant concessions or incentives. Still other countries are looking to restrict the employment activity of old-age pensioners: Italy is moving to limit the opportunity for people to concurrently draw a pension and work, and the Slovak Republic has draft legislation which would preclude old-age pensioners from working while drawing a pension. France has a principle that people must leave employment before they can draw a pension, but temporary rules allow a combination of work and pension receipt in some cases.

320. Countries have been slower to respond to the retirement income challenges from changes in employment patterns. Finland is seeking to improve pension coverage for those with short-term employment arrangements from 1998. The first revision of LPP (legislation for occupational compulsory schemes) in Switzerland which is now underway will allow to correct the current exclusion of many part-time workers from occupational pension schemes because their earnings are generally below the lower income limit for compulsory coverage. The National Pension Reform commission in Korea is also considering options to extend coverage to the urban self-employed. Over the last decade, Ireland has expanded coverage of its social insurance pension to include both the self-employed and part-time workers.

321. On the international front, OECD countries are witnessing not only increased globalisation in product markets but also increased globalisation of labour services. Some OECD countries have also historically had high rates of net migration. In response, some countries have developed bilateral (and in other cases multilateral) agreements to cater appropriately for people who have established pension rights in several countries.

Box: Examples of international social security agreements for pension totalisation

Policies responding to changes in family circumstances

322. A number of countries have modified their pension arrangements to respond to changes in family circumstances. Germany allows periods spent raising children (up to the age of 10 years), and since April 1995, periods spent providing unpaid home nursing care, to count as pension contribution periods. Belgium also allows career break periods, such as when parents care for young children, to be included as time accumulating pension rights. As part of the recent pension reforms in Italy, women with a contributory record are given an extra three months notional contribution for each child they have had, up to a maximum of twelve months. Switzerland similarly enables those caring for young children and close family members to benefit from notional pension contribution credits since the 10th AVS Review which was effective from January 1997, while the United Kingdom is considering the establishment of a Citizenship Pension which for example would provide increased benefits to those unable to contribute to alternative schemes because they are undertaking caring duties. In Ireland, persons receiving the One Parent Benefit or the Carer's Allowance may be eligible for credited contributions, which assist in qualifying for pensions. These moves contrast with steps taken by other countries to limit the extent to which non-contribution periods count as qualifying periods for pension, in order to improve the financial balance of their pension funds.

323. Belgium has an innovative approach to respond to the increased incidence of divorce. A special old-age pension is available to the divorced husband/wife at age 60, based on 37.5% of the former spouse's earnings during the marriage reduced by the amount of pension they earned in their own right

during those years. This provides some income protection to dependent spouses who subsequently become divorced and would be without adequate retirement income provision in the absence of such a pension.

Phasing of reforms

324. Pension reform often does not provide an instant solution. Most changes are phased in over a number of years, so as not to disadvantage those who have made retirement plans and are now close to retirement and to ease any potential public disquiet over the nature of the changes themselves. For many OECD countries, the phasing in of changes in response to the ageing of their population may not matter, as long as the new policy position is operational and effective for the critical peak time around 2010-30. Nevertheless, it does point to the need for the implementation of responses to take account of the generally long phasing in of many changes.

7. HEALTH CARE

Introduction

325. From the beginning of the recorded history of law, payment for health care and assuring the quality of care have been central issues in health care policy. In 1700 BC, Hammurabi, then ruler of Babylon, wrote a code of law that ordered a fixed sum be paid to surgeons performing procedures. "If a physician make a large incision with an operating knife and cure it, or if he open a tumour (over the eye) with an operating knife, and saves the eye, he shall receive ten shekels in money" (The Code of Hammurabi, law 215). This payment regulation also contained guidelines for differential payment by eligibility group: "If the patient be a freed man, he [the surgeon] receives five shekels. If he be the slave of some one, his owner shall give the physician two shekels" (The Code of Hammurabi, laws 217-218)

326. The Code of Hammurabi also provided for quality controls on such procedures, though his disciplinary methods seem a little harsh by today's standards: "If a physician make a large incision with the operating knife, and kill him, or open a tumour with the operating knife, and cut out the eye, his hands shall be cut off" (The Code of Hammurabi, law 218).

327. These same issues of cost and quality of health care services remain of concern today in OECD countries, as demonstrated by country responses to the questionnaire. This section will review their responses and highlight recent trends in health care policy.

328. A recent OECD analysis of health care policy (OECD 1995b) outlined three main objectives in health care policy:

- **Microeconomic efficiency**: Quality of care and consumer satisfaction should be maximised at minimum cost.

- **Macroeconomic cost control**: the health care systems should consume an "appropriate" share of GDP.

- **Equity**: Citizens should have access to some incompressible minimum level of health care, and treatment should be based on need for care rather than solely on income. Further, individuals should be offered some degree of protection against the financial consequences of falling ill, and payment for this protection should be income-related rather than based on individual risk

329. The combination of a slow down in economic growth and continued increase in health care costs in the late 1980s and early 1990s meant that countries had difficulty achieving some of the goals laid out above. From 1985 to 1991, health care expenditures as a percent of GDP increased nearly one percentage point on average. Health care spending increased 3.4 percentage points as a proportion of GDP in the United States, by far the highest increase, but nearly all OECD countries experienced an increase in health care expenditures as a proportion of GDP.

Table 7.1: Health care expenditures as a share of GDP, 1985-1995

330. A conference held at the OECD in November 1994 discussed the reason for the explosive growth in health care costs. Participants also outlined policies that countries were working on in order to bring down the rate of growth in health care expenditures (OECD 1996d). Brian Abel-Smith indicated four possible reasons for increased health care costs:

1. **Increased coverage** -- Most countries have moved towards universal coverage, and this extension has been among the reasons for increased costs

2. **The ageing population** -- People need to use more health care as they get older

3. **Medical technology growth** -- The expansion of technology can often raise costs rather than lower them.

4. **Variable practice patterns** -- There is a lack of clear knowledge of what resources a doctor needs to use when treating a patient.

331. Finally, at the same conference, Werner Christie added two other (mainly external) challenges to those listed above:

1. **Disease patterns:** There is a shift towards chronic and multi-faceted diseases. People no longer die from their diseases, but live with them.

2. **Impact of social development:** Increased standard of living, increased productivity, and increased expectations of the population.

Overview of concerns in OECD Member countries based on the questionnaire responses

332. In order to get an idea about which of the concerns above were shared by OECD countries, the Caring World questionnaire asks a broad question about country concerns and public policy responses in health care.[42]

Chart 7.1: Breakdown of health policy concerns by issue area, as a proportion of countries experiencing concerns

[42] Synthesising countries' responses to the part of question #1 that asked about countries' concerns raised some methodological difficulties. This is because country concerns did not fall neatly into the objectives listed above (i.e., equity, macroeconomic efficiency and microeconomic efficiency), nor the challenges categories (i.e., increased coverage, the ageing population, technology growth, variable practice patterns, disease patterns, and impact of social development). Countries did not express their concerns in terms of microeconomic or macroeconomic goals, but tended to be more specific and mention individual concerns. In addition, while countries are undoubtedly concerned about health care costs, for example, they did not, obviously, state that they were concerned about health care costs increasing because they were covering more people. (One exception to this is Australia, as we will see later.) Nor were their concerns limited merely to health care costs. Many countries mentioned quality, and issues related to quality, as being at least as important as cost.

333. Country concerns ranged across several broad areas, ranging from cost-efficiency, to quality and effectiveness of care, to public health promotion and equity issues. Generally, while cost containment remained an issue for most countries, countries' emphasis on customer satisfaction, equity of health status, and promotion of a healthy lifestyle showed that these issues have become important to member countries as well.

Cost and financing issues

334. Issues of excess consumer demand, oversupply of services, or insufficient consumer accountability in the use of health care have long been concerns of member countries and policy analysts. However, only a few country respondents raised this issue as an overall concern in their health care system. One of the guiding principles of the Ministry of Health in the Netherlands is to increase financial responsibilities for insurers, providers, and insured (van Het Loo *et al*, 1997). Sweden is working to promote appropriate use of pharmaceuticals, and has transferred responsibility for their financing to the county councils in January.

335. As is stated above, the cost of technology is believed to have an influence over health care costs. "An effective new technology can so easily replace an older and much less expensive technology for routine use when, for many conditions, the outcome using the old technology may be just as good as the new" (OECD 1996d). Countries were said to have technology cost issues if they raised concerns about insufficient evaluation measures or poor return on investment in technology. A small number of countries raised this issue. Spain raised the issue of technology cost in the context of the need to maintain and adapt facilities to confront future problem associated with ageing populations, which includes the increasing use of high technology. The small number of countries raising this issue as a concern may have something to do with the fact that most countries surveyed already have evaluation measures in place to control the use of new technologies. This issue will be discussed later on.

336. Several countries raised issues with ageing or a lack of revenue due to a decrease in the number of people paying for the system. Some studies have shown that in the near future, ageing will not have a significant impact on costs for most OECD countries. However, the questionnaire shows that many countries are concerned about adapting their systems to respond to the population's changing needs. Australia projects that the proportion of the population aged over sixty-five will grow from 11.2 per cent in 1991 to over 19 per cent in around 2030. Their proportion of very old people, those over eighty will increase by 49 per cent between 1991 and 2001. Japan also raised concerns about the ageing population. Many Japanese people are concerned about whether proper long-term care services will be available when they become old, so Japan has been working to implement a long-term care insurance system. Italy raised a concern about distribution of cost between the public budget an families. In Italy, the practice of shifting health care costs to families through the introduction of health care charges is creating imbalances between families of different size as well as between generations. This is because the elderly are more readily exempted from payment on the basis of income than families with young children; moreover, adults with children pay a higher share of health cost through taxation and through contributors.

337. Many country respondents were concerned about their providers being overly focused on a treatment (or curative) paradigm rather than a prevention-oriented paradigm. Symptoms of this would be an overabundance of hospital beds, overuse of hospital emergency rooms, or doctors only seeing patients when they are ill. This issue is related to public health and prevention. This was a concern in Turkey, where it was felt that an inefficient system of primary health care service delivery and an ineffective referral chain has led to overuse of hospital clinics. Several cantons in Switzerland are concerned about

hospital over-capacity and excess service provision. Efforts are being made to support inter-cantonal collaboration, and the creation of provider networks.

338. Other cost-related issues were raised by member countries. Australia raised concern at the number of people opting out of private insurance coverage to rely solely on Australia's universal public insurance system , Medicare. This is increasing their public health care costs. Other issues that fell under this category were: fraud in the United States and payroll tax evasion in Mexico and, in Norway and Portugal, a shortage of doctors. Korea raised the concern that small hospitals and primary care doctors are having financial difficulty. Korea is responding by facilitating co-operation between different tiers of health care services.

Chart 7.2: Breakdown of country concerns about health care costs

Quality of service and effectiveness of care

339. Few respondents from member countries that had concerns about quality associated these concerns specifically with cost. Indeed, respondents said, previous policy measures that cut costs without protecting vulnerable populations or changing the service delivery systems created problems for member countries. Either the measures had an unacceptable impact on access to care, or customer dissatisfaction increased, or costs crept back into the system due to cost-shifting. Therefore, countries appear to be moving in a direction whereby the quality of the health care system is an issue separate from costs. There is also increased emphasis on quality in the United Kingdom, but quality and efficiency are seen as going hand in hand This is particularly true in countries such as Turkey, where health care costs are not yet a significant concern. If increasing efficiency decreases costs, then this is beneficial to member countries, but the means to that end seem to have changed.

340. Most countries expressed concerns about the effectiveness of their health care systems. These countries were experiencing problems with inefficiency, duplication of services, and lack of information and data systems. While all of these problems can contribute to increased costs and decreased efficiency, most respondents in member countries seemed to feel that these were more of a quality issue. This was by far one of the most consistent areas of concern. Belgium's goal is to set up a data collection system relating to the consumption of medicine, while Canada is concerned about the need for better evidence-based decision-making. Portugal had many concerns in this area, including the overlap in health benefits in a great part of the population; a lack of mechanisms to guarantee the quality of care; and deficient health information systems.

341. Several countries expressed concerns about boundary issues. These issues arise out of changes in the distribution of resources and responsibility from one level of government to another, or from one governmental department or agency to another. Countries who expressed concerns with boundary areas tended to be in the process of merging departments, shifting responsibility for certain programs from one area of government to another, or developing "joint programs" to address cross-cutting social programs, such as long-term care. Issues that arose out of this change were concerns about whether resources were being distributed efficiently, and concerns about turf battles over responsibilities between government agencies unused to working together. Just under a third of OECD country respondents raised this as a concern. Mexico is experiencing segmentation and insufficient co-ordination due to the large number of different public and private providers, many of which offer services to only a particular segment of the

population based on working status. This often causes duplicity in the provision of services and also on the premiums paid on a family basis. Austria has recently collected all hospital financing into Länder funds to encourage nation-wide planning and optimal capacity. This will be accomplished through the introduction of a uniform performance-oriented reimbursement system to help to resolve among Austria's Länder the cross-border usage of hospital services.

342. Respondents from member countries were concerned about a variety of issues related to customer satisfaction, some of which **cause** customers to become dissatisfied, such as queuing for services or waiting lists for treatment.[43] For example, Denmark's goal is to enlarge the capacity for treatment/operations in the hospitals in order to diminish the waiting lists for treatment/operations at the hospitals. Norway has introduced a new waiting list system and financial system. Other issues that fell under this category were those that were **symptoms** of customer dissatisfaction. For example, in many countries, people leaving the public system for private insurance indicates dissatisfaction with the public system. In Japan, this manifests itself by patients only using major hospitals, creating queues at these hospitals. Finally, some countries have an element of physician dissatisfaction were also placed in this category. In Canada, there is a public perception that some providers are leaving to work in the United States as they are dissatisfied with the Canadian health system. In all, about half of OECD member countries noted difficulties with customer satisfaction.

Chart 7.3: Breakdown of country concerns about quality in health care delivery

Public health improvement and equity issues

343. The last category of concerns raised by member country respondents were classified as public health concerns. Countries were said to be concerned about improving their health prevention systems if they mentioned improving health education, changing health behaviour, expanding access, expanding primary care services or addressing risks to health.

344. Many countries indicated concerns about health outcomes, with emerging infectious diseases, increased prevalence of chronic diseases, high infant mortality rates, and poor life expectancy being prevalent areas of concern. The Belgian government's main policy goals are: improving the health of the population through health education and regulating the quality of products and production process; protecting health from risk factors, and optimising the performance of curative health care. Poland had many objectives in this area, including decreasing infant mortality rates and decreasing the frequency of infectious disease. The new UK government sees improving public health as its major policy priority; an objective reflected in its strategy, "Our Healthier Nation." Very few countries specifically raised the issue of chronic disease as a concern, although many have implemented programs to decrease the incidence of these diseases.

345. Improving environmental health is an issue that is more relevant to a number of the newer OECD member countries. These countries are struggling to improve their drinking water and

[43] Note: Japan's concern about queuing at hospitals fell under this category, but it has been pointed out that queuing can also be an indicator of problems with distribution of resources (or, efficiency) that can cause queuing. This could fit therefore into efficiency as well.

environmental health. For example, Hungary is working to improve its environmental health, as is Poland.

346. Many respondents from member countries stated as a policy goal that they were interested in improving their health education and health promotion programs. This would include issues such as reducing smoking, decreasing transmission of sexually transmitted diseases, and encouraging a healthy lifestyle. While all of these programs would likely improve health outcomes, countries tended to list their goals about this policy area separately, rather than explicitly relating a change in healthy behaviours to a change in health outcomes. In all, a fairly significant number of countries had concerns in this area. This was an area of concern in France, where in 1996, the National Health Conference identified several public health priorities in this area, including providing resources for health promotion and assessment, and stepping up preventive and educational initiatives and programmes to combat substance abuse among teenagers (alcohol, tobacco, narcotic drugs and psychotropic substances).

347. The majority of countries indicated that equity issues, such as expansion of coverage, or providing free preventive care visits to certain categories of recipients, were important public health goals. Countries were said to have concerns about equity if they were concerned about expanding coverage for their population or guaranteeing access for those with limited income, or if they were concerned about disparity of health outcomes between populations. In some of the newer member countries such as Mexico, expansion of coverage or improving the quality of the services available in their public health care system were issues of particular concern. In some of the countries where universal access has been accomplished, such as the United Kingdom, Canada and Finland, equity issues tended to focus on remaining differences in health status amongst population groups. Most OECD member countries had concerns in this area, with prevalent concerns being equity of health status and improving treatment for the mentally ill.

Chart 7.4: Breakdown of country concerns about public health

Overview of health care systems in OECD countries

Box A: Characteristics of health finance/insurance systems

348. An overview of health systems in OECD gives a context of the reforms that are taking place. Each system has its inherent benefits and shortfalls that will interact with countries' attempts to reform their system. For example, in tax funded systems, where hospitals and health centres are given global budgets in which to operate, such as Finland, overall spending control is fairly easy. Health care is funded by the state, which offers a predictability in funding and costs, from year to year. (The State may determine how much to spend on health in a given year.) Indeed, Finland notes that: "It has to be noted that the tax-financed system for health services has ensured a stable revenue to health care over the economically difficult years. It has prevented an immediate crisis in financing health care, which might have been more likely to occur within an insurance-financed organisation."

349. The flip side of such a system, however, is that it may be more difficult to evaluate the effectiveness of service delivery. Within a global budget, providers must make choices about what

services to provide within that budget. This may lead to queuing, as in hospitals in Finland. Countries have addressed this issue by setting up incentives for efficiency within the system. One example of such an incentive is the rating system based on clinical urgency for admission, that was implemented in Finland.

350. In social insurance systems, where fee-for-service is the more traditional means of reimbursement, queuing is less of an issue.[44] However, these systems tend to be subject to supplier-induced demand, since providers have an incentive to see patients more than once. For example, Korea is piloting a DRG-based system, to see if it will provide more effective results than their fee-for-service system. The following table gives an overview of each country's health care system, to give the reader an idea of the challenges facing that particular system.

Table 7.2: Characteristics of health care systems -- administration and financing

Cost efficiency initiatives in member countries

351. The rapid expenditure growth in health care costs of the late 1980s and early 1990s has slowed, and has now relatively stabilised. As a whole, health spending as a proportion of GDP has stayed the same or decreased slightly. Nevertheless, cost containment in health care remains an area of great concern to OECD member countries. In response to these concerns, countries have implemented a number of cost savings measures recently to continue to stabilise the growth in health care costs, and to use their resources more efficiently.

Shifting costs to consumers

Many countries implemented policies to increase the patient's share in health care expenditures These included making patients more aware of the cost of care through cost sharing measures, changes in payment systems, and limitations on overall fees and services.

352. Cost sharing is often used as a means of reducing the effect of patients demand on health services, by making patients more "cost conscious." Cost sharing can take three forms: **copayments**, where a patient pays a set amount for each service; **coinsurance**, where patients pay a proportion of the total cost of services; and **deductibles**, where patients pay for the overall cost of the service up to a certain fixed level after which health insurance begins paying.

353. In the cost sharing arena, eight countries increased cost-sharing measures. Most of these measures were aimed at reducing pharmaceutical costs, although Germany increased copayments to DM5 to help overcome the DM 6.3 billion shortfall in 1996. The third part of the package of the structural reform of the health system in Germany was implemented in summer 1997. It had the positive result that in 1997 all illness insurance funds had a surplus of DM 1,1 billion. Australia increased copayments on pharmaceuticals, and Greece and Italy added coinsurance. Japan also introduced copayments for pharmaceuticals prescribed to outpatients in both the Employee Health Insurance and the National Health Insurance systems, depending on the number of drugs prescribed. These copayments range from zero yen

44 Social insurance systems are not immune, however. Japan is experienceing concentration of patients in specific medical institutions as a consequence of easy access under their social insurance system.

for one drug prescribed to 100 yen for six or more drugs prescribed for internal use, and 50 (for one drug prescribed) to 150 yen (for three or more drugs) prescribed for external use. Other countries increased coinsurance rates. For example, Japan raised their coinsurance rates from 10% to 20%. In Turkey, the most widely implemented measure to control health care expenditure is the introduction of co-payments on drugs prescribed or used in outpatient treatments. Active members of the social insurance schemes have to pay twenty per cent of outpatient drug costs, while retired pay ten per cent.

