

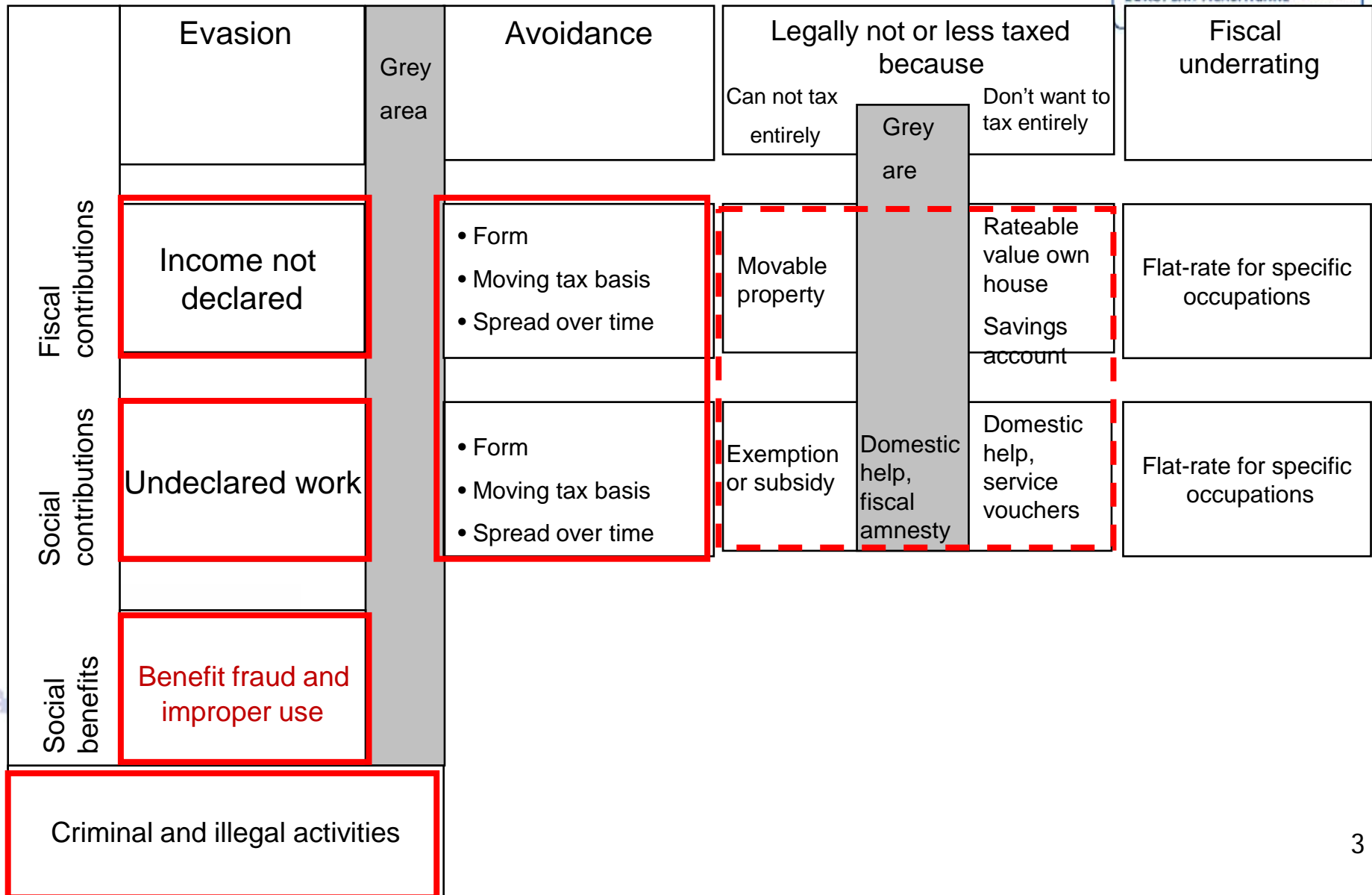
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Fraud in social security across the European Union: measuring the hidden society

Prof. Dr. Jozef Pacolet
Frederic De Wispelaere
HIVA Research Institute for Work and Society
Catholic University Leuven

- Fiscal and social evasion and avoidance: definition and size
- State of the welfare state: growing interest for control improper use
- Fraud as a threat of the welfare state
- Definition and measurement problems
- Measurement or measurement of opinions
- Size of underground economy in surveys, national accounts or models
- System of health accounts
- Some country evidence
- Conclusions

Fiscal and social evasion and avoidance: need for a large definition



The state of the welfare state: growing interest for control improper use

- Is a five-yearly project of monitoring the evolution of the welfare state in the EU (since 1992) ('welfare state trend watching') 1992-1997-2002-2007
- Since the mid '90s growing interest for improper use and control
- Mistrust in misuse of social protection, discouraging nature of unemployment benefits (workfare, not welfare) versus active welfare state, reintegration for those receiving benefits as invalidity, social assistance, improper design (poverty traps)
- Measures: reorganisations proposed or operational, as greater accountability of organisations and clients, strategies to reduce entitlement (cost containment , but success is limited: hypothesis benefit fraud and misuse overestimated, certainly in comparison with contribution fraud)
- Since 1997 European employment strategy and since then several European initiatives to transform 'informal labour' in 'formal activities' (fight against undeclared work)

The state of the welfare state

	1992	1997
A		
B	<ul style="list-style-type: none"> - control of supply health care (control physicians' prescription behaviour) and higher co-insurance - enhancing financial responsibility health insurance organisations - in recent modernisation plan of social security (1996), special attention for social fraud 	<ul style="list-style-type: none"> - Continued attention for social fraud
D	<ul style="list-style-type: none"> - poor must earn their minimum (work 'duty', punishment reduction benefit) - discussion abuse benefits (unemployment, sickness) 	<ul style="list-style-type: none"> - all unemployed must after a certain period participate in activation (work or solicitation)
DK	<ul style="list-style-type: none"> - 'benefits must be earned' 	
E		<ul style="list-style-type: none"> - Cost-containign measures. - Transfer of responsibilities to local budget surveys. - Public hospitals to be converted into non-profit, independent public institutions.
F	<ul style="list-style-type: none"> - increased control of supply of health care (control physicians' prescription behaviour) and higher co-insurance 	Increasing control on provision of health care
G	<ul style="list-style-type: none"> - Large underground-economy expected, and also large informal sector in the care system 	
I		<ul style="list-style-type: none"> - enhancing financial responsibility of regions (1992-1999) - increases the powers of the central government and the regions in determining qualitative service standards and quality controls (1999)
IRL		
L		
NL	<ul style="list-style-type: none"> - sickness and disability insurance criticised because social partners use programmes improperly to facilitate restructuring of the economy and also of lax (too lenient) procedures to establish entitlements - large public debate on (overestimated) social fraud 	<ul style="list-style-type: none"> - privatisation of sickness insurance and limits on entitlement to unemployment and disability benefits - sanctions for non-compliance with formal rules have been tightened
P		
S		
SF		
UK	<ul style="list-style-type: none"> - early interest for social fraud (close down the 'something for nothing society') - recent plan to stimulate 'informers' on fraud ('beat-a-cheat') 	<ul style="list-style-type: none"> - Welfare to work programmes involve coercion. - Control over the subscription of expensive drugs

The state of the welfare state

	2002
A	
B	
D	
De	Control every third month of all people receiving a temporary social benefit e.g. social assistance benefit, unemployment benefit or sickness benefit
E	
F	
G	
I	More severe controls over invalidity pension claimants and beneficiaries have been introduced
IRL	
L	
NL	
P	<ul style="list-style-type: none"> - Minimum income program requires disclosure of bank statement in addition to information on recent earnings; - More monitoring and more workfare; - Introduction of vouchers in minimum income program (revoked in 2005)
S	
SF	- was discussed largely in the 1990ies, less in the 2000ies
UK	
CZ	
HU	<ul style="list-style-type: none"> - working age beneficiaries of regular social assistance must engage in public work - increased financial control on medical treatment <p>health care fraud came to the political agenda</p>
PL	
SK	
EE	
LV	
LT	
MT	
CY	
SI	

