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TO THE COUNCIL, THE EUROPEAN PARLIAMENT,  
THE ECONOMIC AND SOCIAL COMMITTEE  
AND THE COMMITTEE OF THE REGIONS**

**Strengthening the social dimension of the Lisbon strategy: Streamlining open  
coordination in the field of social protection**

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## 1. INTRODUCTION: SOCIAL PROTECTION IN THE EU POLITICAL AGENDA

Social Protection is a fundamental component of the European model of society. It can be defined as the set of collective transfer systems which are designed to protect people against social risks<sup>1</sup>. It currently accounts, on average, for about 27.5% of GDP (down from a peak of 29% in 1993).<sup>2</sup> Member States retain full responsibility for the financing and organisation of their systems. EU legislation in the area has been mainly concerned with how fundamental Treaty principles are applied within national systems.<sup>3</sup>

The Amsterdam and Nice Treaties outlined a role for the Community to "support and complement the activities of the Member States" in a range of objectives relevant to social protection: the "social security and social protection of workers", "combating of social exclusion" and "modernisation of social protection systems". This is the basis for processes of policy Cooperation and coordination which have developed over recent years involving exchanges of information, the evaluation of ongoing policy developments and identification of best practices. They are founded on an explicit acknowledgement of subsidiarity and of the diversity of national systems. There is a shared recognition that systems face common challenges (for example, regarding the ageing of the population; the persistence of poverty and social exclusion and the threat of growing inequalities; changes in the structure of society, families and the world of work; the challenge of contributing to growth and job creation) and need to reform and modernise in the face of such challenges.

The scope of this cooperation took a huge step forward when the European Council of Lisbon in March 2000 outlined its vision of an integrated socio-economic strategy for Europe for the decade to 2010. The Lisbon conclusions saw modernised and improved social protection systems as an important building block towards achievement of the overall strategic goal. This view that social protection has an important contribution to make to overall socio-economic policy was further reinforced in the Social Policy Agenda adopted by the Nice European Council. At its heart was the idea of a policy triangle involving the positive interaction between economic, employment and social protection policies.

Thus, on the one hand macroeconomic policy goals and market liberalisation have important social implications, including on the organisation of social protection systems; on the other hand, economic and employment policies, for example for promoting the increased labour force participation of older workers, need to be supported by reforms in social protection domains such as pensions, healthcare and care systems. Increasingly, social protection is seen as having the potential to play an important role as a productive factor, ensuring that efficient, dynamic, modern economies, are built on solid foundations and on social justice.

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<sup>1</sup> Social risks typically cover old age, retirement and age-related dependency, the death of a provider, disability, sickness, maternity, dependent children and unemployment, and, sometimes, the need to care for the frail elderly and disabled or sick relatives. Social protection ensures that these social risks do not result in poverty and that the lack of resources does not prevent the access to services that are essential a human life in dignity.

<sup>2</sup> Old-age pensions and healthcare are by far the largest components of social protection in the Union, together accounting for almost two thirds of total outlays. European Commission "Social Protection in Europe 2001", published May 2002.

<sup>3</sup> As a corollary of freedom of movement, there are coordinating mechanisms covering social security for migrant workers in Regulations 1408/71 and 574/72, which ensure that they do not lose entitlements when exercising their right to free movement. Similarly, Directives 79/7/EEC and 86/378/EEC deal with the application of the principle of equality between men and women in statutory and occupational social security

This communication sets out concrete proposals with the goal of making the coordination of Member States' policies in the field of social protection more effective, thereby contributing to the necessary modernisation of social protection systems and strengthening the social dimension of the Lisbon strategy. The key instrument for this goal is the Open Method of Coordination. While this method is already implemented for some strands of social protection, it needs substantive streamlining and simplification, which include a more clear definition of its scope.

Streamlining of policy coordination on social protection should enhance the quality and the coherence of the overall socio-economic governance of the EU. Therefore, it should be undertaken in coherence with the Treaty-based instruments for economic and employment policy coordination in the EU –and thus to provide input for the Annual Spring Report which prepares each Spring European Council. Thus, this communication addresses how the streamlined policy coordination process can complement and add value to existing Treaty-based methods and coordination processes<sup>4</sup>. Based on the recently established three-yearly cycle for the synchronisation of the economic and employment policy coordination processes - two main pillars of the Lisbon strategy - it outlines a timetable for streamlining of the social protection process which could be effected in 2006 and synchronised with the second round of the three-year cycle of these two coordination processes. Accordingly the launch of new streamlined objectives for social protection would be simultaneous and consistent with the second round of the synchronised economic/employment processes.

The communication also addresses how Cooperation on social protection, which has grown rapidly since Lisbon, can be made more efficient and less burdensome on the actors concerned and how greater synergies between the various strands of the work can be developed. It proposes a rationalisation and simplification of work and a greater emphasis on implementation in the future.

