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Delegations will find attached the text of the Joint Report on Social Protection and Social Inclusion, as adopted by the Council (EPSCO) on 22 February 2007, to be forwarded to the European Council in view of its meeting on 8-9 March 2007.

It should be noted that this report should be read in conjunction with the country profiles as set out in Addendum 1.

KEY MESSAGES

For the first time Member States have submitted integrated National Reports on strategies for social inclusion, pensions, healthcare and long-term care.¹ They have done so against the background of demographic ageing and intensified globalisation. They all face continuing challenges of social exclusion, poverty and inequality and of a need to modernise social protection systems. Starting points differ between Member States, but the following key messages emerge clearly from the analysis of their reports:

- Member States have responded to the Spring 2006 European Council challenge to reduce child poverty, with clear commitments to breaking the cycle of deprivation. This will contribute to stronger and more sustainable social cohesion. Ensuring access to quality education and training for all, focussing especially on pre-schooling and on tackling early school leaving is vital. The situation of immigrants and ethnic minorities needs particular attention.
- Active inclusion emerges as a powerful means of promoting the social and labour market integration of the most disadvantaged. Increased conditionality in accessing benefits is a major component, but this must not push those unable to work further into social exclusion. While most Member States champion a balanced approach combining personalised labour market support, including skills training, for those who have the potential to work, and accessible, high-quality social services, more attention needs to be given to ensuring adequate levels of minimum resources for all, balanced with making work pay.
- In their first European plans on healthcare and long-term care, Member States identify as a priority the need to: ensure equal access for all; reduce health inequalities in outcomes; guarantee safe and high-quality care; and manage the introduction of new technology for health and independent living. More rational use of resources is an essential factor in rendering healthcare systems sustainable and in maintaining high quality, and needs to be exploited by all countries. But some countries may need to expand their financial and human resources to ensure adequate coverage of the whole population. Improved coordination, promotion of healthy life styles and prevention could be win-win strategies, contributing both to improved health status and to reduced expenditure growth.
- Confronted with rising long-term care needs arising from demographic change, care systems will have to be reformed, properly resourced and put on a sound financial footing. Stronger coordination between healthcare and social services, support for informal carers and exploiting new technology can help people to stay as long as possible in their own home.
- Many countries are adapting pension systems to increases in life expectancy and creating a transparent relationship between contributions and benefits. Older people often face a higher poverty risk than the general population. Reforms aim at achieving adequate and sustainable pension systems. Ageing means that pension adequacy increasingly depends on more people working – and working longer. It is therefore vital that older workers in particular have the opportunity to do so. The effects of reforms on adequacy need close monitoring.

¹ http://ec.europa.eu/employment_social/social_inclusion/naps_en.htm

- Despite current reforms, ageing will increase expenditure on pensions, health and long-term care by four percentage points of GDP by 2050. The long-term sustainability of public finances is still at risk. A recent Commission report² showed that six Member States face a high risk, ten a medium risk and nine a low risk. Coping with this is a key policy challenge and requires a three-pronged strategy to reduce public debt, raise employment and reform social protection systems, as well as increased productivity growth. The sustainability report also considers the risk of inadequate pensions which may result in unforeseen pressure for ad hoc increases of pensions or higher demand for other benefits. Thus the issues of pension adequacy, sustainability and modernisation need to be considered jointly.
- Member States are taking more account of linkages both within the streamlined social protection and social inclusion process and between this process and economic and employment policies at national level, in particular through pension reforms reducing access to early retirement schemes and increasing incentives and opportunities to work longer, so that results can start to show in increased employment rates of older workers. Improving further this interaction in implementing the National Reform Programmes for growth and jobs³ and the strategies for social protection and social inclusion will help deliver results.
- The governance of EU and national social policies is being strengthened. Stakeholders, including the people directly affected, are increasingly involved in preparing social reforms. But the quality of the involvement could be improved. Stakeholders' role should be extended to implementation and follow-up. Interaction should be reinforced between national and EU policy levels and regional and local levels – where implementation largely takes place. Across all strands of European cooperation there is much scope for mutual learning.

