Social Security and Social Costs: Towards Radical Reform of the System*

by Claude Bébéar **

1. Introduction

Designed some fifty years ago, our social security system fails to meet the economic and social challenges of the end of the 20th century. Our work-based contributions system concentrates the main burden of social costs on low wage-earners, destroying jobs and creating long-term unemployment in low value-added sectors of the economy. Unions and management appear incapable of handling the situation, and the very principle of social democracy upon which the system is based is proving to be something of a myth. Indeed, the most recent elections to designate representatives of insureds go back to 1983! It is not rare to find social parasites under the cover of social partnerships.

Are we moving towards an era of "social insecurity" as some have suggested,¹ citing the hundreds of thousands of people, often young, who remain excluded from the social security system? On the evidence currently available, it is difficult to say exactly where the system is going since, as Pierre Rosanvallon² aptly points out: "Social security has now become a vast, polymorphous tangle of ill-defined and complex financial arrangements within which contributions, loans, subsidies and transfers of every conceivable kind are inextricably combined."

If, during the three glorious post-war decades, growth and democracy masked the perverse effects of adherence to general principles, the same cannot be said today.

De facto, social security has always stood upon a double foundation – the principle of solidarity and the practice of insurance techniques – and should remain there.

But the current system has become so tangled that it is difficult to separate solidarity from insurance, and the former's virtuous mantle is being used to hide costs engendered by lack of respect for the latter's fundamental rules.

It is therefore essential, if we are to find our way through this muddle, to readdress a few basic questions.

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¹ Béatrice Majnoni d'Intignano, «L'insécurité sociale» – Commentaire (69) – Spring 1995.

² Pierre Rosanvallon, «La nouvelle question sociale: Repenser l'Etat Providence» – Seuil 1995.

Social security embraces four distinct domains:

- family allowances
- pensions
- insurance coverage for illness and work-related injuries
- unemployment benefits.

At present, the burden of contributions to the social security system is borne almost entirely by the active population, either directly through taxes on earned income or indirectly through “employer contributions”.

Should we not be thinking about scrapping almost all waged-based contributions and returning wage-earners their full wages, i.e. their current earnings plus social (employer and employee) contributions? Having done that, we can then address the problem of funding social security.

As far as family allowances are concerned, this is now recognized as the proper approach, and funding is gradually being transferred to the community.

2. Pensions

Our current system (whether the standard pension fund or special systems such as the ARCCO and AGIRC supplemental plans) is run on a pay-as-you-go basis that presupposes intergenerational solidarity: each wage-earner contributes to the funding of pensions for current retirees, and in turn counts on the contributions of future generations to pay for his own pension when the time comes. In other words, we pay for our ascendants and hope that our descendants will pay for us.

But why should the cost of intergenerational solidarity be financed from earned income alone?

Could not the basic, compulsory pay-as-you-go pension system, as well as the complementary systems, be replaced by a *universal pension* funded by *individual contributions based on total revenues*, together with a national pension-solidarity fund monitored by Parliament? The pension amount drawn by any citizen under this universal system would be a function of the individual's direct contribution to the preceding generation. Of course, the State could, depending on the circumstances, formulate targeted policies to best express national solidarity through use of the fund.

This universal pension system would thus give concrete expression to the need for national solidarity, independent of a citizen's affiliation with a particular company and his status as an employee, manager, civil servant, EDF agent, etc. (translator's note: the EDF is France's nationalized provider of electricity).

Of course the universal pension system could and should be supplemented by other types of pension plans based on principles other than intergenerational solidarity.

More specifically, this universal pension system funded by individual contributions (in the form of a tax) and based on total revenues could replace all the compulsory plans under the current Social Security system (the basic system, special funds, etc.) as well as those of public sector employers like the SNCF, the RATP, EDF, etc. (translator's note: the SNCF and the RATP are, respectively, the national rail and national public transport systems).

On the basis of 1993 accounts, pension costs attributable to all of these systems reached 856 billion francs.

As a first approximation, taxes on total revenues would have to be on the level of 21% to assure balanced accounts under the universal pension system.³ But if 60 or 65 was chosen as the age at which contributions to the retirement system stopped, the rate would be higher.