Table 7.3: Cost sharing policies in Member countries (US dollars)

354. In response to budgetary constraints, some countries decreased coverage for certain services. Australia reduced coverage of some benefits, including ending a four year program of Commonwealth contributions to the State and territorial cost of dental benefits programs for low income Australians. France and Italy reviewed their lists of covered pharmaceuticals and made some changes in coverage, including restrictions on the reimbursement of certain forms of medication. In Spain, the government is reviewing reimbursement of benefits guaranteed to the citizens by the public system on basis of efficiency and rationality.

Controls on supply and demand through price and volume controls

355. Interestingly enough, while issues related to supplier-induced demand and overuse of the health care system were not raised as policy concerns in the first section, countries implemented many policies to control these actions. Pharmaceutical expenditures were a main target for cost containment on the supply side of the health care services delivery system. Spain and Greece made some changes in the pharmacist's overall profit margin -- by reducing the mark-up applied, and Italy created a priority list of medications, broken down into three categories. The first category is paid for by the National Health Service in full, the second is partially reimbursed, and the third is paid by the patient. Spain also created a priority list of medications, and legislated the use of generic drugs wherever possible.

356. Many countries experimented with alternative methods of paying providers. Countries have historically paid hospitals using one of the four following methodologies: first, a **global budget system** that is paid to hospitals on an annual basis. Second, a **fee-for-service system**, which pays according to services provided. Third **bed-day payments**, which pays a flat rate fee per occupied bed, and fourth, **payments per case**, where fees are set prospectively according to diagnosed medical conditions and standardised treatment costs. The best example of the latter is the **Diagnostic Related Groups system**, (DRGs), introduced in the Medicare program in the United States in 1983. (OECD 1995b).

Table 7.4: Principal methods of providing services under health insurance in 1997: main scheme

357. To further reduce supplier-induced demand, many countries are moving towards alternative payment systems for hospitals as a means of controlling costs and decreasing supply of unnecessary services. For example, countries are now moving towards DRGs in increasing numbers. "These methods come closer than those above to being output-based payments, hence facilitating competitive contracting for treatments, and constraining suppliers' incentives to increase service volumes. They provide incentives on hospitals to increase turnover (i.e., reducing length of stay." (OECD 1995b) In Austria and

Italy, hospitals previously got a flat per-day payment. However, now Italy and Austria have implemented a DRG system, which takes into account the actual services rendered. (Austria implemented this system for its outpatient hospital visits as well). Korea is beginning a pilot project applying a DRG-based system for 5 disease cases in several hospitals. The project will continue until 2000.. "[The fee-for-service system] created distortion of the behaviour of medical practitioners...and the rapid increase of a national expenditure through rising administrative costs" (Korean response to the questionnaire). In Denmark too, the use of DRGs has become more widespread. Norway, which still operates hospitals under a global budget system, added an activity-based component to the system in July 1997.

358. Other countries opted for a stricter method of controlling provider costs than the DRG-based system. Countries in this category implemented a flat-rate global budget system to avoid oversupply of services by providers. Belgium has developed a flat rate payment system for various nursing care services in residential nursing homes as well as on outpatient hospital visits, lab tests, and medication for inpatients. Some provinces in Canada have taken similar approaches, through limiting total physician reimbursements, or using salaries as an alternative payment mechanism.

359. An alternative approach to controlling hospital costs is to transfer budgetary responsibility to primary care physicians. The UK started experimenting in 1991 with giving primary care providers responsibility for holding and spending secondary care budgets. The 1997 reforms extend such arrangements to all GPs and primary care nurses, who will come together in Primary Care Groups, serving a population of about 100,000, to commission secondary care. These Groups will hold unified budgets for both hospital services and prescribing.

Encouraging efficient use of resources

360. Recognising that efforts to control consumer and provider behaviour only go so far in an inefficient system, countries worked to promote the efficient use of resources by decreasing the length of stay in hospitals and shifting care to outpatient services and community care. Austria stated that creating access rules for hospitals in order to decrease length of stay will be a priority in the coming years. In addition, it is working to facilitate inter-Länder co-operation in order to co-ordinate hospital services between them. Since the beginning of the 1990s, Finland has carried out a nation-wide program to reduce institutional care and to promote ambulatory care, home help services and other services to enable people to live in their homes as long as possible. Shifting the balance of care has helped in maintaining the coverage and quality of services in spite of cost saving measures. Other countries that have implemented programs to merge hospitals or decrease length of stay include: Canada, Hungary, Italy, Luxembourg, and Poland.

361. Another method to decrease length of stay in hospitals, was to shift the financial responsibility for hospital financing from the Federal government to other areas. Since most local governments have responsibility for the financing and development of home and community-based care, governments transferred responsibility for hospital services to this level of government, to encourage the development of such services. This also served to make resource planning more effective. For example, in Austria, hospital financing was shifted to the Länder funds in order to facilitate a nation-wide planning of optimum hospital capacity. In addition, Länders were given financial responsibility for increased hospital costs. Poland also worked to rationalise the division of its health care resources, by allowing for out-of-medical zone transfers to hospitals for treatment to be reimbursed. Finally, in Turkey decentralisation of decision-making to the provincial administrators has taken place.

362. Tied to the policy of using resources more efficiently, many countries worked to distribute resources in a more population-responsive manner. Therefore, the distribution of Federal resources through block grants or Federal subsidies was changed in many countries. Poland dramatically changed its allocation formula. Whereas Federal funding to regional centres used to be based on historical costs (such as institutional background, personnel, and equipment), in the new formula (developed in 1994-1995), allocation will be based on demographic criteria and a standardised index of deaths. France created regional financing agencies for financing public and private hospitalisation, in order to correct geographic inequalities. In Canada, new federal financing arrangement to 2003 provide provinces & territories with stable and predictable block funding for their health, social services and post-secondary education programs.

363. Finally, in order to encourage efficient use of resources, many countries adopted a strict cost containment policy, which froze reimbursement rates at previous levels, or changed benefits coverage in the public systems. Australia implemented a variety of cost containment measures of this sort, including freezing schedule fees and reducing coverage for some benefits. Austria has limited the increase in physician honoraria such that increases in honoraria and patient charges must not exceed the increases in revenues of the social insurance system. In addition, Belgium has imposed an overall 1.5% growth limit on health care expenditures. The United States was also active in this field, including: lower prices paid, and the development of prospective payments, by Medicare for nursing homes and home health agencies, and lower capital cost reimbursement to hospitals.

Improving public finance

364. A few countries are working to restructure the funding mechanism of their public health care systems. For example, Australia's universal health insurance system, Medicare, was budgeted based on a projected number of people opting to adopt private insurance. However, due to the high quality of the public system, more people are opting to use the system than projected, creating a potential funding shortfall in the future. Therefore, to encourage people to take out private health insurance, the Government has allowed more diversity in the insurance products on offer; established rebates on premiums paid for private health insurance; and imposed tax penalties on higher-income earners who do not take out private insurance. Poland is also working to change its financing structure. While their system is traditionally tax financed, they are working on a change in the financing system, aimed at replacing the health care system financed by the budget with an actuarial system. "It will allow for separation of financing from the state budget, alleviation of conflict of interests in the social security area and will positively affect economic development of the state." (Poland response)

Evaluation of medical technology

365. Medical technology was another area that was targeted for cost containment. Twenty-one of the countries queried said they had a system of technology evaluation in place. Many of these countries have an agency set up to assess medical technology prior to its introduction to the health care arena. The Netherlands tests the technology in a few specialised hospitals first, then determines whether the technology will become widespread, or remain in these few hospitals. Several countries that did not previously have a technology evaluation system in place have now implemented such a system. For example, France and Finland created new technology evaluation agencies in the last round of reforms, and Austria developed a planning framework to limit the number of costly medical appliances and therapeutic equipment per hospital sector. In the UK a cost-effectiveness criterion is to be applied systematically to all new technologies, in addition to the current criteria of safety, efficacy and quality.

Table 7.5: Cost containment measures in Member countries

Quality control and effectiveness measures

366. In general, countries' overwhelming response to the part of the questionnaire that asked about improving quality under tight budget constraints reflected a growing awareness of the importance of efficient health care planning and delivery systems. Dominant themes were: Quality Assurance, Health Planning, and Customer Satisfaction.

367. The increased interest in quality issues is demonstrated first and foremost by the number of countries that have developed special quality commissions and quality assurance agencies to develop quality standards for health care. These include: The Australian Cochrane Collaboration; the Network of Health Promoting Hospitals established in Austria; The Canadian Health Services Research Fund; the newly-created ANAES -- Agence Nationale d'Accréditation et d'Evaluation en Santé in France; the newly-created Institute for Research and Quality Control in Health Services; the Health Result Measurements established in 1996 in Mexico; the National Health Academy established through new legislation in

Turkey; the national Institute for Clinical Excellence and the Commission for Health Improvement in the UK; and the Presidential Commission on Quality and Consumer Protection in the United States.

368. Several countries have set up nation-wide performance standards and quality assurance programs to encourage development of high-quality health care delivery systems. For example, Spain has applied performance rates and quality standards. Each year, objectives are set in terms of the improvement of such rates and standards over the prior level. This is enforced in many countries by quality assessment programs. In Sweden, the national Board of Health and Welfare has responsibility for following-up, evaluating, and controlling quality of care. In the United States, the Joint Commission for the Accreditation of Health Care Organisations is developing measures used to accredit institutions that purchase accreditation from them, while quality report cards, the Health Plan Employer Data and Information Set (called HEDIS) are being developed so consumers can make choices about their health care organisations. A similar report card (called a performance management framework) with six "domains" of performance, including clinical effectiveness and equity, is being introduced in the UK as part of the 1997 reforms. Australia, Canada, France, Mexico, Belgium, Denmark and Austria also use such quality assurance and evaluation systems.

369. Along with individual measures to improve quality, country commissions have shown their commitment to improving the quality of care through published government-wide health care quality initiatives and goals. One example of this government quality initiative is seen in the implementation of the third phase of Germany's health care reform. This phase underlines responsibility of the self-government boards of physicians and health insurance funds as well as the insured persons in terms of financing and performance. Germany found that cost containment only worked for a short time, so proposed a reform whereby self-governing funds police uneconomic processes and wasteful spending. The reform has three goals: 1) Strengthening the self-government boards of health insurance funds and performance providers 2) Improvement of the financial basis of the statutory health insurance funds 3) Strengthening of the financial responsibility of the individual health insurance funds and of the self-responsibility of insured persons.

Effectiveness and co-ordination of care

370. Many of the quality commissions are occupied with improving planning mechanisms in order to improve co-ordination and quality of care. In Australia, Commonwealth & State Health and Community Services ministers are working to clarify and improve the current allocation of roles and responsibilities. They are also working to remove current duplication and gaps in services and to focus service delivery more directly on meeting people's health needs, rather than on the current set of programs and providers. In Belgium, the framework law on Social Security set up numerous collaboration methodologies, including a "one medical file per patient" measure to improve co-ordination. Austria is also working to set up a comprehensive and effective health planning & control mechanism at the Federal level.

Quality of service delivery.

371. Quality of service delivery is being tied to reimbursement of services in many countries. In France, hospitals are given financial incentives to increase quality. Hungary is also adjusting its financing system to take into account the quantity and quality of services performed. In Italy, public and private providers must adopt a system for checking and reviewing quality, and take quality into account when contracting.

372. Reflecting an increased interest in increased quality at decreased costs, many countries described new incentives for providers to improve the quality of their services. For example, Germany has implemented new structural contracts with health insurance funds. These new contracts make the contracted general practitioner or network of contracted general practitioners and specialists ("networked practices") responsible for ensuring the quality, scope, and economic efficiency of care. This enables a certain amount of innovation to take place, while ensuring fiscal stability. Ireland now ties development funding for innovation to achievement of agreed objectives and mechanisms to ensure accountability. In addition, specific accountability legislation has been passed to encourage effectiveness and efficiency through expenditure control procedures in health boards. In Britain, hospitals are to be given a new statutory duty for the quality of care and will be required to adopt new "clinical governance" arrangements.

Box B: Quality improvement initiatives in Member countries

Patient satisfaction

373. Empowerment of the consumer was seen as important in other countries. Australia is developing strategies to involve consumers in the planning, delivery, and evaluation of health services, along with a policy of developing and implementing government services charters including in health services.[45] Hungary is implementing quality assurance measures to strengthen the enforceability of consumers' rights. Finland began a major Research & Demonstration project at the beginning of 1997, to determine means of empowering clients, clarify the role of health care, specialised care and social services. The UK is introducing a new annual national survey of patient and user experience, with the results to be published both locally and nationally. Finally, the United States' health care quality commission has designed a "consumer bill of rights" for health care.

374. Queuing has been given attention in the quality arena as well. Denmark has worked to enlarge the capacity of hospitals for treatments and operations in order to diminish queues. Norway has implemented a waiting list guarantee of hospital diagnosis and treatment within three months. The United Kingdom has made a similar commitment to decrease waiting times for cancer surgery and elective surgery.

Information and measurement of quality

375. Outcomes measurement, as discussed in other OECD documents (most recently DEELSA/ELSA/HP(97)2), is seen as a means of achieving many of the quality initiatives mentioned above. In Austria, outcomes measurements are being developed for many sectors. In Belgium, on the other hand, some measures were implemented over the last decade the in hospital sector, and a survey of the entire population's health underway so that other measures can be developed

Table 7.6: Outcomes measurement initiatives in selected OECD Member countries

45 A recent Australian study (Draper 1997) provides a range of case studies showing how consumer participation can improve the quality of care in hosptials, as well as a number of lessons for improving consumer participation approaches.

Competition and empowerment

376. Competition is used by many OECD countries as a means of improving the quality and efficiency of health care services. Most of the competition initiatives have been in the arena of separation of purchaser, i.e., the insurer, from the provider. This allows insurance companies to select providers that offer a good range of services at an affordable price, and effectively sets up competition amongst providers. One example of this is the 1995 reform in Australia, which allowed private health insurance companies to negotiate contracts with individual hospitals, ambulatory care clinics, and health care providers regarding fees charged and services offered. This will enable them to offer better benefits packages to their consumers. Turkey has implemented measures to separate purchasers from providers, and is working improve the autonomy of their public hospitals to encourage efficient and effective management. Although the 1997 reforms in the UK preserve the purchaser/provider split established in 1991, the focus is now on co-operation between providers rather than competition, in the interests of equity, continuity of care and reduced transaction costs.

377. Another significant area of reform was allowing patient freedom of choice of insurer. Germany and the Netherlands offer some freedom of choice for consumers. In Germany, people may change funds if the contribution rate (Beitragssatz) is increased[46]; in the Netherlands, people may change funds once every six months. In Turkey, efforts have been made to increase the quality and efficiency of health services by introducing the Family Physicians System into primary care. Patients will have the right to choose the family physician. In addition, the referral system has been improved in order to increase patient satisfaction.

Table 7.7: Recent competition measures in selected OECD countries

Table 7.8: Measures to improve quality of health care delivery

Public health and equity initiatives

378. As stated above, there is an increasing tendency in member countries to shift the focus of their health policies from a health care perspective to a population health perspective. This is perhaps best seen by the large number of countries that have appointed new Public Health Ministers or Public Health offices in recent years[47] Greece created a General Directorship for Public Health; Ireland retitled its Department of Health "Department of Health and Children"; Mexico created an Under-secretary of Prevention and Disease Control; and the United Kingdom appointed a new Minister for Public Health.

46 This is in addition to their current right to change funds once a year.

47 Obviously, many countries already have public health ministers or offices. What is significant here is not that these countries HAVE these ministers, but that the post was recently created, demonstrating tangible evidence of the priority these issues now have for these governments

Expenditures for public health

379. Regardless of the new agencies, on the whole, expenditures for public health programs were difficult for countries to estimate. However, countries estimated that expenditures for public health measures ranged from 5-12% of total health expenditures. Countries indicated that line budget items for specific programs were simple to estimate, but that a precise measurement was more difficult due to several factors. First, public health has traditionally encompassed a broad range of activities. According to C.E.A. Winslow (as quoted in The Future of Public Health, 1989):

> Public health is the science and the art of: 1) preventing disease, 2) prolonging life, and 3) organised community efforts for a) the sanitation of the environment, b) the control of communicable infections, c) the education of the individual in personal hygiene, d) the organisation of medical and nursing services for the early diagnosis and preventive treatment of disease, and e) the development of the social machinery to ensure everyone a standard of living adequate for the maintenance of health, so organising these benefits as to enable every citizen to realise his birthright of health and longevity.

380. The broad compass of this definition shows the difficulty in identifying funds spent. Other sectors, such as housing, social assistance programs and education are fulfilling a vital public health function, making a precise measurement of public health expenditures difficult. The second reason that public health expenditures are difficult to identify is that, as primary care physicians take on more preventive and public health roles, it becomes more difficult to measure how much of their time is spent in this role. This is particularly true in countries where the GPs are paid a salary or capitated fee. Finally, in many countries, responsibility for public health is primarily held at the local or municipal level. Therefore, the Federal government has a hard time measuring expenditures.

National strategies for public health

381. In response to the need for co-ordination of services, many OECD countries have recently developed national strategies for public health. In many countries, the World Health Organisation's "Health Strategy For All" initiative had a great deal of influence (for example, Switzerland, and Slovak). Indeed, most OECD countries (Australia, Canada, Finland, France, Greece, Ireland, Italy, Japan, Korea, Mexico, Norway, The Netherlands, Poland, Portugal, Slovak, Sweden, the United Kingdom, and the United States) have developed national strategies. Common themes included: tackling priority areas such as diabetes, cardiovascular disease, mental health, cancer, and injury prevention; initiatives focused on changing behaviours, such as increasing tobacco taxes (Belgium, Turkey, Canada and the United States) alcohol and drug prevention strategies; injury prevention, and health screening. In general, countries are also making a concerted effort to expand and improve their immunisations rates.

Health screening

382. Health screening is an area that is receiving increased attention in many countries. Particularly in the area of mother and infant health screening, countries have offered many incentives to enter into preventive care. In general, countries offer free health screening and check-ups during pregnancy, and free preventive care visits for infants and children as a means of assuring that people use these services. Finland has a particularly innovative maternity care program. The Ministry of Social Affairs and Health has funded local-level projects to promote individual and community health though cash benefits given to all women who undergo a medical examination before the 16th week of pregnancy.

383. Other countries have promoted the use of co-ordinated health and social services in order to improve the health of the population, and in particular, children. Greece has created screening programs in Offices of School health in each region, other countries have similar programs, which offer a variety of screening benefits as well as immunisations.

Table 7.9: Recent public health initiatives in Member countries

Universal coverage and equity of access

384. Most countries stressed the importance of their universal health systems in improving the health status of their populations. The Netherlands noted that providing access to preventive care and screening processes through universal health care coverage is one of the most important things they could do to improve the public's health. This belief was further highlighted by the fact that countries talked about increasing benefits and coverage of certain services as a means of improving public health. This relates to countries' equity concerns in the first section, that there is inequitable access to health services and unequal health status by population group. Canada's National Forum on Health recently recommended extending the public health care system to include a greater share of home care and prescription drugs. In response to these recommendations, the Federal government established a Health Transitional Fund to collaborate with provinces and territories in evaluating and initiating projects in these and other areas.

385. Therefore, countries implemented many policies to improve access for the uninsured and vulnerable groups. In many cases, protective measures for vulnerable groups were implemented to reduce the impact of cost saving measures, such as copayments, on vulnerable populations. This is illustrated in the case of Germany, where persons with low incomes and children up to the age of 18 years are exempted, and where copayments are limited up to 2% of gross annual salaries (or 1% for persons with chronic diseases).

386. Yet other OECD countries took steps to increase the coverage of their health systems. Switzerland began implementation of a compulsory insurance system, to be applied to the entire population, in 1996. Mexico is expanding coverage through allowing a "buy-in" of coverage in the Social Security System, and is expanding its network of health centres in rural areas. The United States, in response to recent figures showing 10 million uninsured children in the United States, has implemented a five-year $24 billion program to cover uninsured low-income children not currently covered by Medicaid. This system allows States the flexibility to contract with private and public providers (including coverage under Medicaid) and to develop a wide range of coverage schemes. The program provides enhanced Federal match--equal to about 80% of total State cost of the program--to encourage States to participate in the program.[48] This is more favourable to states than the Medicaid matching rates, which range from 50 to 78%. Turkey has implemented its Green Card programme, for citizens with no capacity to pay for health services. This has increased health care coverage in Turkey from 55.1% in 1990, to 65% in 1995.

