

## 10. Major conditions for success

- ➔ If successful the reforms will underpin the current dual private/public provision of hospital services. It will also provide the government time to consider more wholehearted reform.
- ➔ The main danger of the reform is that it will not be sufficient to reverse the trend away from private insurance yet lull policy makers into thinking that problems with the health system were under control.
- ➔ The main factors determining how much the insurance rebate will be accepted include the perception of individuals of the benefits of the reform.
- ➔ A second factor is the extent to which the public believe that their health costs will be met by government in the absence of private insurance.
- ➔ A third factor is the extent to which health costs may be contained, particularly within hospitals. A major driver of costs has been the introduction of more expensive medical and hospital procedures but hospital funding arrangements have been changed to make hospital registrars more answerable for costs incurred in hospitals. As a result of these new arrangements hospital costs have stabilised in recent years.
- ➔ Finally much of the benefit of the cost saving to households is likely to be captured by the health industry (insurers, hospitals and doctors) and it is not clear what the final savings to householders buying private insurance will be.

## 11. Arguments raised by opponents of the reform

- ➔ There are both equity and efficiency arguments against the reform.
- ➔ On the equity issue it has been claimed that the main beneficiaries of the reform are those on higher income and therefore subsidies for private health insurance will increase inequality.
- ➔ Others claim that the reforms will not encourage a more stable health insurance system and will merely blind policy makers to more fundamental reform.
- ➔ Capture of the cost savings by the industry is likely to further exacerbate inequity within the health system

## 12. Effects on other policy fields

- ➔ The more general implication of the reforms are related to funding. The reform, if successful, will be expensive and will put pressure on the budget. If the reform is not successful there will be continued pressure for further change

## 13. First results

- ➔ It is too early to say what are the effects of the reform.

#### 14. Personal judgement

- I doubt if the reforms will alleviate problems of loss of interest in private health insurance. In the main the reforms simply deliver a large tax break to the relatively well off
- The reforms are expensive and will place pressure on government budgets
- The reforms will not achieve fundamental change in the method of health delivery or payment.
- 

#### 15. General available references

- Australian government website: [www.health.gov.au](http://www.health.gov.au) and follow linkages to documents about this reform
- General information about Australian health arrangements is provided in D Johnson (1999) 'Some aspects of health reform in Australia', Mercer-Melbourne Institute Bulletin of Economic Trends volume 2'99. Information about this journal may be obtained from the Melbourne Institute's website at: [www.ecom.unimelb.edu.au/iaesrwww/home.html](http://www.ecom.unimelb.edu.au/iaesrwww/home.html) and follow relevant linkages. A useful book is G Mooney and R Scotton, Economics and Australian Health Policy, 1998, Allen and Unwin: Sydney
-

# International Reform Monitor

## Reforms reported by CANADA

1.2 Canada Pension Plan reforms  
1.5 National Child Benefit

Six-Monthly Survey  
No. 1 / 1999

June 1999

## 1 Reforms concerning Social Policy Issues

### 1.2. Pension and Social Security

#### 1. Title (please insert a header)

→ Canada Pension Plan reforms

#### 2. Initiators

→ federal and provincial governments

#### 3. Funding

→ substantial increase in employee/employer premiums, as well as minor reductions in benefits

#### 4. Beginning, expected end and duration

→ 1997 though 2003

#### 5. Background and rationale of the reform, expected results

- rising concern that Canada Pension Plan 'will not be there' for future generations because its financing system is increasingly inappropriate to changed economic, labour market, demographic and social realities (e.g., slowed earnings growth, more rapid decline in contributor/beneficiary ratio, various cost-augmenting benefit improvements over the years since the plan's inception in 1966)
- continuation of pay-go financing would require continued and ultimately large increases in premiums falling heaviest on the generation that has to pay for the pensions of the baby-boom generation (e.g., from combined employee/employer rate of 5.6 percent of pensionable earnings in 1996 to projected 14.2 percent by 2030)
- steady-state premium rate (9.9 percent) expected to be substantially lower than pay-go rate (14.4 percent by 2030), thus will not impose as heavy a burden on working Canadians and employers
- while there was broad support from experts, interest groups and public consultations for significant changes in Canada Pension Plan's financing system, there was general opposition to substantial cuts in benefits (which include retirement, disability, survivor and lump-sum death benefits)
- thus the reforms include only minor benefit reductions that will affect only those who become pensioners after January 1 1998)

