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European Portability Rules for Social Security Benefits and their Effects on the National Social Security Systems

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1. Summary

This paper discusses the impact of European unification on the national systems of social security and provides a framework for studying the effects of the current European portability and coordination scheme for social security benefits within the European Economic Area. To simplify the analysis, it focuses on one of the many aspects of social security related to old age – long-term care provision. This branch of social security still lacks attention and a systematic approach in some European countries. As a consequence, national (and sub-national) solutions to long-term care are not fully compatible with each other, which poses a variety of challenges to the current systems of long-term care provision: Since in a single European market workers and their kin are thought to move as freely as in a national labour market, the national social security systems face claims made from abroad. Critics fear that European integration and the free movement of labour may undermine the notion of solidarity most member states adhere to. The paper to be presented intends to rationalise these fears by studying to what extent respective effects of Europeanization may evolve. For this purpose it describes the current European portability scheme and offers a framework for analysing possible effects of this scheme on the national social security schemes. The analysis concentrates on the effects of portability between just three EU member states: Spain, Germany and Austria.

2. Introduction: Free movement of labour as a challenge to national social policy

The Single European Market, enacted by the Single European Act of 1987, has always been more of a development than a static state. Since it became effective in 1992 it is characterised by change. The Common Market is based on the four so called basic freedoms, namely the free circulation of goods, persons, services and capital. Part of its dynamic is the interaction with other policy areas, such as social policy. Until recently, social policy was less of a European and mostly a national responsibility. Each member country of the European Union considered social policy to be a national affair. This view has been challenged in many ways by the actual development in other areas of a self-reinforcing unification process. As a consequence, the national social security systems have not been systematically adjusted to deal with the challenges that free movement of persons poses to them.

Long-term care systems in particular have been downright overwhelmed by the mobility of households brought about by the common market. If we look at Austria, its national social security system until very recently prohibited the export of any claims to the long-term care system. A person in need of care that moved to another EU member state had no right to receive any payment from the Austrian long-term care programs, even if the very same person was eligible for benefits as a permanent resident of Austria. Clearly, the potential loss of social security benefits represents a major impediment to the supposedly free movement of persons. Therefore it comes to no surprise that the Court of Justice of the European Communities ruled in March 2001 that non-portability or non-exportability of claims to the Austrian long-term care system infringes art. 19 (1) of regulation 1408/71 (EEC). An earlier ruling of the same Court already forced the national pension systems to let pensioners receive their social security benefits in any of the European Union member states (see Mager 1999: p. 223).

These rulings and others alike caught the social security systems vastly unprepared. To date it is not clear how to handle requests from abroad and if there should be any changes in national regulation to adapt the national social security systems to this new European reality. Besides the administrative perspective it is also unclear what effects portable social security claims will take on the national social security systems. The biggest concerns are uttered with regard to costs: It is feared that portable social security claims will increase the total expenditure of the national systems and limit any cost cutting efforts (see Palm, Nickless et al. 2000: p. 3).

In the following sections of this paper we will take a look at the current European portability and coordination regime, describing its setup and effects on the national social security schemes. The analysis of the macro effects is based upon case studies, concerning intra EEA-migration between three countries, namely Austria, Germany and Spain. For this purpose section 3 describes the setup of the national long-term care systems in the three countries and problems which different intra-EEA migrants face when migrating between them. Section 4 proceeds by describing the current European portability and coordination regime which has been enforced in order to facilitate solving any problems related to social security and intra-EEA migration. A framework for analysing possible effects the European portability and coordination regime may have on the national social security schemes is provided in section 5.

3. Differing funding systems and system designs in Germany, Austria and Spain: The case of long-term care

Limiting the analysis on long-term care and on three out of the fifteen member countries of the European Union – Germany, Spain and Austria – we already get a very good impression of problems related to portability of social security claims. Of course, if the analysis would take a wider perspective thus accounting for all other elements of the national social security system more problems would unfold.