1. INTRODUCTION

The integrated Open Method of Coordination (OMC) introduced in 2006⁴ is strengthening EU capacity to support Member States in their drive for greater social cohesion in Europe. This is starting to create more impact on the ground, making the EU attachment to social values more visible to European citizens. The OMC is helping to deepen mutual learning and to widen involvement of stakeholders at national and European levels. It has increased awareness of the multi-dimensional nature of exclusion and poverty and forged a shared approach to social protection reforms based on the principles of accessibility, adequacy, quality, modernisation and sustainability. For the first time, healthcare and long-term care are addressed showing that these areas are well suited for policy exchange. The national reports illustrate how joint consideration of all the objectives improves policy effectiveness and the quality of public spending. The new working methods of the OMC are starting to bear fruit, though further efforts at EU and national levels are required to make full use of its potential.

² COM (2006) 574 final.

³ Latest Annual Progress Report: COM(2006) 816

⁴ Common objectives: http://ec.europa.eu/employment_social/social_inclusion/objectives_en.htm

2. OVERARCHING ISSUES FOR SOCIAL PROTECTION AND SOCIAL INCLUSION POLICIES

Greater social cohesion

Recent developments are encouraging: reforms have been carried out or are under way in practically all Member States to make systems more fiscally and socially sustainable and more responsive to people's evolving needs. There is strong convergence towards active inclusion, recognising that people's right to play an active role in society has to be supported. On pension reform, there is a will to progress both on adequacy and sustainability. Improving accessibility, quality and sustainability emerges as the central aim of healthcare and long-term care strategies.

As reflected in the OMC objectives, promoting the equality between men and women is an essential element in addressing these issues. Overall, Member States are incorporating **gender** concerns more effectively and data are more often broken down by sex. Some are pioneers in applying gender mainstreaming systematically. But there is still considerable room for ensuring that policy measures are better informed by gender considerations across all three strands of cooperation.

Interaction with Jobs and Growth

Member States acknowledge more clearly that economic and labour market reforms must contribute to strengthening social cohesion and social policies must support economic and employment growth. Active inclusion policies can increase labour supply and strengthen society's cohesiveness. Increasing child well-being will help more people to develop their full potential and contribute fully to society and to the economy. Ongoing pension and healthcare reforms have a clear effect both on sustainability of public finances and on labour market behaviour. Action on healthcare improves quality of life and productivity and helps to maintain financial sustainability.

Member States nevertheless recognise that healthy economic growth and job creation do not automatically lead to reduced income inequalities, in-work poverty or regional disparities. Some National Reform Programmes also show a stronger commitment to the most disadvantaged in society by, for example, addressing labour market segmentation and precariousness, and helping poor households benefit more from employment growth. Measures to ensure the sustainability of public finances are accompanied by provisions to protect the most vulnerable groups. Strengthened and more visible interaction is required at European and national levels.

Governance

Civil society and social partners are increasingly involved in the preparation of national strategies and modernisation of social protection. Pension reforms enhance transparency and individuals' understanding of their own position. Still, there is scope for further improving the quality of the involvement, not least in implementation and follow-up phases. Coordination between European, national, regional and local levels needs to be stepped up. The importance of effective monitoring and evaluation is now generally acknowledged, but few details are given about the precise arrangements envisaged. There is some increase in the use of indicators and targets and national strategies increasingly allocate resources and responsibility to measures tailored to the targets and objectives, but this is still not done systematically. There is better co-ordination between the implementation of social inclusion and healthcare policies and the use of the Structural Funds, notably the European Social Fund, but its visibility in this area could be improved.

3. KEY CHALLENGES IN THE DIFFERENT STRANDS OF OMC WORK

3.1 Fighting poverty and exclusion

Member States' Reports are more strategic than in previous years, focusing on a more limited set of priorities. But they continue to recognise the multidimensional nature of exclusion, tackling their priority issues from many angles.