#### 6. Country-specific context

- Canada Pension Plan is a compulsory, earnings-related public pension plan that covers all employed and self-employed Canadians outside Quebec (parallel Quebec Pension Plan covers workers in Quebec); financed by premiums shared by employers and employees (self-employed

pay both parts); provides not only retirement benefits, but also survivor, disability and death benefits; Canada Pension Plan a federally-administered but joint federal-provincial program (major changes proposed by federal government must be agreed to by two-thirds of the provinces with two-thirds the population)

- Canada Pension Plan/Quebec Pension Plan forms second tier of Canada's retirement income system. First tier is federal income-tested elderly benefits paid to all but well-off seniors: Old Age Security, a broadly based payment to low- and middle-income Canadians 65 and older; the Guaranteed Income Supplement and Spouse's Allowance for low-income elderly Canadians; half the provinces provide income supplements to their elderly poor. Third tier is private pensions: employer-sponsored pension plans (Registered Pension Plans) and individual retirement savings vehicles (Registered Retirement Savings Plans). Income tax system provides tax credit for elderly taxpayers, tax credit for recipients of private pension income, tax credit to partly offset cost of Canada Pension Plan premiums, tax deductions for contributions to Registered Pension Plans and Registered Retirement Savings Plan
- but employer-sponsored private pension plans and individual retirement savings plans cover only about one-third the workforce and are concentrated among those with above-average earnings
- as a result, most elderly Canadians rely heavily upon the public tiers of Canada's retirement income system (i.e., income-tested elderly benefits and the Canada and Quebec Pension Plans)
- Canada Pension Plan/Quebec Pension Plan provides relatively modest benefits (one-quarter of contributors' average lifetime earnings, up to the average wage. Maximum annual retirement pension in 1999 is C\$9,020
- Canada's elderly boom will arrive relatively late by international standards (baby boom generation begins to reach 65 in 2011), so policy-makers have some time to 'fix' the public pension system

## 7. Target groups and target regions

- Canada Pension Plan contributors and recipients who draw benefits after January 1, 1998 (excluding Quebec, which provides the parallel Quebec Pension Plan that is undergoing similar changes)

## 8. Content and objectives

- main objective is to ensure continued financial and political sustainability of Canada Pension Plan
- main change involves financing – shift from pay-as-you-go to partial funding, requiring more rapid increase in premiums over short term (7 years)
- second change also involves financing – freeze on Year's Basic Exemption (i.e., earnings level below which premiums are not levied)
- third change involves benefits – will slightly reduce benefits for January 1998+ recipients but will significantly lower future costs

## 9. Concrete changes vis-à-vis the status quo

- premium rate is being increased more rapidly – from combined (employee/employer) rate of 5.6 percent of pensionable earnings (the latter is roughly the average wage) in 1996 to 9.9 percent by 2003, after which the rate is projected to remain level at this 'steady-state' level
- resulting larger fund surplus (equal to five years' worth of benefits) will be invested more broadly than current system (which mainly lends funds to provinces) in the market in a diversified portfolio of assets, following the practice of large employer pension funds in Canada and other countries
- Year's Basic Exemption – earnings level below which premiums are not levied, which used to be set at one-tenth the Years' Maximum Pensionable Earnings) will be frozen at \$3,500 (thus will decline in real terms over time) and no longer will be increased by the change in average earnings (which still will be used to index the Year's Maximum Pensionable Earnings), thus gradually

increasing (down the earnings range) the amount of earnings subject to premiums

- benefit changes (involving calculation of average pensionable earnings affecting retirement benefits and earnings-related portion of disability and survivor benefits, eligibility for disability benefit, amount of death benefit) will slightly trim future benefits (by 1.7 percent) but will significantly reduce future costs (by projected 9.3 percent by 2030)

## 10. Major conditions for success

- reforms indeed will maintain financial and political integrity of Canada Pension Plan
- partial financing schedule will deliver on promise of steady-state premium rate after 2003 – premiums will not have to be increased again in future
- Canada's modest economic recovery will continue and economy over time will grow sufficiently to meet the (conservative) assumptions underlying the partial financing premium schedule
- federal government will be able to 'sell' the substantial ongoing premium increases as necessary to maintain the viability of the Canada Pension Plan: Offsetting cuts in Unemployment Insurance premiums and income taxes also will help ease the rising burden of Canada Pension Plan premiums
- Fund investments will prove to be – and will be seen to be, especially by financial sector – as sound
- no further benefit reductions will be required
- current round of reform will not be used as excuse to shy away from further future improvements in Canada Pension Plan (e.g., partial pensions, changes to survivor benefits)