This opportunity of this communication is justified by the need to prepare timely the involvement of the new Member States in the processes of policy coordination contributing to the Lisbon strategy, as well as the synchronisation of the social protection process with the economic and employment policy coordination processes in 2006. It had been announced in the Spring Report of 2003<sup>5</sup>, where the Commission has committed itself to adopt a communication on *"the streamlining of current disparate actions linked to social inclusion and pensions and, in time, cooperation in relation to healthcare and "making work pay" into a single Open Method of Coordination"*. It also responds to the invitation addressed by the Brussels European Council to the Commission *"to report on the advisability of simplifying and streamlining the various strands of work on social protection into a coherent framework within the Open Method of Coordination"*.

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<sup>4</sup> The role of the Open Method of Coordination relative to the Treaty-based processes has been defined by the Social Protection Committee and the Economic Policy Committee in the context of the application of this method in the area of pensions in the Joint Report to the Laeken European Council.. It says that the Open Method of Coordination complements the Treaty-based processes and takes its place alongside these existing processes which, as part of their wider remit, continue to deal with aspects of policies concerned and calls for a coherence with these processes. Cf. "Quality and viability of pensions – Joint report on objectives and working methods in the area of pensions, 10672/01 ECFIN 198 SOC 272.

<sup>5</sup> COM (2003) 5

## **2. STREAMLINING IN ORDER TO STRENGTHEN THE SOCIAL DIMENSION OF THE LISBON STRATEGY.**

### **2.1. Contributing to socio-economic governance in the wake of the streamlining of the economic and employment policy coordination processes.**

Streamlining the economic and employment policy coordination processes has involved the creation of a new unified timetable for the work both before and after each Spring European Council, within a framework of a three-yearly cycle (2003-2005). Guidelines and recommendations should be kept broadly unchanged for these three years, thus allowing Member States and the Commission to focus on implementation during the intermediate years. Economic policy coordination is organised within the framework of the Broad Economic Guidelines (BEPGs); multilateral surveillance, aims at assessing the implementation of the BEPGs and the Stability and Growth Pact. Pensions are dealt with in this process from the point of view of the financial sustainability of pension systems and public finances as a whole, as well as of the contribution of pension systems to the functioning of labour and financial markets and to the performance of the economy as a whole. In particular, the Stockholm European Council concluded that Member States' comprehensive strategies for addressing the economic and budgetary challenges posed by ageing populations shall be presented in conjunction with Stability/Convergence Programmes and be examined as part of the Stability and Growth Pact and through the BEPGs.

Employment policy coordination is organised within the framework of the European Employment Strategy (EES) and has been built around several components. Employment Guidelines (EGs) set out common objectives and priorities for Member States' employment policies, which are put into practice nationally through National Action Plans. These are examined jointly by the Commission and the Council, which present a Joint Employment Report, on the basis of which country-specific recommendations may be issued upon a proposal by the Commission. While the reporting process is annual, the guidelines should remain stable for three years. Besides full employment and quality at work, the promotion of cohesion and social inclusion is one of the three overarching objectives of the EES reflected in the Employment Guidelines. This objective is supported by a number of priorities for promoting a more inclusive labour market, and the employability of the most disadvantaged groups. The Guidelines also encourage Member States to support older workers and employers in increasing the employment rate of older people and extending the age of exit from the labour market.

This streamlining has been a major positive achievement; it now raises the question as to how work on the other aspects of the Lisbon strategy should be organised in order to enhance the process as a whole.

The fact that streamlining concerned other policy areas and had the potential for a more general application was acknowledged in the Communication of last September which proposed streamlining of the economic and employment policy coordination processes<sup>6</sup>. It traced the recent major expansion in the number of different procedures at EU level which are concerned, to one extent or another, with coordinating economic and related policies. It listed the following processes: the Stability and Growth Pact; the Cardiff Process; the Macroeconomic Dialogue; a range of benchmarking processes in different policy fields; and applications of the Open Method of Coordination in several areas, most notably in this

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<sup>6</sup> COM (2002) 487

context, in regard to pensions and social inclusion. The point was made that, as each of these elements is added, there is a risk of creating greater complexity, duplication of effort and a lack of clarity in overall messages. Furthermore, the Communication had separately identified the need to focus more on implementation and less on simply creating more policy guidelines.

The September 2002 Communication proposed that there would be a reflection by the Commission, "in the coming months, on how to streamline the open process of coordination in the social protection field – currently covering social inclusion and pensions – and how to link it to the new streamlined approach". This is logical in view of the close links and strong potential synergies between the social protection processes and the two streamlined Treaty-based processes. The close triangular relationship between the policy domains concerned is brought out very clearly in work under the OMC for pensions. The common objectives which were agreed by the Laeken European Council as a basis for the process invited the Member States to set out their policy response by reference to a mix of *social* objectives (how to maintain the adequacy of pensions; how to respond to societal change); *labour market* objectives (how to boost employment, particularly among older workers); and *economic* concerns (how to ensure long-term sustainability of pension systems). Similarly, pertinent connections between different policy domains can be found with regard to social protection in the field of healthcare and care for the elderly, as pointed out by the three broad policy objectives endorsed by the Barcelona European Council - ensuring quality of care, equity in access and provision, and solidarity in financing mechanisms. Finally, work on social inclusion involves very important questions regarding the interaction of social protection and employment policies.