On the administrative side the national long-term care schemes mainly face difficulties when it comes to exporting claims because of their diverse designs. The German system has a Bismarckian tradition and its long-term care system is organised as a social insurance scheme similar to the country's health care insurance scheme. It is financed by contributions and is mandatory for those that fulfil the criteria for the mandatory health insurance. This is the case for most employees in Germany. Persons with private health insurance are forced to procure private long-term care insurance. The system is not designed to fully cover any costs related to long-term care but to relief part of the financial burden. It offers transfers in kind, transfers in cash or a mixed benefit package. Benefits are not means-tested but depend on the degree of a person's need of care. Persons in need of care without any claims to the long-term care insurance and whose financial means are insufficient to meet their care needs are eligible for welfare benefits. (See Igl, Stadelmann 1998; Mager 1999; Schneider 1999; Skuban 2000)

This two-source design is also found under the Austrian long-term care system. Persons who are not eligible for claims to the national or state-level long-term care schemes and who lack any other financial sources may receive welfare benefits. In contrast to the German system the Austrian system is not financed via contributions but simply by taxes. It also offers cash transfers and certain transfers in kind depending on the degree of care needed. (See Badelt, Österle 2001: p. 121-132; Mager, Manegold 1999; Pfeil 1998; Rubisch, Philipp et al. 2001)

In the Spanish case, we do not even look at an explicit long-term care scheme. Persons in need of long-term care may apply for benefits from various sources of the different branches of the social security. The social security system as a whole is mainly financed by mandatory contributions. A smaller part is financed via taxes. What is very particular about the Spanish system is its universal approach. It is not possible to distinguish between the contributions to the different branches of the social security system; there is just a single contribution to the system as a whole to be paid by each insured person. Persons in need of long-term care are eligible for benefits from pension schemes, welfare schemes, invalidity schemes or other schemes designed for certain professions such as military personnel, state employees, etc. Depending on the source of funding benefits can be means-tested or not. (See Enderlein 1999; Rodriguez Cabrero 1999; Sánchez-Rodas Navarro 1998)

In default of policy co-ordination or harmonisation, these differences between the national long-term care systems prompt administrative hurdles and incompatibilities. For further exploration of incompatibilities let us depict two hypothetical cases of migration from Germany to Spain. For the time being, we will neglect the duration of stay (temporary or unlimited stay). The first case considers a person in need of long-term care migrating from Germany to Spain. The second case reflects on a healthy working-age person migrating along the same route. In both scenarios we come across severe problems due to incompatibilities of the national long-term care systems involved.

In the first scenario the migrating person in need of long-term care might move to Spain because her or his offspring moves or already lives there. If this person was not insured under the German long-term care insurance scheme and had no other financial resources then s/he would be eligible to draw welfare benefits in Germany. Under the current regulation such purely tax-financed benefits cannot be exported to other European countries (see Enderlein 1999: p. 403; Schrammel, Winkler 2002: p. 180-181). This is not likely to change as it is commonly agreed on in the political arena that portable social welfare claims open doors to abuse. In addition, it seems that decision-makers disapprove of exporting social welfare claims as “simply not right.” To this add problems of accumulation and control. How to check if a beneficiary is actually still in need of support when s/he lives abroad and out of reach for the local authorities? (See Bundesfinanzministerium 2000: p. 30)

If the care client moving from Germany to Spain was insured under the German long-term care insurance scheme and eligible for benefits from this scheme then s/he would be able to chose among transfers in kind and cash transfers or a mixture of both types of transfers. In the case of cash transfers the portability should present as little a problem as the portability of pensions benefits which has been a practice for quite some years inside the European Union. However, if the person preferred to draw transfers in kind – which is a mature deliberation because the monetary value of in-kind benefits exceeds the value of cash transfers – portability would not be possible (see Mager 1999: p. 223). In this case the current European portability scheme arranges for refunds. The German health insurance has to refund the in-kind benefits consumed in Spain. Cross-national differences in the price and quality of long-term care present a problem here. To some extent benefit levels reflect the specific cost of care in the country in which a scheme operates. If the person received benefits reflecting the cost of care services in the country of origin, prices in the destination country, in our case Spain, might be lower or higher. The same can be said about quality standards.