[48] It is interesting to note that this enhanced Federal match as a means of expanding insurance coverage was predicted by Greenberg and DeLew in the country report on the US health care system prepared for the OECD in 1994: "Given the recent recession and consequent declines in State revenues, States are now highly resistant to additional Medicaid expansions unless they are fully financed by the Federal government." While the new program does not provide 100% Federal funding, it is a much more generous match than the Federal Medicaid program.

Table 7.10: Recent equity policies in selected OECD Member countries

387. One concern that is often expressed in debates over social exclusion and social assistance is that differential treatment of those on welfare assistance may serve as a disincentive to moving into employment and off assistance. To examine whether this issue was of concern to member countries, the questionnaire asked how people on such programs received coverage for health care. Most countries surveyed did not see provision of health care to welfare recipients as a disincentive to moving from welfare to work, because most countries provided the same level of health care for both the working and non-working population through universal health care coverage (see Table 7.12). However, most countries do exempt the elderly and the poor from certain expenditures, and, in many countries, dental care and drugs are either cheaper or free for this population. In Australia, the elderly and poor receive a "pensioner's card, a "Health Care Card," or "Commonwealth Seniors Card." Cardholders have minimal out-of-pocket expenses and cheaper drugs. They retain these cards for a period of time after returning to work. Most of these health care programs are financed by the Federal government. In Luxembourg, the health insurance payment is deducted from their RMG.

Table 7.11: Eligibility and coverage for health care in OECD Member countries

Decentralisation to the local level

388. An interesting issue was raised by several countries. As we have seen previously in this report, countries have devolved responsibility for many health care services to the local level. They have done so for several reasons. First, to increase the quality of services, since local governments may be able to adapt to the needs of their populations more quickly. Second, to increase cost-effectiveness and co-ordination. Third, as populations age, it makes sense to build the community support systems to address the needs of this population. Devolving responsibility for hospital services to the local level encourages the local authorities to move people out of hospitals and into community care as a cost saving measure. (See, for example, the case of Sweden's Ädel reforms, where financial responsibility for extra days in the hospital was transferred to the municipality (OECD 1996d).

389. However, several countries have expressed the concern that they are unable to monitor public health activities effectively, or co-ordinate these activities for a unified pubic health strategy. This is because these activities take place at the local level. As the marginal benefit of increased health care expenditures decreases for most countries once they have implemented universal coverage, countries must try other measures to improve the health of their populations. At this point, the issue of responsibility for public health may become more prominent.

Ageing

390. The ageing of the population in OECD member countries is having a policy effect on the health care systems in many countries. Countries acknowledged that the proportion of their population that is over 65 is growing, and that the proportion of the very old, those over eighty, is also growing. The high proportion of elderly in many member countries is giving rise to concerns about the sustainability of funding for the health care system. "As regards the health care system, it is estimated that seniors

consume 40% of health care expenditures, in part because seniors typically require more care than younger persons and also because the health system provides more services...to treat ageing-related conditions in the past" (Canada response). Countries are also concerned about their ability to provide quality care for their younger populations while at the same time addressing the needs of the elderly.

391. While countries are concerned about the cost of care for the elderly, most countries said that their elderly are now more healthy than they were previously. Most countries have difficulty measuring the health status of their ageing population due to a lack of sufficient data, but using life expectancy as a measure, most countries said that their aged are healthier than previous cohorts. A few of the newer OECD countries (e.g., Hungary), said their aged population was as healthy as previous cohorts.

Age-specific policies in health care

392. In response to a growing elderly population, about half of the OECD countries surveyed said that they were developing age-specific policies regarding health care. Most of the policies have to do with decreasing morbidity by increasing the health of the elderly population. This is accomplished by preventive medicine programmes and social support programmes. One such program is in place in Greece. Greece has set up a number of Centres for Non-institutionalised Care for the Aged, which offer social support services, ambulatory care, routine medical care, and preventive services. Australia has also implemented a variety of age-specific policies, such as the Healthy Seniors Initiative, to fund projects encouraging good health and well-being for older people (see BOX).

Box C: Australia's healthy seniors initiative

393. Age-related research is a growing field in about half of the OECD countries. Areas of study include chronic disease, Alzheimer's, dementia, and improving the functional capacity and ability for self care in the elderly. Ireland's Mercer Institute supports research into dementia, and provides training programs for caregivers of patients suffering from dementia. Finland has created new professor chairs in geriatrics and gerontology in universities in Finland. Research programs in Finland have made progress in developing technology to treat dementia and improve functional capacity, rehabilitation and care of the aged. Improving the health status of vulnerable elderly populations (due to poor social support networks or poverty) is also an important area of study.

394. Many countries are responding to the ageing of their populations by shifting resources into domicilary care. For example, France recently implemented a new long-term-care allowance aimed at caring for the elderly in the community. These initiatives will be discussed further in the long-term care section of this report.

Financing health care for the elderly

395. In terms of financing health care for the elderly, most countries stated that health care for the elderly was financed the same way as care for the general population. However, most countries have income protections in place to ameliorate the scale of cost sharing for the elderly.

396. The United States and Japan have separate systems for their elderly. In the United States, 97% of those over 65 participate in the Medicare program, which is funded through payroll taxes on the working population and beneficiary premiums and cost-sharing. However, many beneficiaries purchase

private insurance to supplement this coverage. Japan's system covers those 70 and older, (65-69 if bedridden,) and is funded by cost sharing by beneficiary patients, contributions from the health insurance organisations, and the public funds.

397. The burden of distribution between the elderly and the young was not seen as a significant issue in some member countries, many of whom stated that the elderly contributed towards their insurance coverage through premiums (e.g., Italy and Germany) or through taxes (Finland). However, other countries exempt their elderly from insurance or tax contributions (Spain, United States) and therefore foresaw a potential funding gap occurring as the proportion of the population that is working declines. As mentioned above, Italy is facing distributional issues because pensioners pay a lower percentage of their pensions towards their health care than workers do from their wages. Moreover, exemptions from health charges on the basis of household income and age (under 6 and above 65) do not take into account the family size. Therefore, the elderly are more likely to be exempted even if they have a higher income. However, Italy and other countries said that efforts to have the elderly pay more of the cost of their care have proved wildly unpopular, and therefore, countries are searching for other policy solutions. One possible solution has been to move towards alternate financing systems for disability and old age, such as those in place in Germany and Japan. Italy is currently considering such an option.

Table 7.12: Characteristics of health care systems -- system of provision for the elderly

Concerns about implemented policies

398. Countries discussed a wide variety of concerns that were raised by their citizens during periods of change in health care policy. The first concern had to do with confidence in the system after the reform. Canada noted that surveys conducted by the National Forum on Health showed that numerous respondents said that they felt that the quality of care was not as good after the reductions in government spending. They cited longer waiting lists for procedures, and doctors shifting their practice to the United States as two examples of the quality of care decreasing. Generally, there is a lack of evidence that the quality of care has decreased, although a study monitoring hospital bed closings in Winnipeg found no adverse effects.

399. Other countries said that particular interest groups were unhappy with the health care reforms. Belgium said that their health care providers are discontented about the last round of reforms, and that they are now reporting a negative effect on access to care. Italy received fierce opposition from the public regarding the implementation of copayments, but they have been gradually accepted.

400. Countries implemented a variety of public education programs, aimed at gaining the acceptance of the general public for the cuts that had to be made. In Finland, there was an understanding that the recession necessitated the cuts, and they were made in consultation with the Association of Finnish Local Authorities, to make the cuts more acceptable. Canada involved members of the public on various task forces and commissions, to ensure that their views on health reforms were heard.

401. Other countries have implemented evaluation programs to test the effects of the reforms. If there are negative effects shown, the policies will be modified. For example, the Switzerland Office for Social Insurance is working with providers, insurers, cantons, and representatives of the scientific community to study the effects of the new law.

402. Another area of concern was that increased user charges and other methods of cost sharing were having a negative effect on access. In Austria, their recent economic problems have had an effect on the health care system. As the recession deepened, people were reluctant to take time off to go to the doctor, for fear of losing their jobs. This has led to a decline in the number of doctor visits, level of pharmaceutical consumption, and duration of sick leave. Increases in user charges in Finland led to so many people resorting to public assistance for psychiatric care, that the statutes had to be reversed. Other countries have worked to improve coverage for vulnerable populations to counteract the effects of increased user charges.

Evaluation of the reforms

403. Most countries have implemented a variety of measures to evaluate their health care reforms. Austria has set up a structural commission to measure growth rates in spending, decreased hospital length of stay, reduction in hospital beds, and the enhanced development of integrated health care services. Other countries have less specific goals, but will take further measures if their health care costs rise above a certain percentage of GDP, for example, Hungary. However, most evaluation measures are still in their infancy, and will be subject to change in the future.

8. LONG-TERM CARE POLICIES

404. Long-term care services are provided to the elderly as well as to people with disabilities. However, this chapter largely focuses on the services for the elderly because this area of social services has recently received serious attention in a number of member countries. In addition, long-term care is expected to continue to be a major policy issue as a result of future social and demographic changes in OECD countries. The majority of the paper is constructed from country responses to the "Caring World" synthesis questionnaire, though the general overview of the issues is largely based on *Caring for Frail Elderly: Policies in evolution* (OECD 1996c) and other literature.

General overview of the issues

405. Historically, long-term care has long been the responsibility of family members, friends, or other informal caregivers. Reasons for this seem to be a combination of the lack of appropriate public services and the dominant value sense that family is responsible for such domestic matters.[49] Public services did not historically intervene in a way that covers all the frail elderly. Basically, public assistance schemes, charitable institutions or other "benevolent" services to the low-income population were used as "last resort" tools to support the elderly without a family to care for them. This means that, even if an old person was in need for long-term care, he/she was not able to receive publicly-funded services unless the family members depleted their assets and fell into the "low-income" population. Thus, the concept of widespread responsibility of public authorities specifically for long-term care services was rarely considered until recently. For example, the New Zealand government defined the responsibility for long-term care for the elderly in the mid-1960s. In that definition, the role of public authority came after that of family members and of other non-governmental organisations, perhaps reflecting the traditional residual role of the government (OECD 1996c).[50] This is one of the reasons why the issue of long-term care for the elderly population has been rather marginal compared to other social policy domains, such as health care, pension programs, etc. For example, in *The Welfare State in Crisis* (OECD 1981), the issue of long-term care was barely highlighted as a significant policy issue for OECD countries.

406. However, the traditional and historical arrangement of roles for long-term care has recently been, and will be, under pressure from social and demographic changes. This is due to many factors, the most relevant of which is the increase in the life expectancy of the elderly. For example, life expectancy of men at 60 in 18 member countries increased by more than two years from 1970 to 1995. Among these 18 countries seven of them have seen more than three years life expectancy increase. In the case of women, these figures rise to 23 and 16 years, respectively (OECD Health Data 1997). Conclusions in terms of aggregate needs for long-term care are difficult to draw directly, although needs will certainly

[49] This value sense is often reinforced by sociological and religious traditions in the society. In addition, these values might be reflected in the existing legal responsibility of family members to care for the elderly relatives that is defined in some countries, as seen in the later discussion.

[50] The same order can be seen in many other countries today, such as Denmark, Hungary, and Poland, regarding legal responsibilities of caring the frail elderly.

increase. The level of needs will depend on the evolution of both the severe disability and institutionalisation rates. In an age-constant structure, these rates have decreased in recent decades in most OECD countries. However, the change of age structure itself will override the decrease, as the share of the oldest age groups (with the highest needs among the elderly population) increases. In addition, the capacity of family for provision of long-term care for the frail elderly is gradually decreasing while the need for long-term care is certainly increasing. These factors thus have increased the need for further public intervention to long-term care services. In the span of less than 20 years from *The Welfare State in Crisis*, the need for long-term care services has become a significant topic in the field of social policy.

407. In the 1950s, long-term care for the elderly other than informal care was mainly provided in institutional care settings, especially the long-stay units of hospitals and nursing homes. However, this care arrangement is no longer suitable to meet the current needs of the elderly as service recipients. Today, quality of life of the elderly has become a more important issue. Upgrading the quality of care in institutional settings, such as ensuring privacy, etc., has become one of the main policy objectives.

408. Concerns with inflexible arrangements of long-term care provision were materialised into the social policy objective of "Ageing in Place," which was proposed in the meeting of OECD social policy ministers in 1992 (OECD 1994a). Some significant issues were raised: human and monetary resources for community care services, additional responsibility to the community, redefining the role of long-term care institutions in the new policy environment, improvement of the housing environment for the elderly, support for informal care, etc. These objectives are being pursed in many OECD countries presently.

409. The preference of the elderly to stay in their home has been increasingly considered to be the main criteria in deciding the mode of care. This highlights the preference for continued "autonomy" of the elderly, which is one of the issues in long-term care policy. In this way, "consumer-directed" approaches to long-term care services have been developed. This development in terms of preparing services for the sake of the elderly as service recipient has contributed to the diversification of long-term care services, ranging from improving the living environment in institutional settings to developing home and community-based care.

410. In line with those objectives, long-term care services have been diversified greatly. Examples are: development of alternative forms of institutions, expansion of visiting nurse services, expansion and specialisation of home and community care services (home help, day care centres, etc.), improvement of the housing environment for the elderly, development of assistive devices, etc. These measures have been employed in OECD countries and serve as directions for the better care provision for the elderly.

411. There is another outstanding issue in terms of providing services. Although the above services have been developed, they are not necessarily constructed as a single set of services and their provision has often been fragmented. Thus, an integrated approach to service provision has been one of the main components of long-term care policy. This issue has been tackled in various ways in countries, as will be seen later.

Synthesis of the national responses

Long-term care concerns across OECD

412. Generally speaking, the questionnaire responses show that there are no significant discrepancies in terms of policy concerns regarding long-term care, except for some countries where long-term care

policies are still in the initial development stage (e.g. Korea).[51] Main concerns are: shifts of arrangements towards, or emphasis on, favouring community care (e.g. Canada, Finland, France, Portugal); population/individual ageing and the increase of the elderly who need long-term care (e.g. Ireland, Japan, Luxembourg); quality of services (e.g. Australia, Sweden, the UK); support of informal care (e.g. Canada, Norway, the US); and integration of services (e.g. Canada, Italy, Japan). Concerns regarding sustainability, cost-effectiveness and other financial aspects of the system were also raised from some countries (e.g. Australia, Mexico, Sweden). Overall, however, it seems that the majority show clear concerns more about the quality of the services in general, rather than financial issues (though perhaps some of the quality issues also connote funding matters, such as the integration and streamlining of services). This tendency also reflects the items to be considered in the course of policy evaluation processes. Though some countries did raise cost concerns (cost-effectiveness (e.g. Canada, the UK), expenditure for services (e.g. Australia, Finland)), quality concerns have become an integral part of assessing the result of specific policy responses. In this regard, many countries employ several assessment criteria, such as the quality of services in general (e.g. Canada, Hungary), client satisfaction (e.g. Denmark), and the integration of services (e.g. Japan, Luxembourg).

413. In terms of overall assessment of the suitability of current arrangements for long-term care services, the majority of the countries regard their system of long-term care as being satisfactory. Nevertheless, some countries raised specific problems. Examples are: lack of sufficient quantity of the services (e.g. Czech Republic, Korea); geographical differences in access to care (e.g. Italy, Norway); and coverage of the elderly that is not yet universal or defined as an entitlement (e.g. Mexico).

Table 8.1: Policy concerns in terms of long-term care
Chart 8.1: Policy concerns in terms of long-term care, as a proportion of countries surveyed

General structure of long-term care policies

414. As long-term care services have developed in most of the countries in a form of a "patchwork quilt," or combination of various kinds of services (OECD 1996c), arrangements of the scheme significantly differ among the countries (based on which sector (health or social services) takes a major role, whether or not the country has a national health service, and so on). However, some similarities and significant contrasts do appear from the answers to the Caring World synthesis questionnaire.

Who does what? Basic composition of the roles of the actors

415. The composition of the actors (public bodies, private organisations, family members, etc.) is the basis for constructing the long-term care system in a country. It is important to analyse the role and responsibility of each actor in a country because this is basic information about the structure and hierarchy of long-term care services in the country, and will affect actual administration of the service provision.

416. The role of the central government is, in general, confined to funding and indicating the overall direction of or policy framework for long-term care services. There are some exceptional cases, such as in Czech Republic, Poland, Slovak Republic, etc., where the central government also has a role of direct

[51] For example, policy concerns of Korea are directed to quantitative aspects (increase of nursing homes, etc.).

provision of long-term care.[52] In some countries, the central government has an influence more on health care services than on social services through the measures of more strict standard-setting or through earmarked subsidies, etc. For example, in Canada, federal block funding to the provinces/territories through the Canada Health and Social Transfer (CHST) does not distinguish between health and social services, however, the Canada Health Act requires that certain criteria for health care are met in order for provinces to receive the CHST payment in full. This distinction in arrangements between health care and social care services will also be discussed later in relation to the integration of health and social services. In addition, as one other example of the influence on local governments by the central government, the federal government in Austria has reached an agreement with the Länder authorities, which includes a catalogue of benefits and quality criteria in terms of long-term care services. The Länder authorities are required to specify their needs and develop plans to be implemented gradually by 2010.[53]

417. Local governments in many cases have the most significant public sector role in long-term care because they are in the position to directly reflect community needs. Activities at the local level range from direct service provision to regulatory standard-setting of services. In particular, municipalities, or the smallest administrative unit in local public administration, are the most powerful and have the most authority regarding long-term care in many countries. For example, in Nordic countries, municipalities have clear primary legal authority as well as responsibility for providing long-term care for the elderly. Also, within the arrangements inside one country, which usually have more than one level of local government, the relationship between the intermediate-level of local government (Länder, province, prefecture, etc.)[54] and municipalities also show role differences. As a general trend, the former seem to be in a more supervisory position (monitoring the service provision, accreditation of the institutions, etc.) while the latter are more involved in direct service provision.

418. In terms of private organisations involved in long-term care services, non-profit organisations have a very significant role in many countries. They are usually religious groups or other charitable organisations and have a long history of serving the community. Traditionally, long-term care has also been provided by those organisations. For example, in Australia, non-profit organisations provide for the majority of subsidised community care services and about two thirds of residential care places. In Germany they have served as the most important service provider for nursing homes. Also, in many other countries, such as Greece, Japan, etc., non-profit organisations have a large role in long-term care services. In other countries, such as in Nordic countries, non-profit organisations are largely in the position of supplementing the services which are supposed to be provided by the municipalities, although they are still situated in a significant position. In this context, non-profit organisations provide services that are funded by municipalities.

419. On the contrary, the role of for-profit companies in OECD countries has been largely less significant in the field of long-term care service provision, compared to the non-profit organisations

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[52] However, it has to be noted that in the Czech Republic, the share of the central government as direct provider is shrinking in the course of decentralisation to local government and non-governmental organisations.

[53] Some countries have individual institutions which operate a wide range of social/health benefits and services, though the range is different from country to country. Mexican Social Security Institute (IMSS) operates several cash benefits as well as direct provision of health and long-term care services. A similar example is seen in France (*Caisse nationale d'assurance vieillesse* (CNAV)) .

[54] In the countries that have taken the form of a federal system, a certain level of government that is classified as "local" in this paper is sometimes called "State." This level of government actually has constitutional authority over health and social services (e.g. Canada, the US). However, this paper classifies them as "local" governments, because they can practically be regarded as the same as other intermediate-level local governments in other countries in that they accept funding from the federal government.

discussed above. In some cases the contents of services provided by for-profit companies have generally been limited to home cleaning services or other non-professional services (e.g. Norway). In the UK, in contrast, for-profit companies have grown to play an important role in the supply of a large range of long-term care services. In case of Germany, private (for-profit) services providing long-term care have a legal priority, as well as non-profit services, in comparison to public services.[55] In terms of insurance for long-term care, most of the countries do not have explicit policies to encourage the development of private for-profit insurance companies. Even if for-profit insurance companies take a certain role in the field of long-term care, the role is usually limited to supplementing the public scheme (e.g. Germany), or is not regarded as a real alternative to state provision of long-term care services because of high contributions (e.g. Poland). The US provides a good example of a prominent role taken by for-profit companies in both fields of service provision and insurance. In the US, private home care agencies are one of the fastest growing sectors in terms of long-term care. This seems to be because Medicare pays for some home care services, with Medicaid also one of the largest payers of nursing home care. In addition, private insurance for long-term care is developing supported by minor tax concessions (recently enacted in the Health Insurance Portability and Accountability Act).