Source: Pacolet, The state of the welfare state

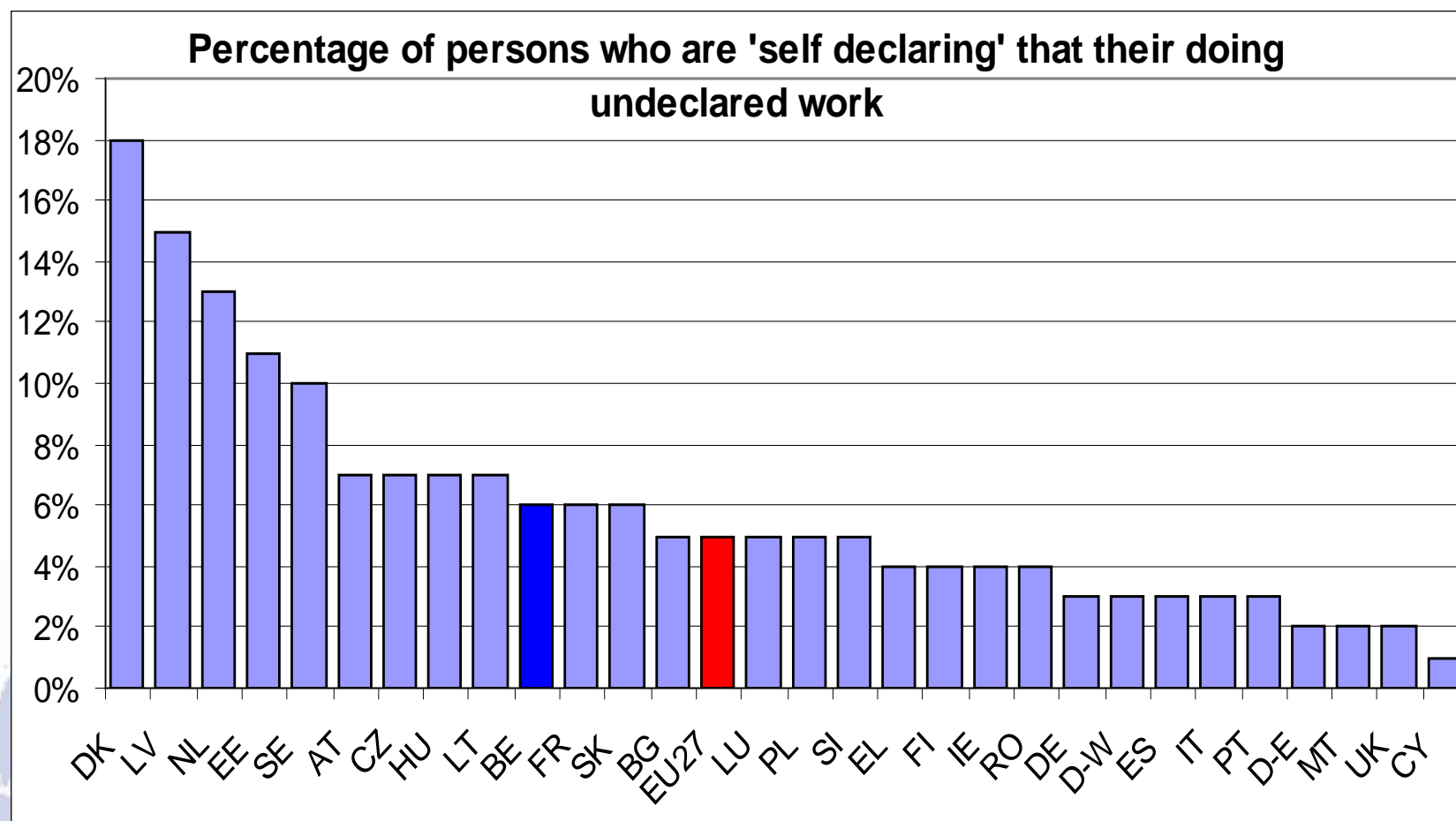
- Contribution fraud and fiscal fraud undermines the financing of the welfare state
- Reduces the social protection of the population
- Benefit fraud undermines the credibility of the welfare state and its political defence
- Our conclusion was that it would/could even undermine the state itself (thin borderline between evasion, fraud, criminal activities – European Union disliked this ‘criminalisation’ of informal activities)
- Lack of ambition for proper measurement (conference in 2003, just after that Greece entered the Euro-zone in 2001, reveals this statistical imbroglio)

- Huge problems of definitions and measurement
- Could be based on national accounts (OECD, UN, EU, National authorities), macro-economic measurement (cfr. Fr. Schneider), and surveys, administrative information
- Use of existing structural surveys as labour force survey, household budget: huge problems
- Surveys on macro-level, population, professionals: hardly used and methodological problems
- We favour administrative information: basis of control and assessment of entitlement, data-mining and reporting
- Could be source of macro-economic measurement

- Undeclared activities is not identical with fraud
- Distinction between tax and benefit fraud
- Activities can be integrated in national accounts but taxes can be avoided
- Benefits can be paid, but inappropriate
- Benefit fraud is comparable with contribution fraud :
- Definition problems or boundaries
- Different modalities
- Not visible and measurable
- Same methodologies

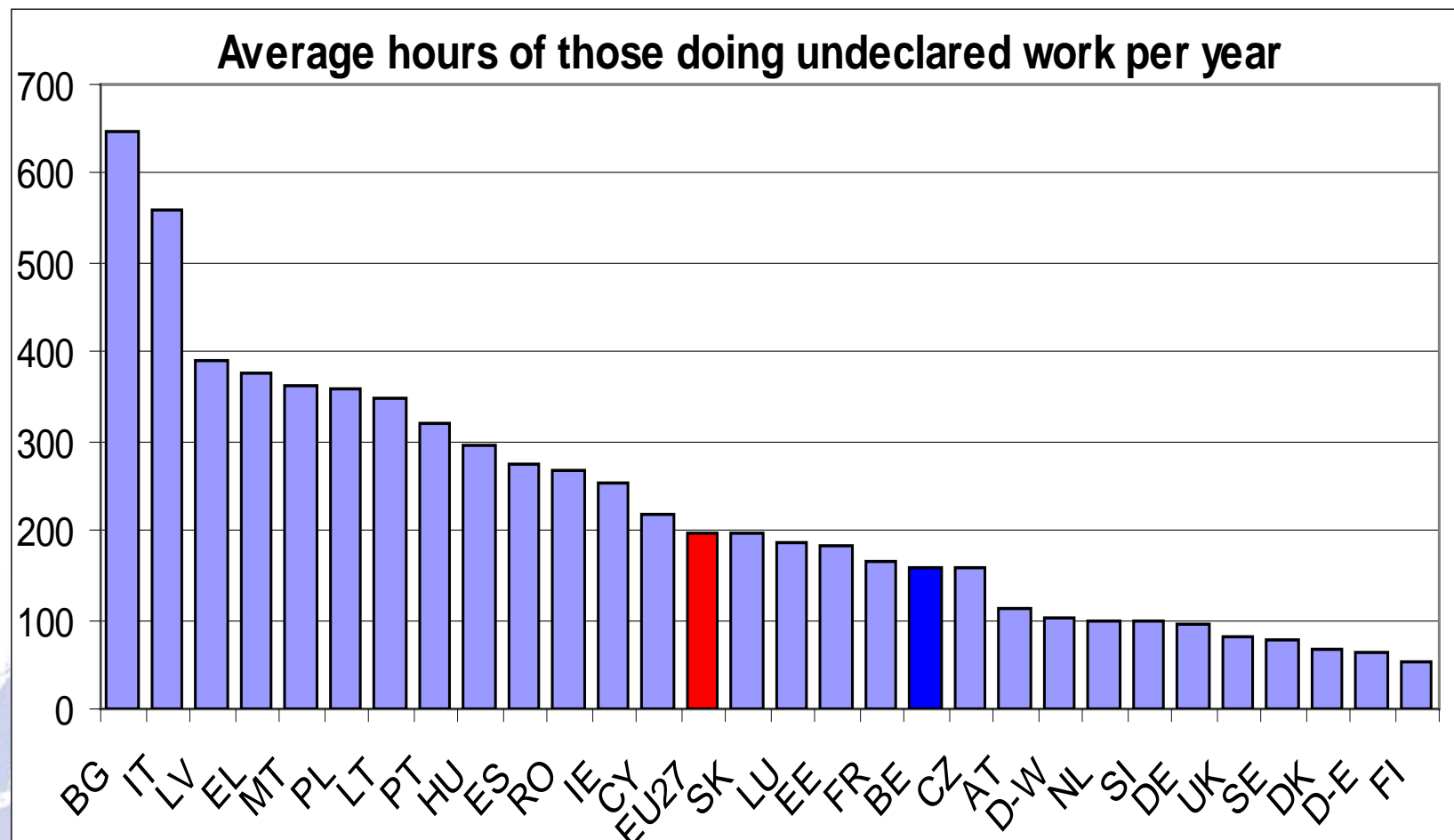


Some illustration of the difference in definition and the need of reconciliation: based on Eurobarometer Survey