Another problem with portability of long-term care benefits emerges with regard to monitoring the adequacy of the home care provided under the cash option. The German long-term care law mandates regular checks of the status of those beneficiaries who draw cash benefits. If the person receives care abroad this of course hampers regular checks (see Mager 1999: p. 223; Schneider 1999).

If we look at the second case, where a person not yet in need of care moves from Germany to Spain, we face different problems. The questions to be answered in this context are (i) whether or not this person should be integrated into the social security system in Spain and (ii) what happens upon return migration. If the individual might return to his or her home country it might make sense to go on paying contributions to the German system. In this case the European portability rules for posted workers do apply and the time period of the post should not extend 12 months. Otherwise this person will be integrated into the Spanish national social security system. If the integration into the Spanish system depends on a minimum term of residency in Spain the European portability scheme requires that any periods of insurance in Germany should be taken into account. Upon return to the German labour market the current regulation in Germany lets the person re-integrate into the long-term care system. At this point the individual can not draw benefits from the Spanish health care system or any other branch of social security system anymore which may apply in the case of long-term care.

Possible designs of portability schemes

When it comes to designing compatible social security systems schemes it is important to consider the general setup of national long-term care systems and existing regimes of portability. Incompatibilities between national systems go very much along with the incompatibilities between Beveridge-systems (means-tested or needs-tested, tax-financed) and systems with Bismarckian tradition (see Kokot 1999: p. 119-125). With Bismarckian systems portability of social security claims seems to be less of a problem. Here claims are based on contributions and one could argue that people acquire a right to obtain benefits. The two types of social security systems do not only differ in terms of funding or eligibility rules. Apart from such per se differences in the institutional framework there are three main questions to be answered for a systematic analysis or design of portability schemes. (i) Which rules for granting benefits do apply (eligibility criteria, extend of benefits), (ii) to which country are contributions paid and (iii) from which country does a person in need of long-term care receive her or his benefits, i.e. which country covers the costs?

By combining the options for answering these questions one obtains a large set of possible frameworks for (i) cross-boarder payments made to the social security systems of the countries considered and (ii) for the portability of benefits between their social security systems. Quite a few of the (potential) outcomes appear counter intuitive and inefficient. To draw benefits according to German rules (eligibility criteria, extent of benefits) and to have the costs covered by the Spanish system while contributing to the German system is such an example. Following the principle of fiscal equivalence would require the country whose rules apply to any person moving to or from this country to any other EU country to also bear the cost related to these rules. To be precise, this country would have to cover long-term care needs of and collect social security taxes or contributions from the person under consideration. Similarly, the country that actually provides for long-term care for any person moving to or from this country to any other EU country should also receive the social security taxes or contributions paid by this individual.

Deviations from this principle cause distortions to the detriment of at least one of the systems of social security affected by migration flows and may also impede the free movement of labour in the European Union. Countries may end up systematically "overpaying" or "underpaying" for individuals joining or leaving their social security systems. Overpaying implies that there is a financial drainage of social security systems which again challenges solidarity among the tax or contribution paying community. At the same time violating fiscal equivalence without any effort to mitigate the impact of such violations through social security agreements may systematically discourage individual mobility if mobility is associated with a risk of double tax or contribution burdens and/or a risk of losing claims or benefits to the social security system.

As we have seen, portability and coordination schemes can be of different design and entail accordingly different effects. The next section details the current European portability scheme and illustrates possible effects the scheme may have on the national security systems involved.