## 11. Arguments raised by opponents of the reform

- even with financing and benefit changes, Canada Pension Plan still 'unfair' and 'not a good deal' for younger Canadians and their (future) children: They will pay substantially more for (marginally) smaller benefits. Better to privatize the Canada Pension Plan and allow Canadians to invest on their own
- government cannot be trusted to invest wisely Canada Pension Plan Fund surplus in private market
- governments should have expanded, not tightened, the Canada Pension Plan, which remains too modest a source of retirement income (e.g., should have raised the earnings ceiling for premiums, should have enhanced benefits)
- so-called steady-state premium rate will not remain steady, will have to be increased anyway in future to maintain financial viability of the Canada Pension Plan (especially if economy suffers recurrent recessions and slow recoveries)

## 12. Effects on other policy fields

- by maintaining Canada Pension Plan, avoid need to adjust changes in benefit formulas for other pension programs (i.e., public old age pensions, employer-sponsored private pension plans) which take into account pensioners' income from Canada Pension Plan
- by maintaining Canada Pension Plan – a crucial source of retirement income for Canadians with average income and below – avoid increased demands on elderly benefits and welfare programs (from pensioners and survivors) that would result if Canada Pension Plan did not exist
- substantial and rapid increases in Canada Pension Plan premiums add to rising overall tax burden on Canadians and pressure for tax relief (especially Unemployment Insurance premiums, income taxes)
- if Canada Pension Plan changes prove successful, might allay increasing fears that Canada cannot deal with rapid aging of its population and looming demands by baby-boomers-turned-aged on public program and services

- ➔ uncertain, at this early point, impact of CPP Fund investments on capital market
- ➔ provincial governments' used to borrow from CPP fund at federal long-term bond rate at time of purchase of bonds; now, they will pay same interest rate as they do on their market borrowings

### 13. First results

- ➔ 1998 Actuarial Report says premium rate schedule on track
- ➔ premium rate increases and minor benefit reductions have been implemented with virtually no public or media opposition (in part because they do not understand the reforms).
- ➔ Canada Pension Plan Investment Board of Directors established and appointments made.

### 14. Personal judgement

- ➔ combination of major financing and minor benefit changes will meet overall objective of this round of reforms – maintaining fiscal and political viability of the Canada Pension Plan.
- ➔ but impact of financing changes is regressive, weighing heaviest on lower-wage workers and self-employed: Practical solution is to strengthen and reform tax credit for CPP premiums to provide more assistance to lower-income employees and self-employed.
- ➔ further reforms to other aspects of Canada Pension Plan are required in future (e.g., part-time benefits, survivor benefits).

### 15. General available references

- ➔ <http://www.fin.gc.ca> (search Canada Pension Plan)
- ➔ <http://www.clc-ctc.ca> (see criticisms by Canadian Labour Congress)
- ➔ <http://www.cdhowe.org> (see criticisms by the CD Howe Institute, a leading right-wing think tank)
- ➔ <http://www.caledoninst.org>
- ➔ for more information, contact Ken Battle at: [battle@caledoninst.org](mailto:battle@caledoninst.org)

## 1.5. Family Issues

### 1. Title (please insert a header)

➔ National Child Benefit

### 2. Initiators

➔ Federal and provincial/territorial governments (except Quebec, which has abstained formally in a political sense though is participating in reality in policy terms)

### 3. Funding

- ➔ Federal government is providing increased funding (\$2 billion to date, or 40 percent more)
- ➔ Provincial and territorial governments are redirecting their welfare savings (resulting from increased federal child benefits) on spending on other programs for low-income families with children
- ➔ A few provinces are adding their own money to the table

### 4. Beginning, expected end and duration

➔ 1997 to 2000/2001 for first stage; further development hoped for throughout first decade of 21<sup>st</sup> century

### 5. Background and rationale of the reform, expected results

- ➔ under old child benefits system, welfare families received about double the amount of child benefits as other low-income families with children (i.e., working poor, low-income families receiving Unemployment Insurance): Welfare families got provincial welfare benefits on behalf of their children as well as federal child benefits, whereas working poor got only federal child benefits
- ➔ welfare is a highly stigmatizing and rule-bound social program, as opposed to income-tested programs delivered through income tax system that are anonymous and treat poor Canadians the same as other Canadians
- ➔ 'welfare wall': welfare families lose their provincial child benefits (cash and in-kind) if they move into workforce, also face employment-related taxes that reduce their (typically low) earnings (payroll and income taxes) as well as employment-related expenses (e.g., child care, clothing, transportation)
- ➔ thus National Child Benefit reform seeks to provide equal, income-tested, tax-delivered child benefit to all low-income families with children, and to redirect welfare savings to other programs and services for low-income families that also will help lower the welfare wall
- ➔ National Child Benefit is expected to reduce: poverty gap (i.e., average amount that income falls below poverty line), low-income families' percentage of income from welfare, barriers to employment, welfare caseloads, duplication and overlap of federal and provincial/territorial programs for low-income families with children

