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PRESS RELEASE

Social security finances

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One of the government's main functions is to protect the population against a number of social risks. Hence, replacement incomes are provided in the event of unemployment, old age, or occupational disability, and income supplements are granted to compensate in part for the financial burden associated, in particular, with illness or with bringing up children. In Belgium, this social protection function is performed mainly by the social security sub-sector. This is the largest component of the general government sector, so that it exerts a substantial influence on the evolution of public finances.

The first part of the article gives a general presentation of social security. The analysis indicates that social security expanded particularly strongly during the 1970s. In the ensuing period, total receipts and expenditure expressed as percentages of GDP remained relatively stable on average. Hence, in 2000 they stood at roughly the same level as in 1980. However, during those two decades there was a "stop-go" policy on expenditure and receipts, with alternating periods of expansion and restraint. In recent years, social security has again been expanding, although only to a limited extent. The article also shows that the level of social benefits provided by the government in Belgium is above the European average. The discrepancy is due mainly to the relatively high level of spending on pensions and unemployment. The effect of social benefits on the poverty rate is also demonstrated.

The second part of the article offers a more detailed analysis of social security receipts. Initially, the strong expansion of social security in the 1970s was financed by larger grants from the federal government. However, in view of the worsening budget deficits, the federal government made substantial cuts in these transfers during the 1980s. Social contributions were gradually increased by various measures introduced during those two decades. As a result, the social security funding structure – the relative share of the various categories of receipts – was more or less the same in 1990 as in 1970. After 1990, the funding structures remained virtually unchanged. However, the federal government decided that it would progressively replace funding in the form of grants with funding based on the sharing of the tax revenues collected by the Treasury, defined in the official jargon as alternative funding. In 2004 there was a substantial rise in the alternative funding of social security. The article also briefly compares the funding of the scheme for employees with that for self-employed persons.

Finally, the article provides a detailed analysis of the uses to which these funds are assigned. It also outlines the overall profile of social security expenditure in the past, and the structural changes which have taken place, together with the prospects for the future. It has been shown that the structure of expenditure has undergone profound changes resulting partly from a strong rise in health care expenditure. The main expenditure categories – health care, pensions, unemployment benefits, early retirement pensions, career breaks and reductions in working time, as well as family allowances – are also examined individually, focusing attention on expenditure trends and their determinants.

Since social security receipts and expenditure have hitherto moved very much in parallel, the financial balance has always hovered around equilibrium. At present, the social security sector is not only free of any financial liabilities, it actually has substantial financial assets. However, population ageing will clearly exert strong upward pressure on future expenditure on pensions and health care. This increase can be only partly offset by the predicted decline in unemployment expenditure and family allowances. In the (near) future, social security will have to face a major financial challenge.