It is clearly the case when looking, for example, at the issues confronting national pension and healthcare systems that, while financial challenges have been the driving force for reform, its impact cannot exclusively be assessed from a financial perspective. To be effective, reform must also ensure that policy continues to be embedded in solidarity and the basic values of society. In particular, with regard to pensions, for instance, it is necessary to ensure that Member States continue to respect the social objective of adequacy in their systems and pursue efforts to adapt their systems to changing societal needs. There is a clear interdependence between financial sustainability and adequacy. Necessary reform is difficult to carry out without political support. The same overall political balance is more and more required at EU level, if the Lisbon strategy for coordination of socio-economic policies is to achieve maximum benefits. Streamlining, undertaken with a view to strengthening the social protection dimension of the strategy, can help achieve such a balance.

Accordingly, the proposals set out in Section 3 foresee that future work on social protection should be oriented in such a way as to strengthen and complement the Treaty-based processes regarding employment and macro-economic policies (respectively the BEPGs and the EES). Hence the need to ensure that the timetable for the new streamlined process of social protection be fully synchronised with that of these two processes. It will be based on a three-year cycle for reviewing objectives and delivering major strategic reports. This timeframe is appropriate for social protection, given the long-term nature of social developments and the gradual pace of change in this field. At the same time, with a view to informing the process leading to the Spring Summit and strengthening the visibility of social protection within the Lisbon strategy, Member States will be asked to provide in intervening years light updates on major policy developments. Synchronisation with the two streamlined processes should take place from 2006, when the next three-yearly cycle for the BEPGs and the EGs starts.

## **2.2. Streamlining: creating an integrated framework for the cooperation on social protection.**

Policy cooperation on social protection made a huge step forward when the Lisbon European Council outlined its vision of an integrated socio-economic strategy for Europe for the decade to 2010. The Lisbon conclusions attached considerable importance to the contribution which social protection systems were to make to achieving the new strategic goals. They gave clear mandates for joint work between the Member States and the Commission in the fields of social inclusion and pensions; they introduced the Open Method of Coordination as the mechanism for taking forward this work; and they outlined mechanisms for the guidance and coordination of work towards the new strategy, under which a central role is given to the annual Spring European Council.

This view of social protection as an important element in overall socio-economic policy was further strengthened in the Social Policy Agenda adopted by the Nice European Council<sup>7</sup>. At its heart was the idea of the policy triangle involving the creation of a virtuous circle of economic, employment and social protection policies. It confirmed the goal of modernising and improving social protection so that it could "respond to the transformation to the knowledge economy, change in social and family structures and build on the role of social protection as a productive factor".

The orientations given by the European Councils of Lisbon and Nice provided the framework within which work has been carried out by the Commission and the Member States with the aim of meeting the challenge of modernising social protection systems. The broad objectives for modernisation were defined in the Council conclusions of December 1999, on the basis of a communication by the Commission<sup>8</sup>, as making work pay and provide secure income, making pensions safe and pension systems sustainable, promoting social inclusion, and ensuring high quality and sustainability of health care.

The validity of this framework has been borne out by the succession of mandates from subsequent European Councils. These led to the implementation of two substantial processes, using the open method of coordination, on two of the four issues, social inclusion and pensions. In addition, there is a looser form of policy cooperation on issues regarding the social protection of people in need of health and long-term care.

The Social Protection Committee has recently undertaken work on "making work pay" in order to identify the specific contribution which social protection systems can make to this overall objective (for example, in regard to the incentive structures of benefit systems). Aspects of the issue have been, and will continue to be, addressed in the context of the BEPGs and the Employment Guidelines.

The rhythm and focus of work between these different areas has, since Lisbon, been determined by the mandates from the European Council. These have allowed work to advance and to develop new ambition in the areas of social inclusion and pensions. Nevertheless, the approach has had some negative consequences. It is a concern that, through the organisation

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<sup>7</sup> The areas for policy orientation defined in Nice were: (I) more and better jobs; (ii) anticipating and capitalising on change in the working environment by creating a new balance between flexibility and security; (iii) fighting poverty and all forms of exclusion and determination; (iv) modernising social protection; (v) promoting gender equality; (vi) strengthening the social policy aspects of enlargement and the EU external relations.