420. As to privately recruited individual care providers, who do not belong to any agencies and work for the elderly based on a private arrangement, their status and roles in long-term care services are less clear. Public authorities do not usually intervene because the services in that form are usually provided based on casual, private transactions. Therefore, their position is regarded as rather insignificant in most of the countries, except for neighbours or friends of the frail elderly who take a significant role as informal care providers together with family members. In some countries such as the US, however, public programs will pay for workers, including sometimes family members, hired individually by clients.

421. Family members still have the greatest role in the provision of services in most of the member countries. As mentioned above, they have long had a primary responsibility to care for the elderly. In particular, the care for the elderly in the home or community care settings has been mostly provided by family members as informal carers (OECD 1996c). For example, in Australia, 75% of total community care is provided by family members. This is reinforced by a community expectation. There are many other countries where family members seem to occupy the most significant portion among the total number of care providers. Many countries (e.g. Greece, Korea, and Norway) clearly regard family members as being the most significant unit in long-term care.[56]

422. Many countries (e.g. Austria, Canada, Hungary, and Japan) even impose legal responsibility on the family members for care of elderly relatives. Some countries limit the legal responsibility to financial responsibility (e.g. Germany) or to the case of legal guardianship for a person who is mentally incompetent (e.g. Belgium). The scope of the definition of responsible persons also differs somewhat, but in many cases the person defined as having the most responsibility is a spouse (e.g. the Criminal Code of Canada sets out a legal duty for certain persons, such as a spouse, to provide the necessaries of life to others), the children, or in some cases parents.

423. There are many measures taken by the member countries to help family members. Some countries (e.g. Canada, Portugal, and the US) clearly specify that the support of informal care is one of the main policy concerns in their country (see Table 8.1). Even if support of informal care is not raised as a

55 It has to be noted that, in Germany, the aspect of competition among providers is emphasised in the context of prioritising non-profit and for-profit long-term care service providers over public services.

56 However, it also has to be noted that none of the responding countries denied the role of the government in long-term care. Most of the countries clearly defined the role of the government (central/local) outside the traditional arena of social assistance to the poor.

main policy concern, it is often the case that each country has developed measures to support informal caregivers, such as respite care services,[57] training programs, and professional consultations. In addition to those measures, in some countries such as Germany, statutory accident insurance also covers such informal caregivers and protects them from accidents in the course of caring the elderly. There are also some measures of financial support for informal caregivers, which will be discussed later in the context of financial aspects of long-term care.

Table 8.2: Roles and responsibilities of the actors in the field of long-term care

424. While most countries still rely heavily on family members as caregivers, there seems to be a common understanding that there will be a general trend towards reduced dependence on family members and a corresponding increase in demand for long-term care services. This is caused by the ageing of the population (e.g. Finland, Japan) and increased participation of women in the labour market (e.g. Denmark, Portugal), along with some other factors such as increasing divorce rate, or in some specific countries, changing values of family life (e.g. Korea) and greater geographical mobility (e.g. Canada). All of these factors mean that the demand for services is outstripping the ability of the family care system to provide them.

425. However, there are some other countries that indicate contradictory views on this notion, which might reflect their own cycle of labour force changes in some cases. For example, in Australia, it is reported that demographic change has not affected the arrangements greatly, as the majority of carers are aged people caring for their spouse. In addition, the US reported that, with reference to some national surveys, the effect of women's employment on patterns of informal/formal care is not so significant, though it is widely believed that increased labour-force participation of women will restrict the availability of informal care. In Hungary, it is reported that the number of family members (mostly women) providing voluntary care (with governmental support) has actually increased, though it is not clear whether this is a result of demographic change or of some governmental intervention.

Financial aspects of long-term care system

426. Closely connected to the overall structure of the long-term care system, how to finance the system is also one of the most significant issues. Many countries continue to regard long-term care as an administrative part of the general social assistance arena rather than the health care arena. The majority of these countries finance long-term care services out of general public expenditures under the scheme of social assistance (especially for the poor elderly) or other general social services (e.g. Czech Republic, Finland, and Sweden). The source of expenditure is usually divided into a few tiers of government. For example, in Australia, 60% of the cost for community care is funded by the Commonwealth government, 35% by the State governments, and 5% by local governments. Out-of-pocket payments are sometimes imposed on the service recipient (for example, in Sweden, clients now pay about 9% of the actual cost on average). However, this payment is usually income-related (e.g. Finland), supplemented by the government when the recipient is unable to pay (e.g. Greece), or the state specifies the services on which those user charges can not be imposed (e.g. Slovak Republic). In addition, there are some countries where

[57] Respite care offers informal caregivers (i.e. family members) a break from their caregiving duties by providing an alternate source of care for a short time. The availability of respite care may encourage the practice of informal caregiving.

health care services are funded by general taxation or health insurance schemes and long-term care services are funded by a combination of funding under the scheme of national health service and social assistance schemes (e.g. Canada,[58] Italy, and Switzerland).

427. As a current trend, there are some countries (e.g. Germany, Japan, Luxembourg, Netherlands[59]) where a public insurance scheme for long-term care has been developed as a separate policy objective.[60] These schemes collect contributions from the insured persons and provide services or pay cash benefit when the insured person is in need of long-term care. The significant portion of the funding comes from individual contributions, but the schemes in Japan, Luxembourg and Netherlands are also funded by general taxation (50% for Japan, 45% for Luxembourg). On the other hand, the German scheme is funded completely by contributions. When the benefit (in-cash or in-kind) is not enough, or when the elderly person is not covered by the scheme, the social assistance scheme works as supplement.

428. The above financing measures are largely for in-kind benefits, or actual service provision such as home help services. However, some countries also have a system where cash benefits are given to the elderly, or certain benefits in the form of allowances for (usually family) caregivers are established as options for financing long-term care. One example would be the "long-term care benefit" in Austria, which was introduced in July 1993. This benefit is directly financed out of the federal budget, and a cash benefit is paid to the applicant. The German scheme of long-term care insurance also has an option for cash benefit, though its monetary value is relatively smaller than that of direct service provision. [61]

429. As to allowances for informal caregivers, many countries have schemes managed by the central governments or local governments. For example, there are: "Carer Payment" or "Domiciliary Nursing Care Benefits" (Australia); "Informal Care Allowances" (Finland); "Care Fees" (Hungary). In other cases, there are some countries where the caregivers are awarded tax concessions. For example, Canada's tax system recognises caregiver support through tax concessions, and a new tax credit is being introduced for caregivers providing in-home care for relatives. Whatever the name may be, they serve as wages to the family members for caring for elderly relatives and as supplement income while their earnings drop due to taking time for care. These benefits are considered to demonstrate a commitment to allowing elderly the most autonomy and choice possible, and allow them the resources to choose whether they prefer domiciliary care or institutional care.[62]

Table 8.3: Ensuring access to long-term care from financial perspectives

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58 In Canada, funding for health care services are usually called "health insurance," though they are mostly funded by general taxation.

59 The General Act on Exceptional Medical Expenses (AWBZ) in the Netherlands is not specifically designed for long-term care insurance; it intends to cover several areas of services which are not covered by the conventional health care insurance (e.g. out-patient psychiatric care, appliances and prostheses, etc.).

60 In many of the countries with those long-term insurance schemes, they cover not only the elderly but also young people with disabilities, etc. See the last section "Long-term care services for non-aged people with disabilities."

61 About 70% of the claimants to the insurance scheme are applying for cash benefits in Germany (in the second quarter of 1997).

62 However, these types of benefits for informal care were not incorporated in the newly-instituted long-term care insurance scheme in Japan because of inability to ensure that there would be an appropriate level of care. In addition, in the nation-wide debate, those concerns were raised that such cash benefits might even hinder the self-reliance of the elderly.

Qualitative aspects: meeting individual needs of the elderly

430. As indicated earlier, the quality of services is a major concern for OECD countries. In particular, quality from the viewpoint of the elderly themselves should be examined in detail. The main themes raised in this paper are: autonomy, privacy, and consumer choice.

431. In terms of "autonomy," about two thirds of countries raised this item as one of the principles in long-term care policy. As a measure to promote autonomy, countries have raised measures such as promoting home care (e.g. Germany, Luxembourg, Norway), or participation of the elderly themselves in the decision-making process (e.g. Denmark, Netherlands).

432. "Privacy" issues are mentioned mostly in line with institutional care (i.e., assuring that elderly people have the most privacy possible in an institutional care setting). In order to address this issue, for example, Norway provides special grants to promote the construction of single rooms in long-term care institutions. Other countries have placed an emphasis on home care as the measure to secure the privacy of the person in need of long-term care (e.g. Czech Republic, Finland). In other cases, education of home helpers (Japan) or reliance on professional ethics of health care professionals (Belgium) are raised by countries, among other items, to ensure the service recipient's right to privacy. Some other countries also raised privacy issues in terms of health information systems (e.g. "smart card" for health insurance in Canada) or of records of needs assessment (e.g. Luxembourg).

433. Responses to the issues of "consumer choice" are roughly divided into two aspects: emphasising more tailored services for the needs of the elderly, or promoting private provision (or insurance) of services and letting the market mechanism work. The former measures (by diversification of services (e.g. Finland), or decision-making by a multi-professional assessment team (e.g. Australia and Britain)) are being developed in order to enhance this consumer-choice approach. In addition, cash benefits for the elderly are recognised as an integral part of ensuring consumer choice in such countries as the Netherlands, because they enable the elderly to purchase the services for themselves.[63] Lastly, there are some countries where the legal obligation for ensuring consumer choice is imposed on the municipality (e.g. Norway), or self-reliance/self-determination of the persons in need of long-term care is legally ensured with a wide range of choices on benefits and services (e.g. Germany).

434. In terms of promoting private provision (or insurance) of services, country responses show interesting characteristics. Although competition is generally thought of as a cost saving measure, it is more likely referred to in countries as a means of improving quality through increased accountability. This is related to "consumer choice" that is discussed above as a criterion of increasing the quality of care. The more choices a consumer is given, the more the market works. Finally, the quality of services is maximised at the lowest cost.[64] A considerable number of countries (e.g. Japan, the UK) are introducing private service providers (non-profit as well as for-profit) and trying to enhance the principle of "consumer choice," which will also lead to cost containment through the market mechanisms. In addition, as discussed above, some countries such as the US have been promoting private long-term care insurance (see Table 8.3), which would also enhance consumer choice.

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63 ibid.

64 However, it is rather obvious that this price mechanism does not always work fully as a measure to ensure quality services at the lowest cost, as this market effect sometimes does not work in the health care field in some settings. There are some premises that enable this effect to work. For example, information should be fully disclosed to elderly people as a consumer in the course of providing care. Therefore, the effect of introducing competition among private organisations might differ depending on the countries.

435. Lastly, as institutional measures, some national programs ensure, or have significant implications for, one or several of such principles in long-term care settings (e.g. *National Strategy for an Ageing Australia* (Australia), *Canada's Senior Strategy or National Framework on Ageing* (Canada), *Senior Citizens Forum* (Denmark)).

Table 8.4: Qualitative aspects of services and policy responses
Table 8.5: Private providers/insurers of long-term care, in selected countries

Improving quality and integration of services

436. In the arena of long-term care services, there is a significant issue of how to co-ordinate and integrate services and improve the quality of care. Because long-term care services have been developed as a "patchwork quilt," the contents of services have been somewhat fragmented and unorganised in many countries. These fragmented arrangements can hamper the improvement of quality of services. In particular, the relationship between conventional health services and social services have been a matter of concern, with the exception of countries such as Korea, Norway and Switzerland, who responded that there is no or little serious boundary problem between the health and social service sectors. About one third of the countries have responded that they have a boundary problem between health and social services in some way or another.

437. These boundary problems might occur for several reasons. The background on this issue seems to be the difference between the inherent nature of the services. Health care services have been somewhat characterised mainly as the cure of diseases, so its original feature rests on the "short-term" support.[65] Also, the traditional dichotomy of "health" and "diseases" has accordingly enabled health professionals to clarify the scope of services in a relatively scientific manner. However, in terms of social services, the recipients of the services are not supposed to be scientifically "cured" from anything; they are just supported in the light of their current condition. Therefore, social services have been rather less "unprofessional" in scientific or medical perspectives. Health and social services have developed separately according to the above rationales.

438. An example of the boundary problems would be regarding how to decide the needs and eligibility for care of the elderly, as well as the contents of services to which the beneficiary may be entitled. One of the characteristics of long-term care services is that it is not necessarily clear whether or not, or how, the applicant for services is entitled to the services. In the case of health care services, for example, it usually depends on the decision of the patient and consequent diagnosis made by the attending doctor, though there are many arrangements which regulate the behaviour of those would-be patients. In terms of general social service sectors, which are usually funded by general taxation, assessment of the needs and eligibility is usually based on the non-medical perspectives, except for benefits or services offered to people with disabilities.[66] These services are, however, usually means-tested. Thus, as the long-term care service is a kind of amalgamation of health and social services, there appears a discrepancy in the assessment of needs and eligibility as an entitlement to the long-term care services as a whole.

[65] However, it has to be noted that this feature of health care has been changing because of the increase of chronic diseases which needs long-term support by the health care sectors.

[66] However, this arrangements might differ among countries because this issue is also integrally connected to the status of the health care professionals or how the system of health and welfare services is structured in the country.

439. Difference in funding methods would also be an aspect of fragmented and unorganised services. For example, health services are funded by a fee-for-service system while social services are funded by capitation in Hungary. In Italy, only health care services are funded by the National Health Fund and social services are not covered. In Austria, visiting nurse services are strictly separated from other long-term care services. In the US, home and community based care services are not funded by Medicaid as an entitlement to the elderly and requirements for funding seems to be less rigid compared with health care services that are originally covered by Medicaid. Those arrangements might cause inefficient use of resources as well as ending up with providing services which are not well tailored to the needs of the elderly.

440. In addition, as a general factor in the financial perspective of boundary problems, it has to be noted that health care services have been made “universal” in many of the countries, whereas eligibility for social services is usually means-tested or has other limitations on access. Those settings seem to result in more demand for health services, encouraging greater utilisation of health services than social services. Significantly, this seems to have caused, compounded by other factors such as lack of resources for appropriate social services, situations where health care resources are utilised more heavily than they really should be in some countries. Some of them recognised heavier utilisation of health care resources (e.g. Japan, Spain). Portugal also finds a practical problem in allocating funds between health care services and social services.

441. However, the new scope of service provision under the umbrella of "long-term care" is solely determined from the perspectives of the elderly as service recipient. In other words, the contents of long-term care services could include whatever the elderly needs. Therefore, those discrepancies between arrangements of health care services and social services should be co-ordinated and integrated for the sake of the elderly in need of long-term care.

442. One major option is to integrate the departments of health services and social services. When either of the services is under the charge of an authority at a different level of government (as is often the case of health services), decentralisation of authority to another level of government would be also included in this measure.[67]

443. One of the most prominent examples is the Ädel Reform in Sweden, which started in 1992. In this reform, administration as well as financial responsibility for long-term care was shifted to municipalities. Management of long-term care institutions and day care facilities was shifted from county councils to municipalities. In addition, if the county council and the municipality agreed, management of visiting nurse services or other medical care such as home care could also be transferred to the municipality. Similar strategies are observed in other countries: merging of the home-help services and home nursing services sections in the municipalities (Finland), agreements between the municipality responsible for long-term care and the regional authorities responsible for health services (Denmark).

444. Another option, establishment of a new profession (e.g. “Care Worker” in Norway) with practical expertise in both health and social care to co-ordinate the services has been implemented. Multi-disciplinary assessment teams for deciding eligibility for the services or care planning (details are stated later), consisting of health professionals as well as social welfare professionals could provide a similar result (e.g. Japan). In the same context, a single point of entry to assist people with information and placement services (e.g. Canada), as well as common eligibility criteria for long-term care that is agreed

[67] This decentralisation of service management might cause some geographical discrepancy in the quality of, or even access to, care services. See OECD (forthcoming, 1998*e*) for more details.

upon between social and health care agencies (e.g. Britain), would also be a measure for service integration.

445. The responses of the member countries to the issue of how to decide needs and eligibility is not clear from the answers to the questionnaire, but there are some common features which can be seen from the current arrangements. First, along with the shift of authority to the local governments, as a general trend, each local government has the authority in deciding the needs and eligibility of the applicant (Czech Republic, Japan, etc.). Otherwise, it is often the case that the decision is made by a professional, or a team of professionals, responsible for the services (e.g. physician or nurses (Turkey, the US), state-employed social workers (Greece), or care managers (Sweden)). An option that is gaining popularity is the establishment of a multi-disciplinary team of professionals (doctors, nurses, social workers, etc.) to assess eligibility. Under this model are: Aged Care Assessment Teams (Australia), Geriatric Assessment Units (Italy), and Assessment and Guidance Units (Luxembourg).

446. In addition to the issue of boundary problems between health and social services, streamlining long-term care services in general is also being pursued in some countries. Australia started the streamlining of services through better co-ordination of Commonwealth and State governments, and went on to merge the funding for two residential care programs, nursing homes (more like for nursing care in a residential setting) and hostels (more like for combining personal care with secure accommodation), in order to adapt to the increasingly overlapping client profiles. Similarly, municipalities in Norway merged the administration for community services and institutional services into one. These revisions of the system will serve quality and cost-effectiveness of services, more equitable funding, reducing the boundary problems between institutions, and will also promote the goal of "ageing in place" by providing more opportunities for clients to receive the care they need.

447. Under the scheme where several kinds of services and their management are integrated, the question of how to tailor the services to individual needs while maintaining the overall goal of maintaining or improving the quality of care follows. Some criteria for quality assessment were discussed above, so this part concentrates on the method of tailoring services.

448. The measures in the member countries in terms of tailoring the services vary to a great extent, but basically the measures are combinations of those raised in this paper when discussing the responses for specific goals such as autonomy, etc. Some other examples are: enhancement of consumer choice by diversifying services (e.g. increased community care services in Australia) or introduction of cash payment (e.g. "consumer-directed" modality of services as promoted in the "Cash and Counselling" project in the US), integration of services for the sake of the service recipients (e.g. Canada, Norway), enhancement of professional expertise by training or examinations (e.g. Poland, Slovak Republic), "care management" based on a need-based approach (e.g. the UK). Where the municipalities take a major role in terms of long-term care services, granting subsidies for enhancement of the quality of care, especially in the institutional care settings (e.g. Denmark, Switzerland), is also seen.

Table 8.6: Integration and tailoring of services
Table 8.7: Duty/authority of deciding eligibility and contents of services

Cost-containment in the long-term care settings

449. Under the current situation of rising health and other social expenditures, there is an interest in limiting costs spent for long-term care. The measures are in some cases implemented along with the overall measures to control the increase of health care costs, or in other measures that are specifically designed for long-term care settings.

450. One popular option for cost containment is strict eligibility criteria via a needs assessment. More than one third of the OECD countries are taking this measure in some way or another. Examples of the details are: gatekeeping by assessment teams (e.g. Australia, Japan, and the UK), setting multiple requirements for eligibility along with a professional assessment (e.g. Luxembourg).

451. Limited funding from the (central) government (e.g. Austria, Norway), imposing user charges (e.g. Finland, Sweden, United Kingdom), and other financial arrangements are also found in many countries as a means of containing cost.

452. In other countries, more structural methods are also employed. For example, as seen above, the role of hospitals (providing insured services) has been shifted to the community (providing often non-insured services), which is also explained in the context of the shift to community care for the care of the elderly (e.g. Finland, Netherlands). In addition, decentralisation and integration of services are also sometimes considered as measures which are beneficial to cost-containment (e.g. Norway). They lead to more efficient and more flexible use of existing resources, through unified management of long-term care services as a whole, ranging from medical services to services which do not need high skills, or from institutional arrangement to community home-help services.

