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Insurance in the social security system

The aim of this paper is to present the possibilities of applying insurance and parainsurance solutions into the social security system. As a starting point for discussion the author, firstly, defines a social risk as the emergence of contingency to the (family) household. Secondly, he argues that the subjective criterion is of primary importance in the classification of insurance, which should result in the special treatment of the household as a recipient of insurance protection. Against this background the state is presented in its role as organiser of the public social security system and the aspects and principles of the system are described. The author presents public social funds as a parainsurance solution within the social security system. The paper emphasises the growing domain of the application of private insurance in the social security system and the importance of complementary/supplementary cover, understood as social enhanced insurance, in securing the desired (expected) level of social security.

Key words: social security, insurance, public social funds, social enhanced insurance.

1. On aspects of the social security system

Within the literature on the subject there are many publications[1] which discuss the notion of risk as a broadly defined social threat (one that is natural and caused by human activity). Here, social risk is narrowed to the scope of the traditional social security system, addressed as part of social policy[2].

Therefore let us assume that (1) **a social risk is the emergence of contingency causing a loss in existing or expected resources**[3] **of a (usually family) household, whereas (2) the social security system**

1. See, in place of multiple sources: "The Analysis, Communication, and Perception of Risk", ed. B.J. Gavrick and W.C. Gekler (New York: Plenum 1991); "Social Theories of Risk", ed. S. Krimsky and D. Golding (New York: Praeger 1992); Kitschelt H., Rehm P., "New Social Risk and Political Preferences", in: "The Politics of Post-industrial Welfare States. Adapting Post-War Social Policies to New Social Risks", ed. K. Armingeon and G. Bonoli (London and New York: Routledge 2006).
2. I. Culpitt, "Social Policy and Risk" (London: Sage 1999).
3. A loss may occur in resources in the possession of a given household (depletion of resources due to loss recovery costs) or in expected resources, namely profits that a given household hopes to gain (depletion of resources due to the absence of profit or remuneration).

is a network of institutional arrangements created at the state's initiative that aim at providing a specified standard of social security to specific households as single- or multiple-person economic entities.

Obviously, we cannot overlook the role and tasks of the state which, in various forms, imposes on its citizens the obligation of risk management which results, in principle, in the state anticipating such management initiatives to be taken by households[4]. In the insurance-based approach to risk management, the following functions of the state must certainly not be disregarded: (1) the state as an organiser of the social security system; (2) the state as an insurance policy-maker; and (3) the state as an initiator of the application of insurance protection as a means of risk management. The state also influences (4) the shaping of social awareness of risk, education and insurance prudence and (5) introduces and promotes preventive undertakings. All these elements directly or indirectly affect the insurance protection available to households.

A discussion on the social security system should best be structured by determining the six aspects of that system:

- subjective (who should be covered by the system?);
- objective (consequences of what risks should be addressed by the system?);
- instrumental (what principles of security should be used within the system?);
- redistributive (what rules should be set up to govern financial participation in the system?);
- compensatory (to what extent should benefits provided under the system cover losses?);
- legislative (how to enact and apply in practice systemic legal measures?).

At this point, it is worth explaining the theoretical and practical implications of defining a social risk as the emergence of contingency causing a loss in the resources of a household. This definition relates specifically to the **subjective aspect**, as it states clearly that the risks in question apply to a household. In considering decisions regarding risk, it is important to note that a household not only benefits from insurance protection but also shows initiative in applying for insurance coverage (issue of risk awareness, insurance knowledge and prudence). Such a subjective approach focuses the socio-economic perspective on such issues as whose risk we manage and who manages risk by means of insurance. Another question is the cost of insurance protection, which is always a burden to a household's budget (a contribution is not paid out of the "pocket" of a designated household member); any benefits and compensation that make a household the beneficiary of insurance protection are also relevant here (benefits and compensation received become a part of a household's budget). Following on from the above, one may distinguish between insuring households and insurance products (services) *targeted at* households (similarly, in socio-economic deliberations the following notions appear: consumption, finance, budgets, savings, a social minimum relating to [family] households as single- or multiple-person economic entities).

The adopted definition of social risk also influences the discussion regarding the **objective aspect**, significantly broadening the extent of deliberations when compared to **the classic catalogue of social risks**.