Breaking the transmission of poverty from one generation to the next

Children have a higher-than-average risk of poverty in most Member States. In some, almost every third child is at risk. Living in a lone-parent or jobless household further compounds the risk. This threatens social cohesion and sustainable development. Deprived children are less likely than their peers to do well in school, stay out of the criminal justice system, enjoy good health, and integrate into the labour market and society.

The March 2006 European Council asked Member States "to take necessary steps to rapidly and significantly reduce **child poverty**, giving all children equal opportunities, regardless of their social background". The vast majority of Member States prioritised the need to develop an integrated and long-term approach to preventing and addressing poverty and exclusion among children.

Member States approach the issue with a mix of policies addressing different angles of the problem: increasing family income; improving access to services, including decent housing; or protecting children's rights. Member States tend to target the most disadvantaged children and families within a broader universal approach.

Two aspects stand out: equal opportunities with respect to education, including pre-school and adult education, and promoting parents' labour market participation. Measures to make work pay are being taken and reconciliation of work and family life is being facilitated through improved access to quality child care and flexible working arrangements. This raises also the question of promoting a more equal sharing of domestic work and care responsibilities.

On average, 15% of students leave school early, but in some countries more than a third of young people are affected. Tackling early school leaving and strengthening young people's skills and qualifications reduces the risk of social exclusion and improves labour market prospects. Some Member States have set specific targets and are introducing preventative measures (pre-primary education, guidance and counselling, tutoring, grants) and compensatory actions (e.g. second-chance schools). Developing these into comprehensive strategies will help to achieve significant results.

In all Member States, youth unemployment, especially among people of immigrant origin, is twice as high as the overall rate (18.7% for EU-25 in 2004). Young people often find themselves in a vicious circle of "low pay - no pay". Many Member States are expanding apprenticeships, providing individualised support or active alternatives after short spells of unemployment, focusing on socially deprived areas or improving access to mainstream measures.

Promoting active inclusion

Quality jobs are a sustainable way out of poverty and social exclusion, strengthening future employment prospects, human and social capital. Healthy and sound working conditions allow more people to work and to stay in work longer.

Member States are increasingly focusing on "active inclusion"⁵ to strengthen social integration. There is a clear trend towards making benefits more strictly conditional on active availability for work and improving incentives through tax and benefit reforms. Some Member States show how conditionality can be successfully combined with gradual tapering off of benefits on re-entry to the labour market and with tax credits for low-paid jobs to enable the labour market participation of disadvantaged people. Reinforced active labour market policies, opportunities to upgrade skills, including IT, efforts to address educational disadvantage and appropriate counselling are also vital elements in a balanced policy mix for active inclusion. Importantly, to ensure that strengthened conditionality does not weaken support for those who are unable to work some Member States have set out to improve the coverage of benefits. But the need to guarantee adequate levels of minimum resources receives insufficient attention in many strategies.

Economic and employment growth will not of itself bring on board people who are furthest from the labour market. Some Member States have put in place policies such as in-work support for job retention and advancement, on-the-job training and a rise in minimum wages to ensure that work pays. The social economy is a vital source of jobs, including for people with poor qualifications or reduced work capacity, and provides social services not met by the market economy. Anti-discrimination measures, action to combat financial exclusion and over-indebtedness, promotion of entrepreneurship and adaptability, labour law in conjunction with social dialogue and raising awareness of the benefits of labour market inclusiveness are also crucial elements.

Labour market integration often needs to be joined up with a range of other services. Some Member States are developing a more structural approach to **housing exclusion and homelessness**, looking at prevention and housing quality rather than mainly rough sleeping. Reconciling the need to ensure universal access to quality services with cost constraints will be a key challenge.

⁵ For in-depth exploration of the concept: COM(2006) 44 final

The European Council has identified disabled people as one priority category for increased labour market participation. Some Member States are facilitating access of physically **disabled people** to the labour market, while others are addressing the inclusion issue more broadly: mainstreaming of policies, independent living, and better access to quality social services. But less attention is devoted to mental illness and disability.