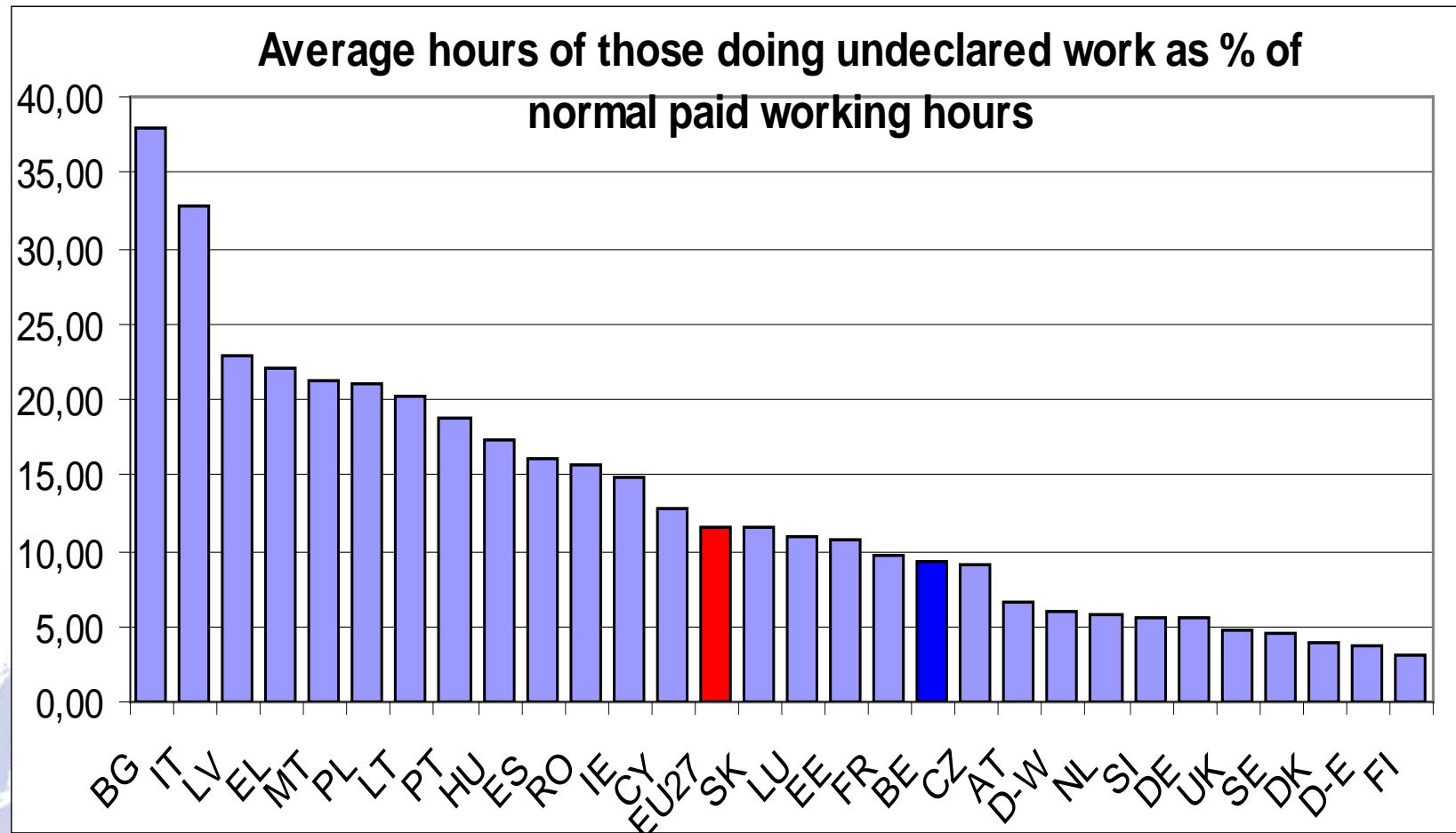
Source: Eurobarometer, 2007

Some illustration of the difference in definition and the need of reconciliation: based on Eurobarometer Survey



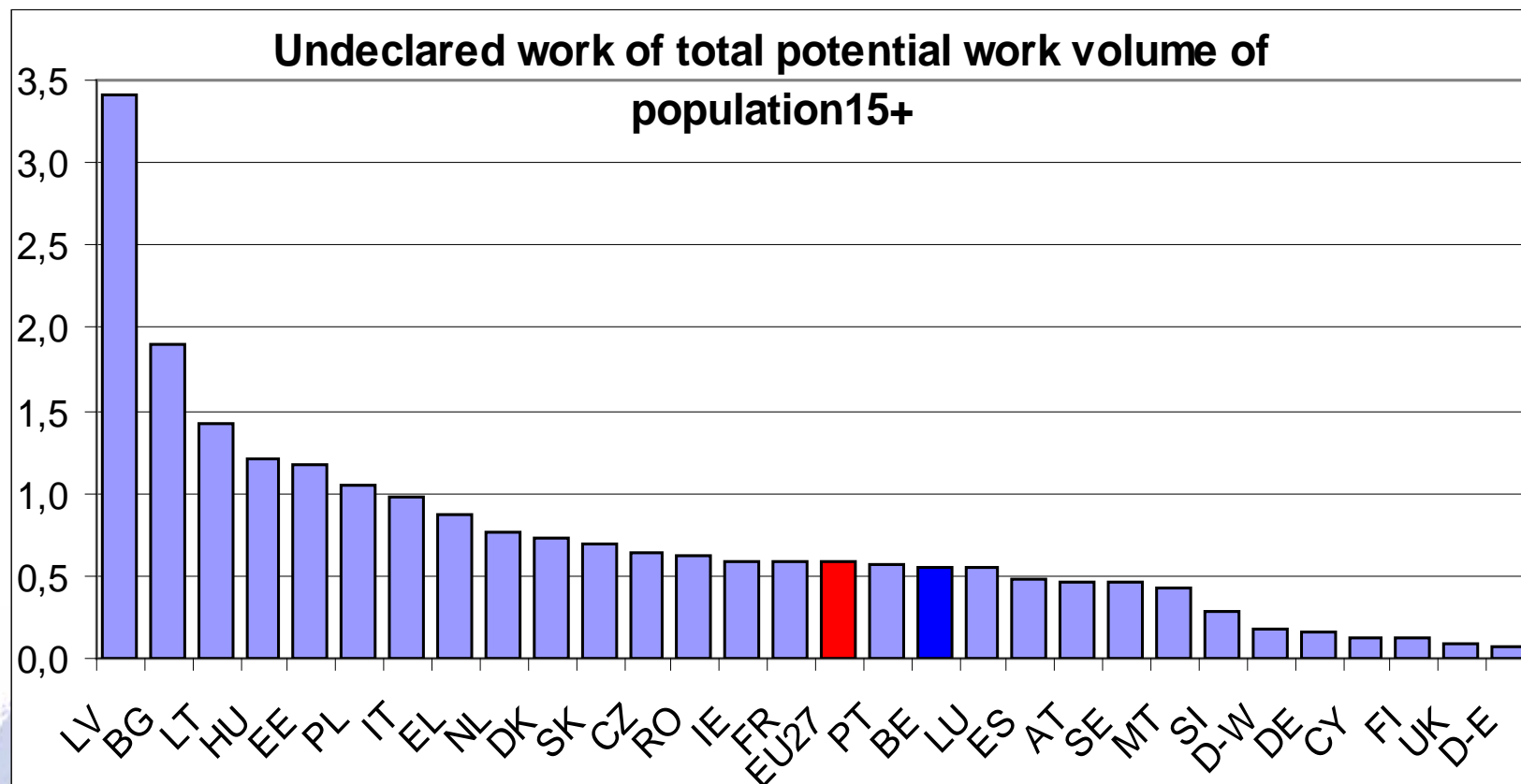
Source: Eurobarometer, 2007

Some illustration of the difference in definition and the need of reconciliation: based on Eurobarometer Survey



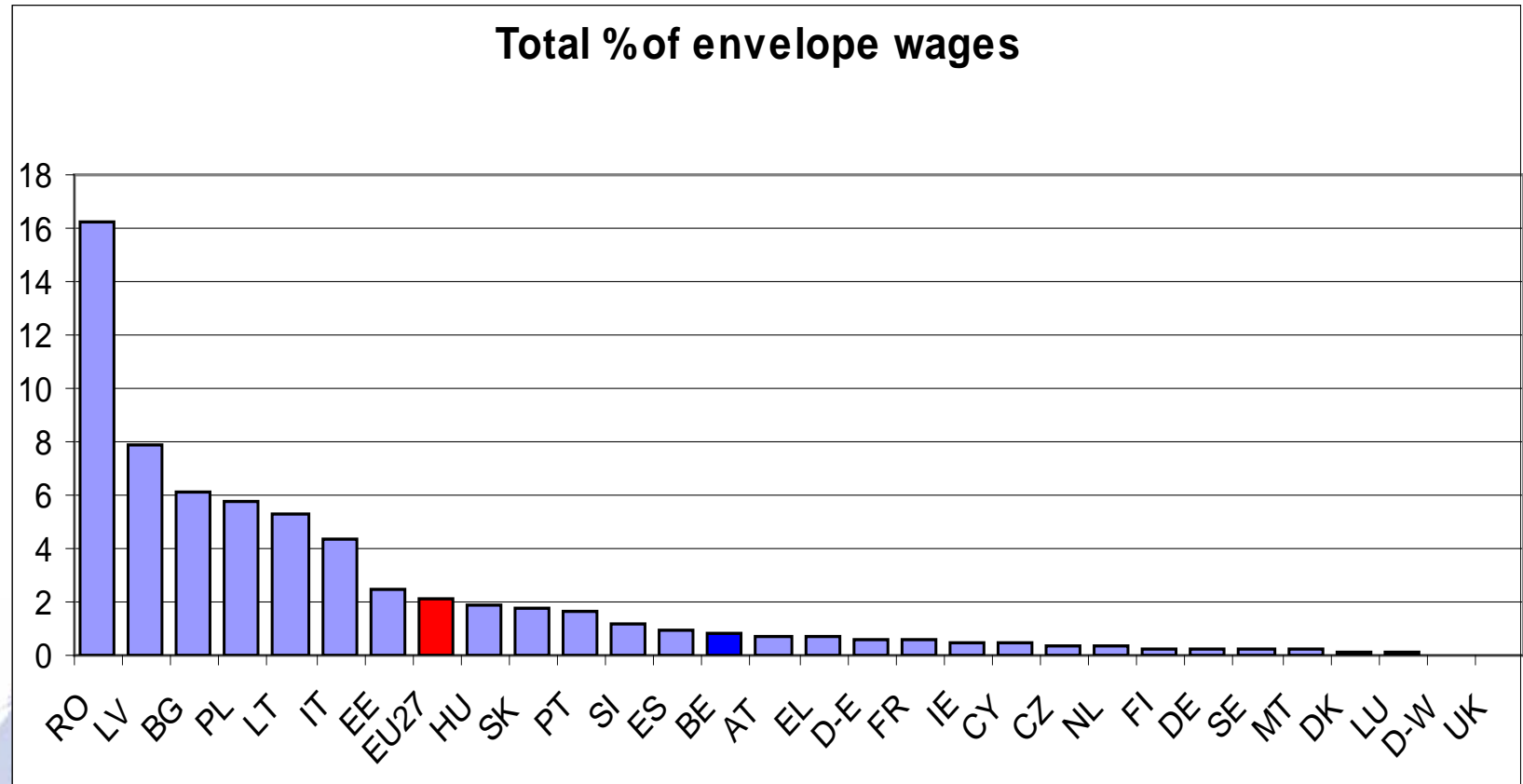
Source: Eurobarometer, 2007

Some illustration of the difference in definition and the need of reconciliation: based on Eurobarometer Survey