<sup>8</sup> "A Concerted Strategy for Modernising Social Protection" (COM (1999) 347 final)

of work into separate strands, the focus on an overall agenda of modernising and improving social protection which was sought by the 1999 communication has not emerged so prominently. Secondly, the flow of work as a whole has been somewhat haphazard, and occasionally, congested. Thus, in Summer-Autumn 2002 Member States were obliged to submit substantial reports on healthcare and long-term care and on pensions. The Commission services then had the task of drafting two Joint Council/Commission reports for subsequent agreement in the Council prior to the Spring 2003 European Council.

Questions regarding health and long-term care have not yet been considered in detail within cooperation in social protection. Healthcare issues are relevant for the development of Europe's social model and its social, economic and employment policies in particular. Health systems and health policies across the EU are also becoming more interconnected than in the past, which raise many health policy issues with a clear European dimension. Nevertheless, as recognised in the Joint Report on Health and Long-term Care to the Spring 2003 European Council, there are very specific circumstances and complexities attaching to policy cooperation in this area. A number of joint challenges facing the Member States in the area of health and healthcare are currently being assessed in the high level process on patient mobility and healthcare developments in the EU. The European Convention is also looking at how to better define the EU's role and responsibility in this area. In particular, it will be necessary to specify which methods are the most appropriate to deal with social protection issues related to health and long-term care (ensuring access for all based on need and regardless of resources and ensuring that health and long-term care needs do not cause poverty to patients and their relatives), issues relating to public health and the advancement of better medical treatments and, finally, issues relating to the application of Internal Market principles in the area of healthcare (patient mobility, free provision of services).

In the light of the conclusions of these processes and depending on the subsequent decisions on health taken by the IGC, the Commission will examine the modalities of enhancing policy coordination in this field in the context of a streamlined social protection process.

In summary, work across the process as a whole will benefit if it can be rationalised and simplified.

Accordingly, it is proposed in Section 3 that, in place of the segmented organisation of work and reporting by reference to the different objectives as at present, future work should be brought within a unified structure referring to social protection as a whole. This will involve the establishment of a single set of common objectives, based on a shared European vision and organised in principle into three pillars relating to the three policy areas of social inclusion, pensions and health and long-term care. Separate proposals to address "making work pay" in a lighter way as a "cross-cutting issue" are set out in Section 3.1.

### **2.3. Working Methods: the Open Method of Coordination and its role within the overall strategy.**

The Lisbon Council proposed that the implementation of work on the social protection elements under the integrated strategy would be facilitated by applying "a new open method of coordination". This was introduced "as a means of spreading best practice and achieving greater convergence towards the main EU goals", to be applied in the areas where the Community powers are limited. It is consistent with the provisions of Article 137 of the Treaty as they refer to the Community's role to "support and complement" the activities of the Member States in providing social protection. It was conceived as a flexible governance method, in complement to the existing Community method and other Treaty-based processes

such as the BEPGs and the EES which continue to be the Community's core instruments. It is based firmly on the principle of subsidiarity and has the stated aim of "helping Member States to progressively develop their own policies". It involves the following features:

- fixing guidelines for the Union combined with specific timetables for achieving the goals which they set in the short, medium and long terms;
- establishing, where appropriate, quantitative and qualitative indicators and benchmarks against the best in the world and tailored to the needs of different Member States and sectors as a means of comparing best practice;
- translating these European guidelines into national and regional policies by setting specific targets and adopting measures, taking into account national and regional differences;
- periodic monitoring, evaluation and peer review organised as mutual learning processes.

These features have to be understood as a framework for the application of the Open Method of Coordination in various areas. It remains to be defined in a more detailed way in the context of each application which features and working methods will be applied and how the work will be organised.

*OMC: a complementary method*

The Commission's White Paper on Governance<sup>9</sup> summarised the characteristics of the OMC and put forward certain approaches for its use:

- The open method of coordination is used on a case by case basis. It is a way of encouraging cooperation, the exchange of best practice and agreeing common targets and guidelines for Member States, sometimes backed up by national action plans as in the case of employment and social exclusion. It relies on regular monitoring of progress to meet those targets, allowing Member States to compare their efforts and learn from the experience of others.
- In some areas, such as employment and social policy or immigration policy, it sits alongside the programme-based and legislative approach; in others, it adds value at a European level where there is little scope for legislative solutions.
- The Commission plays an active coordinating role already and is prepared to do so in the future, but the use of the method must not upset the institutional balance nor dilute the achievement of common objectives in the Treaty. In particular, it should not exclude the European Parliament from a European policy process. The open method of coordination should be a complement, rather than a replacement, for Community action.

Each of these different aspects of the OMC is reflected to an extent in the current work on social inclusion or pensions. In turn, the principles set out in the Governance White Paper should underpin any future application of the OMC in the context of creating an across-the-board process for social protection. The modalities of implementing the Open Method of

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<sup>9</sup> COM (2001) 428 of 25 July 2001.

Coordination in the social protection area will depend on the conclusions of the forthcoming Inter-Governmental Conference.