453. From a different perspective, countries have seen that promotion of preventative medicine would be beneficial to cost containment. Prevention of disease and frailty in the elderly is considered a good method of reducing health care costs, along with the improvement of curative medicine for diseases and frailty of the elderly to prevent the institutionalisation of the elderly. Bearing in mind that the definition of "preventative" is not necessarily clear, and that preventative care is theoretically difficult to cover in case of the health insurance scheme (as long as it is strictly based on the insurance principle), more than half of the OECD countries (e.g. Canada, Hungary, Norway, Switzerland) have health insurance schemes or the national health service which more or less cover preventative health care. In some other countries, the insurers of the health insurance scheme are also engaged in health promotion and disease prevention activities (e.g. Japan).

Table 8.8: Cost containment measures and preventative approaches
Chart 8.2: Cost-containment measures (long-term care) taken by countries, as a proportion of countries surveyed

Long-term care services for non-aged people with disabilities

454. Long-term care for disabled people has its own significance in the field of social policy as a whole, though the basis of the policy objectives is very much similar to the services for the elderly. The contents of services are also similar to those for the elderly; for example, in Sweden, municipalities are primarily in charge of transport services, home-help services, personal assistance and housing with special

services, etc.[68] This similarity is sometimes reflected in management and funding of those services for the disabled persons together with the elderly. For example, the Social Services Act in Sweden regulates long-term care services both for the elderly and disabled people. The new public long-term insurance schemes in Germany and Luxembourg finance services both for the elderly and disabled people. By contrast, in Japan, the younger disabled (below age 65) are usually not eligible for assistance from the recently legislated public long-term care insurance (to be implemented starting in 2000).[69] Instead, Japan has a tax-funded comprehensive package of policy measures for non-aged people with disabilities which includes long-term care services as one of the significant policy measures in the package (Action Plan for Persons with Disabilities for 1996-2002).

455. There have been some major developments in disability policy within some OECD countries, which also have implications for long-term care services for people with disabilities. For example, Sweden uses an "environmentally related concept" of disabilities, which means that disability is regarded as "something that arises when a persons with a functional impairment is confronted by an inaccessible environment," not just the personal characteristics that he/she has. This approach will impose responsibilities on public and private entities to ensure that all kinds of activities in the society are accessible to all, and that illness or injury are never turned into a handicap. The same paradigm shift is seen in the Disability Discrimination Act 1995 in the United Kingdom, which has employed the definition of disability that includes the element of "substantial and long-term adverse effect on his ability to carry out normal day-to-day activities." Following these trends, actual assessment of disability and determination of eligibility for services are using measurement of ADL (Activities of Daily Living), or ability to lead an usual daily living, instead of assessment of physical impairment. Sweden even does not have specific procedures to assess disability; instead, services are provided in a flexible manner according to the needs in the daily living of the disabled persons.

456. These changes have implications for the quality of long-term care services for non-aged disabled people. In this regard, a new Act concerning Support and Services for Persons with Certain Functional Impairments was introduced in Sweden in 1994, which established, among other items, the right to personal assistance. The local authority appoints assistance or provides financial support for individuals, who themselves become employers for the assistants. Assistance has thus been regarded as a legal right, and the relevant Act concerning Compensation for Assistance defined the responsibility of the state in financing the cost of such assistance in certain circumstances. Another example is "care management" based on a needs-based approach, introduced in the 1992 community care reform in the United Kingdom. The basic objectives are similar to those for the elderly care, especially in terms of "enhancing autonomy" of the disabled people. The Action Plan for the Persons with Disabilities in Japan also has autonomy as one of the key objectives within a comprehensive package of policy measures for disabled people.[70]

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[68] Promotion of social participation and employment of disabled people is also the duty of municipal social services, though they are not much related to long-term care services usually provided for the elderly.

[69] The reasons for this arrangement seem to be attributed to historical division of administrations between those for the elderly and disabled people, and to the necessity of ensuring generality and integrity in disability policy as a whole, which includes employment promotion, social participation, development of assistive devices, etc.

[70] Removing barriers against access of disabled people to day-to-day living in the society is also identified as one of the objectives in disability policy. This policy also has implications for long-term care for disabled people, because removing barriers to access helps to enhance their autonomy in their daily living. In this regard, the Americans with Disabilities Act (ADA) of 1990 in the United States assures equality of the access to the normal way of living in the society and the opportunity to participate in labour market, etc. and imposes, on such entities as employers, public facilities (transportation, etc.), as well as phone companies, the responsibility of removing barriers against such access. The contents of the above-mentioned Disability Discrimination Act 1995 in the United Kingdom are in the same line with the United States ADA.

9. HOUSING ASSISTANCE FOR LOW INCOME PEOPLE

457. Housing is one of the basic commodities which advanced societies expect to be available to all citizens. Special interventions in the housing market to assist low income families and individuals are often important because of the high housing costs, especially in some cities. Housing costs can take up an excessive proportion of a family's or individual's disposable income for low income earners, in the absence of any additional housing assistance.

458. The very nature of the housing market, and the range of factors which influence the supply of and demand for housing, can introduce difficulties for governments wanting to ensure the availability of suitable affordable housing and combat homelessness. Housing construction and purchase often requires substantial capital investments which can be heavily influenced by the cost of raising funds in the financial market as well as the general state of economic activity and consumer confidence. Many other factors also influence the achievement of suitable housing outcomes. The long standing internal migration of populations from regional to urban centres creates accommodation pressures in cities. Other socio-demographic changes, such as family breakdown, any tendency towards smaller family sizes and fewer families with children, ageing of the population and support for home based care and other long-term care alternatives for the aged all have significant influences on the desired quantity and type of housing stock. Cultural norms such as community preferences for home ownership or rental accommodation, as well as social infrastructure investment and the geographical location of job opportunities, can also heavily influence the nature of public policy on housing in respective OECD countries.

Overview of housing assistance for low-income people

459. This chapter seeks to provide an overview of government-funded housing assistance[71]. There is a predominant focus on assistance available to low-income households, but some of the measures extend their influence to also include some higher income people. Housing assistance is available in many forms through OECD countries, such as

- construction and management of public or social housing;
- support for private sector home construction, usually with an emphasis on ensuring a reasonable level of quality low cost housing in the private market;
- measures seeking to achieve high rates of home ownership; and
- subsidies and support for people renting in the private rental market.

Table 9.1: Housing assistance for low-income people in OECD countries

71 This chapter provides a preliminary investigation of housing policy issues and reform directions as they affect low-income households. Unfortunately, there is not a well-defined distinction between housing policy for low-income earners and general public support for housing. Further information from countries would help provide a more comprehensive picture of the nature of assistance in this policy area.

460. The broader housing market differs substantially between OECD countries. For example, the rate of home ownership can vary considerably between countries, for example between Norway which has a very high rate of home ownership at around 80 per cent while another affluent country, Switzerland, has a very low rate of home ownership of just over 30 per cent. The scale of the respective private rental market and the public/social housing market also differs between countries. The broader construct of the housing sector influences the degree to which countries will proceed with assistance measures directed to these specific housing segments, although some countries also use their housing assistance measures to promote particular types of housing arrangements, such as private ownership.

461. Although there are some differences between countries in terms of their broader housing assistance measures, as shown in Table 9.1, there are some common features of housing assistance arrangements:

- most countries have multiple elements to their housing assistance for low income earners, such as some type of income and housing cost-related subsidy plus at least one of public/social housing or support for new low-cost construction;
- the mix of assistance usually covers both renters and owner occupiers;
- many forms of housing benefits are means-tested, and may also be targeted to specific groups, such as low-income families with children, older people, people with disabilities and young people;
- there are usually constraints on the maximum level of subsidy provided to low income households;
- public/social housing is usually offered to tenants at a subsidised rental cost.

462. Looking at a few broader aspects, housing assistance may also complement broader housing policy objectives, such as the encouragement of owner occupation in Ireland and the upgrading of accommodation in Portugal. In the design of housing assistance measures, some countries have introduced complementary programme elements, such as support for construction of low cost housing alongside subsidies and promotion of home ownership.

463. Examples where increasing home ownership of individuals and families is the primary approach in housing policy include Greece, France, Germany and Norway. Greece provides low interest loans to low income earners so they can get affordable housing, through the central government. France provides subsidies to single people and families for the purchase and construction of dwellings, with the maximum amounts varying by family size and location (provinces or region close to Paris). These subsidies can be received either in the form of interest free loans or tax reductions of loan interest, and are means tested according to the resources of the family.

464. Germany also has an emphasis on home purchase assistance, although there is also considerable financial support for rental housing, for instance in the social housing programme. There are three components to the German system for assistance of owner-occupied housing: first, a basic component which provides cash benefits for up to eight years on purchase of owner occupied housing, including a child component and other benefits; second, subsidies for low income households within the social housing programme; and third, hardship allowances for low income owner occupiers. The first component replaced a previous system of tax rebates for home ownership in January 1996 which provided

more substantive benefits for higher income families. In the social housing programme, the income thresholds were lifted in 1994 so that families with average earnings now qualify.

465. Norway has a high rate of home ownership and, in this context, a National Housing Bank was established to deliver housing assistance programmes. These programmes include loans to low income people which disregard normal credit worthiness requirements, support for the building of low cost housing, and housing allowance for families with children and pensioners to subsidise either rent payments or mortgage interest.

466. Primary or sole reliance on home ownership policies to assist low income earners into housing can carry some risks. The difficulty of low income families to contribute a deposit or initial capital sum for the purchase as well as the financial vulnerability they may face if the capital value of their investment declines due to regional economic restructuring mean there are some risks with this strategy. Greater overall emphasis on home ownership may also reduce the ability of unemployed people to move to different locations where job opportunities are available, thus reducing the degree of labour market flexibility. The upside is that once the housing purchase is complete, they have a substantial investment (which requires ongoing maintenance to keep its value) and they are now relieved of future rent/repayment commitments, which may be useful if they face retrenchment later in their working life or as they enter retirement.

467. Japan and Korea have instead put emphasis on the construction of public housing for low income people, which requires substantial initial capital investments and ongoing administration for maintenance of the property and the collection of rents. In Japan the national and local governments have co-operated to develop housing for low income people who are subsequently charged low rents. Korea pursued a large public housing project between 1989 and 1995 to build 190,000 rental apartments for low income earners (representing an increase in the housing stock of around one per cent). Korea switched its policy direction away from home purchase support, through a low interest loan arrangement for very low income earners, because the very restricted population targeted for assistance generally did not have sufficient private equity to qualify for loans from commercial sources. They are now about to put in place a rent subsidy programme as part of a new protection law for the poor.

468. As noted earlier, the most common housing assistance approach is a hybrid arrangement which supports the construction of public/social housing, subsidies for rental costs incurred by low income earners and often corresponding incentives for increased home ownership. With hybrid arrangements, governments have a number of potential options to provide assistance to low income earners requiring housing assistance, the public financing of housing assistance can be more evenly spread over a number of years and housing assistance can be tailored better to the features (e.g., high ownership or private rental rates) and the specific market failures in the country.

469. The Czech Republic has a policy to promote both housing construction and cash assistance to households. A state subsidy and mortgage facility provides subsidised mortgage interest rates (by four percentage points), communities are given subsidies to provide infrastructure and public housing, and a housing allowance was introduced in July 1997 when there was a deregulation of rent levels. In Hungary, families receive assistance to purchase or build housing at the same time as the government has an extensive programme of house construction.

470. In the United Kingdom, there are also two major elements to housing assistance of support for public and social housing, as well as Housing Benefit which provides either a cash benefit or rent rebate to low income private sector tenants. New Zealand similarly provides a means tested payment (Accommodation Supplement) which is available to subsidise rents in the private and public sector

housing market and reduce costs of purchasing accommodation, while their public housing stock is managed by a Government Business Enterprise "Housing New Zealand" which charges market-equivalent rents. This provides greater transparency of the level of subsidies provided to public tenants, as well as reducing some of the economic distortions which could emerge between renting in the private or public sectors. Norway also has an approach to have market based rents, with people on low incomes receiving cash assistance to make rents affordable.

471. One further feature of housing assistance across the OECD is that it is usually highly targeted, either in terms of means testing access to housing assistance measures and/or the quantity of assistance adjusted according to the individual or family resources. This is apparent even in countries where other social security entitlements are universally available (e.g. Sweden which has tapers on housing assistance of 20 per cent on the income of families and 33.3 per cent for young people without children) and there has been a trend towards greater targeting of housing assistance programmes to low income earners (e.g., Norway, Ireland, United Kingdom). Ireland, for example, has a general policy approach that they should intervene in the housing market to support those who do not have sufficient financial resources to access or afford suitable accommodation.

Governmental responsibility for housing assistance

472. One of the challenges with these housing programmes, particularly those with multiple elements, concerns the number of different players generally involved. It is usual for more than one level of government to be involved in subsidies for housing and management of public housing, in addition to the role which may be expected from the private housing sector, social housing groups and the community/voluntary sector in contributing to the achievement of housing outcomes.

Table 9.2: Governmental responsibility for housing policy across the OECD

473. The national government level is usually responsible for setting the broad housing assistance framework, with a few examples such as in the two federal systems of Australia and Germany where the state level administration also plays a part in establishing the overall programme framework. It is also generally the case that the national government bears the full funding cost of the housing assistance schemes, perhaps in line with their major responsibility for setting the programme framework. Nevertheless, in some countries there is a substantial State and/or local government or community contribution to the funding requirements, such as Germany, Portugal and Australia.

474. Once we start to look at the setting of the detailed programme rules, it is more common to have greater state and/or local involvement in the process. In some countries, States and/or local communities can set their own specific rules within the overall national framework (e.g. United Kingdom, Austria). Once we get to the level of delivery and administration of the programme, any national perspective is much more limited, as states, municipalities, specially established local housing authorities and/or local communities have the dominant responsibility for the delivery of services.

475. With this multiplicity of administrative arrangements, getting agreed, consistent national outcomes may be difficult, and there may be considerable risk of cost-shifting and shifting of responsibilities between the different sectors if their respective roles are not clear. These factors can contribute to either sub-optimal outcomes for low income individuals and families for whom the

interventions are primarily designed or alternatively clear inefficiencies with the assistance provided. On the other hand, greater involvement of local government and community bodies with greater knowledge of local factors and understanding of individual requirements may allow interventions tailored to individual and family needs, and complement the involvement of the central government which as a financing advantage.

Recent developments in housing assistance policy

476. Just like many areas of social protection have been subject to change by governments in a number of OECD countries over the last ten or so years, as documented in previous chapters of this report, the housing sector has been no exception.

Table 9.3: Reform of housing assistance, selected OECD countries

477. Some of the more significant trends in these reforms to housing assistance measures include:

- some expansion of housing allowances which provide direct cash assistance to low-income households (e.g. Australia, Finland, Ireland, Greece);
- some increase in the means-testing or targeting of benefits (e.g. Germany, Norway, Poland);
- some shift away from direct measures promoting increased housing supply - the "bricks and mortar" type of assistance (e.g. Norway, United States, Finland), while this intention in Denmark has not been acted upon to date;
- support for public/social housing and/or for home construction and ownership still remain important elements in the housing assistance approach of a number of OECD countries (e.g. Ireland, Poland, Switzerland, Korea and Mexico);
- an emphasis on delivering market based rents in the public/social housing sector supplemented by subsidies then provided to low income families in a few countries, such as Norway, New Zealand and the United Kingdom;
- some reduction in mortgage loan tax relief (e.g. Finland, Norway); and
- from the perspective that municipalities and local administrations already have the primary responsibility for the local administration and delivery of housing assistance measures in most OECD countries, this has been further emphasised by developments in Portugal, Poland, Mexico and Sweden.

478. There are some interesting developments in terms of changes to the package of housing assistance being provided by a number of countries. In some instances reforms being undertaken by countries have been very broad.

479. Finland has changed its housing assistance measures, particularly in the area of support for housing construction as recently as 1996. They now provide a state-subsidised housing loan, interest subsidies for loans from financial institutions to individuals, a new concessional interest loan for building

companies to encourage them to produce more housing for ownership, and special incentives for young first-home buyers to save for a house deposit. However, they now accept that the building sector has benefited from measures such as these, and the Government is reducing its direct support for housing, tax relief for mortgage interest has been declining in recent years, and greater emphasis is being placed on housing allowances.

480. The Housing Reform Bill, introduced in Germany in July 1997, has also established a new basis for housing policy, principles and measures to operate from 1999. The central principle will be needs-based assistance for low income households in new dwellings and existing housing, with housing cost relief to be based on income and comparative rents. There will also be changes to the government support for house construction.

481. Prior to 1991, social housing needs were traditionally met in Ireland by the provision by the local housing authorities of housing for rent. The 1991 *Plan for Social Housing* opened up a new range of opportunities to supplement the traditional approach, including expansion of the role of the voluntary housing sector in meeting social housing needs and the introduction of shared ownership arrangements and other schemes. The measures introduced under the 1991 *Plan for Social Housing* were reviewed and updated in 1995 and again in 1997. In addition, the numbers availing rent and mortgage supplementation from the local health boards has grown sharply in recent years.

482. New proposals in Italy, which have been approved by the House of Representatives on 11 March 1998 but are still to be approved by the Senate, would provide additional assistance to expand the supply and lower the cost of accommodation for the two groups of young couples and families with young children. If passed into law, they could receive financial assistance if they wanted to buy a house, and financial incentives would be available for those who provide low rent accommodation for these target groups.

483. As mentioned earlier, Norway has a high rate of home ownership for an advanced country. In this context, Norway has been moving away from direct subsidies to encourage housing supply (such as tax relief to housing mortgages, interest rate subsidies on loans). Greater attention is being given to rent subsidies for people on low income. This has switched the nature of housing assistance from general assistance to a greater degree of means-testing of assistance, however the promotion of low cost dwellings is still an important element of the Norwegian policy approach. These policy changes are also being pursued to introduce greater transparency in government support for housing of low income households.

10. OTHER ISSUES

Public support for social programmes

484. Through social security programmes, OECD countries seek to protect those who have difficulty supporting themselves. Social security measures can also have other goals, such as recognising and promoting horizontal equity through a range of measures directed to assisting families with children and those caring for other disadvantaged persons, as well as intergenerational transfers from those of working age to children and the elderly. Social security entitlements can also be viewed as a significant segment of the total remuneration package for workers, providing deferred income in retirement, insurance against unemployment and long-term sickness, as well as additional benefits for those supporting children.

485. Comprehensive social security programmes require ongoing public and political support if they are to continue. After all, these are the key stakeholders contributing to the funding of the programmes. This means that governments need to actively monitor and evaluate their social security measures to ensure they are meeting their intended objectives, to include the community in debates about possible major changes, and respond appropriately to reasonable suggestions from the community for change.

486. From the responses of countries to the Caring World synthesis questionnaire, it was clear that there are a multitude of strategies and approaches in place to ensure there is ongoing support and confidence in social programmes. This ranges from major consultative exercises which are mainly focused around significant proposals for social policy reform, formal Ministerial-level consultative forums, the role of parliamentary processes and general publicity of measures and the testing of public opinion to reforms or reform proposals. The nature of policies themselves, such as whether they respond to public concerns, as well as the form of introduction of new measures incorporating transitional elements to protect existing recipients or the gradual introduction of new measures, may also be important in shaping public opinion on policy changes.

487. The Norwegian Government in 1994 issued a Welfare White Paper, *Welfare Towards 2030*, in order to outline the government's program for that country's welfare state. A basis was established for a structured and better informed public debate on the measures through providing commitments and principles regarding programmes of the Norwegian welfare state, clearly setting out the main challenges facing social programmes in Norway, and documenting the Norwegian Government's policy proposals to respond to these challenges. Importantly, the document did not only concentrate on the most pressing immediate social policy challenges but also took a longer term view with consideration of the viability and requirements of social programmes well into the next century as the Norwegian population ages.

488. Canada has undertaken a number of extensive public consultation exercises on social policy issues over recent years. The Employment Insurance reforms followed two years of public consultations and the new directions for the Canada Pension Plan were influenced by consultations sponsored by the federal and provincial governments. A Task Force on Disability Issues held meetings across Canada to solicit community views. Mexico has established "councils of municipal development" as a means of

obtaining the views of community representatives, in line with their strategy to overcome poverty through wide community participation.