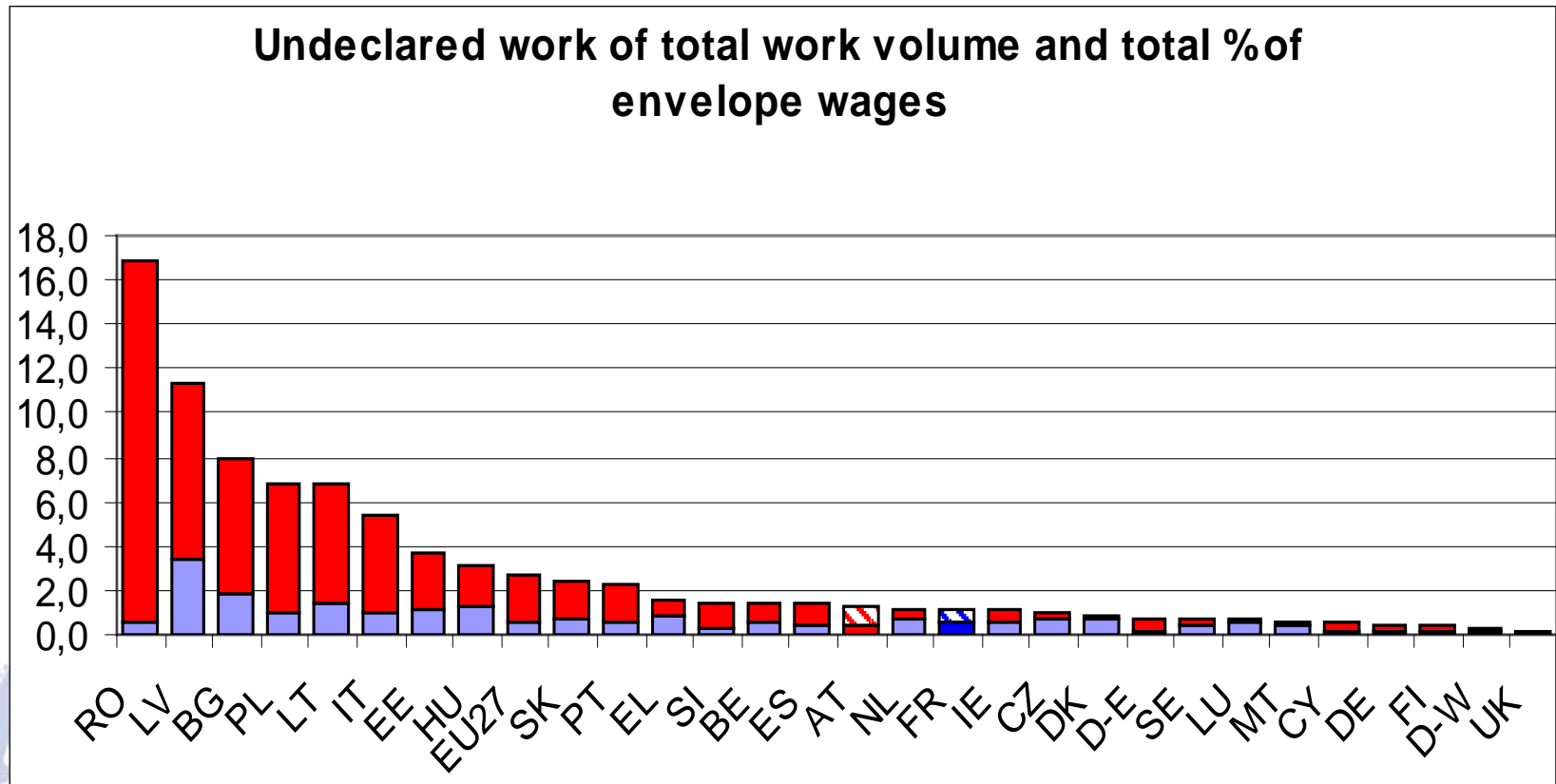
Source: Eurobarometer, 2007

Some illustration of the difference in definition and the need of reconciliation: based on Eurobarometer Survey



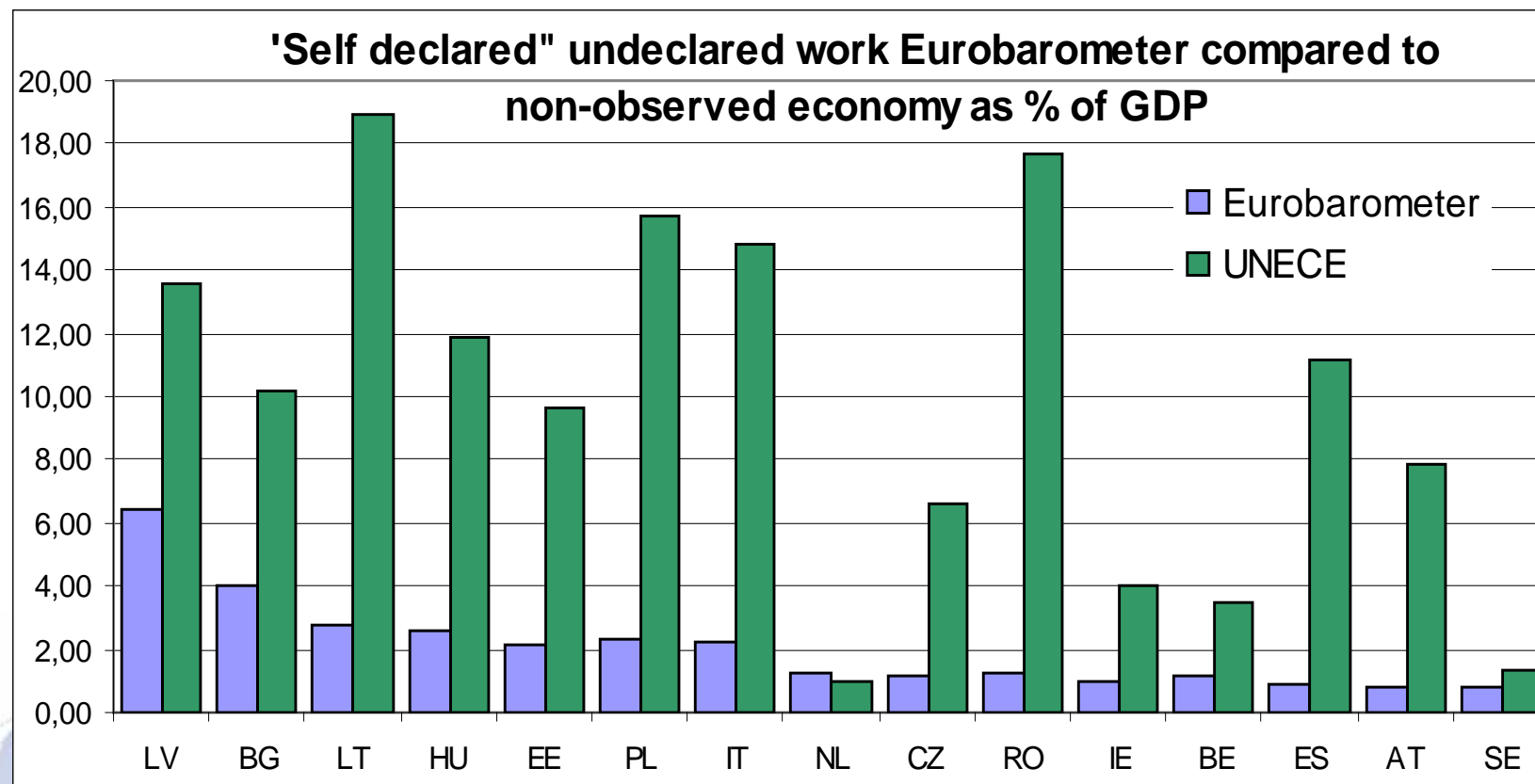
Source: Eurobarometer, 2007

Some illustration of the difference in definition and the need of reconciliation: based on Eurobarometer Survey