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4. In order to fulfil individual tasks related to its social function, the state: (1) appoints specialist public institutions, but may also engage private bodies (public-private solutions); (2) specifies recipients of social security system; participants in the system and recipients of benefits are classified according to their sociological (family type), economic (household), political (citizen, resident) and legal (concrete natural person) features; (3) lays down security standards which derive from its authoritative power that allows it to determine the extent and diversification of the insurance offered.

The catalogue (set) of types of social risk appeared as early as in 1944, in a recommendation of the International Labour Organisation (ILO) on income security[5]. The recommendation discussed contingencies that could cause a reduction in an individual's income. On this basis, an argument can be raised that the classic catalogue of social risks includes:

- sickness;
- maternity;
- invalidity (work disability);
- death of a breadwinner;
- employment injuries;
- unemployment;
- old age;
- emergency expenses.

Such an array of social risks is, in principle, still relevant, despite the changing impact of individual risk areas, such as the major increase in the significance of old age risk. However, this list should not be considered to be exhaustive. The classic catalogue of social risks may be expanded in accordance with the definition of social risk presented above. The risk of **poverty** appears as early as in the ILO Convention, 1952 (No. 102). The Convention identifies family benefits that may be of vital importance, especially where a situation of poverty results from an accumulation of different risks. The classic catalogue should also include the risk of **old-age infirmity**, that is functional incapacity in old age (sickness risk and old-age risk would then be free from the specific factor of infirmity). I also recommend that the risk of **sudden lack** of material goods should be added to the catalogue of social risks. I understand the risk of sudden lack as another contingency that causes a loss in the resources held by a household due to destruction, theft or loss of tangible assets (their house, home contents, car, cash, other consumer goods and assets). I would add the cost of **loss resulting from personal liability** to the category of emergency expenses risk contained in the catalogue of social risks.

It is apparent that the above definition of the social risk, as well as the understanding of contingencies, make it possible to broaden and structure the discussion of risk management within a society, not only in the field of insurance.

In analysing the **instrumental aspect** of the social security system we assume that certain model principles[6] of security exist, and these are distinguished from one another by the **source of financing** and the **nature (type) of entitlement to a benefit**.

Let's concentrate on the three most general principles[7]:

5. For the sake of consistency, I would argue that the set of contingencies listed in the 1944 ILO Recommendations represents, in fact, the classic catalogue of social risks, albeit listed in a different order. *Recommendation No. 67. Recommendation Concerning Income Security* and *Recommendation No. 69. Recommendation Concerning Medical Care*, in: *Convention and Recommendation 1919–1966* (Geneva: International Labour Office 1966), 461–476 and 480–491. Reference to *Recommendation Concerning Medical Care is important because Recommendation Concerning Income Security* includes only the contingency for which sickness and maternity benefits should be paid is loss of earnings due to abstention from work. 463.
6. These principles are model (Max Weber ideal types) mainly because they do not occur independently in any existing social security system (subsystem). The real problem lies in setting a certain combination of solutions which, in practice, create a – more or less – effective system.
7. T. Szumlicz, "Ubezpieczenie społeczne. Teoria dla praktyki" ["Social Insurance. Theory for Practice"] (Warszawa: Oficyna Wydawnicza Branta 2005), 83–88.

- the provisional principle;
- the insurance principle;
- the philanthropic principle.

The provisional principle involves:

- taxes and budgetary funds, and
- civic entitlements.

The literature on the subject emphasises especially two aspects of a tax as a "classic" public levy, namely its economic and fiscal aspect. From an economic point of view a tax is a mechanism used by the state to determine what share of the generated domestic product should be allotted to the state. This is important in terms of social policy (i.e. the social security system), because fiscal decisions taken by the state are instrumental in determining the amount of public funds allocated for certain social needs; also, to some extent, they influence the subsidising capacity of the state regarding public social funds, which appears crucial in Poland. From a fiscal standpoint, a tax is a compulsory payment made to the state for the discharge of its public responsibilities. It is vital for social policy, since it determines the actual share of particular groups of citizens in the overall public financing of important social needs.

Naturally, purely budgetary funds are a very important source of financing of social policy (the social security system). However, one should remember what distinguishes them from others fund and what the social implications of this are. The main matter of concern here is the redistributive function, which ought to be performed with intuition, especially if it relates to meeting key social needs (including that of social security).

