EU-CHINA
Social Protection Reform Project
中国欧盟社会保护改革项目

1.2.3 - ON THE LEGITIMACY OF STATE BUDGET PARTICIPATION IN SOCIAL INSURANCE FINANCING

Component 1

In China, the income from current contributions to the Urban Employees' pension scheme has become inferior to the expenditure on the same schemes for the first time in 2015. This is due to a conjunction of factors such as the increase in number of retirees, the improvement in pension benefits, the slowdown in employment and wage growth. This led to growing concern among Government and Academic circles that the intervention of Government in financing pension benefits might have to expand to make good for future deficits to an unsustainable level – while employers' contributions are deemed to be already too high. Some hypothesis are therefore being considered, whereby the liability of Government in pension financing would be limited to a minimal level, with more responsibility for securing well-being t old-age being shifted to the workers themselves. The aim of the present Note is to show that, in Europe, Government's role in financing social security is quite substantial, even under systems based on social insurance where contributions assessed on salaries are expected to be the main source of income.

The fact that a Government contributes to the financing of a pension fund otherwise based on PAYG social insurance is not necessarily the result of an imbalance requiring correction.

There are indeed a number of instances where Government subsidies stem from legitimate policy decisions for which financing through national solidarity (revenue) is deemed more appropriate than financing through the insured collective (contributions).

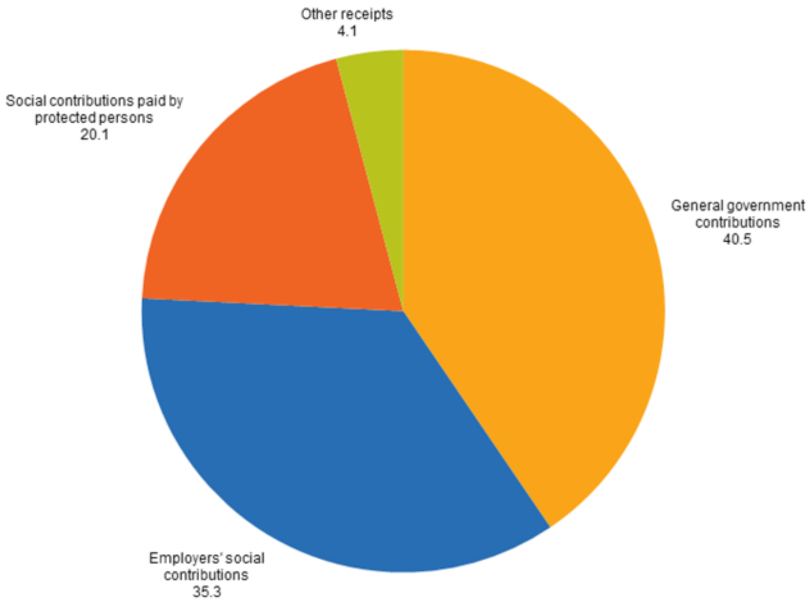
Among those one may identify:

- Crediting for certain non-contributory periods corresponding to service rendered to the nation (military service, studies, child rearing) – citizenship periods
- Compensating for discount on employers/workers contributions as part of schemes to promote employment (lower contributions for certain professions or categories of the population)
- Introducing moratorium on the repayment of employers' contribution debts to alleviate the burden on enterprises
- Ensuring a minimum pension for the weakest segments of the population otherwise to be supported through social assistance mechanisms
- Rewarding pension funds for taking over responsibilities otherwise incumbent over the Government (past systems/credits)
- Remunerating the pension funds for performing certain administrative functions on behalf of the Government (participation in fiscal control over taxable income)

- Repaying to the pension funds amounts previously borrowed by Government from accumulated contributions.

EUROSTAT ANALYSIS

An analysis of social protection receipts across the EU-28 in 2012 shows that the majority of receipts could be attributed to general government contributions (40.5 %) and employers' social contributions (35.3 %), while around one fifth (20.1 %) of social protection receipts in the EU-28 were social contributions paid by protected persons.