### 6. Country-specific context

- National Child Benefit is the first positive initiative involving close federal-provincial collaboration after more than a decade of acrimonious relations between the federal and provincial governments (resulting in large part from unilateral federal cuts to social transfer payments to the provinces)
- welfare system has proved difficult to reform (other than through cuts): National Child Benefit's aim to replace welfare-delivered child benefits is a major forward step in restructuring both the child benefit and welfare systems
- social groups (especially welfare rights advocates) angry and frustrated by years of cuts to social programs and several provincial governments' politically successful get-tough-on-welfare campaigns
- federal child benefits have seen major changes since the mid-1980s, including the abolition of universal family allowances and the consolidation of several programs into a single, income-tested child tax benefit serving low- and middle-income families with children
- most welfare is delivered by provincial governments, except for welfare to Aboriginals living on reserves which is a federal responsibility: Aboriginal communities will decide how to reinvest welfare savings under National Child Benefit
- federal government has been criticized for failing to act on 1998 House of Commons all-party Resolution to work towards elimination of child poverty by the year 2000: Canada has persistently high rate of child poverty (19.8% in 1997), especially among female-led single-parent families (59.5%)

## 7. Target groups and target regions

- low-income families with children in all parts of Canada (especially working poor)

## 8. Content and objectives

- move from two-tier child benefits system (federal income-tested child tax benefit and provincial needs-tested welfare payments on behalf of children) to single, integrated child benefit providing equal payments to all low-income families with children
- lower 'the welfare wall' which penalizes parents who move from welfare to the workforce (because they lose cash and in-kind welfare benefits on behalf of their children), thereby removing a potentially serious barriers to employment
- reduce the 'depth of family poverty' (i.e., average amount below poverty line)
- reduce duplication and overlap between federal and provincial programs for low-income families with children
- first target is to fully displace welfare benefits on behalf of children with income-tested child benefits (federal or federal-provincial), paying about \$2,500 maximum per child per year to low-income families
- non-governmental organizations advocate further increases to raise maximum benefit for low-income families to around \$4,000 per child per year and to improve child benefits for modest- and middle-income families

## 9. Concrete changes vis-à-vis the status quo

- federal Child Tax Benefit/Working Income Supplement replaced by Canada Child Tax Benefit that pays larger and equal benefits to all low-income families with children
- provincial/territorial governments can reduce their welfare benefits on behalf of children by the amount of the increase in federal child benefits, provided they 'reinvest' their resulting savings in other programs and services for low-income families with children (e.g., income-tested child benefits, earnings supplements, child care, early childhood development, supplementary health care for working poor, training for low-income parents) that also lower the welfare wall
- modest- and middle-income families received small increase in their Canada Child Tax Benefit in

last federal Budget

- federal and provincial/territorial governments are cooperating as partners to unusual extent, both through joint policy development and evaluation
- Aboriginal communities decide nature of reinvestment of welfare savings on reserves

## 10. Major conditions for success

- federal government must provide further increases in funding for Canada Child Tax Benefit to reach displace-welfare level of \$2,500 per child, preferably by 2000
- continued close federal-provincial cooperation in development of National Child Benefit
- continued development of provincial reinvestments in non-welfare programs for low-income families with children
- continued improvement in child benefits for modest- and middle-income families, to help restore losses imposed by changes in 1980s
- evaluation evidence that National Child Benefit succeeds in lowering the welfare wall and in reducing the depth of poverty among working poor families with children
- low-income families' perception of improvements resulting from National Child Benefit
- avoiding another recession and resulting increase in poverty that will swamp efforts of National Child Benefit