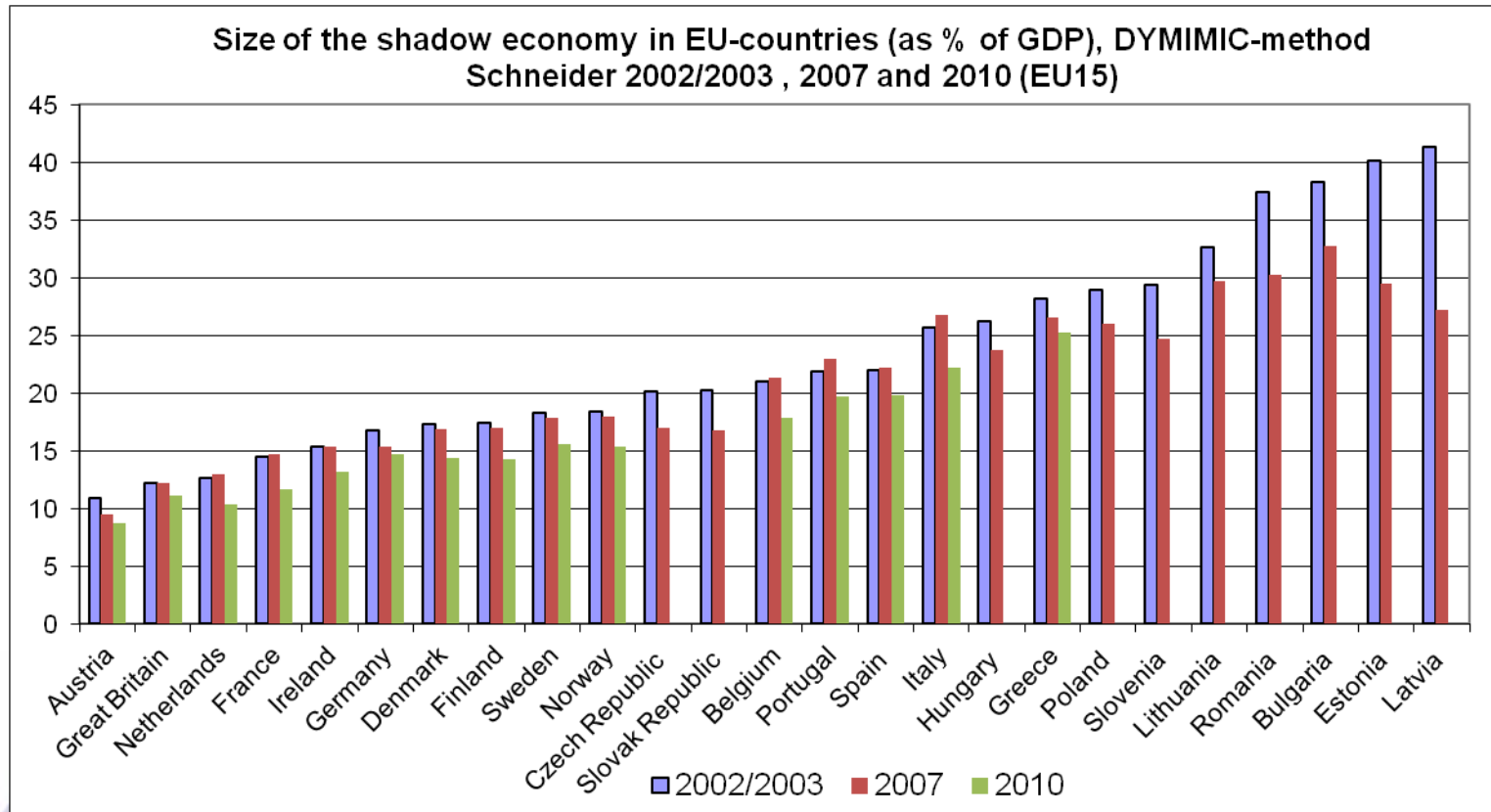
Source: Eurobarometer, 2007

Some illustration of the difference in definition and the need of reconciliation: based on national accounts



Source: Eurobarometer, 2007; UNECE

Macro-economic estimates of underground economy



Source: F. Schneider, University of Linz

Health care as part of the informal sector

The concealed production of health services (to avoid the payment of income or other taxes or to achieve hidden additional income besides that under contract with health insurance and/or government programmes) may amount to a sizeable share of the real medical benefits accruing to private households. It may also be the case that such non-declared payments may be made to health care providers on top of their official revenues for reported health services. In both cases, an estimate of the amounts should be part of total current expenditure on health as defined by SHA, as differences in the treatment of the informal health care sector can distort international comparisons.

Illegal actions should in principle be recorded in the accounts in the same way as legal actions, if they fall within the health care boundary –

Source: OECD, Eurostat, WHO, A System of health accounts, 2.0

Another aspect to be considered in the consumption of health care is the **non-observed economy** i.e. **unrecorded, illegal or informal activities that are not always captured or reported in regular statistical sources.** The reason may be that the activity is informal and thus escapes the attention of official surveys; it may be that the producer is anxious to conceal a legal activity, or it may be that the activity itself is illegal. In some countries the consumption of health care goods and services is often related to informal payments, so called —envelope payments or —under the table payments. Whether these payments relate to normal or additional services provided to patients or represent a patient's additional gratitude to the physician, these extra unrecorded payments increase the incomes of health care providers on one side and cause the financial burdens of the consumer on the other side. The non-observed health economy may account for a significant part of the health care system for some countries. It is therefore particularly important to try to make estimates of the total consumption of health care, even if it cannot always be separately identified as such.

“De facto, the cost sharing would include informal payments. However, usually informal or under the table payments are not seen as cost sharing but as genuine out of pocket payments.”

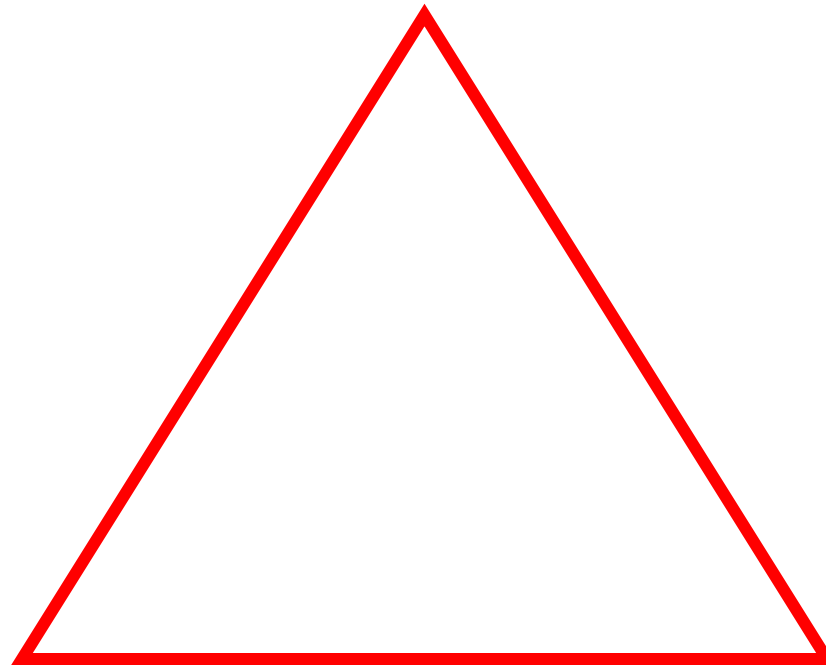
Source: OECD, Eurostat, WHO, A System of health accounts, 2.0



- Figures remain undisclosed, but should be included
- Same goes for national accounts
- And it is a point of concern for health insurance and fiscal administration
- For statistical consistency but perhaps also for better compliance: have a regular (yearly meeting) of those even statistical instances on the evidence available and hypothesis used

Can the dimensions/ determinants of fraud help us?