The pure insurance principle involves:

- premiums and insurance funds, and
- the entitlements of members of a community of risk.

It seems there should be a consensus that the application of the pure insurance solution in the social security system ought to be financed through premiums; in this scenario, the necessary means really come from insurance funds. Notably, a net insurance premium should be a cash equivalent (this is where the term "risk premium" comes from) paid by and for all the members of the risk community to common pool which should be used to compensate all the losses resulting from fortuitous events suffered by only some of the risk community's members.

The principle of equivalence is of primary importance for the financing of insurance. The equivalence can be looked at through the notion of insurance equivalence, understood in two ways:

- the accumulation of an adequate insurance fund financed from insurance premium (the means of the fund are used to pay benefits to the members of a risk community as proper compensation of losses resulting from specific fortuitous events);
- the maintenance of a proper relationship between a premium and a benefit (the scope of loss compensation is dependent on a financial share in the insurance fund, that is the degree to which an individual is covered by insurance).

In the first case, I speak of **fund equivalence** (total premiums are compared with total benefits), whereas in the second case I refer to **compensatory equivalence** (the amount of premium is compared with the amount of benefit).

In summary, for the social security system it must be assumed that the model insurance principle should be based exclusively on the financing through real insurance premiums and insurance funds.

At this point a linguistic comment should be made. The Polish language has only one term *składka* to denote the source of financing of protection, whereas in the English language two terms exist. *Premium* is used when we speak about insurance that involves financing whose amount depends on the risk that is brought into a risk community (an underwriting premium). *Contribution* refers to a security system where financing represents a *de facto* financial share, and such a contribution may be diversified based on the financial status of a person who is the beneficiary of a given risk protection mechanism. However, this entails huge discrepancies in terms of both terminology and classification. The accumulation of funds is usually treated with great freedom.

The philanthropic principle involves:

- donations and charity funds, and
- the possibility of obtaining charity support.

The philanthropic principle within the social security system is considered to be complimentary, though it is important whether or not it may entail some financial incentives encouraging citizens to set up charities or engage in charity work.

Redistributive aspect – the rules of financial participation in the social security system (the income transfer system) is of major importance for the actual shaping of social relations that derive from income redistribution. At the same time, we should not avoid a more difficult problem in such a situation, namely that of shaping social (economic and financial) awareness and the desirable acceptance within society for specific solutions adopted as part of the social security system.

The compensatory aspect of social security should also be noted. This is because the actual protection, provided as part of the base social security system, is determined by the principle of the mitigation of loss compensation, which provides not only for partial but, most usually, also disproportionate coverage of losses. The scope of compensation is expressed by different replacement rates, which denote the relation between the benefit and the loss. Of great importance here, however, is the fact that any difference in the compensation level depending on the size of the loss results in the ability to use, in relative terms, higher or lower protection coverage (the compensation is relatively higher in the event of a smaller loss and relatively lower in the event of a greater loss).

We put less focus in this paper on the **legislative aspect** – the process of making and applying social security law.

2. Public social fund as parainsurance solution

The model insurance principle (such an approach to the concept of insurance equivalence) is a serious problem in the social security system. This is because:

- more or less justifiable **departures from compensatory equivalence** may be agreed – either in terms of contributions (the financial share depends on the financial situation and better off individuals are expected to make higher contributions), or in terms of benefits (the amount of benefits depends on need, or a smaller loss is compensated to a relatively greater extent); alternatively both options may be applied at the same time;
- **fund non-equivalence may be acceptable**, to some extent, and be tied with the expected (guaranteed) fund subsidy (paid primarily from the state budget).

The approach to the principles of security should be discussed in greater detail to clarify doubts concerning the notion of the insurance principle and to present possible parafiscal or parainsurance (quasi-insurance) solutions.

The construction of **public social funds** as kind of public purpose funds is especially important here. In describing a special purpose public fund, it is emphasised that as a result of the creation of the fund, a portion of public funds is isolated, financially and organisationally, from the public funds as a whole and subsequently transferred to administrators for their disposal. Accordingly, a portion of public funds is tied to designated tasks and a selected field of activity obtains funding, which enhances its status when compared with other areas for which public authorities are responsible. This should guarantee a kind of independence and continuity of funding as well as reserve accumulation of unused funds; however, it must be said that such freedom to dispose of funds is only possible provided that no subsidy from the state budget is required to perform tasks. At the same, we may expect greater social acceptance of such a special purpose contributions and the weakening of political influence.