Several Member States are adopting a more holistic approach to the integration of migrants and the social inclusion of **ethnic minorities**, also singled out as priority categories. This involves addressing educational disadvantages and developing language skills, but also fighting discrimination and promoting participation in civic life more broadly.

Reinforcing the social inclusion of disadvantaged people with a view to their sustainable integration in employment is now a specific ESF priority. Actions can be supported under all ESF priorities for 2007-2013 and plans do give stronger visibility to the Structural Funds. The ERDF will contribute to the improvement of infrastructure related to social inclusion and fighting urban deprivation.

3.2 Healthcare and long-term care

In this first year of coordination, the reports document striking differences in health outcomes among and within Member States. Life expectancy varies between countries from 65.4 to 77.9 years for men and from 75.4 to 83.8 for women. Significant divergences by socio-economic status can also be found within many countries. These outcomes are affected by many factors, including living and working conditions. Member States are trying to reduce these differences by improving prevention and health education as well as access to health care.

(Unequal) access to healthcare and long-term care

All countries are strongly committed to ensuring access to adequate healthcare and long-term care. However, this does not necessarily translate into universal access and **significant inequities** remain. Out-of-pocket payments have consistently increased due to the exclusion of certain types of care from the benefits package and to rises in co-payments to increase revenue and reduce excess consumption. To avoid barriers to access for the most vulnerable groups Member States introduce exemptions, pre-payments and expenditure ceilings.

The distribution of care is sometimes uneven. Regional disparities in provision result not only from geography but also from institutional features. While allowing services to adapt to local circumstances, decentralisation has also led to varying treatment coverage and practices. Funding capacity may also differ between regions. EU structural funds support improvements in health infrastructure to reduce such differences.

There is **a need to develop long term care systems** to meet rising demand. Current provision is often insufficient, resulting in high personal costs and long waiting times. The changing structure of families, increased geographical mobility and increased female labour market participation require more formalised care for the elderly and disabled. There is a consensus on giving priority to home care services and introducing new technology (e.g. independent living systems) which can help to enable people to live in their own home for as long as possible. Member States also stress the importance of rehabilitation, helping dependents return to an active life. There is growing recognition of the need to create a solid basis for financing long-term care and some Member States are moving in this direction.

Improving quality through standards, evidence-based medicine and integrated care

Member States use a mix of tools to achieve and maintain high quality care across the system. These include: quality standards, e.g. minimum structural and procedural requirements for providers, accreditation or certification of providers, and quality monitoring systems based on reporting exercises, and inspections. Health care professionals are encouraged to use centrally evaluated and accessible clinical guidelines based upon the best available evidence. National health technology assessment agencies have been established and are cooperating at EU level (EUnet-HTA). They help to ensure that new interventions are effective, safe and cost-effective.

To enhance system responsiveness and patient satisfaction, a more patient-centred pattern of care is developing. This includes tailor-made services (notably within long-term care) and ensuring patients' rights, choice, involvement in decision-making and feedback through patient surveys.

Member States are aiming at better coordination between primary, outpatient and inpatient secondary and tertiary care and between medical, nursing, social and palliative care. eHealth can help. This is expected to lead to better, more efficient patient flows through the system, reduce inappropriate interventions, favour independent living and increase patient satisfaction and safety.

Promotion and prevention programmes are being implemented to tackle non-communicable diseases and health inequalities (e.g. cancer, cardiovascular diseases, vaccination programmes).

Achieving financial and long term sustainability

Sustainability of health and long term care has financial and human resource aspects. Resources are significant though there are striking differences in expenditure (between 5% and 11% of GDP in 2003) and personnel employed (between 3% and 10% of working age population).

