INTEGRATED AND EXPANDED WELFARE MODELS A CHALLENGE FOR ACTUARIES

BY **GIAMPAOLO CRENCA**

The concept of welfare is usually divided into three 'pillars'. The first pillar incorporates all public policies carried out by a state that have the purpose of providing for assistance and the wellbeing of its people by satisfying their essential needs; this is referred to as a whole as the welfare state.

As changing demographic and economic factors severely impacted the welfare state in many European countries, two extra pillars have emerged. The second pillar of welfare refers to what is collectively disbursed, for example through corporate agreements. This corporate welfare functions as an additional support to the welfare state. The third pillar is individual welfare, wherein people autonomously seek out solutions for integrating the other named types of welfare. >

The main goal of corporate and individual welfare is to bridge gaps in public provision. While the initial emphasis is on delivering social security, health and assistance, these ideas also involve envisioning expanded horizons for welfare. With this in mind, it is notable that there are significant application potential in the welfare area for PP schemes, that is public-private.

It is also important that such projects give consideration to integrating the various components of welfare, and reflect on the potential for welfare implementation to be further expanded so it also takes in other aspects of human life. A good goal would be to put in place a single integrated and expanded welfare system for the whole of Europe.

At the corporate level, before the details of a welfare plan can be worked out it is essential to make a distinction between 'welfare' and 'fringe benefits' – which may simply be called 'benefits' – because there is often confusion here, and sometimes the two are somewhat intertwined.

Companies should also understand welfare as being more than simple provision. A successful welfare implementation is capable of supporting social innovation, for example; it can strengthen the relationship between trade unions and employers, imply a new organisational model and help build loyalty in a company. There are clear advantages for companies that get it right.

The first essential step is to specify priorities within the vast field of welfare. An immediate list here might include death, permanent disability due to poor health or injury, long-term care, serious illness and major surgery. To that we could add pension funds, medical expense reimbursements, loss of employment, nursery care, school support – all to be integrated with each other to create an integrated welfare concept. Then, if we take the most extensive view and seek to implement an expanded welfare concept, it may make sense to include other areas of life such as housing, cars and the insurance coverage associated with these – thereby widening the scope of welfare needs beyond the human person. Once these priorities are dealt with it is possible to even start looking at fringe benefits such as spa access, company cars, travel tickets, ski passes, and more.

These lists are not exhaustive and are perfectly feasible – as previously mentioned, there are already instances of fringe benefits being included in the welfare area and vice versa. One option for avoiding confusion in classification would be to eliminate the distinction entirely and simply refer to all of it as welfare – after all the most important part is clearly naming the priorities!

Once the components have been individually prioritised it is possible to design a corporate welfare plan, going through the following steps to do so:

1. **Corporate analysis**
2. **Analysis of workers' needs**
3. **Definition of objectives**
4. **Selection of benefits types**
5. **Selection of a financing model to support the designed welfare strategy**
6. **Continual monitoring of the welfare plan**

The first step serves to ensure a full understanding of the actual corporate situation; this is important for identifying exactly which workers fall within the scope of the welfare plan. It also incorporates a gap analysis to reveal the shortcomings of welfare coverage; this gap analysis should include the impact of state welfare. Only after this is done is it possible to address the actual needs of the workers, by means of a specific examination that always keeps the agreed order of priorities in mind. >

The goal here is to design a set of benefits that is simultaneously:

- **consistent with the actual needs of workers**
- **competitive in relation to the market**
- **tax attractive**

Once the strategic welfare plan has been designed it is then necessary to decide on the financing model, which could include the following solutions, either individually or in combination:

- **company resources**
- **using a portion of the workers' income**
- **conversion of corporate bonuses into welfare**

Other possibilities can obviously be investigated.

If the cost of the entire welfare plan is too onerous to be borne in one year, there is the option of implementing a gradual financing plan which expands over time, with priority given to the more urgently requested workers' needs.

What about the acquisition of welfare goods and services? The market here is extensive: companies can explore the insurance and financial sectors, pension funds, supplementary private health funds and many other providers.

Tax rules are an important consideration. There may be surprises in this area, as these rules are sometimes very different within the welfare space, especially in relation to pension funds, supplementary private health funds and assistance.

Is it possible to build an individual, customised welfare plan to suit professionals, for example? Yes, and doing so requires very similar steps to those described above. The financing model could present a particular problem here – a gradual plan may be the answer.

What is the actuary's role in this? The actuarial approach enhances all the steps described above with quantitative and qualitative analysis, so that the designed corporate welfare plan is founded on a sound technical and economic basis and management is supported to find the best solutions.

Given that welfare is a key issue facing governments and people across all of Europe, this is an opportunity for actuaries to make a great contribution and further develop the profession in Europe. In short, it is about delivering evaluations to support decisions: a challenge made for actuaries. <

GIAMPAOLO CRENCA is President Italian Society of Actuaries (ISOA).