Tax morale, culture

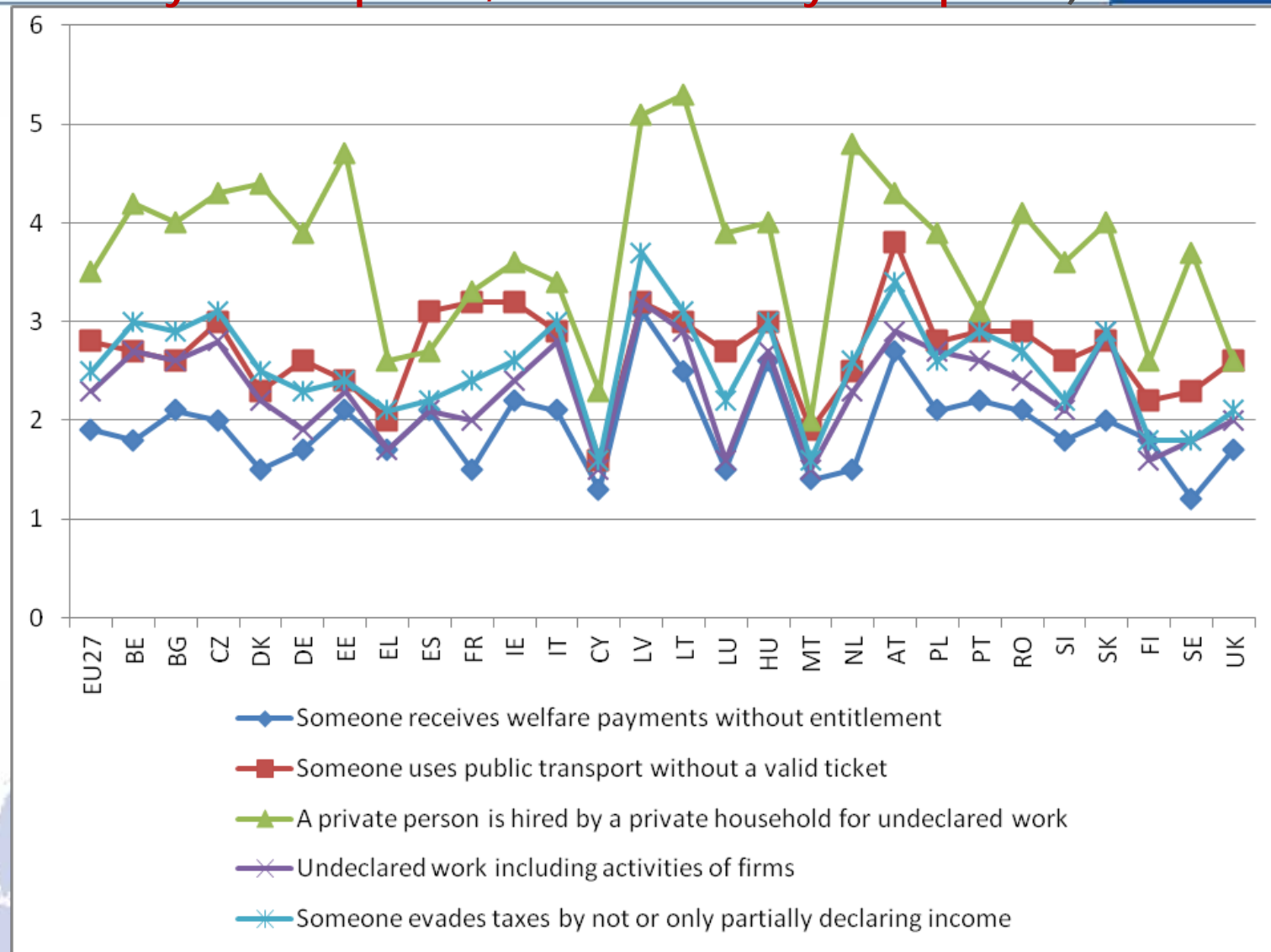


Benefit: tax and contributions level; red tape

Cost: audit probability, punishment, penalty rate

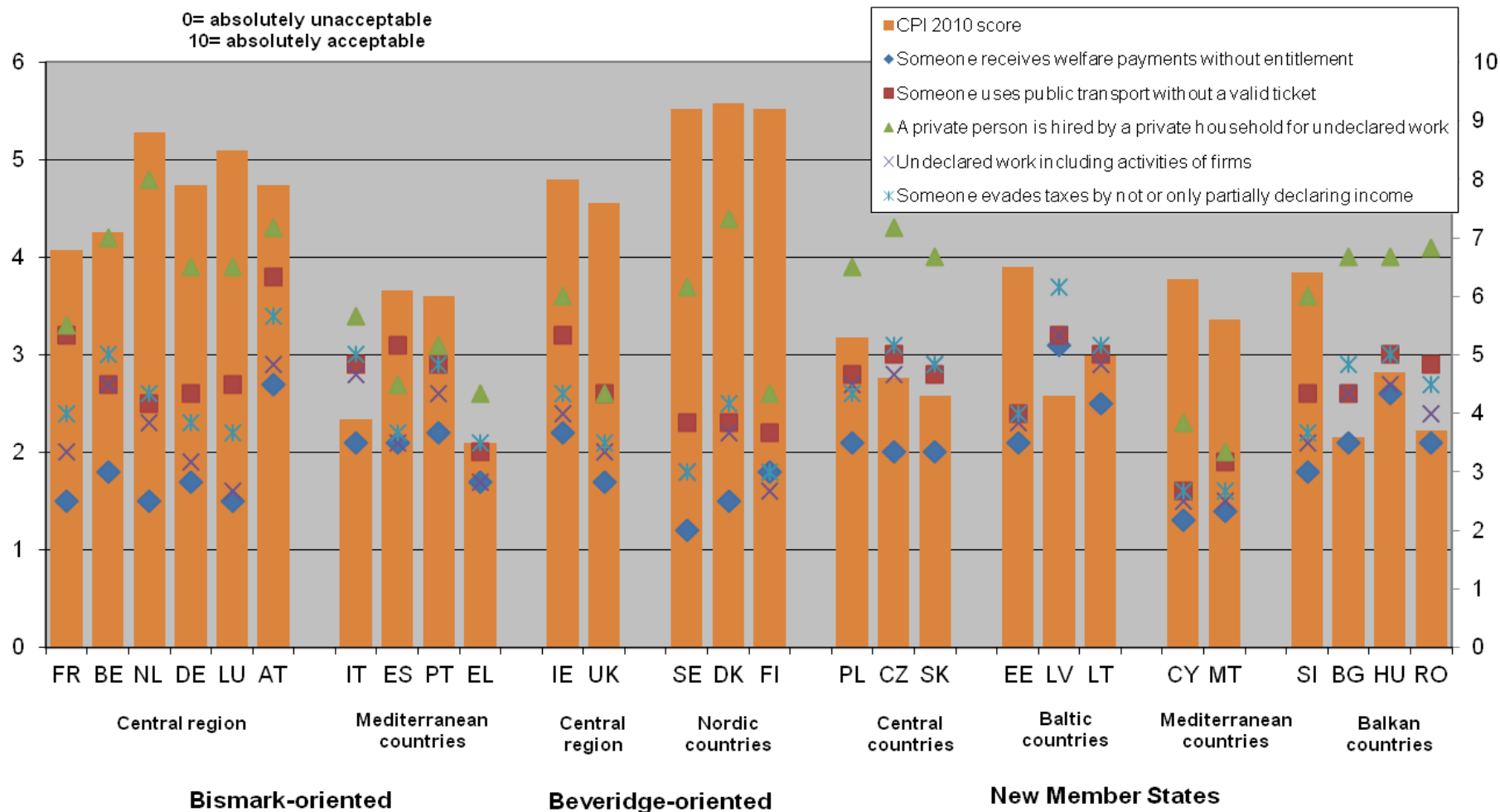
Attitude towards fraud

(0= absolutely unacceptable, 10 = absolutely acceptable)



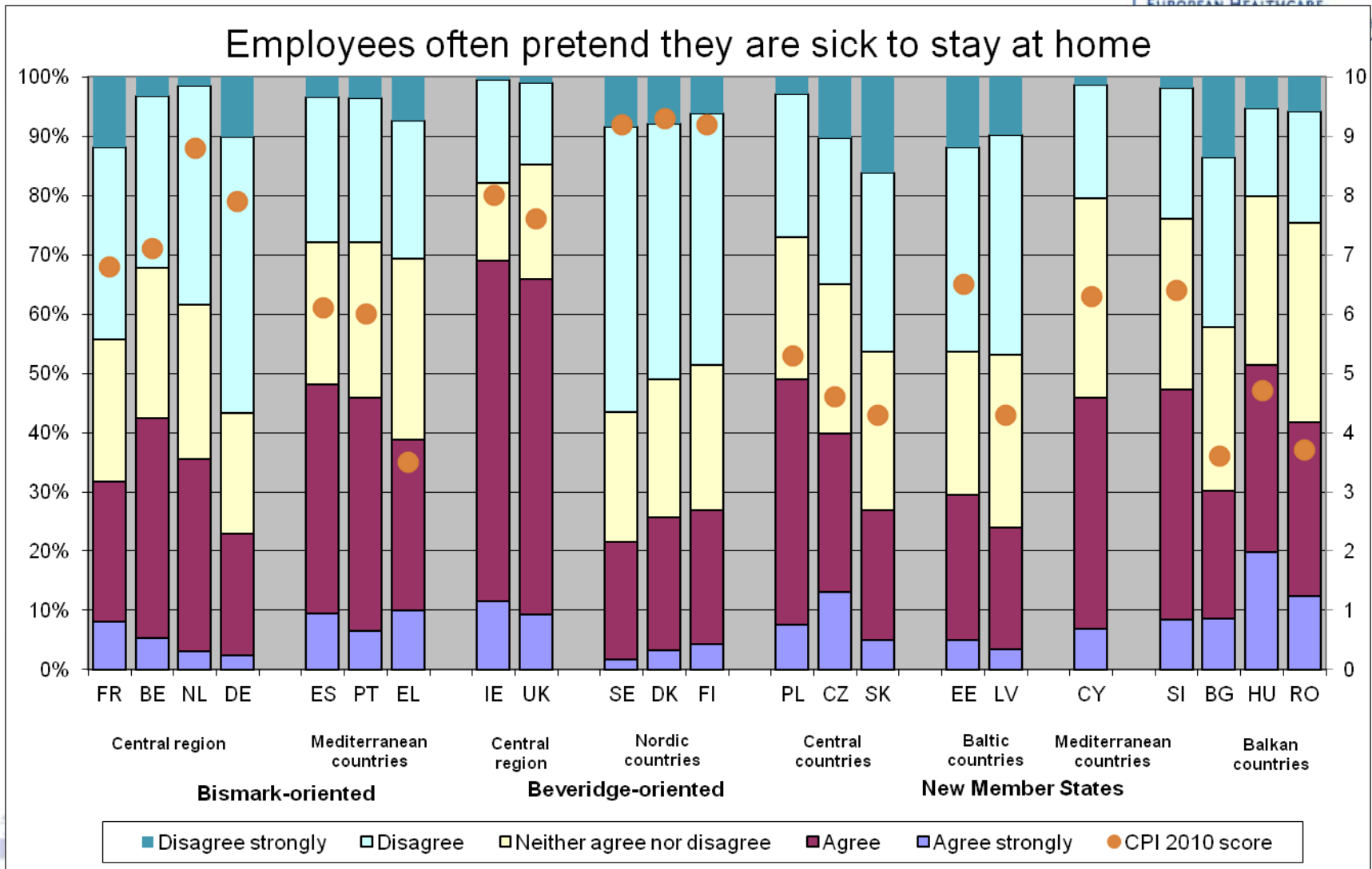
Source: Eurobarometer, 2007

Relation between population attitude towards fraud and macro perception of corruption