*Flexibility and full application of subsidiarity*

Within social inclusion, the OMC is used to create a concerted policy focus on goals, as part of a process through which Member States are invited to improve their national policies against poverty and social exclusion, inter alia by setting national targets in line with the Lisbon Council's call for "steps to be taken to make a decisive impact on the eradication of poverty". Action under the OMC is underpinned by a set of common indicators and is also linked closely to a Community Action Programme to fight social exclusion. While it will be important to maintain this focus on policy objectives in this domain, and also to develop it further in other areas of future coordination on social protection, implementation of the OMC should continue to be flexible. It must take account of the different circumstances, aims and state of development of policy coordination in the different policy domains.

In addition, the work should continue to recognise diversity and the responsibility of Member States for the design, organisation and financing of their systems.

*Openness: the involvement of actors*

Reflecting the high degree of organisation of civil society in relation to social exclusion, plus the fact that policies in this area are delivered in diverse and often decentralised ways within the Member States, the process places strong emphasis on the involvement of a range of actors - the involvement of social partners and consultation with NGOs and representatives of sub-national branches of government. This is an approach which could usefully be applied across the entire range of the future social protection process.

*The link with existing processes and instruments*

The key question which emerges from the OMC for pensions relates to the two fundamental issues identified by the Governance White Paper - how to ensure that the OMC "adds value" to existing Community processes and that it takes the institutional balance into account.

The Common Objectives agreed at the Laeken Council as the basis for implementing the OMC for pensions explicitly addressed this question.

The open method of coordination applied to pension policies will take its place alongside a range of existing, well functioning EU processes which, as part of their wider remit, deal with aspects of pension policies. It will be important to ensure coherence with the processes which are already established.

It listed these - the BEPGs, multilateral surveillance (including the Cardiff process), the Stability and Growth Pact, the European Employment Strategy and the Social Inclusion Process - before stating that:

It will be a specific objective of the proposed new method to provide, in an integrated way, information and analysis on national pension strategies which can help to ensure consistency between these processes in their treatment of pension policies.

Finally, it stated that "the results of the work (on pensions) will be integrated into the Broad Economic Policy Guidelines".

The relationship between the OMC and existing Community processes and the need to take account of the institutional balance is a key issue for the future on social protection as a whole. A modus operandi similar to that developed for the existing OMC for pensions should be created. It will be the role of future cooperation on social protection via the OMC to undertake a detailed analysis of the issues which confront national systems and the particular contribution which, when they are modernised and improved, they can make to the Lisbon strategy. It should produce policy messages capable of being taken up in the other instruments - key messages relevant to the Annual Spring Report, for example; or contributions to the policy areas of concern to the BEPGs and the EGs. These messages must complement and be consistent with the those of the economic and employment policy coordination processes at the EU level.

#### *Role of the Commission*

The Commission plays an initiating role in both the pensions and social inclusion processes, acting as a catalyst and seeking to maintain the ambition of the process. The practice whereby the Commission is in charge of the first draft of each joint Council/Commission report has helped to ensure that the OMC as implemented is a stronger method of working than might originally have been thought. This practice should be maintained.

#### *Association of the European Parliament*

Finally, it must be said that neither process has yet found an appropriate way to associate the European Parliament, as suggested by the White Paper on Governance. The very proliferation of processes has undoubtedly represented a stumbling block in this regard. It is proposed that, in creating a streamlined social protection process, given the importance of the process within the Lisbon strategy, methods to involve the European Parliament as appropriate and practical should be explored. This could, for example, take the form of reporting to the Parliament at the point of defining across-the-board common objectives on the basis of the evaluation of policy cooperation and coordination to date, as proposed in section 3.1 below, as well as at other such key points in the future process.

### **3. CREATING THE STRENGTHENED AND SIMPLIFIED COORDINATION PROCESS.**

#### **3.1. Common objectives**

A streamlined approach to policy cooperation should start with the definition of an integrated and consistent set of common objectives, which should, in principle, be structured into three pillars reflecting the scope of policy cooperation in the social protection area – social inclusion, pensions, and health and long-term care. These should replace the existing separate sets of objectives. This set of objectives should be adopted by the Council in 2006, acting on a proposal from the Commission, at the same time as the Guideline package for economic and employment policies. They should remain stable for a period of 3 years, i.e. up to 2009, unless unforeseen circumstances require otherwise.

The set of common objectives will be defined under the Lisbon strategy and should be fully consistent and interconnected with the BEPGs and EGs that will be adopted in 2006. They should also reflect the results of the evaluation of the experience gained in the different processes of policy cooperation in the area of social protection up to that point. Following the mandate from the Brussels European Council of March 2003, a review of the progress achieved within the open method of coordination in the field of pensions is due to be carried out in 2006. This review should be extended to cover progress in the social inclusion process

and in the cooperative exchange on health and should form part of the preparation for the setting of common objectives for the new streamlined process.