489. Austria presented an expert study on pension reform to the general public in July 1997 and media coverage of the event has generated a high degree of public awareness of the issues. Similarly, the Minister for Health and Welfare in Japan plans to release a White Paper on Pensions as well as sufficiently detailed proposals for reform of the health care system, designed to solicit the views of the community on the nature of proposed reforms in these two areas. In the United States, assuring future financial security of old-age retirement income programmes has been identified as a major policy priority for 1998. Forums are being conducted nationwide to inform the public of the issues and to define parameters for change. The United States plans to start developing concrete proposals for reform by the end of the year based on the broad consensus that develops during the course of national discussions. Ireland established a National Pensions Board in 1986, comprising representatives from government, the social partners and other interested groups, to advise on all aspects of pensions. It produced five reports up to the end of 1993, and many of the recommendations have been implemented or influenced government policy.

490. Some countries have permanent consultative bodies charged with the responsibility to provide expert views to government on major social policy issues. The Social Security Advisory Council in the United Kingdom, an independent body which advises the Secretary of State, can receive references from Ministers on issues to consider, undertakes its own public consultations to assist in forming views, and the government formally responds to its reports in the Parliament. Turkey has an Economic and Social Council, which evaluates studies on social policy issues with their conclusions introduced into public debates. A slightly different type of body is the Federal/Provincial/Territorial Council on Social Policy Renewal, a Ministerial-level body established in Canada in June 1996, which holds meetings to discuss practical solutions to social program issues. In Denmark, the Social Commission investigated the entire system of transfers between 1991-93 and reported its findings to the public through a large number of written reports and popular presentations.

491. Consultative processes may seek to involve key interest groups, such as the trade unions (e.g. in Poland), the social partners (e.g. in Germany, Greece). Countries such as Austria and the United Kingdom noted the importance of the views of broader groups representing those affected by the reforms, which may include voluntary organisations. There are a number of institutions advising the Irish Government on an ongoing basis which have representatives from the social partners and non-government organisations. These include the National Economic and Social Council, National Economic and Social Forum, Combat Poverty Agency, National Social Services Board, Pensions Board and the National Council for Ageing and Older People.

492. The key role of the Parliament in discussing and amending social policy reforms was also underlined by a number of countries (e.g. Denmark, New Zealand, Poland, Switzerland). This primarily reflects the nature of the reform process which requires parliamentary approval, as changes to social programmes generally require legislative amendments. The Parliamentary process also provides an opportunity for alternative community views to be introduced into the policy debate and may influence the final outcome of the reforms. Governments take such reactions to policy initiatives seriously, but do not always take on board every suggested change as they weigh up their overall policy objectives. Switzerland, with the possibility of a referendum being pursued on controversial draft legislation, has a keen interest in pursuing compromises within the political process with interested parties providing input to the political process.

493. Once reforms are agreed upon, they are often then associated with general media publicity or information campaigns targeted at those affected by the measures (say through individualised letters to benefit recipients, as in New Zealand). Politicians also have a key role in leading and contributing to the public debate on social policy issues and reform, especially in explaining social programme initiatives to the general public and responding to major public concerns or ignorance. The Japanese Ministry of Health and Welfare is increasingly using the Internet web site to provide social policy information. Germany, among other countries, has dedicated phone-lines and specific brochures available to provide more detailed information on specific initiatives. This may also be associated with public polling to gauge the views of the community towards specific reform measures. As a longer-term measure, the monitoring and evaluation of reforms was also emphasised by Norway as necessary to get a clear picture of the consequences of any changes, and the information generated which should encompass community views and impacts should provide a sound basis for any adjustment of previous reforms.

494. The challenge of getting reforms accepted by society is not the same but may differ according to the size of the change and the nature of the groups affected. Hungary noted that it is easier to have new policy initiatives for some groups accepted by the public compared to reforms for other groups, drawing the distinction between programmes for the elderly and disabled people having greater political legitimacy in that country compared to programmes for working age people and their families. The United States indicated that the major health reforms proposed in that country between 1992-93 in part failed because they did not generate a consensus among affected constituencies around the reforms.

495. Other countries noted the importance of the reform measures themselves responding to community concerns, as a means of generating greater public support for and confidence in social programmes.

496. The Australian response noted that reforms to the unemployment benefit system to tighten up administration respond to community concerns that only the genuinely unemployed should receive payments, the increased waiting period before new migrants can get access to social security payments will promote greater confidence in the overall immigration programme, and tighter targeting of payments generally responds to community comments disparaging “middle-class welfare”. The positive, leading role of government actions was also noted with the proposed National Youth Week intending to reassure the community of the positive contribution young people can make, celebrate their achievements and provide some focus for their concerns.

497. A number of countries have sought to outline the comprehensive nature of their reforms to the public, through pursuing reductions in social security programmes at the same time as they have been promoting greater integration of the disadvantaged into the labour market. For example, Norway emphasised the importance of the “work line” initiatives, which provided an expansion of active labour market measures, as a key element of generating public acceptance of the tightening of social security arrangements in that country.

Changes in administrative practices

498. As noted above, there are pressures to lessen the resources being devoted to administration of social programs as well as enhance the quality of administrative processes. This has been a feature of changes to public administration in a number of OECD countries, which have sought to deliver performance improvement, changes to accountability and control mechanisms and budgetary savings (OECD 1997d), with such changes spanning across the many spheres of government rather than being confined to social programmes.

499. Two main ways in which a number of OECD governments have sought to achieve administrative improvements of relevance to social programmes encompass the pursuit of customer service improvements which can be similar to the type of developments pursued in many private sector service industries and/or measures to minimise the extent of fraud and overpayments represented in social assistance expenditures.

Improving the quality of service

500. Within a number of OECD countries, there has been increased focus on government administration to deliver the necessary outputs and outcomes sought from programmes, as compared to the previous bureaucratic concern with controlling programme inputs. A number of strategies have been introduced, in varying forms by some OECD countries, including defining desired service standards with particular reference to customer requirements, improvements to the structure of service delivery, measuring customer satisfaction, and comprehensive monitoring and evaluation of programme outcomes.

501. One strategy designed to achieve customer service improvements has been the development of customer service charters in the United Kingdom, which among other things indicated the level of service that consumers of public services should expect to receive from the relevant public authorities. Service charters were initiated in 1991 as a ten year initiative and now span over 42 main charters and thousands of local charters covering local service providers such as police forces, fire services and urban services. In the public sector environment where there are no (or few) market pressures to encourage productivity enhancements and improved price competitiveness, these customer service charters also provide firm benchmarks of service standards against which authorities need to publicly and regularly report. These charters are also an integral part of the performance agreements of the agency heads and other senior managers in the organisation. The introduction of public service charters is also a feature of the reform process in France and is becoming more widespread in Australia. Improved service quality is also a priority in Canada, Finland, France and New Zealand (OECD 1997d) which have taken different approaches to the United Kingdom.

502. The National Performance Review in the United States headed by Vice-President Gore set itself the target of achieving government expenditure reductions of US$108 billion over five years from 1995-99 (Gore 1993) while also achieving quality improvements. This was to be achieved with the implementation of recommendations to streamline government processes, giving government employees greater autonomy (still within a clear structure of delegated authority and responsibility as well as accountability to the Executive and the parliament), and a greater focus on the needs of customers and improving performance of government activities.

503. Public sector reforms in France since the late 1980s have in particular sought to improve outcomes from public programmes. One interesting feature of those reforms has been the establishment of *Responsibility Centres* which have given local managers greater autonomy in how they operate and greater authority in exchange for expectations of improved results as well as greater accountability for improved results. Some experimentation with service contracts, starting in 1997, may lead to further progress in addition to that achieved by the Responsibility Centres.

504. In some OECD countries there have been major structural changes to the delivery of social programmes. One aspect has been the separation of policy and monitoring functions from the task of delivering entitlements, as pursued at different times and in different ways in the United Kingdom, New Zealand, and more recently, in Australia. The Next Steps reform in the United Kingdom, the separation of the Social Policy Agency from the Department of Social Welfare in New Zealand, the separation of policy

and monitoring functions carried out by the Department of Social, Community and Family Affairs from the tasks of delivering entitlements (Social Welfare Services Agency) and processing appeals against decisions on entitlements (Social Welfare Appeals Office) in Ireland, and in Australia the establishment of Centrelink to provide social security and other welfare services as a complement to the establishment of a competitive employment services market are all designed to produce more effective services for social security recipients.

505. The December 1997 financial law in Italy created a social fund, under the Minister for Social Affairs, which gathered together funds already allocated to various sectors such as drug abusers and handicapped people. This is to form the nucleus of a fund for social policies (separate from social security and health programmes) to be distributed to the regions by this Ministry.

506. In its Welfare White Paper, the Norwegian government noted the importance of improved administration. This White Paper emphasised the potential for simpler programmes which the public can understand better as well as being easier to administer properly, greater competence and quality control in public administration as well as better co-ordination of social programmes delivered by a number of agencies so they are better tailored to the needs of the individual.

507. A system of records based on a unique social security number is gradually being implemented in Greece. In addition to enabling cross-checking, it should improve the information base of the system and allow information transfers between (the over 300) social security funds. This should also encourage the spread of information technology, which is another administrative objective.

Reduction of social security fraud

508. Increased attention is being given to detection of social security fraud across OECD countries. Reduction of fraud will not only reduce overall expenditure and assist governments with their fiscal targets, but also has the potential to increase public confidence in and broad acceptance of the management of social security measures. In turn, a social security system which the general population believes is well managed and not subject to widespread fraud is also likely to be subjected to fewer fraudulent claims as the minority of dishonest recipients suspect there is a high likelihood that any illegal actions will be detected.

509. A number of countries indicated that they did not consider fraud was a problem in their social security system with the administrative controls they have in place (e.g. Korea, Norway). While Switzerland noted that generally fraud was a marginal phenomenon in most areas of social insurance, there was much more public sensitivity to the aspect of potential welfare abuse in the unemployment insurance and social assistance programmes, corresponding to the relatively recent introduction of long-term unemployment as a phenomenon in that country. The considerable activity in many OECD countries to tighten the administration of their unemployment benefit arrangements, as discussed in Chapter 5, suggests that Switzerland is among many countries with a public interest in reducing any fraud and abuse of unemployment payments.

510. Most of the social security fraud in New Zealand is also believed to be opportunistic, in the sense that people do not seek to misrepresent their circumstances at the stage of application, but rather fail to notify changes of circumstances while they are in receipt of benefit, such as getting a job or a change in their personal circumstances.

511. Germany also imposes work testing requirements on social assistance recipients who can reasonably be expected to work, and will reduce the standard rate of assistance by at least 25 per cent if they refuse a job, with further reductions at the discretion of the individual fund provider. With the Public Assistance System in Japan, there is strict monitoring of income and assets, enhancing measures to prevent gangsters from receiving illegal public assistance. There is also a reinforced audit system. In Poland, there are obligations on those receiving social assistance to inform the social worker of a change in personal or financial situation, and the social worker can demand a declaration of the financial circumstances of the family. Recipients of benefits in Finland have their eligibility for payment checked at regular intervals, and cases of fraud are brought before the courts.

512. Fraud detection and prevention measures have been an integral part of the design of Canadian social programmes, particularly to cover the potential concern over double-dipping of benefits with a range of programmes administered by the different levels of government. A number of studies in Canada have also suggested that the incidence of fraud in provincial and territorial social assistance programmes is around 3-5 per cent of expenditure. Most Canadian provinces have also increased the number of fraud investigators in their social assistance programmes. In Quebec, the fraud investigators also have wide-ranging powers, and can force relatives, friends, neighbours and local clergy to co-operate or face a fine of up to C$1,000. Advances in computer technology have allowed governments of various levels to compare participant records and agreements are being struck between provinces to data match records so clients cannot get assistance in more than one jurisdiction.

513. Data matching of individual records by computer also operates in Australia, Ireland, Japan, and New Zealand, among other countries. Japan has a basic pension number to every insured person to enable smoother exchange of information. Germany is in the process of establishing a process of automatic comparison of data at a central point to exclude possible multiple receipt of social assistance, check whether the person is engaged in a particular type of employment or whether they are receiving other federal benefits or accident insurance. Sweden also has a legislative proposal to make better use of computer technology. The Income Eligibility Verification System (IEVS) has been operational in the United States since the 1980s, to allow states and local governments to verify details about welfare recipients. Unfortunately many states do not use this system effectively, although there are indications that most states are improving their systems so there will be improved data matching capability.

514. In Canada, more emphasis is also being placed on verification of details at the stage of application. It is now more difficult for applicants to qualify for assistance until their information on their personal and financial circumstances have been verified. Greece also has strengthened its prevention mechanisms, in particular with new criteria and uniform assessment of people applying for disability pensions. Poland has a similar interest in strong attention at the stage of benefit application, with an obligation that social workers have an interview with every person or family applying for assistance, to better assess the financial situation of the household and assess whether there are other members of the family who could help the person applying for public assistance. In the United States, all states implemented anti-fraud units in the 1980s with an emphasis on pre-eligibility screening, where they believe most fraud was occurring.

515. Ireland has special investigative units with inspectors from both the social security and tax authorities, using joint expertise and legislative powers to detect social security abuse and evasion of tax and social security contributions. Other specialised units target certain industrial sectors, unemployment schemes in regions and control of social security abuse, generally using knowledge of the local area and prevailing conditions. Overall, more intensive and focused control measures has led to a 27 per cent increase in control savings over the three year period 1995-97, with almost half of these savings from unemployment payments.

516. Recent estimates of the level of fraud by claimants in the UK social security system suggests amounts of around £4 billion a year, within a total Budget of around £100 billion a year. To counter this estimated level of fraud, the UK Government has put in place a comprehensive strategy with the three components of prevention, deterrence and detection/investigation. Prevention includes systems and procedures that minimise the scope for fraud, establishing and checking personal information provided in new claims, and initiatives for data matching. Deterrence includes use of court processes for persistent and large scale offenders, anti-fraud campaigns and publicity. Detection and investigation includes a large number of fraud investigators, improved information through data matching, risk analysis and public information, and greater co-operation between relevant agencies.

517. Sweden has also put in place new regulations from October 1997 to increase the powers of the Social Insurance Office to investigate and review matters, including the right to visit the insured person. The insured person must also swear that any information they give to the Social Insurance Office is correct.

518. Portugal has intensified its investigations focusing on the three payment types of sickness allowance, invalidity pension and unemployment allowance, and reports noticeable declines in the number of beneficiaries, the duration of benefit receipt and also expenditure. Social security fraud is a major policy concern in Greece, particularly regarding disability pensions. Since 1993, the extent of disability and particular medical conditions required to establish eligibility has been clarified, while care has been taken to ensure the objective evaluation of each applicant through the composition of disability boards, appeal procedures, etc.

519. Australia provides an example of a mature fraud prevention and detection system. The key elements in the Australian program are:

- a national data matching programme which cross-checks information from the Department of Social Security with other individualised data held by Australian government agencies including the taxation office and immigration department;
- reviewing customers selected on the basis of computer generated risk assessments;
- reviewing the entitlements of customers at set durations of payment receipt;
- mobile review teams to visit customers at their place of residence, as well as making inquiries with employers and other relevant people; and
- actively soliciting information on benefit recipients from the general public.

520. Some of the estimated results from this programme of fraud detection and deterrence suggests savings of A$92 million from data matching and savings of A$218 million from mobile review teams. One of the most significant reasons for social security overpayments in Australia is non-declaration of earnings to the Social Security department, as the level of private income can have a significant effect on social security entitlements in the Australian means-tested system. Improvements in debt recovery activities, including the withholding an amount from future social security entitlements, garnisheeing wages, tax refunds or bank deposits, and increased use of private mercantile agents to recover small debts has led to a total of A$251 million in overpayments being recovered over the 1995-96 financial year.

521. New Zealand has recently increased the penalties for fraud, and has been mounting an increasing number of prosecutions. This has been done at the same time as clearer instructions have been issued to clients about their responsibilities.

522. New Zealand has also restructured its administrative arrangements, with the investigations function being separated from the payment functions to give some special emphasis to fraud detection activity. Sweden expects that clarification of the responsibilities of the Swedish National Insurance Board and the regional social insurance offices will reduce the opportunities for people to cheat the system.

11. CONCLUDING REMARKS: THE DIRECTION OF RECENT REFORMS

523. Member countries asked the OECD Secretariat to assess the direction of recent social policy reforms against the nominated social policy goals of:

- increasing self-reliance;
- readjusting intergenerational burdens;
- improving flexibility and economic growth;
- reducing incidence of low incomes and child poverty;
- improving the efficiency and quality of service delivery;
- improving public finance;
- improving social cohesion; and
- ensuring access to basic social needs.[72]

Increasing self-reliance

524. Increasing self-reliance has been one of the dominant themes of recent social policy reform. This has responded to a number of separate pressures: social programmes being scaled back as a result of fiscal consolidation, an interest to reduce the extent of long-term welfare dependency, as well as the introduction of price signals to modify usage of health care services and, less prominently, long-term care services.

525. Notions of self-reliance may appear inconsistent with social protection arrangements established to provide help for those unable to look after themselves. However, passive benefits (in-cash and in-kind) will not provide a long-term solution to poverty alleviation and other key social policy issues. Self-reliance or self-help with dignity is an essential pillar of the social protection system as well as the spirit of solidarity. In this context, Governments are seeking to achieve a reasonable balance between providing for those in need and encouraging people to become independent.

526. The 'broad picture' has been that access to social insurance programmes has been restricted through more closely-defined eligibility criteria, reduced benefit levels and reduced duration of benefits. Such changes have no doubt prompted people to rely more on their own financial resources or undertake more intensive job search efforts. However, others will have fallen back on any means-tested safety nets.

[72] Reducing the incidence of low incomes and child poverty and ensuring access to basic social needs are dealt with together below because of the considerable overlap between these two goals.

Means testing has excluded those with higher incomes, but it can reduce work incentives for those with low incomes. People can be trapped in poverty or unemployment (see Atkinson 1993, Ingles 1997). Thus what might be referred to as 'conventional' policy reforms -- changing insurance eligibility criteria, benefit levels, etc. -- can impose greater self-reliance on some but trap others in dependency.[73]

527. In an attempt to avoid this dilemma, social security recipients of workforce age are being increasingly directed towards active labour market measures, such as training, rehabilitation and work experience placements to improve their job prospects. Supporting this, increased requirements are being placed on those of workforce age to pursue active job search and accept suitable employment as a condition of benefit payment -- existing requirements are being strengthened for those on unemployment payments (sometimes in association with increased penalties for non-compliance) and new conditions are being placed on lone parents and social assistance recipients. This is often formalised through a contract or written understanding between the recipient and the public agency on their respective responsibilities.

528. Universal coverage of health care reduces the likelihood that access to affordable health care will present a barrier to people seeking low-paid work. In the United States, which does not have a universal health care insurance scheme, states have the flexibility to extend Medicaid eligibility for people who move into work. Cost sharing is used in a number of countries to reduce consumer demand for health services, through introducing a greater financial burden on patients. Cost-sharing has taken three forms: copayments, where a patient pays a set fee for each service; coinsurance, where patients pay a proportion of the total cost of services; and deductibles, where patients pay the first segment of the service cost up to a fixed amount. Cost sharing usually does not apply to those on very low incomes because of concerns that it would adversely affect necessary health access, and the predominantly nominal fees imposed would have only marginal influence on the behaviour of higher income households.

529. Greater emphasis is being placed on private provision for retirement income, with some ongoing public involvement though tax concessions and financial regulations. Recent OECD work on resources in retirement suggests that there is considerable substitution between public pensions and other marketable wealth available to retirees, although a greater reliance upon pensions in the total retirement income system tilts the distribution of benefits more towards lower income groups. In the arena of care for the elderly, the need for intensive hospital care is decreasing, due to decreased acute or fatal diseases and improved health status of older people. Accordingly, the importance of home and community care services increases, to assist people to cope with their chronic conditions in more familiar, client-focused surroundings which has respect for their autonomy and privacy.

530. The fiscal consolidation process is driving many of the changes to restrict eligibility and social programme outlays. Choices are being made to limit public expenditures, with the expectation that individuals will either manage on lower incomes or draw on income from other sources, such as increased work effort or savings. To date, the reform process has been fairly modest in most countries, reflecting natural conservatism about scaling back social protection arrangements. While health expenditures have stabilised for a number of years as a proportion of GDP, public social (non health) expenditure as a proportion of GDP is still rising in most countries but now at a slower rate.