Hence, **public social funds are varied types of special purpose funds, created in connection with a particular social risk, accumulating under specific contribution conditions to pay for specific social benefits, provided by designated public entities**.

This definition requires further comments. First of all, in social policy (or more precisely, the social security system or public finance system) the category of public social fund should be associated with a given social risk, as it is the main criterion for identifying the fund according to its purpose and providing it with the proper social rank. Second, we should pay special attention to the accumulation principles applicable to a given fund; these principles, on the one hand, determine the financial participation in individual solutions – the financial participation in a social fund depends rather on the material status and not the risk itself; on the other hand, these principles affect the size of the fund from which due benefits will be paid. Third, the construction of social benefits paid from individual social funds is of particular importance, especially in terms of loss compensation, which may be disproportionate (a smaller loss is compensated to a greater extent and a bigger loss is compensated to a lesser extent). Fourth, the administration of public social funds may take the form of public-private initiatives[8], provided that appropriate procedures of licensing and supervisory functions by a designated public entity are in place.

It would then be possible to suggest handle public social funds as **parainsurance solutions** and to distinguish **the parainsurance rules**, which differ with respect to the source of funding for the social security system and entitlements for benefits under that system.

The parainsurance solution is placed somewhere between the provisional principle and the "pure" insurance principle, and specifically its financing through taxes and contributions – the following elements should be taken into account:

- the rule of linking public fund with specific type of risk (the sources of financing should be closely linked with a given area of social security);
- the nature of participation in the fund (the nature of this peculiar community of risk should be that of financial shareholding due to the pre-defined obligation to join and make a specific

8. The involvement of private institutions in the social security system should be assessed by answering the question of whether they are in a position to effectively perform social functions despite their commercial background, which is often associated with attempts to "lay hands on public money".

financial contribution to a specific fund, whether the specific duty of financial participation applies to a person who benefits from the security or to an employer or designated institution);
- the nature of the financial obligation (this obligation should be determined parametrically; this means the amount of financial contribution is dependent on the assessment basis, which may be diversified according to the financial status, and hence take the form of a flat rate of tax; a lump-sum contribution should also be considered a feasible option);
- the nature of the benefit (it provides that a contribution to the fund made in the required amount guarantees an agreed scope of cover);
- the redistributive aspect (forced redistribution, which is typical of the provisional principle and fiscal financing (taxes and budgetary funds) of security, should be applied, but this should be done in combination with random redistribution, typical of the insurance principle);
- the compensatory aspect (it should be assumed that loss compensation will be partially disproportionate, in accordance with the applied principle stipulating that a smaller loss is compensated to a relatively greater degree and a bigger loss is compensated to a relatively smaller degree; to this end, a degree of departure from the principle of compensatory equivalence relating to the amount of benefits should be determined);
- the rule of fund equivalence (the requirement of equivalence, which states that total contributions should match total benefits; thus, a budgetary subsidy may be acceptable solely as a guarantee measure and to an agreed extent; it should be stated that mechanisms for the credit-based financing of funds are also a feasible option);
- the rule of continuity of financing (this is to ensure independence parainsurance social funds, taking into consideration the reserve accumulation of unused funds).

Following a more thorough review of the financing principles of the social security system, it may be assumed that solutions which effectively resemble public purpose (social) funds may also be applied in the social security system.

3. Social Insurance Fund in Poland as parainsurance solution

The Social Insurance Fund (known as FUS in Poland) and its subfunds that are administered by the Social Insurance Institution (or, ZUS)[9] are one special case which may be taken into account. Initially, FUS was intended to be a true special purpose (parainsurance) public fund that would meet the criteria given above. To demonstrate that FUS does not meet those criteria, it is enough to say that FUS does not observe the principle of linking public funds to certain specific types of risk, nor does it follow the fund equivalence rule. The fact that the risk of work disability and the risk of the breadwinner's death are included in one fund can be given as an example of FUS's failure to meet the criteria (Figure 1). There is a visible lack of independence and continuity of funding, as well as a lack of a real ability to set up reserve funds (non-feasibility of accumulation of unused funds). The requirement of fund equivalence, where total contributions match total benefits, cannot be fulfilled; FUS is balanced only as a result of budgetary subsidies (Table 2) that certainly exceed their extraordinary, strictly guarantee-related, nature. The above parainsurance principles meets only the work accident subfund (but the reserve accumulation of unused funds is not obligation).