The set of common objectives should also include a limited number of cross-cutting issues. Such issues could cover subjects that have more general relevance for social protection systems and cannot simply be captured within one of the three pillars of the new cooperation process, for example, the challenge of gender mainstreaming. In addition, this approach could cover how social protection can contribute to the policy approach of "making work pay", particularly in what regards the provision of social benefits, the promotion of active ageing and the policies for reconciling work with family life. The European Council of March 2003 has invited the Commission "to report in time for the 2004 Spring Council on the improvement in the overall framework for social protection policies through a greater emphasis on the effectiveness of incentives and the identification of best practice."<sup>10</sup> In this connection, due account must be taken of the work already launched in the context of the economic and employment policy coordination processes. These cover, and will continue to cover, the objective of "making work pay" from the perspectives of economic and employment policies respectively. In this context, both the economic and the employment policy coordination processes address appropriate incentives to take up work, remain in work, increase work effort and invest in education and training. This implies in particular that they deal with the incentive effects of the interaction of tax and benefit systems, as well as of active labour market policies.

### **3.2. Reporting mechanisms: a new annual joint report on social protection**

The key instrument of the new streamlined process will consist of a Joint Social Protection Report, which will document and assess progress across the full range of common objectives. It will be drawn up jointly by the Commission and the Council on the basis of a draft submitted by the Commission. Preparation of the Joint Report at the same time as the other reporting instruments in the run-up to the Spring European Council means that it will add new and valuable material to the preparation of the Annual Synthesis Report. The results of the analysis conducted by the Commission will be incorporated into the annual synthesis report to the Spring Summit. It should be consistent with parallel work carried out in the framework of the EES and the BEPGs. Synchronisation will much improve the conditions for ensuring such consistency. The final Joint Report will provide an important basis for input from the Employment and Social Policy (EPSCO) Council regarding social protection to that Summit.

The new Joint Social Protection Report will replace the existing 'Social Protection in Europe Report' provided for under the Decision establishing the Social Protection Committee. This change would already take effect in 2005<sup>11</sup>. It will also replace the Joint Report on Social Inclusion and the Joint Report on Pensions as well as taking over the task of reflecting on the progress made in policy cooperation on healthcare and long-term care.

Starting in 2006, Member States will feed into the preparation of the Joint Social Protection Report by means of a national report setting out the strategy for reaching the common objectives to be agreed earlier in that year. The 2006 national reports will be comprehensive, covering all three pillars, and forward-looking.

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<sup>10</sup> For instance, benefit systems, reconciliation of family and work life, measures for older people.

<sup>11</sup> For more details on the transition period, see below, Section 3.4 and the Annexes.

In 2007 and 2008, Member States will submit much lighter reports, essentially focusing on progress in implementing the strategies established in 2006, as well as updating on major policy developments.

The reports should draw on commonly agreed indicators to reflect progress towards common objectives.

The national reports on social protection will become, after 2006, the only contribution from Member States to the process. They will therefore replace both the NAPs/inclusion and the National Strategy Reports on pensions.

Thus, the nature of the Joint Social Protection Report will vary according to a three-year cycle, with comprehensive and forward-looking reports being compiled every three years, followed by lighter updates in intervening years.

The structure outlined here will mean substantial changes in approach from the reporting instruments used currently. The focus will be on implementation, as is the case also in economic and employment policy coordination. From the point of view of seeking to give more weight and visibility to the contribution of social protection policies to the Lisbon strategy, this is clearly a welcome development.

The tasks of examining the national reports, promoting a policy debate on the implementation of policies and strategies, *inter alia* by using peer review methods, and drafting the Joint Social Protection Report require close and regular joint work between the EU-level Committees concerned with social protection, employment, economic policy coordination and healthcare.

### **3.3. Indicators: an important underpinning of streamlining**

A particular challenge for the new streamlined social protection process is that it should be able to monitor progress across the social protection field towards the agreed common objectives in a way which is both transparent and effective in driving forward policy reform. Development of a set of commonly agreed indicators fully reflecting the common objectives is essential for responding to such a challenge. Such a task should build on existing sets of common indicators, such as those developed for the social inclusion process, those currently being developed for the pensions process and those used within the coordination processes of economic and employment policies. However, there is still a need to extend the coverage of indicators to the field of pensions. Moreover, indicators relating to the social protection of people in need of health and long-term care will have to be defined as the cooperative exchange in this area is further developed. It is therefore crucial to step up the work already under way within the Social Protection Committee's Indicators Sub-group.

While the development of indicators needs to cover a wider field, it will be necessary to ensure that the overall number of indicators is kept as concise as possible. The tendency to date has been to expand the number of indicators as a way of accommodating different approaches between Member States. Such an approach would not produce the limited number of summary indicators needed if the annual report is to accomplish its main task.