[73] Increased means-testing of family assistance benefits also indicates a reduced role for government in terms of supporting families and family formation, however, in some instances, this has been accompanied by an extension of the types of assistance available for families and an improvement in the value of assistance for low-income families.

Re-adjusting intergenerational burdens

531. Social policies have an explicit intergenerational perspective. Benefits tend to be concentrated at the beginning and end of one's life. For example, families with dependent children are likely to receive considerable net benefits from education child care programmes, subsidized health initiatives for women and children, as well as direct cash benefits for their children and/or reduced taxation liabilities. Those of workforce age are likely to be net contributors to the tax-transfer system, except for those who are economically inactive. When they retire, they again may revert to being net recipients of social benefits as they access retirement pensions, and may be more intensive users of health care and long-term care services.[74]

532. Some governments are concerned that they will not be able to meet the budget costs of pay-as-you-go (PAYG) retirement pension schemes for a growing number of dependent older people, with a growing imbalance between anticipated contributions and benefits in many public pension systems. Despite changes to retirement pension arrangements in many countries over the past decade, more remains to be done to improve the fiscal sustainability of public retirement pensions and remove disincentives built into many pension systems which discourage people from working longer -- with problems such as less than actuarial adjustment of benefits in circumstances of early retirement, very limited accumulation of additional pension benefits for extra years of working, and restrictions on work participation for those who are receiving a pension. This needs to be complemented by measures to reduce the scope and incentives for people of working age to take premature retirement through inappropriate access to other social security benefits, such as disability pensions, sickness benefits and early retirement pensions. Unless further reform is undertaken soon, taking into account the time lag before policy changes become fully effective, rising pension costs will limit the flexibility and capacity of future governments to be able to react to new social problems.

533. As argued more fully in the 1998 report to the OECD Ministerial Council entitled *Maintaining Prosperity in an Ageing Society*, there is a need to reassess the overall extent of public provision devoted to the older retired population, in view of the reductions in poverty among the older population and the extent of private financial reserves held by some aged people. A refocusing of social expenditure is necessary in order to respond to new social risks, such as increasing poverty among families and the need for life-long learning (including early childhood interventions and improving the school to work transition). Tackling such issues is all the more necessary, given that such policies can lengthen the working life of a population which, although ageing, is healthier for longer than ever before. Excessive government transfers to the retired population already seriously constrain the ability of some governments to divert public resources to these apparent social policy problems (Esping-Anderson 1997a).

534. As most health expenditure is already devoted to interventions during the last two years of life, recent projections of the likely expenditure effect on health costs of ageing populations are in the order of a 10-20 per cent increase, a significant but not alarming increase. While the trend is by no means widespread, some countries are increasing their efforts to devote specific research into more effective treatments for some specific health problems of older people (such as dementia). However, this trend is being coupled by increased vigilance in most countries regarding evaluation of new technologies and overall evaluation of treatment, reflecting countries' interest in effective health interventions, particularly for the aged.

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[74] Falkingham and Harding (1996) provide one example of an attempt to measure the lifetime distribution of social security and taxation arrangements, for Britain and Australia.

535. There are promising signs that not only are people living longer but that they are healthier and more active in their older age, as measured by disability-free life expectancy. Nonetheless, there has been a rise in intractable chronic conditions which accompany an ageing population. This necessitates a new approach to health care, in which the emphasis shifts from diagnosis and treatment of disease, to an emphasis on prevention of the diseases themselves. This fact, along with other pressures on the health system, is leading countries to develop comprehensive population-based health approaches to promote healthy lifestyles and thereby decrease the incidence of chronic disease. These approaches may also produce substantial benefits for the health outcomes of new generations.

536. Long-term care is receiving justifiable attention in countries preparing for a population with a larger proportion who are elderly. While family members continue to have the greatest responsibility for the care of elderly people, the share of responsibilities is changing, and governments are becoming more engaged. Policies are emerging to respond to issues of the availability and affordability of care, as well as respond to increased demands from older people themselves for increased privacy, autonomy and choice. The financing of long-term care is receiving considerable attention in a number of countries, and some have chosen to introduce additional mechanisms to improve the capacity of people as they grow older to afford the care they need.

537. Identifying the broad approach and elements required for effective reform is easier than defining the tactics appropriate for bringing about such a switch of resources. The growth of the older age population increases their electoral influence. This has led many countries to be overly cautious and limited with their reforms, such as their pension systems. However, inaction may lead to increased concerns among the working-age population, who foresee an increased tax burden in the future as well as reduced entitlements when they reach retirement age. Recent experience has also shown that substantive reform packages *can* be successfully introduced, especially when they are soundly-based, well explained and involve extensive community consultation.

538. Ageing populations do not only generate intergenerational burdens. New cohorts of older people are living longer, less disabled and healthier lives. Therefore, many elderly people have the capacity to contribute to productive activity and caregiving roles well past current notions of the statutory retirement age, which would be enhanced by positive measures such as those supporting life-long learning and changing community attitudes towards older people.

Improving flexibility and economic growth

539. Social security and health systems require substantial employment activity, and economic growth, in order to maintain their financial viability. However, there is concern that the mere presence of social protection, and especially the incidence of long-term welfare dependency, will reduce economic growth and the capacity for economic adjustment. The funding of social protection through separate social security contributions or general tax revenues increases the distortionary welfare losses from taxation. High social security and health care contribution liabilities for employers and other non-wage labour costs can lead to lower employment, especially for low-wage unskilled workers. There is evidence that too generous unemployment and related welfare benefits and slack enforcement of controls have served to raise structural unemployment rates in many countries (Atkinson and Micklewright 1991, OECD 1994b, Scarpetta 1996). The necessary administrative costs entailed with complex social protection arrangements cannot be used for other purposes.

540. But social programmes can also assist economic progress. For example, unemployment benefits can provide adequate replacement income while people search for a job which is appropriate to their

skills. Social protection provides collective insurance to cover nominated risks which may occur during a person's life (such as unemployment, sickness, disability, maternity), usually at much lower cost than if such risks were insured privately, and may enhance productivity and consumer spending by reducing a source of financial concern for workers. Active measures to encourage and facilitate workforce participation of the working-age population contribute to economic growth by enhancing the flexibility of the labour force and the non-inflationary growth potential of the economy. Policies to improve the health and safety of the workforce can increase labour productivity.

Ensuring basic provision to reduce poverty

541. There has also been some small increases in benefits for low-income families and in flat-rate pensions for the retired in a number of countries. Social assistance is playing a more significant role in protecting the most vulnerable sections of society, especially for those without recent workforce experience who have difficulty establishing an entitlement to social insurance or have exhausted entitlements. But there is little doubt that social distress or social exclusion has increased in many OECD countries, and countries are responding through comprehensive initiatives which seek to address the multiple needs of the socially excluded.

542. Considerable progress has been made in extending universal health care coverage in most OECD countries. This can deliver a reasonable standard of health care for all in the population irrespective of their capacity to pay. Very low income households have also been exempted from many of the patient contribution charges introduced in order to reduce health care usage because of fears that they would discourage some from seeking essential treatment. Despite universal health care systems, there are still apparent inequalities in health status across the population, and concerns over comparatively limited health care usage by many poor people who we know are disproportionately sick. These concerns may increase as countries seek to limit health care coverage of supplementary services due to budgetary constraints.

543. Improving adequacy of payments has a budgetary cost which governments have increasingly found to be difficult in the context of fiscal consolidation. Nevertheless, in some instances there may be a case for focusing more attention and resources on the package of measures -- transfers and services -- devoted to those with the greatest social and labour market difficulties. Allowing long-term exclusion to take hold has consequences for individuals, families and communities which are all too apparent in too many OECD countries. If the only way of releasing resources to tackle such problems is from within existing social security budgets, then the bullet should be bitten and other cash transfers reduced.

544. The form in which such help should be given depends on the profile of disadvantage in each country. In many countries, one group with a high incidence of poverty is lone parent families. Employment rates of lone parents differ substantially across countries, reflecting different assumptions about whether participation in the labour market is expected of them; provision of affordable child care and labour market services. Many of these women may also have limited recent workforce experience, inadequate education and training, and face low wages when they get work. Prolonged absence from the labour market is not in the best interests of either children or the parent and the need to promote the employability of lone parents is becoming a priority in many countries.

Improving efficiency and quality of service provision

545. Governments are responding to community pressure to improve services at the same time as they are facing pressures to constrain programme costs. In most OECD countries, the community has witnessed considerable advances in the range of services provided by private sector service providers over recent years. Undoubtedly, this has influenced public perceptions over the quality of service which should be available from the public sector.

546. Quality does come at a price, compared with the initial costs of provision of sub-standard services. Nevertheless, increasing computerisation and development of communication technologies have provided many opportunities for cost-effective advances in the administration of social programmes. These include quicker and more accurate assessment of programme eligibility, more reliable disbursement of benefits, stronger fraud detection and recovery opportunities, as well as greater accessibility to assistance for those who reside outside of major population centres.

547. There is increased use of the not-for-profit and voluntary sector, to tap into the networks and experience of other agencies already heavily involved in the delivery of social services. This can entail block funding of these agencies, payment from government for the provision of specific services, or active partnerships with government -- each of these models have been used effectively in OECD member countries. In some instances, there has been resort to greater competition in order to provide greater consumer choice and pressures for cost reductions. Nevertheless, there are limits to which government can outsource core social protection activities and maintain a nationally-consistent level of protection.

548. Improving quality of care and services in the health care arena is becoming a major focus, as countries continue to operate on budgetary constraints. From a focus on price and supply control measures to restrain expenditures in their health care systems, countries are increasingly focusing on increasing the return on their investment. First, competition has been introduced or expanded in several countries, to encourage players in the health care arena to increase the adaptability of their systems to attract more clients. Second, countries are transferring health services to the local level to increase flexibility of care. The role of social services is increasing significantly along with the decrease of acute conditions of the elderly. This has been accompanied by emerging needs to cope with their chronic conditions, as well as a shift to a more client-focused orientation as consumers and their families demand more from service providers. The mixture of curing/caring those with disease and providing social services is requiring increased interaction between social services and health services. In this regard, there is a vital need to evaluate the effectiveness of these mechanisms, and to smooth the transition to an optimal mixture of a health care and a social care system.

549. Overall, there is insufficient investment in research and evaluation of social programmes, especially compared with overall programme expenditures. Without comprehensive analysis and evaluation to back up policy deliberations, there is a considerable risk that governments may divert scarce public resources to poorly performing programmes and not act quickly to amend programmes in ways which improve their effectiveness.

Improving public finances

550. Changes to social programmes have been necessary for governments to meet their overall fiscal targets, in the context of fiscal consolidation exercises. However, fiscal restraint has generally not resulted in falling gross public expenditures on social programmes. In fact, in many countries, public expenditures on social programmes have stabilised as a percentage of GDP, or are still increasing but now

at a slower rate. For example, as a result of many policy initiatives directed at improving the efficiency of health care systems and changing financial incentives for health care usage, there are indications that the growth in health care expenditures has been stabilising, after a period of growth up to the early 1990s. Nevertheless, countries need to remain vigilant to possible pressures for growth of health expenditure, particularly as the population ages and the pressure for new technologies grows.

551. Social programmes have been affected in European countries striving to meet the fiscal criteria for entry into the proposed European Monetary Union. In some countries, fiscal reality is conflicting with pressures for expansion of assistance in an environment of high and persistent unemployment. High unemployment and ageing populations have challenged the affordability of the welfare state in Nordic countries. Reforms have been introduced over recent years to scale back public schemes[75], but the level of social provision remains comparatively high, supported by relatively high employment rates.

552. Where there have been substantial reductions in public expenditure, there has often been some attempt to protect social expenditures from the full magnitude of the cuts. This reflects the nature of social protection measures and their client population which can include the poorest and most disadvantaged in society.

Improving social cohesion

553. Preserving social cohesion is undoubtedly a major concern of many European OECD Member countries. It is, however, an amorphous concept to define and consequently is even more difficult for governments to manage. It is perhaps easier to describe indicators of the absence of social cohesion, such as civil unrest, high crime rates, high suicide rates, evidence of widespread discrimination towards particular segments of society, etc. Social cohesion is not solely determined by economic and social outcomes, but is also influenced by the level of community participation in decision making and general confidence in the political process.

554. Social cohesion can be assisted by efforts governments have taken to reduce the incidence of low incomes and child poverty, and through measures which limit the extent of income and health inequality. The mere presence of social programmes and especially taxation arrangements which disproportionately favour low-income earners over high-income earners should contribute to greater social harmony, by redressing some of the imbalance in market earnings. Social cohesion is also promoted through measures which improve the prospects of individuals to generate greater market earnings and reduce their level of welfare dependency. This includes measures (such as education, training and health care) to improve the job prospects and lifetime earnings potential of disadvantaged jobseekers.

555. To this extent, social cohesion is a consequence of successful achievement of other social policy objectives. But it is also linked to the process through which social policy is developed. Many social policy reforms involve revising 'rights' to resources. However necessary pension reforms might be, given the prospective level of expenditures and other more pressing social needs, if reducing benefit levels is seen as reneging on a promise it would hardly be surprising were the opposition intense and the reform resented. In such instances, it is desirable to focus public attention on ultimate objectives of the policy reforms.

[75] In Sweden, the cuts to social security are now being partially reversed as the budget has come into balance.

ANNEX 1: GLOSSARY AND LIST OF COMMON ABBREVIATIONS

Active ageing	The capacity of people, as they grow older, to lead productive lives in the society and economy. Desirably, there is greater flexibility in how they spend time over life -- in learning, in work, in leisure and in care-giving.
Advance funding (pre-funding, or funding)	The provision in advance for future liabilities by the accumulation of assets. Employed in the most of private pension programs. Public *pay-as-you-go* pensions may be partly advance-funded in order to help finance the future benefits.
ADL	Activities of Daily Living: a measurement used to assess the degree of disability
Ageing in Place	One of the policy objectives proposed in the meeting of OECD Social Policy Ministers in 1992. The central point is to enhance the overall capacity for community-base care, and the capacity for people to remain in their current geographical location as they age.
ALMP	Active labour market programmes
APW	Average Production Worker: This concept is often used for calculating standard wages and comparison of the amount with benefit levels.
Basic pension	Intended to provide at least a minimum level of income for the elderly as the "first pillar" in the *retirement income system*. May also be referred to as social pensions in some countries especially when combined to the general social assistance scheme and tax-funded.
Benefits	Generic term often used to refer to *social protection* cash benefits and the provision of social services (in-kind benefits).
Child care assistance	Publicly-subsidised child care places (where public funds may meet all or part of the cost of additional places) or public subsidies to reduce the costs faced by parents accessing child care.
Child support	Obligations of financial assistance from an absent parent for the support of children not living with them. In some countries, the government may provide supplementary or alternative payments where the absent parent does not meet their obligations.
Chronic disease	A wide range of diseases which can not be totally cured and where people still have a reasonable life expectancy in many cases, such as arthritis, diabetes, and respiratory diseases. There are various causes, such as ageing, lifestyle factors, genetic predisposition, etc. Health care treatments have a greater emphasis on reducing suffering and providing a supporting social environment for those disabled by these diseases.
Co-insurance	*Cost-sharing* in the form of a set proportion of the cost of a service.
Community-based care	Provision of services by family members or local organisations which enable people requiring support services to remain in their locality. See also *Ageing in Place*.

Contributory pension	Pension system where rights for future entitlements are established as a result of financial contributions to the scheme. See also *social insurance*.
Co-payment	Patients pay a set amount for services provided.
Cost sharing	A provision of health insurance or third-party payment that requires the individual who is covered to pay part of the cost of medical care received. Cost-sharing may be in the form of *deductibles*, *co-insurance* and *co-payments*.
Decentralisation	The shift of responsibilities to local levels of governments (to provinces, municipalities, etc.): This tendency is the most conspicuous in the arena of providing health and social services.
Deductibles	Patients pay for the overall cost of the service up to an agreed level after which health insurance schemes start paying.
Defined benefit (DB) plan	A pension plan where benefits are prescribed by a formula typically determined by factors such as age of beneficiary, the final salary level, years of contribution, etc.
Defined contribution (DC) plan	A pension plan where final benefits depend on accumulated periodic contributions plus the investment return.
Dependency ratio	The number of people who are not of working age as a proportion of those of working age, usually defined as those aged under 15 years and those aged 65 years and over as a percentage of those aged 15 to 64.
Devolution	The shift of responsibilities within the central government.
Disability-free life expectancy (DFLE)	The number of years of expected life that are spent without functional limitations on daily living.
Disability benefit	Social security provision for those who cannot work or earn a sufficient livelihood because they are permanently or long-term disabled. Is referred to as an *invalidity benefit* or *disability* (*invalidity) pension* in some countries.
Diagnostic related groups system (DRG)	A method of prospective payment for medical fees, which sets fees according to diagnosed medical conditions and standardised treatment costs.
Earnings-related pension	Pension benefits are related to prior earnings, although they may also be subject to criteria establishing minimum and maximum payments.
European Economic Area	Comprises the European Union and the European Free Trade Association countries.
European Monetary Union	Process of establishing a single predominant currency, the Euro, in the European Community. Initially, 11 countries will be involved from January 1999 with financial institution and commercial transactions, with notes and coins to circulate from January 2002.
Family assistance	Special or additional support for families with dependent children, provided in the form of cash payments or tax relief, with the specific objective to improve the well-being of children.
Fee-for-service	Payments to a provider for each item of treatment or service rendered.
Fiscal consolidation	Process of governments bringing their national budget into balance.
Flat-rate pension	Pension benefits are unrelated to prior earnings, although amounts may vary according to family composition.

G7	Group of large industrialised nations, which includes Canada, France, Germany, Italy, Japan, United Kingdom and United States (with the G8 grouping including the above plus Russia)
GDP	Gross Domestic Product: a measurement of the value of goods and services produced in the economy.
Global budget	An aggregate cash sum, fixed in advance and usually based on past costs, intended to cover the total cost of a service, usually for one year ahead. Often provides considerable flexibility in the services funded within overall guidelines and the overall budget allocation.
GP	General practitioners (health care system)
HI	Health insurance
Housing assistance	Interventions in the housing market to assist low-income households, covering construction and management of public or social housing, measures to lower the cost of private sector housing, and subsidies and other supports for renters.
ILO	International Labour Organisation: part of the United Nations, comprised of representatives from governments, workers and employers.
ILO Conventions	Many *international standard-setting instruments* have been developed in the ILO forum.
Income distribution	Measures of the equality and inequality of incomes received by households in the community.
Indexation	Process of regularly adjusting monetary amounts so they retain their real value.
"Initiative for a Caring World"	Initiative of the Japanese Prime Minister, Mr Hashimoto, at the Lyon G7 summit in June 1996, to improve dissemination of information and experiences between nations in order to achieve better social programmes reflecting the two principles of self-reliance and social solidarity.
Intergenerational equity	Refers to a judgement of the equity of intergenerational transfers: the balance of taxes and government transfers from one generation to another.
International standard-setting instruments	Often referred to as charters, codes or conventions, which seek to establish internationally-accepted norms for the quality of social provision.
International social security agreements	Bi-lateral or multi-lateral agreements which aims at preventing duplicated coverage of social protection by two countries and establishing the rights and responsibilities of countries as well as those who move between countries. Sometimes referred to as co-ordinating instruments.
Invalidity benefit	See *disability benefit*.
In-work benefits	Social benefits, delivered either in the form of cash transfers or tax relief, to people in low-income jobs which are designed to improve the incentive of the unemployed to take up these jobs. Mainly targeted at unemployed families with dependent children and sometimes referred to as employment-conditional benefits intended to "make work pay".
Life expectancy	Average expected number of years of life, often measured from birth as an overall measure or from age 60/65 as a measure of longevity for the older population.

