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Directorate E: Social Statistics
Unit E-4: Population, social protection



Supplementary protection: "personal provisions"

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1. Problems and definitions

a) Problems

Individual insurance is becoming increasingly important alongside the social security provided by collective institutions. It generally takes the form of taking out insurance or joining pension funds.

Insurance companies are basically involved in two areas of social protection - health and old age. In the former, this basically means damage insurance contracts covering health expenditure that is not reimbursed by social security (public or private schemes). In the latter, autonomous pension funds - generally referred to as "third pillar" - are generally subscribed to via life insurance companies. However, in some countries, this type of risk may also be insured by either life insurance companies or pension funds.

To what extent should such provisions be recorded in ESSPROS under "supplementary social protection"?

b) Definitions

- o In the paragraph 2.3.5, chapter 1, the **ESSPROS Manual** specifies under the heading "**The exclusion of individual arrangements**":

Social protection excludes all insurance policies taken out on the private initiative of individuals or households solely in their own interest. For instance, the payment of a capital sum or an annuity to the holder of a private life insurance policy is not considered to be social protection.

This rule should not be interpreted as meaning that all individual policies are excluded from social protection. When social protection is provided by the employer in the form of insurance, it is sometimes allowed, or even required, that the policies be taken out in the names of the individual participants.

Nor does this rule imply that all collective contracts must be classified as social protection. Insurance policies that are taken out collectively with the sole purpose of obtaining a discount, as for example, a joint sickness policy covering a group of people travelling together, are not classified as social protection.

An insurance policy is included in the scope of the ESSPROS if it is based on social solidarity, whether or not it is taken out on the initiative of the person insured. An insurance policy is based on the principle of *social solidarity* if, as a matter of policy, the contributions charged are not proportional to the individual exposure to risk of the people protected¹.

Types of insurance that are often based on the principle of social solidarity are:

- schemes which are established specifically for persons belonging to the same profession or trade;
- insurance offered by mutual benefit societies;
- government-based voluntary schemes open to certain categories of households, such as small businessmen or other low income groups. This is sometimes referred to as *opting in*.

It is noted that social solidarity is a sufficient, but not necessary, condition for an insurance scheme to be classified as a scheme of social protection. Specifically,

- (i) where by law or by regulation certain groups of the population are obliged to participate in a designated insurance scheme, or;
- (ii) where employees and their dependants are insured as a consequence of collective wage agreements, the insurance is included in the scope of the ESSPROS even if it is not based on the principle of social solidarity.

Difficult borderline cases arise from the so-called *contracting out*, where the law allows people to leave the general scheme managed by the social security fund and acquire protection through other channels. The simple fact that coverage is compulsory by law (although no particular scheme is specified) or that an insurance policy replaces a government scheme, is not sufficient reason to classify it as social protection. In these instances, the criterion of social solidarity can be a useful guide.

¹ This definition pertains exclusively to insurance schemes. The principle of social solidarity is also applied elsewhere and is, for instance, a feature of all non-contributory schemes.

If the alternative chosen is a company scheme, a professional scheme, a scheme established by a trade union or another kind of mutual benefit scheme, cover is presumed to be based on the principle of social solidarity. These cases, therefore, fall within the scope of the ESSPROS.

When a person contracting out of a social security fund or a company scheme takes out an individual policy with a commercial insurance company the case should be examined individually, as the principle of social solidarity may still apply. The Appropriate Personal Pension Schemes in the United Kingdom are an example.

- o For the **National Accounts** (ESA 1995, chapters 4.86 and 4.87), social benefits exclude:
 - Insurance claims based on policies taken out solely on the own initiative of the insured, independently of his employer or government;
 - Insurance claims on policies taken out with the sole purpose of obtaining a discount, even if those policies follow from a collective agreement.

In order for an individual policy to be treated as part of social insurance scheme, the eventualities or circumstances against which the participants are insured must correspond to the risks or needs and in addition, one or more of the following conditions must be satisfied:

- Participation in the scheme is obligatory either by law for a specific category of worker, whether employees, self or non-employed, or under the terms of an employee, or group of employees;
- The scheme is a collective one operated for the benefit of a designated group of workers, whether employees, self or non-employed, participation being restricted to members of that group;
- An employer makes a contribution (actual or imputed) to the scheme on behalf of an employee, whether or not the employee also make a contribution.

2. Difficulties in applying the rules and evaluation problems

As we have seen, the main criterion in the ESSPROS manual is the principle of social solidarity, which is sufficient reason for a scheme to participate in social protection.

Conversely, social protection does not include insurance taken out by private individuals or households for purely personal reasons, irrespective of their employers or government institutions.

The latter is not classified as social insurance, even if policies cover the same risks or situations as those covered by social insurance schemes.

It follows that the individual types of insurance being discussed here, whether supplementary health insurance or individual (third pillar) pension funds, should not form part of the social protection system.

However, because of a number of exceptions (cf. ESSPROS manual) and owing to the fact that insurance companies may also sell collective insurance policies that have the characteristics of supplementary social protection, countries may encounter difficulties with classification or evaluation.

In France, for example, there are two voluntary retirement organisations for civil servants (specific employees) in the insurance sector (CREF and PREFON), neither of which are considered social protection schemes.

In the United Kingdom, the "stakeholder pensions" that replaced personal pensions in 2001 may be opted for in place of a legal retirement scheme, but do not come under ESSPROS. Salaried employees not covered by an occupational pension as well as the self-employed may choose to join such a scheme rather than the State Earning-Related Pension Scheme (SERPS).

Indeed, the fact that individual pension schemes may be eligible for State guarantees, guarantees from employers, or fiscal benefits raises questions about their status in ESSPROS.

Evaluation and classification problems may even crop up for countries which make use of national accounts data if the problem has not been solved in the national accounts.