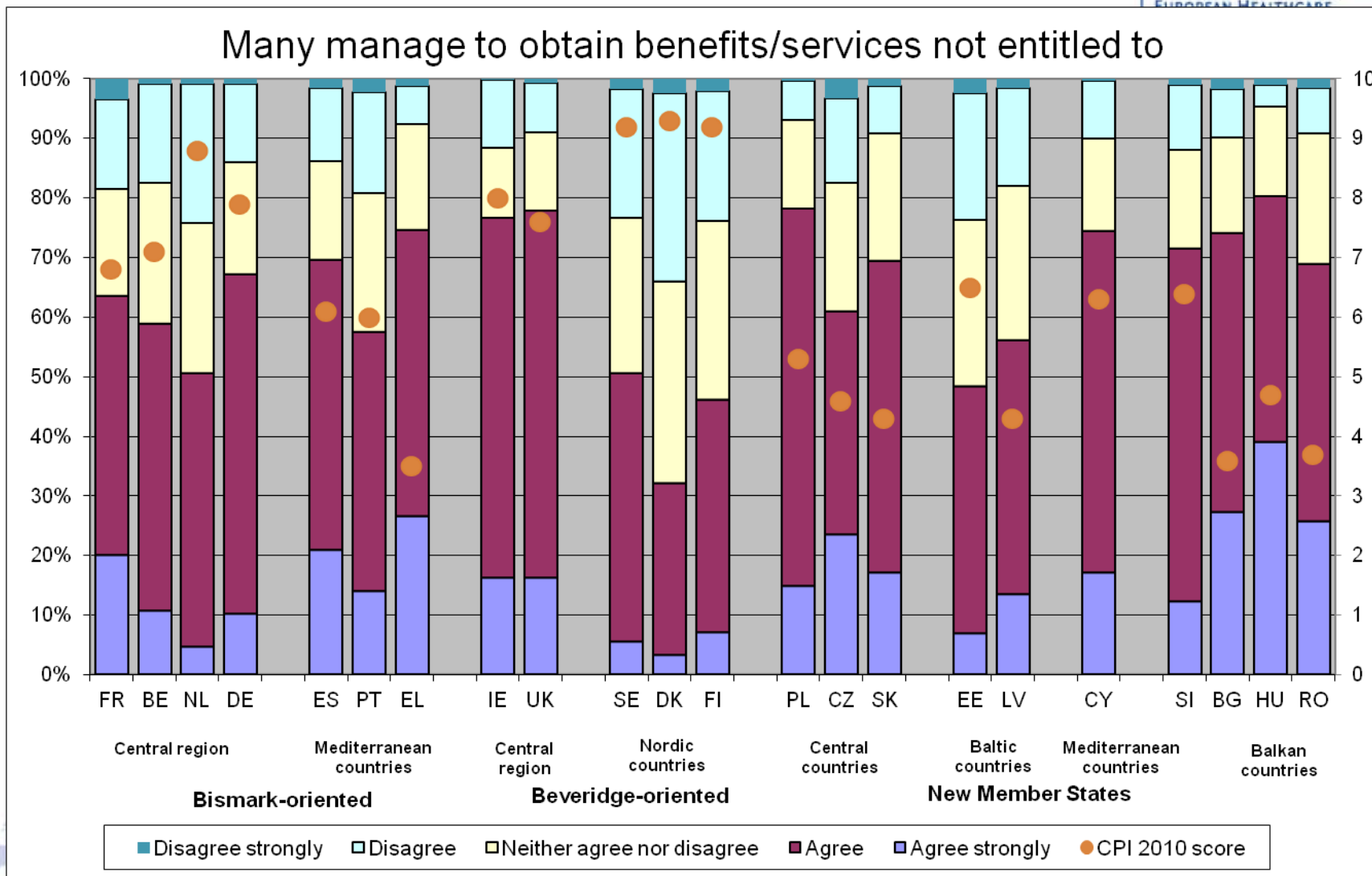
Source: European Social Survey, Eurobarometer and Transparency international

Opinion on social fraud and perception of corruption



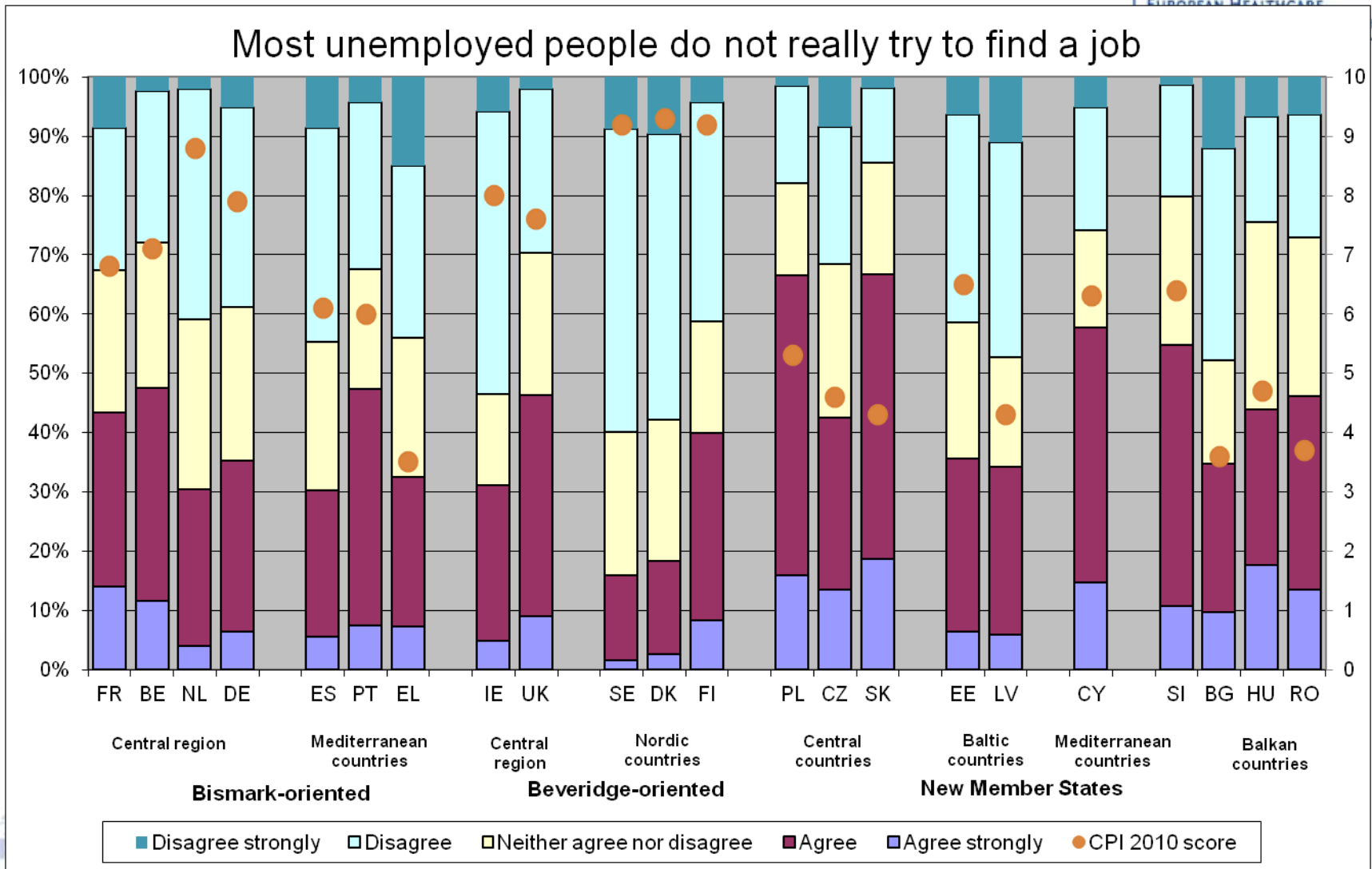
Source: European Social Survey and Transparency international

Opinion on social fraud and perception of corruption



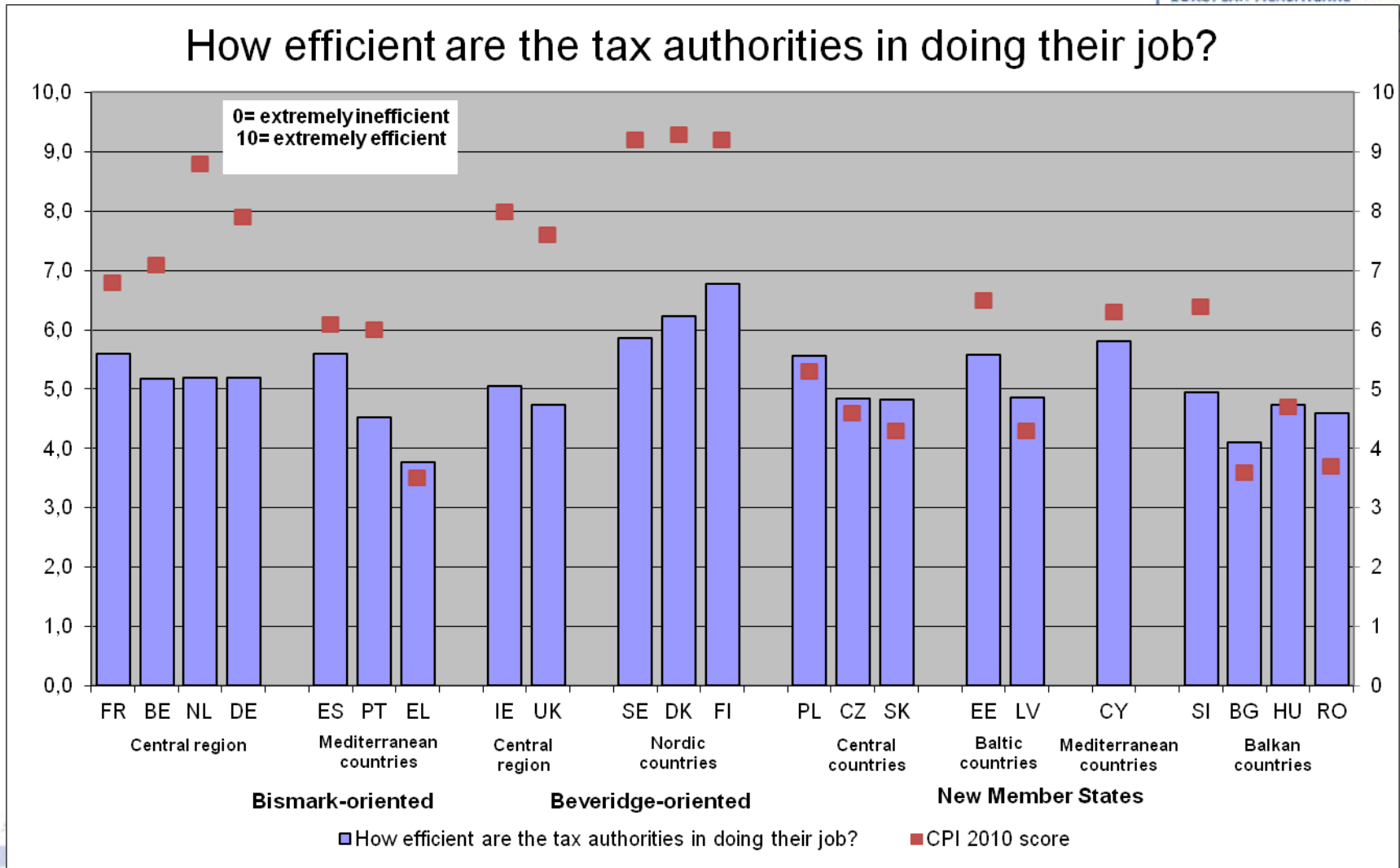
Source: European Social Survey and Transparency international