## 11. Arguments raised by opponents of the reform

- 'discriminates against welfare families' (which have majority of Canada's poor children) because they will see no net increase in their child benefits (their provincial welfare benefits are being reduced by the amount of increase in their federal child benefits), unlike working poor and other low-income families not on welfare
- governments have not put enough money on the table: Federal 'increases' in funding not fully make up for past cuts
- Canada Child Tax Benefit remains partially deindexed, and provincial income programs for poor are not indexed: Thus increases are eroded by inflation-imposed automatic annual reductions in value of child benefits (which means that government effectively are renegeing on their promise that the National Child Benefit will not leave welfare families worse off). Also, child benefits system is increasingly compressed down the income scale over time
- increase in child benefits for non-poor families are paltry and do not nearly compensate for substantial losses since mid-1980s
- universality of child benefits (killed in 1991) still dead: Canada Child Tax Benefit does not provide benefits to high-income families
- increased child benefits for low-income families (income-tested federal and provincial child benefits, provincial earnings supplements) require high reduction rates to concentrate increases on target group, thus resulting in high effective marginal tax rates that threaten to create disincentive to work – thus jeopardising a key objective of the reform
- worthwhile anti-poverty strategy and family policy require more than income security reforms – also call for larger funding for improved social services for families (e.g., child care, early childhood development) as well as labour market supports (including better parental benefits)

## 12. Effects on other policy fields

- positive substantive example of federal-provincial working partnership codified in the new 'Social Union' agreement, hopefully can be copied for other policy issues (e.g., training, unemployment)
- social advocates hope governments will devote more attention and resources to other supports for families required to implement a National Children's Agenda, especially child care, early childhood development services and parental benefits

- will substantially reduce welfare caseloads and expenditures, helping make up for past cuts in federal transfer payments to provinces and territories
- adds to calls for tax reform, since National Child Benefit is intertwined with income tax system and is exacerbating high effective marginal tax rates for working poor families with children

### 13. First results

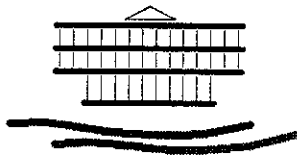
- federal government has followed through on its commitment to substantially increase funding (\$1.7 billion increase so far, and added an additional \$300 million to improve child benefits for non-poor families
- Maximum federal child benefits have increased from \$1,020 per child (and \$500 per family from Working Income Supplement) to \$1,625 for first child and \$1,425 for each additional child for July 1998-July 1999, \$1,805/\$1,605 for July 1998-July 1999 and \$1,975/\$1,775 for July 1999-July 2000
- net family income level where increased federal child benefits for poor families ends raised from \$25,921 to \$27,750 in 1999 and \$29,590 in 2000
- net family income level where federal child benefits begin to diminish for non-poor families raised from \$25,921 to \$29,590 in 2000, which will result in modest increase of \$92 per child in most cases and will raise the net family income level where eligibility for partial benefits end from \$66,721 to \$70,390
- provincial/ territorial governments and Aboriginal communities have reinvested estimated \$305 million in welfare savings in a wide range of other programs for low-income families with children: On overall national basis, in first year (1998-99), \$120 million (39%) to child care, \$95 million (31%) to child benefits and earnings supplements, \$67 million (22%) to other areas, \$14 million (5%) to early childhood and children-at-risk services and \$10 million (3%) to supplementary health benefits for working poor families

### 14. Personal judgement

- National Child Benefit promises to be one of the most significant advances in history of Canadian social policy – if federal government keeps expanding the Canada Child Tax Benefit to raise payments for all low-income families (including those on welfare) and extend increases to substantially improve child benefits for modest - and middle-income families

### 15. General available references

- <http://www.socialunion.gc.ca>: see *The National Child Benefit Progress Report 1999*. (1999). Ottawa: Minister of Public Works and Government Services Canada.
- <http://www.caledoninst.org>
- Battle, Ken, Sherri Torjman and Michael Mendelson. (1999). *The Social Fundamentals*. Ottawa: Caledon Institute of Social Policy.
- Battle, Ken and Michael Mendelson. (1997). *Child Benefit Reform in Canada: an Evaluative Framework and Future Directions*. Ottawa: Caledon Institute of Social Policy.
- Battle, Ken. (1997). *The National Child Benefit: Best Thing Since Medicare or New Poor Law?* Ottawa: Caledon Institute of Social Policy.
- Durst, Douglas (ed.) (1999). *Canada's National Child Benefit: Phoenix or Fizzle?* Halifax, Nova Scotia: Fernwood Publishing.
- National Council of Welfare. (1998). *Child Benefits: Kids Are Still Hungry*. Ottawa: Minister of Public Works and Government Services Canada
- for more information, contact Ken Battle: [battle@caledoninst.org](mailto:battle@caledoninst.org)



Bertelsmann Stiftung

# International Reform Monitor

## Reforms reported by FRANCE

- 1.1 Universal Health Care Coverage
- 1.2 Proposal to reform the French Pension System

Six-Monthly Survey  
No. 1 / 1999

## 1 Reforms concerning Social Policy Issues

### 1.1. Health Care

#### 1. Title (please insert a header)

- Universal Healthcare Coverage (Couverture Maladie Universelle, CMU)