It remains an open question, moreover, whether contributions should be recursive, i.e. be applied to retirees themselves, at a variable rate. In this case, intergenerational solidarity would be complemented by intragenerational solidarity, with high-income retirees contributing to the universal pension of all others.

Another issue that must be addressed concerns the possible limits to intergenerational solidarity. When a manager, for example, contributes a percentage of his high revenues, he assumes that future generations will provide him with a generous pension. His expectation presupposes that wages in the future will be high enough to bear the burden of his pension. It's a curious economic system that hands on to the next generation not assets but debts! It seems more logical, and more sound economically, that individuals who enjoy revenues higher than those needed to generate a decent standard of living in retirement be asked to set aside savings for the supplemental pension plan of their choice.

Let us make the point again: whether we are talking about a pension system based on intergenerational solidarity or savings for supplementary pensions, there is no reason why the entire weight of funding should fall on earned income. Reliance on a "CSG" (Generalized Solidarity Tax on all revenues) and individual initiative to finance supplementary payments seems inevitable. Companies should no longer have to bear the costs of retirement.

3. Unemployment benefits

Structural (i.e. non-circumstantial) unemployment, which lasts for example more than six months, is not the business of insurers, for it is all too often deterministic in nature and will not be resolved by economic recovery. On the other hand, it has everything to do with solidarity. It should be noted that this has been implicitly accepted for some ten years now, since public servant with no risk of unemployment pay a special 1% solidarity contribution to fund unemployment insurance for laid-off workers.

Since it is a question of solidarity, long-term unemployment should be funded by individual contributions based on total revenues. To be specific, based on the current 110-billion franc UNEDIC (unemployment) allowances, and assuming that those unemployed for more than six months would be entitled to a 2/3 allowance, a general contribution of around 1.8% of total revenues would be required.

Cyclical (i.e. non-structural) unemployment, on the other hand, is the responsibility of employers. By means of compulsory unemployment insurance, the company covers the unemployment risk of its workforce. Government authorities could fix minimum benefits as a percentage of the last wage, as well as define provisions for certain individual insurance coverage such as health insurance.

Should this market be open to competition from private insurers? Why not?

Insurers would act as an effective spur to employment if they built into their premium calculations a ratio of the type: revenues/workforce, such that for a constant level of revenues premiums would rise as the workforce declines. Premiums could also vary based on

³ Raymond Soubie, «Livres blanc sur le système de santé et d'assurance maladie» – La Documentation Française 1994.

employer policy towards flexible working hours, lifetime employment, etc. In short, insurers would have every reason to promote employment. Let's leave it up to the market to devise appropriate incentives under the pressure of competition.

4. Occupational safety

As for workplace accidents, they are completely a matter for insurers and must remain the responsibility of the company. But why not open coverage of this risk to competition as well? In this regard the example of Belgium is interesting. Although part of the social security system, workplace accident insurance has been turned over to private insurers, both insurance companies and mutuals. A law of 1971 sets forth the conditions which must be respected by insurers:

- the employer's obligation to provide workplace accident insurance,
- the comprehensive scope of coverage: the employer is bound to insure all those working in the organization against risks incurred on the job.

Opening up the workplace accident market to competition by insurers would cause premiums to vary, more than they do today, according to corporate behavior. Companies would be strongly motivated to emphasize prevention so as to minimize the frequency of accidents and their associated costs.

5. Health coverage

Because of the enormous sums involved, the number of protagonists, and the emotional – even political – nature of the reactions it evokes, health insurance is a much more delicate matter.

It unquestionably involves an element of solidarity, intermingled with coverage techniques specific to insurance. But here again, why bring in the company? Why not handle the solidarity issue by the CSG and the insurance element by competing entities?

As the report of the High Commission for Public Health⁴ underlined, if average health in France is satisfactory and life expectancy remains among the highest in the world, there are still wide variations from region to region and between the sexes, and when it comes to comparisons between the socially advantaged and the disadvantaged, the gap widens even further. Moreover, the economic crisis has brought to the fore particularly vulnerable groups whose access to care and prevention is limited by low income, cultural differences and the complexity of the system.⁵ With 9.5% of its GDP spent on health, France ranks second or third in the world for health care expenditures, but falls to the middle of the pack in terms of the quality measures defined by the OECD. This body stresses that countries with relatively high health care costs do not as a rule enjoy better health than countries that spend less.⁶

⁴ Haut comité de santé publique – Stratégie pour une politique de santé – ENSP, December 1992.