Opinion on social fraud and perception of corruption



Source: European Social Survey and Transparency international

Opinion on efficiency of the state and perception of corruption



Source: European Social Survey and Transparency international

National accounts give some information on fraud in health care sector

- Case of Belgium
- Other countries: United Nations Economic Commission for Europe, Non-Observed Economy in National Accounts, 2008



National accounts revealing fraud in health care: example of Belgium



	Corrections			Total amount (corrections incl.)				Correction as % of total amount				
	Turnover (70)	Gross added value	Wages (62)	Gross operating surplus	Turnover (70)	Gross added value	Wages (62)	Gross operating surplus	Turnover (70)	Gross added value	Wages (62)	Gross operating surplus
Mining	0	0	0	0	7 780	2 685	461	2 233	0	0	0	0
Fishin	0	0	0	0	145	68	34	35	0	0	0	0
Mining and quarrying	0	0	0	0	691	316	144	152	0	0	0	0
Manufacturing	782	393	51	342	163 660	42 750	28 350	13 933	0,5	0,9	0,2	2,5
Electricity, gas and water supply	0	0	0	0	9 083	5 823	2 137	3 591	0	0	0	0
Construction	8 002	2 746	535	2 210	37 245	11 938	6 881	4 980	21,5	23,0	7,8	44,4
Wholesale and retail trade, repair of motor vehicles	9 267	2 492	208	2 284	62 616	31 535	17 425	13 683	14,8	7,9	1,2	16,7
Hotels and restaurants	1 409	636	47	589	10 293	4093,1	2 206	1 756	13,7	15,5	2,1	33,5
Transport, storage and communication	382	301	25	275	42 763	20 009	12 172	7 809	0,9	1,5	0,2	3,5
Financial intermediation	0	0	0	0	27 748	14 309	8 312	5 716	0	0	0	0
Real estate, renting and business activities	2 456	2 314	107	2 207	74 826	54 072	15 692	36 079	3,3	4,3	0,7	6,1
Public administration	0	0	0	0	1 213	18 226	16 664	0	0	0	0	
Education	6	5	0	5	959	16 399	15 285	1 114	0,6	0	0	0,4
Health and social work	961	926	15	911	26 255	16 934	12 411	5 200	3,7	5,5	0,1	17,5
Other community, social and personal service activities	450	301	23	279	10 449	5 621	3 517	2 153	4,3	5,4	0,7	13,0

Detected benefit fraud in Belgium: claims for repayment (around 2008, administrative sources)

	Definition	Amount (million euro)
RVA National employment office	Unemployment benefits to repay	69,8
RIZIV Health insurance	Sickness benefit to be repaid	12,2 (0.5% of total)
RIZIV Health insurance	Health care	0,5
RVP National Office for Pensions	Pensions wrongfully paid	17,9
RKW National Employees Family Allowances	Fraud with fictive companies	1,3
Total		101,7

Source: own calculations on reports RVA, RIZIV, RVP

Results of the fight against fiscal and social fraud in Belgium in perspective (in million € or %)



Sociale contributions (total amount) (NSSO) (2008)	49 062
Average recovered amount of social contributions between 1998 and 2003	140
as (theoretical) % of the total volume between 1998 and 2003	
average recovered from employees	0,28%
Total tax receipts (2008)	101 704
	2 462 to
Identified surtax by inspections (2006)	3 785
	2,4% to
as (theoretical) % of the total volume (2006)	3,7%
Total social benefits (2008)	44 698
Identified social benefit fraud (2008)	102
as (theoretical) % of the total volume (2008)	0,22%
Total social contribution and benefit fraud (2008)	387

Source

NBB, Jaarverslag 2009, p. 235; Pacolet, Perelman, Pestieau, Baeyens & De Wispelaere (2009); Pacolet, Strengs, 2010.

- Failures under the form of wrong or late diagnoses, wrong treatment, lack prevention, communication (medical malpractice),
- Is a threat for public health and implies cost
- Three levels of regulation for physicians
 - § Orde van geneesheren – National council of the order of physicians (created in 1938): self regulation
 - § Provincial medical commissions (created in 1818): public role of licencing
 - § Dienst geneeskundige controle RIZIV (Department medical control Health insurance, created in 1963): more managerial, financial and administrative control of reality, conformity and since 1989 control on overconsumption

Source: R. Schepers, *Artsen in gebreke*, 2008

- Conclusions

- § Remains to a large extent closed shops: lack of transparency, especially in the Provincial medical commissions

- § In Department medical control RIZIV: 'data are available but no information'

- § For us : it is a good starting point: let data tell their story

- Some examples of malpractice

services not rendered, other types of services billed, irregularities in the real presence, use of false document, sometimes in collusion with other practitioners, overconsumption

Source: R. Schepers, Artsen in gebreke, 2008

- Control
 - § Preventive: concerns irregularities that are admitted, but there is no fraud or fault: leads to correction, and yes or no even recuperation
 - § Repressive: when non admitted fault of fraud is occurring: leads to further enquiry and penalisation
- Some numbers for the physicians for the period 1990-2000
 - § Total number of irregularities in period 1990-2000: 277 740 irregularities
 - § Some numbers of recovered spending:
 - Preventive measures: €13.8 million in period 1990-2000
 - Sanction of prohibition of reimbursement: €2.8 million in period 1990-2000
 - Sanctions on overconsumption: €1.7 million in period 1994-2000 of which €0.9 million repaid.
- Voluntary repayments total health care 2010: € 4,6 million.
- Other forced repayments 2010: € 3 million.
- Total public spending on health insurance in 2009 some €27.7 billion

- Fraud, error customer, official error
- Overpayment and underpayment
- Estimated via sampling and surveys, on yearly basis
- In total in 2010/11 on total budget of £153bn
2.1% overpayment (0.8% fraud, 0.8 customer error, 0.5% official error) and 0.8% underpayment (0% fraud, 0.6% customer error and 0.3% official error)
- Overpayment is some 2.1% of total expenditure of 10% of GDP, or 0.2% of GDP

Source: DWP Department for Work and Pensions, Directorate Fraud and Error Measurement

Survey results undeclared work by social benefit recipients in the Netherlands

- CBS (Statistics Netherlands) has experience in measuring the amount of contribution fraud by face-to-face and websurveys
- In cooperation with the SZW (Ministry of Social Affairs and Employment) for the social benefit recipients

	2009		2008		2007	
	Gross sample	Respons	Gross sample	Respons	Gross sample	Respons
SZW	50000	10%	40000	18%	15000	18%

Source: I. Dzambo (CBS), presented at SUBLEC conference, 2 June 2010, Brussels

Survey results undeclared work by social benefit recipients in the Netherlands

Results

	Undeclared workers % (weighted) <u>2007</u>	Undeclared workers % (weighted) <u>2008</u>
Population (CBS)	9,4	8,6
Total benefit receivers SZW	3,4	3,0
- WAO (incapacity)	5,9	4,0
- AOW (pension)	1,3	2,2
- WW (unemployment)	5,3	5,6
- WWB (social support)	4,6	3,0

Source: I. Dzambo (CBS), presented at SUBLEC conference, 2 June 2010, Brussels

‘Federal health care programs, including Medicare and Medicaid, are under attack by dishonest people who lie to the government and exploit its programs to steal taxpayers’ money. The full extent of health care fraud cannot be measured precisely. However, the Federal Bureau of Investigation (FBI) estimates that fraudulent billings to public and private health care programs are 3-10 percent of total health spending, or \$75-\$250 billion in fiscal year 2009.’

‘...an additional \$311 million in two-year funding to further strengthen the antifraud efforts- a 50 percent increase...the antifraud efforts in the budget are estimated to save up to \$2.7 billion in Medicare and Medicaid spending’

Source: L.Morris (chief counsel, Office of Inspector General US. Department of Health and Human Services, Health Affairs, 2009

Conclusions

- Benefit fraud is comparable with contribution fraud and fiscal fraud
- Definition problems or boundaries: by preference exhaustive
- Huge number of different modes of fraud, error, malpractice, overconsumption, avoidance
- Growing awareness of problem and willingness to tackle it.
- Not visible and measurable: how to measure the hidden society?
- Different methodologies
- Benefit fraud seems to be less important than contribution fraud and fiscal fraud
- But perhaps we are underestimating also the benefit fraud

“It’s time to acknowledge how little we really know about unobserved economy despite forty years of effort to measure their size and growth.”
(Feige & Urban, 2008)

“The more people know about fraud, the more they discuss it, and the better society can fight it.”
(OLAF, 2005; 2006)