4. The current European portability and coordination regime

The legal basis

The current European Economic Area portability and coordination scheme for the area of social security has roots which reach back to the early times of the European Economic Area (EEA). It is based on regulation 1408/71 (EEA), and here mainly article 19(1), and regulation 574/72 (EEA). These two regulations were the basis for many rulings by the European Union Court of Justice. The rulings and the two regulations form what in this paper is called the current European Economic Area portability and coordination scheme for the area of social security (European portability scheme).

An example of such rulings is a decision of the European Court Of Justice in March 2001, that the non-exportability of claims to the national long-term care scheme in Austria infringes article 19 (1) of regulation 1408/71 (EEC). Until March 2001 the Austrian agencies responsible for administering the long-term care scheme would turn down any claims made from abroad. The European Court Of Justice argued in its ruling that benefits a caree is entitled too should be seen as benefits in case of sickness and should therefore be paid to carees even if they live in another member state.

This example shows in what way the European Court Of Justice created an actual European portability scheme with its rulings. In what follows I will depict this actual European portability scheme and describe which areas of social security it covers, to whom it applies and what its underlying basic principles are.

There have been efforts, mainly from within the European Commission, to consolidate the adjudication into a new regulation in order to foster transparency. This so called SLIM initiative (Simpler Legislation for the Single Market) which started in May 1996 led to a proposal on simplifying the coordination of social security schemes, which was adopted by the Commission on December 21, 1998 (see Europäische Kommission 1999). These efforts of consolidation have been hampered by the national negotiators. The proposal has therefore not yet resulted into a new, clearer regulation by the European Council which could replace regulations 1408/71 (EEC) and 574/72 (EEC) considering the respective EU Court of Justice rulings. It seems as if the EU member countries believe to lose if they implement a more transparent regulation and they therefore prefer the status quo. There have been no efforts however to analyse the consequences of the portability scheme in order to understand if there would be any losers and what measures could be taken to counter steer. Section 5 of this paper tries to lay out a few concepts which could clarify possible effects of the current European portability scheme.

Setup of the current European portability scheme

In the following I will describe the basic concepts of the current European portability scheme. As it has been explained before it does not stem from clear regulation but is mainly based upon rulings by the EU Court of Justice. It is not meant to replace the different national social security systems by a single European system but provides for their coordination. Harmonization would be moreover a very difficult aim because of very diverse living standards and long traditions and acceptance of the national social security systems. This means that every member state is free to decide who is to be insured under its legislation, which benefits are granted and under what conditions, how benefits are calculated and to what extent contributions should be paid. The European portability scheme establishes common rules and principles which have to be observed by all national authorities, social security institutions, courts and tribunals when applying national laws. These fundamental principles (equality of treatment, aggregation of periods, export of benefits, applicability of a single legislation and the lex loci laboris principle) will be dealt with more in detail after describing shortly to whom they apply and which areas of social security they cover.

The European portability scheme applies not only to EU nationals but to all nationals of the European Economic Area (EEA). It particularly applies to employed and self-employed persons who are or have been insured under the legislation of a state of the European Economic Area as to civil servants[1], students[2], pensioners and members of family or survivors

[1] Council Regulation (EC) No 1606/98 of 29 June 1998 (OJ L 209, 25.7.1998)

of the abovementioned persons, regardless of their nationality (see Europäische Kommission - Beschäftigung und Soziale Angelegenheiten 1999: p. 9). The portability scheme therefore does not apply to nationals of states not belonging to the EEA and persons who are not or are no longer covered by a national general social security scheme, and are not or are no longer considered as family members of an employed or self-employed person or of a pensioner.
As mentioned in article 4 of Council Regulation (EEC) No 574/71 the European portability scheme applies to all national legislation on:

- sickness and maternity
- benefits in respect of accidents at work and occupational diseases
- invalidity benefits
- old-age pensions
- survivors' benefits
- death grants
- unemployment benefits
- family benefits

The European portability scheme therefore includes most areas of social security, leaving aside only:

- Social and medical assistance (benefits which are normally means-tested and not linked to one of the categories mentioned above, also welfare benefits)
- Benefits granted to victims of war or its consequences
- Benefits under existing early retirement schemes, to which other community provisions may apply.