⁵ J.F. Girard et G. Nicolas – «A propos de rapport sur la santé en France» – Les Enjeux de la Régulation, March 1995.

⁶ Martland MacFarland – «La réforme du secteur santé» – L'Observateur de l'OCDE No. 192, February 1995.

There is every reason, therefore, for a complete overhaul of our system. The following proposal deserves consideration.

Basic, lifetime health coverage should be universal, i.e. mandatory for every resident of France. How? All households and single people would be insured by the “Health Insurance Institution” of their choice, either individually or through a group policy (companies, associations, etc.), and would pay insurance premiums to this entity. Health Insurance Institutions would be approved by public authorities but would compete with each other.

Examples are:

- existing health insurance offices (primaires)
- the so-called “45” mutuals
- insurance companies already operating in the health care market, mainly in the area of supplemental insurance⁷
- other institutions yet to be established, the outgrowth of voluntary associations, for example.

The nature and scope of basic, universal health coverage would be defined by public authorities. Each person would be free to obtain coverage above and beyond the basic benefit. Lifetime coverage must also be mandatory to avoid a situation whereby the elderly improvident become a burden on the community.

All insurance companies wishing to compete for this basic, universal coverage would have to respect the specifications defined by public authorities. A national health insurance center would manage the evolution of these specifications, monitor adherence to them, evaluate the quality of service provided and inform the public. What would be the essential terms to be respected?

- Non-discrimination: exclusion would be illegal. The obligation to insure should be lifetime, with insurance premiums paid after cessation of activity unless they were increased in advance to cover claims during retirement.
- The freedom to set rates for the basic benefit, in order to encourage competition among health insurance providers.
- The promotion of prevention and healthy living.
- Non-selection of risks. For the basic benefit as well as for particularly large risks, insurers would set up pooling arrangements to which they would contribute.

It goes without saying that a guarantee system would have to be established to protect insureds against the failure of an insuring institution.

Under such a system, the principle of solidarity would be reflected in the community's responsibility for all or part of health insurance premiums for those classes of insureds defined by the public authorities. In general, these insureds would seek coverage from the institution of their choice, with the community subsidy in proportion to that insurer's rates. These insureds would include, for example:

- low-income households, including those in the workforce as well as retirees;
- those currently receiving free medical care;

⁷ Denis Kessler «L'assurance complémentaire maladie» – Rapport Soubie cf (6).

- the long-term unemployed;
- dependent children, whose parents would receive a lump-sum health care benefit. The amount could be included in family allowances so as not to penalize those families with more than two children.

Some advantages of such a system would be as follows:

- *The mandatory nature of health care coverage for residents (universal health insurance) would eliminate all risk of exclusion and settle the problem of “stowaways”, i.e. those who choose not to seek insurance because of the free care available to the uninsured.*
- *All insureds would enjoy freedom of choice concerning their insurance institution, including those for whom coverage is subsidized in whole or in part on the grounds of solidarity.* Together, freedom of choice and mandatory coverage would eliminate all risk of relegating certain classes of the disadvantaged to certain institutions, an outcome which would be contrary to basic human dignity and to the values of our Republic.
- *There would be no risk selection, and the obligation of lifetime coverage* would avoid a situation in which certain elderly people become dependent on the community.
- It would be possible to influence consumer attitudes towards the use of medical care.
- Prevention would be encouraged by insurance institutions, since it would be in their best interest.