#### 2. Initiators

- French government (Mrs Martine Aubry, Minister of Labour and Solidarity)

#### 3. Funding

- The cost of the reform is estimated to be 9 billion FF a year (EURO 1.37 billion). The funding is twofold:
- Direct funding from the general government budget (7 billion FF)
- A new tax (1.75% of turnover) paid by private insurance companies and mutual insurance funds on supplementary health insurance contracts (2 billion FF)

#### 4. Beginning, expected end and duration

- The bill has been adopted by Parliament in June 1999. Decrees are to be taken during the autumn. Implementation of the new system will begin on January 1<sup>st</sup> 2000.
- An appeal to the "Conseil Constitutionnel" (Supreme Court) by the Parliament opposition is foreseeable, as well as another one to the European Court of Justice (for abuse of a dominant position). Government officials expect that these appeals will be overruled.

#### 5. Background and rationale of the reform, expected results

- Due to an increase in precariousness and poverty, unequal access to health care and disease prevention has become a major source of injustice within the French society.
- The expected result of the reform is the achievement of equal access to healthcare for all persons legally residing in France.
- To provide equal access to health care, it is necessary to get everyone affiliated to a compulsory health insurance scheme and to provide low-income families with a 100% reimbursement of their health care expenditures.

## 6. Country-specific context

- 700 000 persons (1.2% of the population) are currently not covered by the compulsory health insurance system. They have neither a direct right (acquired through paid employment, the granting of an old-age pension, invalidity benefit or unemployment benefit) nor a derived right (given to spouses and children).
- These persons can be covered by a personal health insurance scheme. This is the case for 550 000 persons; out of them 500 000 get their contributions paid by various social assistance schemes; 150 000 have no coverage at all.
- There are currently in France 19 different health insurance schemes. The main one is the general health insurance scheme of salaried workers (in French: CNAMTS). Other schemes cover non-salaried workers with an occupation in the crafts' sector, in industry or commerce, the liberal professions (and pensioners belonging to these professional groups) as well as some specific categories of employees (mining industry, power supply, French national railway company, ...).
- The reform will leave this diversity unchanged. The previous (right wing) government had envisaged the creation of a compulsory unified health insurance scheme (Assurance maladie universelle, AMU), which would have had harmonised the range of benefits in kind delivered by the 19 regimes. The project has been dropped out.
- Compulsory insurance schemes reimburse an average of 74% of total health care consumption of households; 85% of the population has a supplementary health care insurance and another 4% gets 100% reimbursement through specific social assistance schemes; therefore 11% of the population neither has any supplementary insurance nor benefits from a 100% reimbursement.

## 7. Target groups and target regions

- Target 1: The small minority of persons currently not affiliated to the compulsory health insurance system : mostly poor widows, owners of a small unearned income, independent workers facing financial difficulties, poor persons who do not apply for the guaranteed minimum income (RMI), young persons who neither are students nor have already been integrated into the labour market.
- Target 2: Households whose per consumption unit income is lower than 3 500 FF (EURO 534) per month, i.e. an estimated 6 million people (10% of the French population); long-term unemployed and low-paid workers are the core target group.

## 8. Content and objectives

- The CMU reform is threefold: i) to make everyone affiliated to a social health insurance scheme (target 1) ; ii) to provide the poorest 6 million persons living in France with a free supplementary health insurance (target 2); iii) to exempt them from making any cash advance for their health care consumption (target 1 and 2).
- The new system makes health insurance compulsory for everyone legally residing in France. Those who have no other right will be automatically affiliated to the general health insurance scheme of salaried workers (CNAMTS).
- In addition, through receiving a free supplementary health insurance, low income households (including persons living alone) will get free access to ambulatory care, hospital care as well as to a defined basket of dental prosthesis, optical equipment and other medical goods. Health care goods and services providers will be paid directly by health insurance bodies. None of them will have the right to refuse delivering goods and services to beneficiaries of a free supplementary health insurance.
- To get that free supplementary health insurance, those who qualify will have to choose between their local social insurance fund and any institution providing supplementary health care insurance (mutual funds, contingency funds run by management and unions, profit-making insurance companies). Whatever choice is made, the content of this supplementary health

insurance will be the same.

