

**EUROPEAN ECONOMIC AREA**  
**STANDING COMMITTEE**  
**OF THE EFTA STATES**

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**WORKING GROUP ON SOCIAL SECURITY**

**Comments by the EFTA Working Group on Social Security<sup>1</sup> on the  
Communication from the Commission on modernising and improving  
social protection in the European Union**

**I INTRODUCTION**

1. The Commission's Communication on modernising and improving social protection in the European Union (COM (97) 102 final) is a follow-up to the earlier Communication (1995) on the future of social protection. The Communication indicates the route along which modernisation can be pursued and presents specific proposals for European level support.

2. The invitation to produce comments on the Communication is very welcome, not least since the Working Group on Social Security also forwarded comments on the first Communication in November 1996. Moreover, the EEA EFTA States are grateful to the Commission for presenting the Communication at the meeting of the EFTA Working Group on Social Security on 12 May 1997, and at the inter-ministerial conference in Oslo on 20 June 1997. The EEA EFTA States would also like to praise the high quality both of the Communication and of the oral presentations given.

3. It is the opinion of the EEA EFTA States that the Communication is a useful element in the discussion on how States, with the objective of protecting and improving social protection systems, could react to changes in population and the labour market. As the EEA EFTA States are included in the single market and apply the same co-ordination rules in the field of social security as the EU States, the EFTA Working Group is pleased to take part in the analytical work. The same considerations are relevant as regards the MISSOC co-operation. It is furthermore hoped that the EEA EFTA States can contribute to the debate also within the context of the meetings of the Director Generals for Social Security, as the EEA EFTA States in the future may be invited to these meetings as observers.

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<sup>1</sup> Comprising the Delegations of the three EEA EFTA States Iceland, Liechtenstein and Norway

## **II SOCIAL PROTECTION AS A PRODUCTIVE FACTOR**

4. The EEA EFTA States welcome the Communication's emphasis on a strong social dimension seen from a purely economic point of view, and support the objective proposed by the Commission of increasing awareness of social policy as a productive factor.

## **III MAKING SOCIAL PROTECTION MORE EMPLOYMENT FRIENDLY**

5. A continual shortening of active working years per person, as a consequence of longer education and earlier retirement, and demographic factors which reduce the entrance of young people to the labour market, will certainly make it more difficult for a State's economy to maintain an advanced social security system. It is, therefore, highly appropriate to try to avoid that people with work capacity become too dependent on the social protection system, and to make the system more employment friendly. To connect these issues with employment policies is, furthermore, a useful input to the discussion.

6. The EEA EFTA States also share the opinion expressed in the Communication that taxation and financing of social protection systems need to be made more employment friendly, and that the interaction between taxation and social security contributions should be studied.

7. It is, furthermore, the view of the EEA EFTA States that a common full employment policy in Europe would make social security and assistance schemes easier to finance, as it would increase revenues and reduce expenditures.

8. Norway is in this regard of the opinion that if the level of contributions to be paid by the employers to the social security system is too high, this will discourage employment and that it is, therefore, necessary to look for alternative ways of financing social security schemes. In Norway the employer's contribution to the social security system is nil or very low in regions with high risk of unemployment. Moreover, the general level of contributions was some years ago reduced when employment problems became pronounced. Seen from the State budget side, the increase in benefit payments has partly been offset by taxing income from benefits more like income from work.

9. In Liechtenstein international trends such as increasing unemployment tend to develop with a certain delay and with a much smaller impact in comparison with other States (the unemployment rate was at a high of 1.6% in February 1997, and it now stands at 1.3 %). The employer's contribution to the social security systems has for some time been quite stable, and as the contribution level is already rather low, the possibility of encouraging employment by reducing the level of payment is very limited in Liechtenstein.

10. In Iceland the employer's contribution differs depending on the category of work (industries, fisheries, service sector etc.).

11. The EEA EFTA States support the Commission's objective of encouraging investment in life-long learning, and agree that efforts in this regard can ease the entrance of young persons into the labour market and prevent workers from dropping out. Moreover, the labour force will be up to date, productive and prepared to meet competition.

12. In Norway the age group 16 to 19 years have a statutory right to secondary education lasting 3 to 4 years. Persons under the age of 25 years, without a place in school or a job, are given priority with regard to labour market programmes.