Due to the diverse setups of the national social security systems it may sometimes be difficult to determine whether or not a particular benefit is covered by the European portability rules. (see Europäische Kommission - Beschäftigung und Soziale Angelegenheiten 1999: p. 12)

Basic principles and rules

One of the main principles is the applicability of a single legislation. It implies that EEA-migrants should be only subject to the legislation of just one member state. The lex loci

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[2] Council Regulation (EC) No 307/99 of 8 February 1999 (OJ L 38, 12.2.1999)

laboris principle answers the question which country's legislation should apply: A person has to pay contributions to and is covered by the social security system of the country where s/he exercises his or her occupational activity. There is only one exception to this rule: In some cases a person may be insured in two member states, when s/he is employed in one member state and self-employed in another member state.

A person that takes up a new occupational activity in another member state would also stop being insured in the member state of his or her former employment and start being insured in the member state of his or her new occupational activity. Where this person resides does not matter therefore, which is of particular interest for frontier workers to whom this rule evidently also applies. A frontier worker may stay resident in the country where s/he carried out his or her former occupational activity and will be insured in the country of his or her new occupational activity.

If the period of work abroad does not exceed 12 months, the rules for temporary postings abroad will apply. In this case the person sent abroad for a limited time period (not replacing another employee whose period of posting has ended) will stay insured in the country of his or her original occupational activity. If unforeseen circumstances apply an extension of the posting period may be granted. The provisions on postings also apply to self-employed persons who temporarily work in another country. Other exceptions apply to mariners, workers in international transport, civil servants, armed forces, diplomatic missions or consular posts.

In some cases the abovementioned rules are not sufficient and the following will apply: If a person works in more than one member state he or she will be insured in the country of residence. If the person does not reside in any of the countries of his or her occupational activity than he or she will be insured in the country where the employer resides or has its office registered. In the case of a self-employed person he or she will be insured in the country where s/he carries out most of his or her work. If a person is employed in one country and self-employed in another country s/he will be insured in the country of employment and in exceptional cases in both countries. (see Europäische Kommission - Beschäftigung und Soziale Angelegenheiten 1999: p. 14-20)

The three resting principles which form the European portability scheme are equality of treatment, aggregation of periods and exportability of claims. Once the lex loci laboris principle defines where a person is insured and pays contributions, this person is entitled to have the same rights and obligations as nationals of that country. The principle of equality of treatment applies not only to forms of direct discrimination but also to indirect discrimination. As such could be seen provisions which equally apply to nationals and foreigners but put foreigners in a disadvantageous position anyway. Such a situation can be found for example when a member state makes an entitlement to a benefit subject to residence in that state for a certain length of time. This clearly puts migrant workers in a worse position than nationals of this state.

The principle of aggregation of periods is meant to help out in such situations. Whenever an entitlement to benefits is linked to certain conditions that have to be fulfilled beforehand, the competent institution must take account of periods of insurance, residence or employment completed under the legislation of other countries. Another example of the principle of aggregation is the case of pensions and migration: If a person has been insured 10 years in member state A, 25 years in member state B and 5 years in member state C, each member state has to calculate the pension corresponding to the total 40 years of insurance. Member state A will then pay 10/40 of what a person would have been entitled to after 40 years of insurance in this country and member states B and C will pay 25/40 and 5/40, respectively. If each member state has a different pensionable age payment of benefits shall only be conducted when the person reaches the relevant pensionable age. This leads to situation in which a person already receives his or her pension from one member state while waiting to reach the pensionable age of another member state in order to receive his or her corresponding pension.

