Social protection: expenditure on cash benefits and on benefits in kind

Gérard Abramovici

Cash benefits accounted for more than two-thirds of all social security benefits in the European Union in 1999.

The relative shares of cash benefits and benefits in kind depend on the specific characteristics of the social protection functions themselves, but also reflect differences in how social protection is organised and the influence of structural factors.

Source: Eurostat-ESSPROS.

Figure 1: Expenditure on social protection by type, % of GDP, 1999

In 1999, cash benefits (') accounted for the majority of all social protection benefits in EU-15, at 68.5% of the total, or 18.1% of GDP. Benefits in kind ('') accounted for just 8.3% of GDP (Graph 7).

In Germany, Austria, Belgium and France (and, outside the EU-15, Switzerland), cash benefits account for more than 19% of GDP and (except for in France and Germany) more than 70% of all benefits. This is also true for Italy, Luxembourg, Spain and the Netherlands, whereas, for Ireland (and Iceland), they account for less than 9% of GDP and less than 60% of all social protection benefits. Iceland is the only country where benefits in kind actually account for a larger share than cash benefits.

Expenditure on benefits in kind is also high in Sweden and in Denmark, making up more than 11% of GDP and around 40% of total benefits in 1999. Of the non-EU-15 countries, a similar situation obtains in Norway.

() See box on "Methods and concepts" for the definition.
**Contributory and non contributory schemes**

Social protection systems in the European Union vary in several respects. One concerns entitlement to social protection benefits. In some countries, it is necessary to have contributed to a social insurance scheme (usually linked to professional activity) in order to qualify for benefits. This system derives from the "Bismarckian" insurance tradition. In countries where a "Beveridgian" model is used, being a resident and in need is sufficient entitlement to social protection benefits: entitlement does not depend on the payment of contributions.

No one country strictly applies either of these two models, as all the countries operate hybrid systems, with varying components of the "insurance" and "social assistance" models.

Thus, in 1999, benefits paid under non-contributory schemes in a group of countries in the Beveridgian tradition (DK, IS, IRL, S, FIN, UK) accounted for more than 50% of total benefits. In these countries, more than half of benefits provided under non-contributory schemes (and more than 30% of all benefits) are benefits in kind, mostly sickness benefits. Denmark is an exception as more than 45% of all benefits are cash benefits, mostly related to old age.

In Slovenia, Switzerland, France and Spain, however, more than 75% of expenditure on social protection benefits arises under contributory schemes. More than half are cash benefits paid in respect of old age. These countries lean more towards the insurance model than to the social assistance model.

Austria, Germany, Greece and Portugal also lean more towards an insurance system, though to a lesser degree. That is why the greater part of cash benefits in those countries is provided under contributory schemes.

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**Cash or kind: specific characteristics by function**

The relative importance of the various types of benefit depends both on the proportion of the various functions in social protection expenditure and on the specific characteristics of those functions. Thus, the predominance of old age and survivors' benefits, particularly old age and survivors' pensions, is such that cash benefits paid with respect to these functions constitute the biggest expenditure of social protection in EU-15 (44.6% of the total in 1999; see Table 2). The same situation obtains with regard to unemployment, where cash benefits (essentially unemployment and early retirement benefits) account for 90% of expenditure on this function.

By contrast, sickness benefits, which are the second-biggest item of social protection expenditure, comprise mostly reimbursements and the charge of medical expenses. Benefits in kind for this function consequently account for 22.6% of total benefits and 85% of expenditure within this function.

For the other functions, cash benefits and benefits in kind are more evenly balanced.

**Structural factors and different organisation of social protection give rise to differences between countries**

In Italy, more than half of all benefits are cash benefits relating to old age, which also account for a large share in Greece and Spain (more than 40%). Outside the EU-15, the situation is similar in Switzerland and Slovenia. These countries devote a relatively small amount to benefits in kind in respect of old age: less than 1%, as against an EU-15 average of 1.4%. It should be noted, however, that the weight of benefits in kind has increased recently in Greece and Italy, in the wake of various social programmes such as Greece’s "Home Help" Programme, which was launched in 1998.

Generally speaking, Europe is witnessing an increase in the care provided to the elderly, resulting in an increase in benefits in kind.

Ireland has Europe’s lowest share of cash benefits paid in respect of old age, at only 17.4% of total benefits. On the other hand, the share of benefits in kind in the sickness/health care function and the share of cash benefits in the family/children function are much higher in Ireland than in Europe as a whole. In particular, Ireland devotes almost twice as much as EU-15 to family benefits, half of which comprise family allowances. This is partly explained by Ireland’s population structure: Ireland has the youngest population of any Member State. In 1999, 31.4% of the population were under 20 years of age, compared with an EU-15 average of 23.1%.