9. The Act of 13 October 1998 on the social insurance system (Journal of Laws of 2013 Text 1442 as amended).

Figure 1. Structure of the Social Insurance Fund in Poland

RISK TYPE	SUBFUNDS
old age	old age pension fund
work disability, death of breadwinner	disability and survivor's pension fund
sickness[a], maternity[b]	sickness fund
accident at work	work accident fund
	= SOCIAL INSURANCE FUND

[a] sickness absence
[b] absence from work during maternity leave
Source: author's analysis.

The variability of the "loss ratio" related to the specific types of risk and of the related actuarial calculation, which sets the level of financial contribution to the fund, is a specific issue related to the setup and functioning of the public social funds. We may refer to the issue of contribution manipulation in this context, using the example of the disability and survivor's subfund in the Social Insurance Fund (Table 1 and 2) where the accumulation method has become a highly political issue. The practice of social policy, as well as the practical setup and functioning of the social security system in Poland show, however, that we are far from being able to observe the said parainsurance principle. The accumulation of parainsurance funds is usually treated with great freedom. The problem was supposed to be solved by the appointment of a national actuary. This appointment, however, never took place.

Table 1. Variability of Social Insurance Fund contributions (%)

Old-age pension insurance	19,52 [12.22 (2.46 + 9.76*) + 7,30 (4,38 + 2,92)**]
Disability and survivor's pension insurance:	
1.01.1999 to 30.06.2007	13.00 (6.50 + 6.50*)
1.07.2007 to 31.12.2007	10.00 (3.50 + 6.50*)
1.01 2008 to 31.01.2012	6.00 (1.50 + 4.50*)
as of 1 February 2012	8.00 (1.50 + 6.50*)
Sickness insurance	2.45
Work accident insurance	
1.01.1999 to 31.12.2002	1.62
1.01.2003 to 31.03.2006	from 0.97 to 3.86
1.04.2006 to 31.03.2007	from 0.90 to 3.60***
1.04.2007 to 31.03.2009	from 0.67 to 3.60
1.04.2009 to 01.03.2012	from 0.67 to 3.33
as of 1.04.2012	from 0.67 to 3.86

Notes:
*the Figures given in brackets refer to the part of the contribution payable by the employee (the first position) and that payable by the employer-payer (the second position).
** the contribution payable by the employee (by **decision making**) for
***as of 1.04.2006, the percentage rate for contribution payers who filed the relevant application form for the last three consecutive calendar years is determined by the Social Insurance Institution (ZUS).
Source: author's analysis.

Table 2. Deficit (contribution/benefits) in subfunds of Social Insurance Fund in 2013 r.

Subfunds of FUS	Contributions	Benefits	Deficit	Contributions/ Benefits (%)
	in million PLN*			
Old-age pension subfund	71334	116990	- 45656	61,0
Disability and survivor's pension subfund	32968	43906	- 10938	75,1
Sickness subfund	10683	14038	- 3355	76,1
Work accident subfund	5632	5238	+ 394	107,5
	120617	180172	- 59555	66,9

Note:

* 1 EUR = 4,2 PLN

Source: own calculations based on data of Social Insurance Institution (ZUS).

4. What insurance solutions in the social security policy?

However, in this context there arises a fundamental question as to how reasonably **the state manages social risks**. This is because the social policy of a state consists of parallel intervention approach, anticipatory approach and creative approach[10]. Each of these approaches may be interpreted in risk categories, if not per se, then at least on a macro-social basis. The intervention approach in social policy derive from the belief that it is necessary to shape social relations by removing social tensions that appear at a specific place and time (the possibility of such tensions may be considered a risk). The creative approach undertaken as part of social policy derive, on the other hand, from the belief that it is possible to shape social relations by defining consumption preferences (the possibility of a failure to satisfy important consumption needs may be considered a risk). The anticipatory approach in social policy are of greatest interest here; these measures should rely on the assumption that it is reasonable to shape social relations by anticipating social risks. That approach apply directly to the social security system and to providing a specific standard of social security to (family) households.