## 9. Concrete changes vis-à-vis the status quo

- Automatic and immediate affiliation will be made possible for anybody legally residing in France and not already affiliated to any other scheme.
- For those who qualify, the right to a free supplementary health insurance will be acquired for one year, whatever may be the change in income within that year. The test of the household's income will be made every year by the local social insurance fund.
- A flat-rate amount of 1 500 FF (EURO 229) per year and per person will be given by the government to the general health insurance scheme of salaried workers (CNAMTS), to offset the cost of free provision by the local social insurance funds of a supplementary health care insurance to low-income households.
- The same amount of 1 500 FF per person insured will be granted to other institutions, through a rebate on the new 1.75 % tax on supplementary health insurance turnover. Refund by the government will be possible in case the total rebate is higher than the amount of the tax.

## 10. Major conditions for success

- The CMU reform reveals a shift in the French health care cost-containment strategy, which endeavoured for 20 years to lower the actual rate of health care expenditures' reimbursement (and make it accepted by citizens), while widening the population covered by the various compulsory health insurance schemes. A new cost-containment strategy is therefore to be designed, if one wants to avoid further deficits within the social insurance schemes.
- Though they initially accepted to play a role in the implementation of the CMU, private insurance companies (and part of the right wing opposition in the Parliament) are now reluctant to see the general health insurance scheme of salaried workers (CNAMTS) provide - even freely - supplementary insurance contracts. They fear that the CNAMTS could take advantage of this new mission to claim for getting the right to offer supplementary health care insurance to the bulk of the population.
- On the opposite side, representatives of workers' unions in the board of CNAMTS (including the Chairman of the Board) fear that the new mission of "service public" (universal service) devoted to private insurance companies and mutual funds will frail the legitimacy of the two sides of industry to manage the CNAMTS. The representatives of the French industry have threatened to withdraw, if a drastic cost-containment plan is not accepted by the government. Such a withdrawal would leave the door open to private insurance companies to claim managing by their own the French health care insurance system, even if it remains funded by mandatory levies.
- Both of these reluctances need to be overcome to make the CMU a success.

## 11. Arguments raised by opponents of the reform

- There is a general consensus on the objectives of the CMU reform.
- However, the refund by the government of 1 500 FF a year may be insufficient to cover the cost of the compulsory basket of reimbursements to be done by mutual funds and private insurance companies, since the average amount of reimbursement by already existing supplementary health insurance is estimated to be 1 700 FF a year. Whether low-income households will spend more or less than the bulk of the population is unknown.

**12. Effects on other policy fields**

- A greater pressure on the prices of health care goods and services may be made by the insurers (mutual funds and private insurance companies as well as local social insurance bodies) if the yearly amount of 1 500 FF proves to be insufficient.

**13. First results**

- Not yet available

**14. Personal judgement**

- A promising and necessary reform

**15. General available references**

- Law of 30 June 1999 creating the "Couverture Maladie Universelle"

## 1.2. Pension and Social Security

### 1. Title (please insert a header)

➔ Proposal to reform the French pension system (diagnostic phase)

### 2. Initiators

- ➔ French Government (Prime Minister Mr Jospin ) asking the "Commissariat Général du Plan " (Central Planning Commission) to make proposals to reform the pension system.
- ➔ The so-called "Rapport Charpin" (Charpin is the name of the Central Planning Commissioner) is something intermediate between a Green Paper and a White Paper.

### 3. Funding

➔

### 4. Beginning, expected end and duration

- ➔ The report proposes to start the reform process in 2006 in order to enable some kind of fairness between generations (so that new generations do not have to support all consequences) and to gradually implement the new system until 2019.
- ➔ By the end of 1999, the Government will take stock of the reactions to the "Charpin report" and make concrete reform proposals about the content and the reform's time schedule.

### 5. Background and rationale of the reform, expected results

- ➔ The proposal is based on the observation of demographic developments currently taking place in France : an increase in life expectancy and the forthcoming arrival to the age of retirement of the numerous generations born after World War II make urgent a comprehensive reform of the pension system.
- ➔ The expected result is an increase in the activity rate between the ages of 55 and 65 in order to avoid the financial shocks caused by these demographic changes and to rebalance the pension burden between generations.

### 6. Country-specific context

- ➔ The pension scheme relies on a PAYG (pay-as-you-go) system and the idea of a "contract" between generations : pensions of current pensioners are financed by contributions of current workers whose pensions will in turn be paid by their children. From 1982 the legal age of retirement is 60 both for men and women.
- ➔ Over the last 50 years, there has been a double change in France :
  1. Between the generation at birth and the grandfather's generation, life expectancy at birth has increased by 10 to 12 years
  2. The average age of primary integration into the labour market has been postponed by more than 5 years

This causes economic and financial costs and in particular potential problems are foreseen on the contribution system : it is anticipated that from 2006 onwards there will be at the same time a decrease of the total labour force (due to the arrival on the labour market of a less numerous generation) and the arrival to the age of retirement of the baby boom generation. This double trend will result in a limitation of the financial resources of the French pension contribution system.