Long-term care	Any form of care provided consistently over an extended period of time, with no predetermined finishing date, to a person with a long-standing limiting condition or who is at risk of neglect or injury.
MD	Medical doctor
Means testing	Process where social security benefits are adjusted according to the income of the individual or household, where the greater the income they have the lower the benefit payment. May also include some adjustment to benefit amounts according to the assets of the individual or household. See also *social assistance*.
Net income wage indexation	A method of indexing pension benefits which uprates the benefit with reference to the increase of wages less taxes or compulsory contributions to social protection programs.
Non-contributory pension	Pension system where rights for future entitlements are not established by financial contributions to the scheme. Its funding is often tax-based and the eligibility requirement often includes a certain duration of residency in the country.
Occupational pension	An arrangement organised by an employer or group of employers to provide benefits for employers on leaving the employer, on death or retirement. Also often referred to as *private pensions*, though the scope of definitions are not the same.
OECD	Organisation for Economic Co-operation and Development
Pay-as-you-go (PAYG)	An arrangement where benefits are paid out of current revenue and no funding is made for future liabilities. Employed in the most of public pension programs. See also *advance funding*.
Pension totalisation	Co-ordination of the coverage of pension benefits for people who work in two or more countries over a life-time. See also *international social security agreements*.
Population ageing	Process of ageing of the population in many OECD countries, as a result of lower birth rates and longer life expectancy
Poverty	Measurement of the number of people having insufficient income for physical subsistence (absolute poverty) or those who have a very low level of income compared to the rest of the population (relative poverty).
Private pension	Pension programs which are managed by private entities and do not have national-level financial co-ordination. Also sometimes referred to as *occupational pensions*, though the scope of definitions are not the same.
Privatisation	Sale of publicly owned assets to private investors.
Public health	The science and the art of: preventing disease, prolonging life, and organised community efforts for various purposes such as sanitation of the environment, control of communicable diseases, promotion of early diagnosis and prevention of disease as well as ensuring an adequate standard of living for the maintenance of health.
Public pension	Pension programs which are managed by public entities or with national-level financial co-ordination.

Replacement rates	The value of a pension or benefit as a proportion of wages. For the retired, the wage comparison is often taken as an average of prior wages earned over a period. For the unemployed, the wage comparison may be taken from earnings immediately prior to unemployment or estimated in terms of likely future earnings.
Retirement age	May refer to either the statutory retirement age or the average age of retirement
Retirement incomes	In the fullest sense, includes all resources available to families in retirement, such as pensions, earnings, other forms of savings, other benefits from the transfer and taxation system, use of housing assets, intra-family transfers, etc.
Retirement pension schemes or retirement pension systems	The dominant form of retirement incomes, often classified into a three-tier categorisation of *public pension* schemes, *occupational (private) pensions* and personal pension plans.
Social assistance	A range of benefits and services available to guarantee a minimum level of subsistence to people in need, based on a test of resources. Usually does not include any family assistance benefits and the coverage is greater in those countries either without or with limited social insurance arrangements.
Social cohesion	An assessment of social and political stability in a country, affected by economic inequality and *social exclusion*.
Social exclusion	There are a range of possible definitions for this concept used widely in European countries. It is more than just an indicator of poverty, for example encompassing the poverty and deprivation which result from insufficient contacts with mainstream society. Another definition proposes social exclusion as the failure to achieve one or more of civic, economic, social and family integration.
Social expenditures	The provision by public and private institutions of benefits to, and financial contributions targeted at, households and individuals in order to provide support during circumstances which adversely affect their welfare, provided that the provision of the benefits and financial contributions constitutes neither a direct payment for a particular good or service nor an individual contract or transfer. Such benefits can be cash transfers or can be direct (in-kind) provision of goods and services.
Social insurance	Social security systems where rights for entitlements are established as a result of contributions to the scheme while the person is in employment, and payments are normally related to prior earnings.
Social justice	The pursuit of policies and programmes which promote greater fairness and opportunity for those who are disadvantaged in society. Perceptions of social justice can vary considerably.
Social policy	In this report, it refers to government policy relating to social security, human services and health care. In other contexts, it may also include education and employment policies.
Social protection	Term often used in European countries to refer to social security and other health and social services.
Social security	Includes both *social assistance* and *social insurance* type schemes
Statutory retirement age	The age at which full public retirement pensions can be accessed. This

	differs from the average age of retirement which is generally much lower in *OECD* countries.
Universal coverage	Provision of benefits to all persons who qualify for the payment (e.g., all families with dependent children) without regard for the income of the individual or household and without previous contribution requirements.
Vesting	Establishment of a minimum contribution or membership period to be met before rights to final payments are generated.
Working-age population	A generalisation of those with workforce potential, often taken to refer to those in the age range of 15-64 years

ANNEX 2: OECD CARING WORLD QUESTIONNAIRE ON POLICY PRIORITIES

Introductory note

In early 1997, national delegates agreed that national responses to the questionnaire should reflect the "spirit" of the questions in a broad sense. That is, the answers should discuss the issue as perceived in each country, rather than attempting to respond literally to each question. Hence, not all questions were not necessarily answered in the format in which they were posed.

The final questionnaire was circulated to Member countries in May 1997 with a request for responses back to the OECD Secretariat by August 1997.

Members or observers of the Council of Europe who responded to the Council of Europe Questionnaire on Social Security Systems and their Operations in a Difficult Economic Context [SS-CED(97)1] were invited to attach that response to their reply to this questionnaire, and to refer to it where appropriate in their responses.

I. Broad priorities for social policy

1. In the context of social developments in your country, what are considered to be the main issues and priorities affecting social policy?

2. Is there a national policy on the appropriate level or rate of growth of social expenditure or any of its components?

3. How is social policy overall influenced by:

   a) budget stringency;

   b) the rate of economic growth?

II. Income support

II. A. Income support for children and families

1. Compared with those not married, are married people advantaged through tax relief or other financial provisions?

2.

   a) Have any measures been implemented with the specific aim of changing trends in pregnancy rates or in the birth rate for specific groups (such as teenagers) or for the population as a whole?

b) If the answer is yes, please describe the measures briefly.

c) What have been their effects?

3.

a) To what extent are absent parents expected to support their children?

b) What measures have been taken to ensure that child-support liabilities are assessed on an equitable basis, and that obligations are enforced?

c) Is there any evidence on the effectiveness of such measures?

4. What has been done to help families -- particularly single-parent families -- reconcile work and child-raising obligations?

II. B. Income support available to those of working age

1.

a) What are current policy concerns relating to the provision of benefits to people below the standard retirement age without a job-search requirement (e.g. permanent invalidity benefits, early-retirement benefits, lone-parent benefits)?

b) What are the recent and planned public-policy responses to these concerns?

c) Against what criteria will the success or failure of such reforms be assessed?

2.

a) Has there been a growth in benefits for temporary absence from the labour force because of sickness (sickness benefits)?

b) Have these been made wholly or in part the responsibility of employers?

c) If so, what has the effect of this been on absenteeism in the workplace?

d) Have any policy measures been implemented or envisaged to reduce reliance on sickness benefits?

e) Do these measures include attempts to get recipients into work?

f) Have measures been introduced to ensure greater enforcement of existing regulations (e.g. shifting controls to employers)?

3.

a) Has there been a change in policies with respect to benefits or other support for those with disabilities but in employment?

b) Has there been a growth in the proportion of people below the standard retirement age receiving disability benefits?

c) If such growth has occurred, was it due to labour market changes?

d) Have any policy measures been implemented or envisaged to reduce reliance on disability benefits?

e) Have measures been introduced to ensure greater enforcement of existing regulations (e.g. more stringent medical tests for invalidity pensions)?

4.

a) What is public policy with respect to early retirement?

b) What are public pension provisions for those who retire before statutory age?

c) Is financing provided by social security contributions or by general taxation?

II. C. Income support for retirees

The OECD has published a number of studies of the fiscal implications of public pension schemes. A survey of policy choices is presented in the 1996 report to the OECD Ministerial Council, published under the title *Ageing in OECD Countries*. The report *Private Pensions and Public Policy*, published in 1992, explores the public policy issues raised by occupational and personal pension schemes, particularly when they are encouraged, by tax provisions or opportunities, to opt out of public schemes. This has been followed up by a series of monographs on private pension provision in selected OECD countries (Canada, Ireland, New Zealand, United States). The questions which follow are intended to provide a basis for obtaining consistent information on policy developments and plans, in order to supplement with detailed information the broad outlines of policy approaches developed in these publications.

1.

a) What are current policy concerns relating to retirement income provision, and what are the recent and planned public-policy responses to these concerns?

b) Against what criteria will the success or failure of such reforms be assessed?

2. ILO convention no. 102 (ratified in 1952) recommends that public old-age pension schemes should ensure a replacement rate of at least forty percent of pre-retirement income for a man with a wife of pensionable age. A similar standard has been adopted in the Council of Europe European Code of Social Security.

a) Does the pension scheme in your country have a target replacement rate, and if so, what is it and how is it specified?

b) Is your country proposing to change the target replacement rate, and if so what measures are planned to win acceptance of the change from the public?

c) If another type of criterion has been used to design the pension system, please supply a summary description of it.

3.

a) Is a minimum pension guaranteed in your country to those with no contributory record?

b) If so, who is eligible and how was the level determined?

c) Does the system foresee an increase of pensions paid to workers with few years of contributions?

4. Has your country pursued any of the following strategies (either individually or in combination) aimed at reforming the provision of retirement incomes and/or their financing:

i) introduction of defined-contribution schemes;

ii) replacement of pay-as-you-go by a funded system which can be either publicly or privately managed;

iii) maintaining the present pay-as-you-go system while raising contribution rates and/or decreasing benefits;

iv) increasing the importance of any existing funded schemes, or raising the level of funding of partially-funded schemes;

v) encouragement of voluntary private provision; and/or

vi) any other strategies not listed.

What is the reason for your choice of strategy?

5. Has your pension system been adapted to changes in labour market structures, such as:

i) increases in part-time or temporary employment,

ii) interruption of employment spells,

iii) international mobility of workers)?

6.

a) For which categories of employees are employers expected to make supplementary provision?

b) Which categories of individuals are expected to make provision for themselves?

c) What contribution does other assets of retired persons make to overall provision?

7.

a) What changes to the statutory retirement age have been implemented or are expected to be introduced in the near future?

b) Have these changes had any effect on the <u>effective</u> age of retirement? Does the pension system allow for retirement at below statutory age for workers with a minimum number of years of contributions?

c) If so, what changes have recently been introduced or are being considered to limit this possibility?

(Question 4 in Section II B above refers specifically to early retirement. If respondents find it more convenient to answer the questions about early receipt of the main old-age pension in that context, please do so).

8.

a) Have any policies been instituted to make the transition from work to retirement more flexible, such as allowing younger (or older) retirement with actuarial adjustment, partial pensions for the partially retired, etc.?

b) Is enabling individuals to continue working beyond the standard retirement age a policy priority?

c) Which institutional arrangements are currently acting as obstacles or incitations to work by individuals beyond the statutory retirement age?

9.

a) How does the presence of different types of pension support (e.g. employer-based pension plans, public pension plans, and others) affect work and retirement decisions?

b) Do they provide consistent incentives -- or disincentives -- for work and retirement?

c) Does public policy strive to make the work and retirement incentives/disincentives consistent across different types of pension plans?

Mexico, Hungary, Poland, the Czech Republic and Korea, who were not included in the above-mentioned reports, are invited to provide more background information.

III. Health care and long-term care

III. A. Health care

In 1992 and 1994, the OECD published surveys of health care reforms in the (then) 24 member countries, under the titles *The Reform of Health Care: A Comparative Analysis of Seven OECD Countries* and *The Reform of Health Care systems: A Review of 17 OECD Countries*. Reports on Mexico and the Czech Republic are being prepared. These reviews, which include a consideration of equity, efficiency and effectiveness in health-care delivery and in health status, were discussed at a high-level conference held in 1994, the proceedings of which were published in 1996 in *Health Care Reform: The Will to Change*. Responses to the following questions should therefore concentrate on developments during the 1990's and those currently in prospect.

1.

a) What are current policy concerns relating to health policy and what are the recent and planned public-policy responses to these concerns?

b) Against what criteria will the success or failure of such reforms be assessed?

c) How are sectors such as education, social services, justice, housing, and employment/income, involved in health policy?

d) What strategies are in place to promote healthy child development? To what extent do these strategies emphasise the role of other sectors such as education, social services, justice, housing, and employment/income supports related to family income

2.

a) What strategies and measures are in place, or are being developed, to promote, maintain and improve the health status of the population?

b) Are expenditures or responsibilities for these purposes specified separately?

c) Can the relative weight of expenditures on preventive and curative health care be identified?

3.

a) Have measures been implemented recently to control health care expenditure?

b) If so, how was acceptance by the general public achieved?

c) Are there concerns that "off-loading" or shifting of cost burdens from one level of government to another, or from public to private sector, is impacting negatively upon the health care system?

d) What policies are in place to ensure a high degree of quality of health-care delivery within affordability constraints?

e) Indicate any policy strategies that have been particularly effective in providing quality health care within tight budget constraints.

f) Is outcome measurement used in assessing the quantity and quality of services provided and health status gains achieved?

4.

a) Have there been any adverse effects on the quality of health care services following the introduction of measures to control expenditures?

b) Have these effects been especially acute for particular groups (for example, those on low income, elderly people)?

c) If so, have ways been found to reduce these adverse effects?

5. Have any measures been implemented to introduce market competition between:

a) health-care insurance organisations;

b) health care providers?

6 How is the process of population ageing affecting the health care system?

a) Is the current elderly population in your country seen as healthier, equally healthy or less healthy than previous cohorts?

b) How does any perceived change or trend affect health care policy? For example, to what extent does your country support research into age-related chronic diseases as a priority?

c) To what extent is there age rationing with respect to access to advanced medical technologies?

7.

a) How is health care expenditure for the elderly financed?

b) How is the burden shared between those of working age and the elderly themselves?

8. What measures are being implemented or considered to use new medical technologies more efficiently, effectively and equitably?

9. What measures are in place to ensure equity of access to health care? (For example, reduction of co-payments for those on low income, medical assistance for those without medical insurance).

III. B. Long term care

The OECD report *Caring for Frail Elderly People*, published in 1996, brings together the results of national reports and responses to questionnaires on this issue, largely prepared in 1991 and 1992, although the Report itself contains material updating this information. Countries are therefore asked to respond to the following questions by concentrating on policy developments, which have occurred in the 1990's, and those, which are in prospect.

1. What are current policy concerns relating to long-term care provision, and what are the recent and planned public-policy responses to these concerns?

a) Against what criteria will the success or failure of such reforms be assessed?

b) Is policy with respect to long term care concerned with the following policy goals, and if so how are they addressed:

i) autonomy

ii) privacy

iii) consumer choice.

2. If an adult can no longer take care of all his or her needs, who bears primary legal responsibility for arranging and (if necessary) financing assistance :

i) His or her spouse (if able to do so);

ii) His or her children;

iii) More distant relatives (if no surviving children);

iv) The local municipality;

v) An agency of a county or state government;

vi) An agency of the national government?

Are family members who provide for long term care of the elderly relatives (parents, husband, wife, etc.) entitled to social security (health, pension) or any other social benefits? Are any changes in public policy planned on this issue?`

3.

a) Can elderly people (or their families) be confident that they will be able to purchase, or to obtain with public subsidy, long-term care services when needed?

b) Which public agencies finance long term care, (e.g. local authorities, the National health service, compulsory health insurance, social security), and what is the share of each?

c) Are there explicit policies, in place or planned, to encourage private long-term care insurance?

4.

a) Who (apart from the person affected and his or her family) is responsible for deciding what help or type of accommodation the elderly person needs?

b) What measures have been taken, or are being considered, to improve the availability of quality services that are tailored to individual needs and cost-effective?

c) What role is played by competition between providers and other market-type mechanisms?

5. What is the role of health services in long-term care? Are there boundary problems between health and social care?

6. In the provision of care services in the home, and in the provision of institutional care, what are the roles or responsibilities of:

i) central government agencies;

ii) local government agencies;

iii) non-profit organisations;

iv) private-for-profit companies;

v) individual privately recruited care providers;

vi) family members legally required to provide care;

vii) family members voluntarily providing care.

How has demographic and social change (reduced family size and increased participation of women in the labour market) affected these arrangements?

7.

a) What measures, if any, are being taken or planned to control overall expenditure, or overall public expenditure, on long-term care for the elderly? Do these include strict eligibility criteria, limits on supply, user charges or co-payments, or other mechanisms?

b) Does the government-managed health insurance, if any, cover preventative as well as curative health care?

Mexico, Hungary, Poland, the Czech Republic and Korea, who were not included in the above report, are invited to provide more background information.

IV. Other issues

IV. A. Exclusion and social assistance

The Social Policy Research Unit at York University carried out a survey of social assistance provisions in 24 OECD countries which was published by the United Kingdom authorities as *Social Assistance in OECD Countries, Volume I: Synthesis Report* and *Volume II: Country Reports*, Department of Social Security Research Reports No. 46 and 47 respectively, HMSO, 1996. Copies of these reports were made available by the UK authorities to the National Administrations of participating countries. Subsequently, the OECD completed an intensive review of social assistance in Australia, Finland, Sweden and the United Kingdom. The questions , which follow, are therefore directed at obtaining up-to-date information on particular policy design features of public assistance provisions in member countries.

1.

a) Is social exclusion a policy concern in your country, and if so how is it defined? For example, is it defined to consist of barriers to obtaining housing, jobs, health benefits and other social needs.

b) What are the recent and planned public-policy responses to these concerns?

c) Against what criteria will the success or failure of such reforms be assessed?

2.

a) What has been the effect on social assistance of any reductions in social insurance benefit generosity or duration? (where social assistance means "last resort" benefits for which eligibility may be means tested but is not dependent on past contributions or employment)

b) Who bears the financial responsibility for any increased demands for assistance which result from social insurance changes?

3.

a) Do primary social assistance programmes have nationally set parameters, or do benefits and eligibility vary across the country?

b) Have changes in national assistance standards with respect to assistance generosity or duration increased the need for assistance at local levels, whether publicly or privately financed?

4.

a) In providing public assistance, are there particular measures which are intended to promote integration into the labour market?

b) What changes, if any, have been instituted to ensure that those in employment have a higher income than those receiving benefits?

5.

a) Apart from cash-income support, what supportive or empowering services are aimed at reducing social exclusion?

b) Has the mix between cash benefits and services for these purposes changed, and if so why?

6.

a) What provision is made for access to health care for those who are not covered by normal insurance or are not entitled to use the national health service?

b) Does the desire to continue to qualify for such health care assistance act as a disincentive to moving into employment and off assistance?

c) How is such medical assistance financed?

d) What other measures are in place to ensure equity in access to health care?

7. Is the design of benefits for people of working age in your country aimed to encourage contact with the labour market through part-time work; and are 'in-work' benefits (such as payments to low income families) available? If not, are any other policies being contemplated as a means of:

i) countering long-term exclusion from labour market; or

ii) assisting the balancing of care-giving responsibilities and labour force participation; or

iii) aiding the transition form education to employment (and the reverse) or work to retirement?

8. What, if any, are current policies regarding the provision of assistance to immigrants?

Mexico, Hungary, Poland, the Czech Republic and Korea, which were not included in the Social Policy Research Unit survey cited above, are invited to provide more detailed background information.

IV. B. Sharing the burden of social policy equitably

1. Is equitable distribution of the burden of support a major policy concern?

a) Does this concern extend to the appropriate level and form of support?

b) Is this concern seen as an inter-generational or an intra-generational issue? Are such concerns leading to a call for the re-design of the social protection system?

c) What specific concessions are available in the tax system on account of age only?

2. Are the elderly subject to the same taxes and social charges as other persons with respect to:

a) earned income;

b) public pension payments financed by:

- specific social insurance premiums or taxes
- by general taxation

c) other social benefits received;

d) private pensions and annuities;

e) other forms of property income?

3. What measures have been implemented to reduce fraud amongst claimants of social benefits?

4. Social policy reforms often cause “pain” for particular groups, as a result of the need to re-allocate burdens in harmony with national economic constraints. What measures are implemented or planned in order to obtain understanding and consensus amongst the general public?

5. Do any social policy provision distinguish between male and female beneficiaries (e.g. the age at which age pensions can be received)? Have any measures been taken to reduce formal or informal differences between the sexes in access to social programmes?

IV. C. Housing

1.

a) What provision is made to ensure access to affordable housing for those on low incomes?

b) Is housing assistance administered and delivered centrally or on a smaller geographic basis?

c) Have changes to the manner and method by which they deliver this assistance (e.g. a movement away from the 'bricks and mortar' funding of public housing stock to a higher proportionof cash assistance) been instituted, or are they contemplated?

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