It should be strongly underlined at this point that the social policy pursued by the state relates both to **the management of social risk** and to **the social management of risk**. The latter definition (social management) highlights the social meaning (the social function) of the management, which is the domain of public measures. It can be therefore concluded that the social philosophy of handling social risk is shaped by two approaches relating to:

- the management of social risk, and
- the social management of risk.

The term "management of social risk" puts emphasis on the extraordinary (social) rank of the risks that are managed. For the construction of the social security system this means that we need to pay special attention to the objective aspect (which is the answer to the question: what risks should be addressed by the system?). The second phrase puts emphasis on the unique (social) nature of the management of certain risks. For the construction of the social security system this means that we need to pay special attention to the subjective aspect (which is the answer to the question: who should manage the risks that we have prioritised?).

10. T. Szumlicz, "Ubezpieczenie…", 70.

It should be stated that the issue, raised above, of a broader or narrower perspective on the social security system cannot be resolved without accounting for the two social approaches to handling risk. What is essential for resolving this issue is the understanding of:

- **social solidarity in risk management** – which represents community and reciprocity *per se*, and the understanding of:
- "**insurance reciprocity in the management of social risk**" which represents a special community and reciprocity (anticipated in financial terms) as part of the solidarity defined above.

Such an approach is crucial for the line of reasoning where we discuss the social security system, but a system enhanced with supplementary cover, and in particular **social enhanced insurance** (the social security system enhanced with private insurances).

The social security system is an example of a move from informal forms of social actions relating to security needs to regulated forms of such actions; in this case, it would be the institutionalisation of the solutions that provide a sense of social security. The state can also engage private institutions (including insurance companies) to perform social security tasks. This is related to an issue of the broader interpretation of the principles of the institutionalisation of the social security system, including the application of public and private solutions.

It also needs to be explained that laying down security standards is the responsibility of authorities that have a relevant authoritative power (obtained in democratic elections and expressed by legislation) that allows it to determine the extent and diversification of the social protection offered, and, by extension, the detailed construction of the social security system and possible changes thereto.

While participating in the social management of social risks, the state may:

- introduce forced management (not necessarily by way of compulsory insurance);
- organise special purpose preventive projects;
- create a relevant social security system;
- apply the obligation to have insurance;
- influence the shaping of insurance awareness;
- offer incentives to taking advantage of insurance protection on a voluntary basis.

The ideological thesis with respect to the voluntary use of private insurance protection is as follows: **if the state is unable to provide the adequate level of social security, then the expenses incurred by households in order to increase that level should be tax exempt**.

Therefore, a social security system should include **social enhanced insurance** solutions; the difference between private insurance supplementary cover and social enhanced private insurance supplementary cover should be in the financial incentives that are clearly addressed to households.

Social enhanced insurance is additional insurance protection that supplements the base social security system and that is covered by certain specific preferences (incentives) in order to improve the standard of social security. The use of financial products, private insurance, etc. by households, purchased without any specific social preferences, cannot be regarded as social enhanced insurance, that is an additional part of the social security system (in that case, we use just the term "insurance" without the modifier "social enhanced").

Such a definition can be supported by several comments.

First, the base part of the social security system which can provide only the basic standard of social security is the point of reference for the social enhanced insurance.

Second, it is primarily the (family) household[11] that should take care of the higher level of social security for its members; however, it should be sufficiently incentivised to do so.

Third, it needs to be noted that, depending mainly on their financial situation, the individual types of households take advantage of different standards of social security obtained from the social security system; thus, there arises the problem of using adequate, social enhanced insurance that would also account for the changes made in the social security system.

Fourth, the term "social enhanced insurance" should be treated in functional terms rather than only in product terms. What is important is the setting of the solutions and preferences applied, their addressees, scope, scale and forms, as this is what forms the basis for the purchase of the adequate insurance products that make up for adequate supplementary cover.