13. In Liechtenstein a certain hesitation among employers to keep, until retirement age, older staff which during the course of life-long hard work might have become less productive, has been noticed, and has probably had an effect on invalidity payments. A discussion of the possibilities of improving vocational rehabilitation measures is being initiated.

14. It should also be noted that all the EEA EFTA States consider it important that handicapped people be given the opportunity to use their remaining work capacity - to the benefit of themselves and society.

15. The Communication also brings up the role of minimum income. In Norway the social partners, farmers, fishermen and pensioners all negotiate agreements on wages and other income conditions. A minimum pension is fixed by the Norwegian Parliament and the amount of social assistance given to people is decided by each municipality. As the system seems to be operating satisfactorily, the question of legalised minimum income is not on the political agenda in Norway.

16. In Liechtenstein there is no legal definition of minimum income and the agreements on minimum income are dealt with by the social partners. However, the possibility of granting tax-financed allowances to low income families with young children is currently being examined. Furthermore, since not only occupationally active persons in Liechtenstein qualify for a pension, the economic risks of old age, death and invalidity are met sufficiently. A recent study, however, showed that elderly persons and even more so disabled persons are among the groups that are at a higher risk than others of falling below the critical level of income.

#### **IV DEMOGRAPHIC AGEING OF EUROPEAN SOCIETIES**

17. The ageing of the population in Europe has triggered debates also in the EEA EFTA States, and in Norway the demographic balance is seen as a major challenge. Despite the fact that Norway has a higher legal retirement age (67 years) than is common in Europe, average retirement age is much lower (slightly above 60 years). Efforts are now made, in various ways, to encourage older workers to remain occupationally active (which should be possible given the gradual increase in average life expectancy). On the other hand, it should also be noted that the fertility rate in Norway has increased over recent years, possibly as a response to national measures to make child care less expensive and burdensome.

18. In Liechtenstein the legal retirement age will, as a part of recent amendments aimed at equal treatment, be levelled at 64 years for both sexes (presently the retirement age is 62 years for women and 65 years for men). The possibility to draw an early pension, either 1 or 2 years before the legal retirement age, has furthermore been introduced as from 1 January 1997. The real average retirement age might be lowered by these measures and Liechtenstein is of the opinion that demographic ageing and its effects on the social security schemes must be watched very closely. Discussions are also ongoing in Iceland, even though the nation is still among Europe's youngest. In Iceland the retirement age is 67 years.

19. The Communication's analysis of funded schemes versus pay-as-you-go schemes is excellent. However, according to Norway it is necessary to secure a satisfactory level of savings in society, and thereby investment, to avoid unemployment. One option is to connect the saving funds to social insurance. Some funding might, moreover, prove advantageous to avoid mistrust among future pensioners.

20. The occupational pension funds in Iceland, which operate on a fully funded basis, are now quite successful, with little inflation and more freedom for investments. It is the opinion of Iceland that their experience in this field perhaps could be a useful input when improvement and modernisation are sought in this regard in Europe.

## **V ADAPTING SOCIAL PROTECTION TO A NEW GENDER BALANCE**

21. The EEA EFTA States very much welcome initiatives planned by the Commission towards individualisation of rights, and initiatives aimed at setting higher standards for the care of children and other dependants. It should in this connection be mentioned that the participation rate by Norwegian women on the labour market has risen sharply during recent years and was in 1995 72 % in the age group 25 to 66 years. In Iceland about 80% of women are on the labour market. As the social security systems in Norway and Iceland are residence based systems with individual basic pension rights for everybody (and supplementary pension rights for those actively employed) this has not created problems for the social security systems as such.

## **VI IMPROVING SOCIAL PROTECTION FOR PEOPLE MOVING WITHIN THE UNION**

22. Lastly, the EEA EFTA States recognise the importance of improving co-ordination between countries as regards social security contributions and tax to avoid double payment or a "free ride".

23. To the extent that the co-ordination system of Regulation No 1408/71 could be made less complicated and more transparent, the EEA EFTA States support the Commission's initiative to table a proposal for a simplified regulation. The EEA EFTA States, however, recognise the complexity of the task.

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