The principle of exportability states that if a person is entitled to benefits covered by article 4 of Council Regulation (EEC) No 574/71 and resides in another member state the competent institution has to transfer the money to his or her foreign bank account deducting postal and bank charges. (see Europäische Kommission - Beschäftigung und Soziale Angelegenheiten 1999: p. 17-36)

Basic principles and rules concerning long-term care

The European provisions on sickness and maternity as the provisions on invalidity and accidents are all relevant when it comes to portability and coordination between the national systems of long-term care. The European Court of Justice ruled in March 2001, that the non-exportability of claims to the national long-term care scheme in Austria infringes article 19 (1) of regulation 14008/71 (EEC). Sickness benefits in cash are always paid according to the legislation of the country of insurance which is - as depicted above - usually the country of occupational activity. This applies to all relevant categories of persons: frontier workers, seasonal workers, posted workers, pensioners and family members. Sickness benefits in kind are provided according to the legislation of the country of residence. Several possible scenarios are possible here: If a person resides in the country of insurance the person is entitled to all benefits the same way nationals of this country are. If the country of residence and insurance differ the benefits are provided by the sickness insurance institution of the country of residence as if the person would be insured with it. Normally, the sickness insurance institution of the country of residence is reimbursed by the sickness insurance institution of the country of insurance. In this case the European Commission recommends to register with the sickness insurance institution of the country of residence (see Europäische Kommission - Beschäftigung und Soziale Angelegenheiten 1999: p. 22).

Since the national schemes for long-term care provisions differ greatly, in some cases a person in need of care might be entitled to benefits from accidents or invalidity insurance schemes. Cash benefits are normally paid directly by the institution the person is insured with. However this institution might agree on having the payments done by the institution in the country of residence without any changes in the amount of the relevant benefit. If cash benefits are based on average earnings only the earnings paid to the institution of insurance will be taken into account. In the calculation of benefits family members living in other member states have to be considered as well. Cases where a person is entitled to benefits in kind are treated equally to benefits in kind in the case of sickness: If the person does not reside in the country of insurance the benefits in kind will be provided according to the legislation of the country of residence but reimbursed by the competent institution in the country of insurance.

The case of invalidity benefits is more complicated and might even under the European portability scheme lead to disadvantageous situations for migrants. This is especially due to differences in the importance of length of insurance periods: In some countries the length of insurance period is taken into account and in others entitlements are independent from length of insurance periods. Usually in the latter a person’s entitlement depends on whether s/he was insured at the moment when the invalidity occurs while in the first type of countries a person is still entitled to benefits even if not insured anymore with the correspondent system.

This fact makes coordination in the area of invalidity benefits a difficult task and leads basically to four scenarios: If a person has been insured in several countries the European portability scheme provides different solutions for cases in which the amount of pension depends on the length of the insurance period and cases in which the amount does not depend on the length of the insurance period. If a person has been insured exclusively in countries where the amount depends on the length of insurance periods, s/he will receive separate pensions from each of these states. The corresponding amounts are equally calculated as the amount of pensions a person receives from each country s/he was insured in (see above). If a person was insured only in countries where the amount of pension is independent of the length of insurance periods the person will receive an invalidity pension from the state s/he was insured with last. The person is entitled to the full amount of pension even if insured just a short time period. There are no entitlements to benefits from other countries the person was insured with. Thus a person might receive a relatively low invalidity pension according to the country of last insurance even if s/he has been insured for a long time period in a country with rather generous invalidity pensions.

Following this logic there are two more relevant cases: A person was first insured in a country where the amount of invalidity pension depends on the length of insurance periods and then in a country where it does not. This person will receive two pensions: One from the first state corresponding to the insured time period and one from the second state where s/he became invalid. Normally the second state will pay a reduced pension taking into account payments from the first state. The fourth and last case applies to a person first insured in a country where the amount of invalidity pension does not depend on the length of insurance periods and then in a country where it does. Here the person again will receive two separate pensions corresponding to the length of insurance periods in the corresponding country.