A 1993 reform of both the general scheme for employees and the different schemes for independant workers ("Balladur reform") is currently under implementation. The number of years of contributions necessary to qualify for a full pension (previously 37.5 years) is being gradually increased (by one quarter each year between 1993 and 2003), so that those who will retire in 2003 and after will need 40 years of contribution.

→ The French situation is also characterised by :

- the weakness of the employment rate after 55 ; the employment rate of men between 55 and 65 was 33% in 1997 (compared to 59% in the UK and 65% in the US);
- inequality between categories of workers as regards pension schemes : employees affiliated to special schemes (mainly civil servants and state-owned firms' employees) benefit from more favourable arrangements, both in terms of replacement rates and of legal retirement age/minimum number of years to qualify for a full pension; they were not touched by the 1993 Balladur reform and still need only 37,5 years of contributions for getting a full pension (some of them even less).

## 7. Target groups and target regions

→ All generations of workers born after 1955

## 8. Content and objectives

→ The most spectacular proposal is a gradual increase (one quarter per generation) of the duration of pension contributions necessary to get the full rate of pension, in order to reach by the end of the implementation of the reform (in 2019) 42.5 years of contributions within the age limit of 65.

→ The main message in the report is threefold:

1. It makes new calculations and dramatizes forecasts, insisting on the urgency of a reform to insure in the long run the viability of the system;
2. It puts forward the necessity to revisit the rules applied to the special schemes, to clarify the magnitude of advantages granted to each category of workers and investigate to what extent the risks or disadvantages specific to these occupations (lower life expectancy, special duties...) can justify those vested advantages; it recommends to take into consideration the dangerous or laborious nature of the job performed in the general scheme of salaried workers, as it is the case within the special schemes;
3. It introduces a major shift when recommending the introduction of the funding principle (capitalization) into the pension system, through the creation of a reserve fund filled in by contributions. Up to now, such a principle was unanimously rejected both by trade unions and the bulk of politicians, since it was considered as a major threat to the existing PAYG schemes.

## 9. Concrete changes vis-à-vis the status quo

→ The proposal defines a method for the reform based on the following points:

1. **Urgency** : implementation of the new system should begin before the demographic shock starting in 2006, so that new generations do not have to support alone all the consequences of the shock.
2. **Consultation** : the reform requires a strong support from the population and therefore extensive

consultations with the social partners.

➔ Major changes include:

- gradual drawing back of the retirement age;
- gradual increase of the duration of the contributions (one quarter per generation from 2006 until 2019);
- a better validation of some periods of inactivity such as apprenticeship, training periods, unpaid periods of unemployment.

## 10. Major conditions for success

- ➔ necessity of a gradual implementation to avoid demographic and financial shocks
- ➔ necessity of a decentralised and in-depth consultation with the social partners.
- ➔ sustainable period of decreased unemployment enabling for a progressive increase in the duration of contribution
- ➔ necessity for companies to modify their career management policies in favour of older employees.

## 11. Arguments raised by opponents of the reform

- ➔ The diagnosis relies on the assumption that there will be no major change within the labour market; it is based on a very arithmetical vision excluding any self-regulating mechanisms; in particular, it does not take account of the current process of reorganisation/reduction of working time;
- ➔ It seems unrealistic to recommend increasing the number of years of contribution as long as the rate of unemployment remains over 10%;
- ➔ Large uncertainty about the way companies will be able or not to change their human resources policies in order to better integrate older employees;
- ➔ The average age for entering the labour market is presently 22.5; requiring 42.5 years of contributions will postpone to 65 the actual age of retirement, when the 1982 reform is still considered by public opinion as a major achievement of the previous left-wing government;
- ➔ Postponing the legal age of retirement may put an additional burden on other government budgets - namely if it is offset by a more frequent recourse to preretirement or invalidity schemes.
- ➔ Most of state-owned firms (power industry, French railway, etc.) are currently reducing the number of their employees; their financial balance may be jeopardised if they are forced to keep longer their older workers.

## 12. Effects on other policy fields

- ➔ Any reform of the pension system will affect enterprise policies and financial markets as well as family policies

## 13. First results

- ➔ Too early since the reform process has not even began yet

**14. Personal judgement**

- ▶ Too early for any judgment

**15. General available references**

- ▶ Commissariat général du Plan, projet de rapport sur les retraites, mars 1999 ( rapport Charpin sur les retraites)