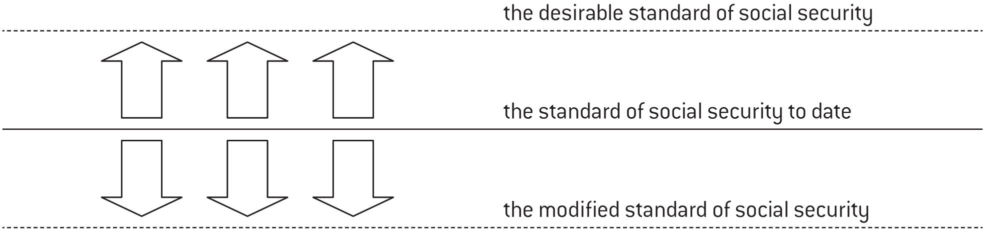
Fifth, it is worth noting that the preferences (incentives) offered by the state (tax relief and tax exemptions, contribution refinancing, sponsored insurance programmes) and stimulating the behaviours of households in order to improve the standard of social security should be treated as a systemic cost of the social security. The most important element in each case is a clear signal that the arranger of the social security system – the state – also awaits the decisions of (family) households that are interested in a higher level of social security. It is then, and only then, that the supplementary insurance will become social enhanced insurance, an element of social security and a major factor in rationalising social policy. What we see in Poland now, both with respect to pension security and health security, is far from what is described above. The rationale for statutes in which the finance minister is "placated" that there will not be too many households interested in specific incentives (in social enhanced insurance) is a good example of this situation.

Sixth, the issue of social enhanced insurance will exist, regardless of the principles (of provisional, philanthropic or parainsurance) applied in the construction of the social security system. It should be strongly emphasised, however, that the term "social enhanced insurance" should be derived from the nature of the additional protection applied in risk management, that is from the insurance principle; this is because insurance protection against the consequences of social risks is (and should be) most efficient and effective from the perspective of obtaining more complete social security.

It can be stated in this context that the desirable level of social security continues to grow in today's world (for example, the interest in a relatively higher level of pension benefits or a higher quality of medical services) whereas the offered level of social security (the level of pension benefits, the contents of the basket of guaranteed medical services) continues to decrease in relative terms. This situation is illustrated in Figure 2.

11. While the participation of employers in setting up protection coverage for their employees and their families must not be excluded, their role is rather secondary.

Figure 2. Space for supplementary insurance protection



Source: author's analysis.

The specific areas of supplementary cover that may be covered with supplementary private insurance are delineated by:

- the standard of social security to date;
- the desirable standard of social security; and
- the modified standard of social security.

The mechanism of the expanding space for supplementary insurance protection is rather interesting. It is set by the difference between the desirable standard, the standard to date and the modified standard. The above scheme may be used for explaining the scope of preferences regarding social enhanced insurance, which is of great importance for our deliberations. The preferences that are being created may in fact facilitate the return to the standard to date. What is meant is the space between the modified standard and the standard to date. The supplementary cover in this case will be only a compensatory measure. On the other hand, the preferences which are being created can also enable reaching a standard that is higher than the one existing to date or the modified standard. In this case it is the space between the standard to date and the desirable standard, or the space between the modified standard and the desirable standard. The preferences for social enhanced insurance introduced in such a case will not only be a compensatory measure; they will also provide an incentive to take advantage of a broader scope of insurance protection, which will provide a higher level of social security.

The situations described here can apply to various social risks and social enhanced insurance in the form of various life insurance products. For example:

- risk of sickness – supplementary cover in the form of life insurance with a sickness option; health insurance;
- risk of work disability – supplementary cover in the form of life insurance with accident cover;
- risk breadwinner death – supplementary cover in the form of death insurance or dowry insurance;
- risk of old age – supplementary cover in the form of assurance on survival to a stipulated age, in the form of unit-linked life insurance and in the form of immediate annuities (also supplementary cover in the form of deferred annuities).

Naturally the choice of the right insurance that will provide the relevant scope of social security lies with the household that needs to take a decision while accounting for the needs and possibilities of using the preferred (and other) insurance protection. Social enhanced insurance in the form of private insurance protection involves noting **the actual protection provided to a given (family) household by the social security system** in the event of a specific social risk. This is because the actual protection as part of the base social security system is determined by the above-mentioned principle of the mitigation of loss compensation; this principle provides not only for partial, but, most usually, also disproportionate coverage of the losses. The scope of compensation is expressed by different replacement rates, which denote the relation between the benefit and the loss. What is very important here, however, is that any difference in the compensation level depending on the loss incurred results in the ability to use higher or lower protection coverage in relative terms. The consequences of some risks, such as temporary work disability due to sickness, are compensated to a considerable degree and the compensation is, in general, commensurate with the loss incurred. There are, however, certain other risks, such as death of the breadwinner or work disability, where the consequences of those events, i.e., loss of financial support or a limited ability to earn income, are compensated to a much narrower extent, and where the size of the compensation depends on the size of the loss (the compensation is relatively higher in the event of a smaller loss, and relatively lower in the event of a greater loss). In consequence, there are situations where low-income households are provided with a significantly higher level of security in relative terms, and higher-income households are provided with a lower level of security.