The need to **control costs** growing substantially faster than GDP clearly emerges from the reports. The main pressures arise from new technologies, price trends, rising patient expectations and in future, from an ageing population. A key challenge is to allow everyone to benefit from medical progress quickly and equitably. Most Member States are promoting a more rational use of resources through: e.g. overall caps on expenditure, co-payments and the use of generic medicines, staff guidelines and health technology assessments. To promote efficiency, some Member States are separating the provision and funding roles and fostering competition between health service providers. Private expenditure now stands at 24% on average of total healthcare expenditure, due to the implementation of cost-containment policies and to increased demand, driven by higher per capita income. Member States accelerate **healthcare restructuring**, often challenging entrenched interests, through referral systems, strengthening primary care and its link with the territory, reducing the number of hospital beds and increasing day case surgery, and rationalising specialised care by concentrating it in a few centres of excellence.

The expected increase in care consumption represents a major area of employment growth. There is however a general surplus of specialists and lack of generalists and nurses. High demand for staff in some countries is also draining medical resources from others, underlining the need for a common approach. There is a need for measures to increase the retention and **supply of medical staff** in the long run. Also for long-term care, there are shortages in the workforce. Informal carers require training, peer supervision, counselling and respite care and the possibility to reconcile family care and paid employment

With these varying situations, specific challenges for Member States differ greatly. Some need to devote more resources to healthcare and long-term care to ensure adequate coverage while improving efficiency, whereas in others efficiency itself will be the key to maintaining sustainable systems.

The search for a win-win strategy

Member States recognise the inter-linkage between access, quality and financial sustainability: policies to broaden access have to be reconciled with improved financial sustainability and long term sustainability has to meet the need of high quality care for all. There are trade-offs as well as synergies between different policies. Making trade-offs transparent and developing synergies helps to secure adequate social protection against healthcare and long-term care risks. Promoting healthy and active life styles, health and safety at work and more preventive care and taking account of health concerns in all policies is seen as a win-win strategy. Improving coordination, both between types of care and between the different levels of competence (national, regional, local), and greater use of evidence-based medicine and technology assessment can also improve the quality of care and patient safety and help control expenditure.

3.3 Adequate and sustainable pensions

Reporting on pensions already took place in 2006. The comprehensive synthesis report on adequate and sustainable pensions⁶ makes it clear that reform strategies need to consider the synergies and trade-offs between the broad objectives of adequacy, sustainability and modernisation. General structural reforms have taken place in most countries in the past decade and continued in some Member States in 2006. They build on a life-cycle approach by strengthening the link between contributions and benefits and managing increasing longevity and on active ageing strategies by reducing access to early retirement schemes and strengthening incentives to work longer. They must be matched by progress in opening labour markets for older workers. To guarantee both adequacy and sustainability of pension systems, more people need to work and to work longer. Continued rises in employment rates of older workers are encouraging but no reason for complacency.

There is a clear recognition that sustainability and adequacy questions go hand in hand. Unsustainable pension systems put pensions at risk and conversely inadequate pensions generate unforeseen demands to avoid pensioner poverty. Theoretical replacement rates, showing how a typical worker's pension would vary up to 2050, indicate drops in most countries at a given retirement age, notably in those which have enacted comprehensive reforms (and improved sustainability). Member States are projecting to compensate for this decline by extending working lives or increasing supplementary pension savings. For those countries that count on supplementary pension provision, securing private pensions and extending coverage remain essential.

Work in 2006 focused on specific issues, such as the higher poverty risk of older women, minimum pensions or minimum income within social assistance provisions. Widely differing provisions exist, with some countries having improved coverage considerably in recent years, while in others reliance on minimum pensions is declining as a result of the maturing of earnings related pensions and higher employment rates. Member States need to consider the future adjustments, in particular to ensure that recipients do not fall too far behind the overall wage level, while maintaining strong incentives for working longer and saving.

Another focus has been flexible arrangements towards the end of working life. Appropriate financial incentives for working longer are crucial. The effects of such incentives may vary at different times regarding the standard retirement age and for different levels of earnings. Such systems tend to be complicated and it is important to promote transparency and a better understanding for the individuals.

⁶ SEC(2006)304 of 27/02/2006