The new process will also grant more visibility to EU-level social statistics and will increase demands for greater reliability, comparability and timeliness. This can only be achieved if there is a strong commitment on the part of the Member States to develop such key instruments as ESSPROSS, which deals with financing and expenditure on the different branches of social protection, SILC, the annual EU-wide survey of the income and living

conditions of households, and the System of Health Accounts (SHA). There also needs to be a better interaction between the ongoing work of developing such statistical instruments (involving the Commission and national statistical authorities) and the streamlined social protection process.

### **3.4. Preparation of the streamlined Open Method of Coordination on social protection**

As stated earlier, it is proposed that the streamlined approach outlined here should be introduced in 2006. The period 2003-2006 should be used to prepare the conditions for launching the new process, taking into account the various mandates received from the Brussels Spring Summit as regards pensions, healthcare and the incentive structures of benefit systems<sup>12</sup>.

It is also vital to take into account how enlargement will affect the current processes and ensure that the new Member States are involved as soon as possible after their accession. It should be noted that, since the spring of 2002, the Commission has worked with the national authorities of each applicant country<sup>13</sup> to set in motion a cooperation process aimed at preparing the way for their full participation in the Open Method of Coordination on social inclusion and on pensions after accession. 2003 will see the completion of the process of concluding Joint Inclusion Memoranda (JIMs) between the Commission and the 10 acceding countries, under which they shadow the main aspects of the preparation of the NAPs/inclusion.

2003 will also see the launch of a cooperation process between the Commission and each applicant country in the domain of pensions, which will involve a series of national seminars.

During the transition period 2003-2006, the following initiatives will be taken in order to continue policy cooperation and prepare the ground for streamlining open coordination in the social protection field:

#### *Social inclusion*

In accordance with a decision already taken by the Council, Member States will present NAPs/Inclusion in July 2003 for the period 2003-2005 and the Commission and the Council will submit a Joint Inclusion Report to the Spring 2004 European Council.

In 2004, the new Member States will submit their first action plans on social inclusion for the period 2004-2006, building upon the Joint Inclusion Memoranda (JIMs) jointly established with the Commission in 2003.

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<sup>12</sup> See in particular paragraphs 49 to 52 of the Presidency Conclusions.

<sup>13</sup> All applicant countries, except Turkey.

## *Pensions*

By the middle of 2005, the new Member States will present national strategy reports on pensions containing an analysis of the situation in their respective countries, documenting the state of reform of their pension systems and setting out their strategies in the light of the common objectives agreed for the Open Method of Coordination on pensions.

At the same time, the existing Member States will present implementation reports covering the period since 2002 as well as an update of their national strategy reports for 2002 focusing on new major policy developments.

The Member States and the Commission will work jointly with the aim of establishing new demographic and financial projections, in order to allow Member States to prepare timely their strategy reports for submission by the middle of 2005. In addition, the committees continue to work on a consolidated set of commonly agreed indicators encompassing all the strands of policy coordination in the field of social protection..

## *Healthcare*

The European Council has called for a Commission Communication setting out further proposals for the intensification of the cooperative exchange in the field of healthcare and care for the elderly. This will be a first step towards exploring ways of advancing the process of policy cooperation in the field of healthcare via exchanges of information and good practice and the development of comparable indicators. Its content and timing will depend on the outcome of the European Convention and the IGC and the conclusions of the High Level Reflection Group on Patient Mobility and Healthcare which are expected towards the end of 2003.

## *Joint Report on Social Protection*

This new instrument will be launched in a transitional form in 2005, in order to improve the basis for preparation of the synthesis report by the Commission and to improve consistency in the key messages from the EPSCO Council to the Spring Summit on social protection.

While in 2005 the new joint report will be particularly focused on social inclusion , relying as it does on the NAPs/inclusion to be submitted in 2004 by the new Member States, in 2006 the focus will then be on pensions. In 2007, the report will reach its final form, reflecting the new streamlined approach covering the three fields – social inclusion, pensions and healthcare.

As a result of these activities, in 2006 the Commission and the Member States will review progress in the Open Method of Coordination on pensions, as requested by the Brussels European Council, and on social inclusion, as well as policy exchange undertaken in the field of healthcare. This evaluation will take account of the situation in the new Member States. It will provide the basis for the orientations that will be set out by the Commission in 2006 in view of an integrated and consistent set of common objectives for the Open Method of Coordination on social protection.

Annex 1 sets out the steps to be taken in the transition to streamlining in 2006. Annex 2 outlines its implementation during 2006-2009. Annex 3 shows how streamlined social protection will function alongside the streamlined BEPGs and EES in the period after 2006.