The determination of the degree of invalidity is still a controversial issue. Normally, each national insurance institution decides this according to national legislation. But in some cases the decisions of one institution might be binding to the institution of another member state. Here the difference between harmonizing the national social security schemes and merely coordinating them becomes obvious. Nevertheless, benefits from invalidity schemes are paid regardless of where a person stays inside of the European Economic Area. (see Europäische Kommission - Beschäftigung und Soziale Angelegenheiten 1999: p. 18-27)

5. A Framework to analyse the effects of the European portability and coordination regime

The free movement of labour has always been a centrepiece of the process of European unification. Whenever workers or other EEA citizens migrated to other member states problems of portability and/or coordination of social security claims between involved countries emerged. As labour mobility increased, fostered by more and more liberal arrangements between the member states, demand for coordination of the involved social security schemes increased as well. Since the implementation of the Single European Market the European portability scheme made great improvements and many steps forward. But as a general rule, social policy always lagged behind economic policy and solutions tended to be found after they had caused trouble for quite a while. The European portability scheme was not an effort to foster developments towards a European social policy, it was merely meant to support economic policy. This explains why the development of the current European portability scheme was not accompanied by an analysis of its macroeconomic effects on the national social security systems. There has merely been a discussion about possible effects. A reason for this reluctance to think about the impact the European portability scheme has on national social security systems may also be found in the still small numbers of intra-EEA migrants.

The paper at hand proposes a framework which may serve as a basis for further studies of macroeconomic effects of the European portability scheme on national social security schemes. For this purpose I will elaborate a categorization of involved persons. The categories go along with different effects the European portability scheme may have upon the national social security schemes.

Basically there are two main groups of persons whose migration has very different effects: Persons that integrate into the national security system of the country they have migrated to and persons who migrate but stay insured with the country they came from. According to the European portability scheme, the first group is made up of all active persons and their families excluding frontier and posted workers. The second group is made up of frontier and posted workers as well as all inactive persons like pensioners, survivors, students and unemployed migrants and their families.

Table 1. *Formation of "Integrators" and "Non-Integrators"*

	Migrants that integrate into the social security system of the "new" country	Migrants that stay insured in the "old" country
Active persons	Employed, civil servants and self-employed	Posted and Frontier workers
Non-active persons		Pensioners, students, survivors, unemployed
Family members	Family members of the above mentioned persons (only non-active family members?)	Family members of the above mentioned persons (only non-active family members?)

Source: Author

Why do these two groups of persons cause different effects? The categorization goes along with whether or not a person is residing in the country of insurance. Migrants that integrate into the social security system of the "new" country pay their contributions and receive benefits from the same country. The other group of migrants that does not integrate but stays insured with the "old" country, pays contributions to and receives benefits from the "old" country.

(A) "Non-Integrators": Persons residing in one member state being insured in another

When benefits in kind are provided in the "new" country they will be refunded from within the system of the "old" country. In this case, where the country of insurance differs from the country of residence payments are made by one country according to the legislation of another country. This will invoke macro and micro level effects. On the macro level depending on the price-level in the "new" country higher or lower costs will be observed. On the micro level the utility of the migrant will be lower or higher depending on the quality level of benefits in kind provided in the "new" country (see Rothgang 1998: p. 234-243).

(B) “Integrators”: Persons that migrate to another EEA state and integrate into the “new” social security system

This group of persons may seem unproblematic concerning possible macro effects at first. They pay contributions to the same member state they receive benefits from. Different to group (A) they receive the whole set of benefits from the country of residence ranging from benefits in kind to cash benefits. At a second look one realises that this group depending on the point in their life they migrate may have severe impact on the system of social security of the “new” country. If they migrate at an advance stage of their working life, they have paid contributions for many years in their “old” country. If one assumes, that with age the costs for medical care for a person rises, than it can also be assumed that the “new” country will face costs without having all the payment from the earlier years from that person.

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