Preferences for using insurance protection where the social security system does not cover specific risks (which have been included above in a broader catalogue of social risks) are a separate issue. In this context, we are referring primarily to personal liability insurance and a homeowner's insurance (especially in the case of catastrophe risks).

A more dynamic development of the insurance market should be linked to the application of an insurance method for managing the risks to which household resources are exposed. In view of the major changes made to the social security systems in Poland and other countries, it seems extremely important to retain a critical overview of the practices in that respect. There is an intention to attach greater importance to real insurance cover as well as public and private solutions in the management of social risks; by extension, this will require more initiative on the part of households when it comes to insurance, and adequate insurance offer on the part of the insurance companies.

An increase in the insurance-related initiative of households should be linked with the critical role of insurance education and insurance advisory services. With the marginal role of the education, it is unfortunately the case that the required advisory role is basically left with the insurance agents who are not properly prepared for this, even in formal terms. Brokers are becoming involved in the true advisory process, but this is happening very slowly, unfortunately. Insurance brokers are "busy with more serious business" and they are yet to see their benefit in such activity. The question of how this will change under the new regulations concerning insurance mediation remains open.

While referring to **social policy as the management of social change** and also in view of the subject matter of these deliberations, we should draw attention to the fact that the proposed system modifications or break-through reforms concerning the social security system typically refer to economic motivations (or, more specifically, to financial and fiscal motivations). Even when someone tries to explain these modifications by referring to the demographic situation, this situation is treated superficially – more attention is drawn to **the consequences** than to **the causes**, and as a result more attention (in financial terms) is drawn to **the reduction** of public expenditure than to **the change** in the structure of expenditure. It is worth noting that the most frequently used phrase in this context is the need to reform public finances (it is the favourite and clearly overused key phrase in any media discussion), without any attention given to the social reasons for system changes, the most important conditions and the purpose of these system changes. There seems to be a simple assumption that the purpose of the change is to modernise the social security system, rather than to find savings in public finance, even if such savings will derive from the new shape of the system.

It needs to be emphasised that any construction of the social security system should account for **a risk and security balance**, i.e. the weight of the economic costs and social costs related to the functioning of some specific solutions. It must be noted, however, that social enhanced insurance is cheaper, both in terms of economic and social costs, than maintaining an unrealistic standard of the base social security system. The financial aspect, as well as awareness and foresight on the part of households, are of fundamental importance in this case, but the same seems to be true of the state's rational involvement in the management of social risk.

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Ubezpieczenie w systemie zabezpieczenia społecznego

W artykule przedstawiono możliwości zastosowania rozwiązań ubezpieczeniowych w systemie zabezpieczenia społecznego. Punktem wyjścia rozważań jest – po pierwsze – zdefiniowanie ryzyka społecznego jako zagrożenia dla (rodzinnego) gospodarstwa domowego. Po drugie, chodzi o ustalenie, że w klasyfikacji ubezpieczeń podstawowe znaczenie ma kryterium podmiotowe, z czego powinno wynikać szczególne traktowanie gospodarstwa domowego jako adresata ochrony ubezpieczeniowej. Na tym tle określono rolę państwa jako organizatora publicznego systemu zabezpieczenia społecznego *i opisano zasady konstrukcji systemu. Publiczne fundusze socjalne przedstawiono jako rozwiązanie paraubezpieczeniowe systemu zabezpieczenia społecznego. Szczególną uwagę zwrócono na poszerzające się pole dla zastosowania w systemie zabezpieczenia społecznego ubezpieczeń prywatnych i na znaczenie doubezpieczenia, w rozumieniu doubezpieczenia społecznego, w osiąganiu pożądanego (oczekiwanego) poziomu bezpieczeństwa socjalnego.*

Słowa kluczowe: zabezpieczenie społeczne, ubezpieczenie, publiczne fundusze socjalne, doubezpieczenie społeczne.

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