

# Position Paper on Future Financing of the Welfare System

*Demographic trends – changes in the make-up of our population – and the associated increasing demand for health care, long-term care and other services pose a challenge for many countries when it comes to meeting the needs and financing of the future welfare system. This will be accentuated in the near future when the baby-boom generation born in the 1940s is turning 80 years, an age around which the consumption of health care and long term care naturally increases. Against this background, the insurance industry is of the opinion that there is a need for constructive discussion regarding the future financing of the welfare system, and the industry stands ready to contribute.*

## Challenges for the welfare system

In parallel with population ageing, the Member States of the European Union are faced with challenges related to globalization, technological progress and structural change, which imply new conditions for employment. In addition, there is increasingly widespread uncertainty about what level of welfare citizens can expect from the publicly financed welfare systems and what needs are required to be taken care of in other ways. If the expectations are not met, there is a risk of welfare losses.

In November 2017, the European Commission launched the European Pillar of Social Rights, which includes 20 key principles on delivering new and more effective rights for citizens – albeit stating full respect of the competencies and diverse situations of Member States as well as the realities of today and tomorrow. One of the categories is social protection and inclusion, which covers issues such as health care, long-term care and public transfers for loss of income.

The Nordic insurance industry is ready to contribute towards the achievement of fiscally sustainable welfare systems that are able to meet their citizens' future needs of welfare. It is therefore important to start discussions between politicians, social partners and the insurance industry to address the challenges of the future. Starting points for such a discussion should be:

- Everyone must have the right, and access, to social protection regardless of social or economic conditions.
- Everyone must be able to feel a high degree of confidence in the welfare system and the welfare services offered.

- The welfare systems must be sustainable and economically efficient.

For the insurance industry to be able to contribute in a constructive way, it is of utmost importance that the publicly financed welfare system's obligations are clarified. Citizens have the right to know which of their needs will be met out of the publicly financed welfare system and which needs must be provided for in other ways.

## The way forward

### Advances in medical technology

In recent times, the rapid development of medical technology has led to advances in healthcare that can lower the costs through increased productivity. Digital solutions and innovations such as e-health services make it possible for the patient to carry out sampling, treatment or health measurement on his or her own in the future.

However, medical development is also cost-driven. New medicinal products and treatments improve disease prognosis, prolong life and cure conditions that have not previously been possible to cure. From this follows that the demand for care will increase, and not treating or curing involves a risk of welfare losses.

### Different models of financing

For cultural and historical reasons, the EU Member States have chosen different models of financing with varying degrees of public financing, market solutions and family solutions for financing and organizing the welfare state.

Common to the Nordic countries is broad public support for publicly financed welfare with elements of market

solutions in the form of collectively agreed solutions – "the Nordic model". When considering options for future welfare financing, the cultural and historical context therefore has to be kept in mind, and it is reasonable to assume that the welfare system will be mainly publicly financed also in the future.

Considering future challenges, however, there is a risk that public financing will not be sufficient to meet the increased demand for welfare services. Therefore also the Nordic countries may have to consider a broader range of options for financing. In the following, the main scenarios for financing are presented and commented on. One scenario does not preclude another – rather they should be seen as complements to each other.

#### **a) Increased taxes**

With welfare that is essentially publicly financed, increasing taxes is a natural starting point to covering higher costs. The drawbacks of raising taxes are, however, familiar: higher taxes entail restraints on labour supply, higher education, investments and business competitiveness. In other words, higher taxes may lead to lower growth and, in turn, lower revenues from taxation. Moreover, the tax burden in the Nordic countries is already among the highest in the world.

The costs of producing welfare services will also increase even without political ambitions or demographic changes due to the fact that wages in the public sector follow the wages in the private sector.

To summarize, the increase of taxes alone will not solve the needs of financing future welfare. It must be complemented by other measures alone.

#### **b) Priority to welfare services before public transfers**

Another solution for financing is to give priority to welfare services before public transfers to meet the increasing demand for quality and availability of services.

If a larger share of the society's responsibility for public transfers within the social security system is transferred to other stakeholders in society, for example through collective agreements, more public resources can instead be used for welfare services. Social security systems will as a result be characterized by a larger element of such market solutions, while welfare services remain the public sector's responsibility.

In practice, that implies that the private sector will play a bigger role for protection of loss of income in the future.

#### **c) Private insurance as a more pronounced complement**

A third solution for financing is to more explicitly open up for market solutions and let private insurance be a more pronounced complement to the publicly financed welfare.

The advantage of private insurance solutions is that they provide individuals with financial protection against various types of risk at a lower cost than if the individuals bear the full cost themselves. Today such private insurance solutions exist for protection against loss of income and health insurance. Another viable solution therefore could be to develop an insurance for elderly care.

The insurance industry in the Nordic countries stands ready to contribute as a reliable partner in financing the welfare system in the future.