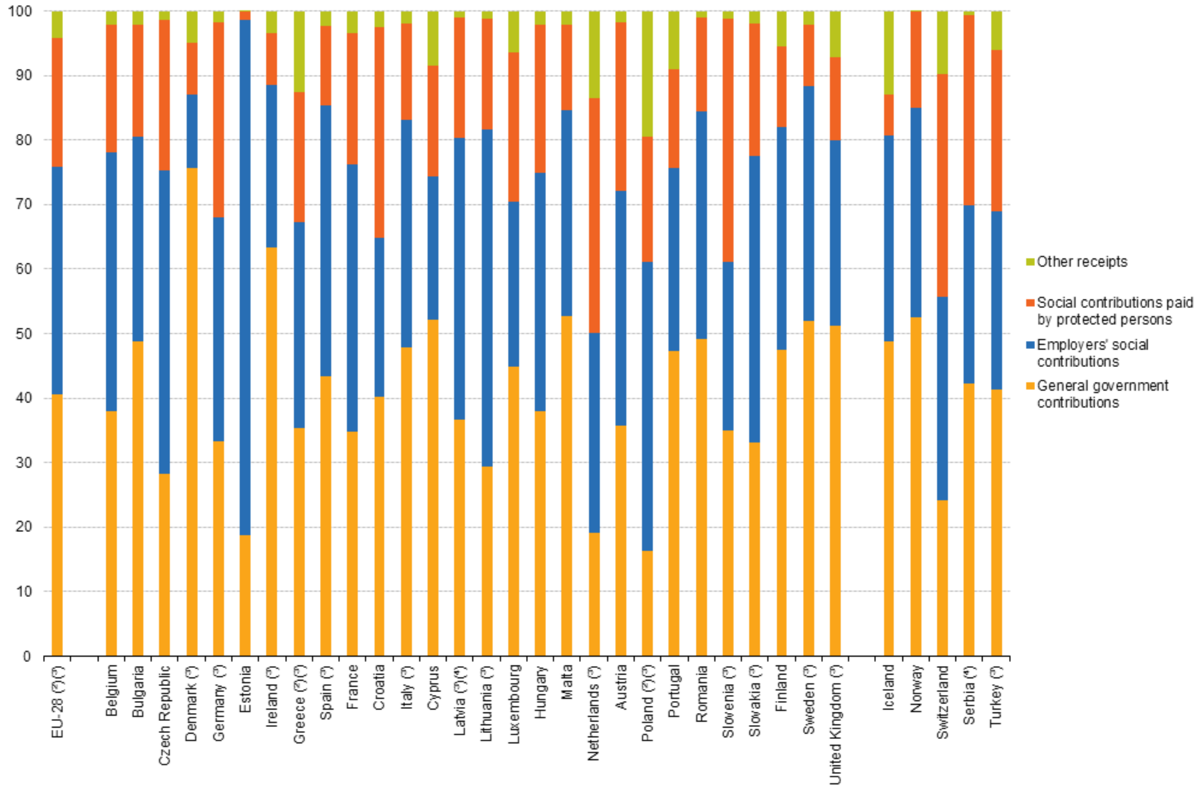
(¹) Provisional. Figures do not sum to 100 % due to rounding.
Source: Eurostat (online data code: spr_rec_sumt)

The structure of receipts used to finance social protection varies: three groups of EU Member States can be identified. A first group covers Member States in which government contributions are the largest component of receipts: Denmark, Ireland, Cyprus, Malta, Portugal, Finland, Sweden and the United Kingdom. In six of these Member States government contributions accounted for half or more of all receipts and they accounted for more than three fifths of receipts in Ireland (63.4 %) and more than three-quarters in Denmark (75.6 %).

In the remaining Member States social contributions — from employers and from the protected persons — represented the largest component of receipts. These can be divided between those where actual or imputed employers' social contributions accounted for two thirds or more of all social contributions: Belgium, the Czech Republic, Estonia, Spain, France, Italy, Latvia, Lithuania, Poland, Romania and Slovakia. In the final group of Member States, employers' social contributions accounted for less than two thirds of all social contributions: Bulgaria, Germany, Greece, Croatia, Hungary, Luxembourg, Austria, the Netherlands and Slovenia.

Note that in most member States other receipts tend to be relatively insignificant: they only contribute more than 10 % of total receipts in Greece, the Netherlands and Poland.

Among non-member countries, government contributions were the largest component of receipts in Iceland and Norway. Social contributions accounted for more than half of receipts in Switzerland, Serbia and Turkey, with employers' social contributions accounting for less than two thirds of social contributions.



(1) Provisional. Figures do not sum to 100 % due to rounding.
(2) 2012.
(3) Provisional.
(4) Estimates.
Source: Eurostat (online data code: spr_rec_sumt)

The annex to this Note, excerpt from the EU MISSOC Comparative tables[1] provides details for each member State on the respective participation of public authorities to the financing of Old-age insurance schemes.

Data therein indicate that many EU member States clearly earmark Government subsidies for the financing of decisions taken by public authorities pursuant to explicit policy goals (e.g. exemption from employers' contribution to promote employment), to broad solidarity concerns (e.g. exemption of contributions for the unemployed or the disabled, raising low pensions up to the subsistence level) or to the desired support to specific professions or categories of the population (military, self-employed, families with children ...).

Other EU member States simply state that the State subsidizes the schemes, or makes good for any deficit, which in terms of Governance – and avoiding open-ended commitments – is less satisfactory.

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[1] MISSOC : Mututal information system on Social protection
http://www.missoc.org/INFORMATIONBASE/COMPARATIVETABLES/MISSOCDATABASE/comparativeTableSearch.jsp