**ANNEX 1**

TRANSITION PERIOD 2003-2005

Year	January	Spring	Summer	Autumn
<b>2003</b>		<p>Mandate from Spring European Council</p> <p>Adoption of Streamlining Communication</p>	<p>Submission by MS of <b>NAP inclusion 2003-2005</b></p> <p>Studies on pensions (as in Brussels Summit conclusions, para.49) are ongoing through 2003-2005</p>	<p>Commission examines <b>NAPs incl and</b> adopts Draft Joint Inclusion Report for 2003-2005.</p> <p>Commission adopts report on <b>making work pay/better incentive structures</b> in social protection systems (para 50 of Brussels Summit Conclusions).</p>
<b>2004</b>	<p>Commission adopts synthesis of the JIMs.</p>	<p>Council adopts the joint inclusion report.</p> <p>Council takes note of/endorse synthesis report on JIMs and report on making work pay.</p> <p>Commission adopts communication on continuation of the cooperative exchange in relation to</p>		<p>Submission by new Member States of NAPs/inclusion, building upon the JIMs. Member States; examination of these by the Commission.</p>

Year	January	Spring	Summer	Autumn
		Healthcare		
<b>2005</b>	Commission adopts first annual draft social protection report, covering in particular the field of social inclusion.	Council adopts first annual social protection report.	Submission by new MS of National Strategy Reports on pensions; existing MS submit updates/implement. reports.	Commission presents evaluation of policy cooperation to date in pensions, social inclusion and healthcare.

ANNEX 2

Full Streamlining 2006-2009

Year	January	Spring	June	Autumn
<b>2006</b>	<p>Commission sets out orientations for across-the-board common objectives for streamlined social protection process after 2006. Council adopts conclusions on the Commission's orientations for common objectives for social protection. Commission adopts second <b>draft annual social protection report</b>. This has a particular emphasis on pensions.</p>	<p>Council adoption of <b>second annual social protection report</b></p> <p>Spring European Council gives policy orientations.</p> <p>Commission formally proposes new across-the-board common objectives.</p>	<p>Council adopts across-the-board Common Objectives for social protection</p>	<p>Submission by MS of first general reports on all strands of social protection</p>
<b>2007</b>	<p>Adoption by Com of draft joint social protection report</p>	<p>Council adopts Joint Social Protection Report</p> <p>Spring European Council: endorses and gives policy orientations.</p>		<p>Submission by MS of light update/implementation report on all strands of social protection</p>

<p><b>2008</b></p>	<p>Adoption by Com of draft joint social protection report</p>	<p>Council adopts Joint Social Protection Report Spring European Council: endorses and gives policy orientations.</p>		<p>Submission by MS of light update/implementation report on all strands of social protection</p>
<p><b>2009</b></p>	<p>Adoption by Com of draft joint social protection report</p>	<p>Council adopts Joint Social Protection Report Spring European Council: endorses and gives policy orientations.</p>	<p>Council adopts revised/validated across-the-board Common Objectives</p>	<p>Submission by MS of full reports on all strands of social protection.</p>

**ANNEX 3**

**Full Streamlining 2006-2008: complementing socio-economic governance and the streamlined BEPGs and EES.**

Year	January	Spring	April	June	Autumn
2006	<p>Commission adopts the Synthesis Report to the Spring European Council.</p> <p>Commission adopts the implementation report on the BEPGs and the Joint Employment Report.</p> <p><i>Commission adopts draft annual social protection report.</i></p>	<p>Spring European Council gives policy orientations.</p>	<p>Commission takes account of the Spring council's policy orientations and adopts:</p> <p>Recommendations for the BEPGs 2006-2008;</p> <p>Proposals for Employment Guidelines 2006-2008 and Recommendations;</p> <p><i>Across-the-board common objectives for social protection 2006-2008.</i></p>	<p>Council adopts</p> <p>BEPGs;</p> <p>Employment Guidelines and Recommendations; and</p> <p><i>across-the-board Common Objectives for social protection</i></p>	<p>Submission by MS of</p> <p>Implementation reports under the BEPGs;</p> <p>National Action Plans for Employment; and</p> <p><i>National reports on social protection.</i></p>

<p><b>2007</b></p>	<p>Commission adopts the Synthesis Report to the Spring European council.</p> <p>Commission adopts the implementation report on the BEPGs and the Joint Employment Report.</p> <p><i>Commission adopts draft annual social protection report.</i></p>	<p>Spring European Council: gives policy orientations.</p>	<p>If necessary, commission proposes adjustments to the BEPGs and <i>common objectives</i>.</p> <p>Proposes Employment Guidelines (normally unchanged) and Employment Recommendations.</p>	<p>Council adopts Employment Guidelines and Recommendations and any adjustments to BEPGs or <i>common objectives</i></p>	<p>Submission by MS of Implementation reports under the BEPGs;</p> <p>National Action Plans for Employment; and</p> <p><i>Light updates on social protection.</i></p>
<p><b>2008</b></p>	<p>As in 2007.</p>	<p>As in 2007.</p>	<p>As in 2007.</p>	<p>As in 2007.</p>	<p>As in 2007.</p>