Belgium devotes 11.7% of total expenditure to cash benefits related to unemployment, compared with the European average of 6.2% in 1999. The shares in Spain, Denmark and Finland are also high (more than 10%). These are mainly unemployment benefits, the one exception being in Denmark, where the share of vocational training allowance is also high. Denmark has recently been focusing the fight against unemployment on active measures designed to help the unemployed to return into the labour market, not merely guaranteeing an acceptable level of income while they seek work.

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**Table 1: Distribution of the benefits by type between contributory and non-contributory schemes, 1999 (% of total social benefits)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Total benefits</th>
<th>Cash benefits</th>
<th>Benefits in kind</th>
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</thead>
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<tr>
<td></td>
<td>Contributory</td>
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<td>Contributory</td>
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<tr>
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<td>16</td>
<td>84</td>
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Source: Eurostat-ESSPROS.
There are differences between Member States in terms of the share of disability benefits accounted for by cash benefits. This is explained, inter alia, by the different regulations applied by different countries. For example, in countries like Luxembourg, the Netherlands, Portugal and Finland (and, outside the EU-15, Norway), the share of this expenditure accounts for more than 11% of all benefits, compared with an EU-15 average of 6.5% (1999).

In France and Ireland, on the other hand, the share is lower, at less than 5% of the total.

A study of health-related and old age benefits in kind reveals the influence of different structures in the various countries. The countries of southern Europe, with the exception of Portugal, encourage families to take responsibility for dependent people; formalised care, whether in an establishment or a residence home, is limited. The family is the main provider of assistance to those who need it. In northern Europe, by contrast, expenditure on benefits in kind is generally higher, as care for the elderly or people requiring nursing is more often provided by the formal sector. There are fewer elderly or dependent people supported by their family, as a large proportion of persons lives in institutions or receives home help.

Table 2: Distribution of the social protection functions by type in 1999 (% of total social benefits)

<table>
<thead>
<tr>
<th>Function</th>
<th>Old age</th>
<th>Survivors</th>
<th>Family/Children</th>
<th>Sickness/Health care</th>
<th>Unemployment</th>
<th>Disability</th>
<th>Housing + Social exclusion n.e.c.</th>
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</table>

Source: Eurostat-ESSPROS.

Methods and concepts:

- A cash benefit is a benefit: i) paid in cash; ii) that does not require evidence of actual expenditure by the recipients. Benefits that require evidence of actual expenditure by the beneficiaries are reimbursable which the system classifies as benefits in kind. Examples of cash benefits are all types of pension, paid sick leave, parental leave-

- Benefits in kind are benefits granted in the form of goods and services. They may be provided by way of reimbursement or directly. Reimbursements are benefits in the form of payments that reimburse the recipients in whole or in part for certified expenditure on specified goods and services. Directly provided benefits are goods and services granted without any pre-financing by the beneficiary. Examples are health care, accommodation, funeral expenses, child day care, home help, educational training and housing allowances.

Social protection benefits are recorded without deduction of tax or other compulsory contributions payable by beneficiaries on benefits. "Tax benefits" (tax reductions granted to households for social protection purposes) are generally excluded.

In ESSPROS, the statistical unit is the scheme, which can be classified according to several criteria. One of these criteria concerns the establishment of entitlements. The 1996 ESSPROS Manual distinguishes between:

- a) Contributory schemes are social protection schemes that require the payment of contributions, by the protected persons or by other parties on their behalf, in order to secure individual entitlement to benefits. By convention, all non-autonomous schemes that employers run in favour of their employees, former employees and their dependants are classified as contributory schemes.

- b) Non-contributory schemes are social protection schemes in which eligibility to benefits is not conditional on the payment of contributions by the protected persons or by other parties on their behalf. Entitlement to social benefits provided under non-contributory scheme does not depend on professional activity but rather on the resources of the persons concerned (for example: being a resident and in need secures entitlement to social protection benefits). According to the definitions given in the 1996 ESSPROS Manual, social protection schemes are classified as contributory or non-contributory, depending on the method by which entitlement to benefits comes about, not on the method by which the scheme is financed. Consequently, universal schemes financed by social contributions are classified as non-contributory schemes. In France, Spain, Austria, Greece and the Netherlands, for example, universal schemes financed by social contributions (from employers and/or employees) are classified as non-contributory. In the Netherlands, especially, more than 32% of all social protection benefits are provided under this type of schemes.

Notes on the data:

The data for D, EL, E, F, I, NL, P, FIN, S and UK are provisional. The data for B are estimates. Where necessary, Eurostat estimated the values for EU-15 (e.g. missing data on housing benefits in Belgium and on benefits in kind for the unemployed in the Netherlands).
Further information:

Reference publications

Title: European Social Statistics - Social Protection - Expenditure and receipts 1980-1999
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Price: EUR 45

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For information on methodology

Gérard ABRAMOVICI, Eurostat/EU, 2920 Luxembourg, Tel. (352) 4301 33824, Fax (352) 4301 35979, E-mail: gerald.abramovic@ec.eu.int
Co-author: Flavio BIANCON, Monica BERGAMINI
Database: Claude MOTTET
Layout: Madeleine LARUE

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