At present, competition is absent from our system of public coverage, and this is a shame. While health is manifestly not a market, health insurance is. The proposed system would create competition among very different, and in some cases historically antagonistic, institutions, thus avoiding the risk of collusion and the formation of cartels as witnessed in some countries. It's a matter of encouraging “well-managed” competition among care providers and insurance institutions so that universal coverage can provide the best care at the lowest price. As recent studies have emphasized, both care providers and health insurers should not enjoy higher profits until improved performance offers, from a medical standpoint, a better cost/benefit profile.⁸

Such competition would make possible an optimal balance between health care expenditures and the quality of care provided. Let's not heap all the blame on insurance companies; under such a system they would start out with a considerable handicap! Let's focus instead on the potential of the big mutual companies (which already manage the social security system by delegation) and the social security funds, given a small dose of dynamism! Especially in view of the foothold they would gain in the complementary health insurance market.

The insured's choice, whether made individually or in a group, would be based on price, but also on the quality of care provided and, more generally, on the nature of the health care “chain” to which he gains access through his insurance institution.

This will involve insurance institutions in negotiating contracts with care providers (doctors, clinics, hospitals, pharmacies, etc.).

This will in turn lead to better overall coordination of our health care chain, which at present is no one's responsibility. What regulation has patently failed to do, competition will accomplish. In particular, under this approach hospitals will become truly independent and

⁸ Elisabeth Olmsted – “Marketing competition in health care work” – Harvard Business Review, July 1994.

viable both financially and in terms of medicine. Hospitals play a key role, and their poor management has serious consequences from the financial, human, care-quality and public health standpoints.⁹ The lack of financial accountability which besets our current health care chain causes substantial cost escalation which, under the proposed system, would be avoided.

As Jean de Kervasdoué¹⁰ has suggested, health insurance institutions would be in a position to devise a number of solutions which are today surrounded by taboo:

- limit access to certain specialties and consider the possibility of partial funding on a capitation basis for those doctors who so desire;
- manage risks, i.e. get the medical profession to accept self-regulation of prescriptions based on quality measures, with in return significant revaluation of basic care functions;
- finalize contractual arrangements with the pharmaceutical, biomedical, and other relevant industries.

How should costs be apportioned between solidarity and insurance?

According to data supplied by the national health insurance fund, solidarity accounts for roughly 50 billion francs, without including dependent children. These figures should be looked at more closely, because they include intra-system transfers, the costs of university training, and research projects undertaken by university hospitals.

Average annual health care reimbursement for children from birth to 19 years can be estimated at around 60 billion francs, based on data furnished by the social security system.¹¹ The cost of solidarity is therefore of the order of 100 billion francs. When we compare this with total health insurance reimbursements in 1993 of 500 billion francs, we arrive at a proportion of 80% for insurance and 20% for solidarity.

There are two possible approaches to financing solidarity:

- an all-income based solidarity contribution. For example, this would amount to about 2.5% on the current CSG (General Social Charge) scale.
- a solidarity pool established by health institutions and financed by a supplementary solidarity contribution equal to 25% of the standard insurance premium.

With respect to the 400 billion francs cost of insurance, as opposed to solidarity, shared among 22 million households, the monthly cost per household would be of the order of 1,500 francs based on current reimbursement levels. However, it must be remembered that under the proposed system employees in particular would draw wages considerably higher than they do now, because they would no longer have to bear employee social costs and employer costs would be sharply reduced.

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⁹ Marianne Binz – «Apport des expériences internationales sur la prise en compte des spécificités françaises» – Les enjeux de la Régulation, March 1995.

¹⁰ Jean de Kervasdoué – «L'assurance santé complémentaire: le piège et comment en sortir» – Risques 21, 1995.

¹¹ Bloc-note statistique: qui consomme quoi? – No. 74 – CNAM, March 1993.

Under the system we have described, the only social costs employers would have to bear would be those for which they are directly responsible: work-related accidents and cyclical employment. The cost of labor would thus approach wage costs. All parties would be accountable.

Solidarity would be clearly separate from insurance, and it would be for the State to decide how its costs should be allocated. Insurance would be for the charge of the insureds themselves, who would be responsible in their choice and their comportment as a result.

Can it be done? The French are, admittedly, one of the most conservative people in the world, by nature more prone to persist in error than to innovate. Our social security and retirement systems were born in the wake of the Second World War and there is still much to be said for them. They are, however, running out of steam. Let's hope it won't take another world war or a revolution before we provide ourselves with effective social protection.