

SOCIAL POLICY

PETER GONDA - ONDREJ DOSTÁL

Reviewed by Ing. Olga Reptová¹
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INTRODUCTION

The past year brought many changes in the field of social policy. Some of them ensued directly from measures adopted by the Ministry of Labor, Social Affairs and Family, while others emerged indirectly, in reaction to other reforms. Some of these reforms and measures began to be implemented already in 2004 (e.g. taxation reform); others were approved by parliament and envisaged for launch in 2005 (e.g. health service reform or fiscal decentralization). The same applied to reform measures in all four areas of social policy that are analyzed in this chapter.

In the field of employment policy, the government abolished the National Labor Authority and divided its labor market policy into passive and active components. Unemployment insurance was institutionally incorporated into the system of social insurance and began to be administered by the Social Insurance Company. Also, it was made optional for self-employed people. The active labor market policy began to be regulated by the new Law on Employment Services, and administered by the newly established specialized state administration (i.e. local offices of labor, social affairs and family).

The government's assistance provided to people in material need was legislatively separated from the Social Assistance Act and began to apply a new system of benefits and allowances.

In the field of state social support of families with children, the government further enforced the universality principle. In 2002, the system began to disburse children's allowance on the across-the-board basis, i.e. regardless of families' fundamental situation; two years later, it abolished a special contribution to children's allowance that was previously provided to families with lower income. As part of taxation reform, the system introduced a tax bonus per child and a contributory bonus per child that are both provided to gainfully employed parents.

As far as the pension system is concerned, the adjusted first pillar of the pension scheme (i.e. the pay-as-you-go system) was launched and the launch of the second pillar (i.e. the compulsory fully-funded system) effective January 1, 2005 was prepared. Parliament abolished the Tripartite Act, which was one of the concrete recommendations presented by the *Social Policy* chapter in the previous year's *Global Report*.

UNEMPLOYMENT AND SOCIAL ASPECTS OF THE LABOUR MARKET

In the long term, Slovakia is plagued by high unemployment. According to Eurostat data, Slovakia's unemployment rate in September 2004 was twice as

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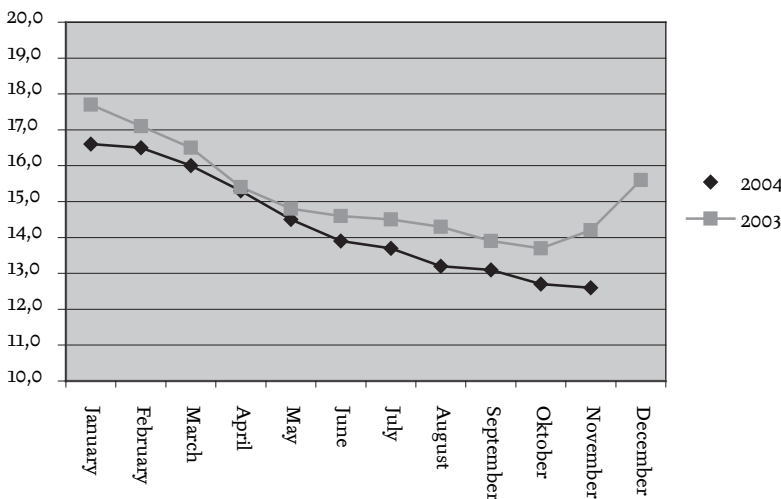
high as the European Union (EU) average and was the second highest in the entire EU only to Poland (*September...*, 2004). This is true despite certain reductions in unemployment during the past two years.

LABOUR MARKET DEVELOPMENTS

While the unemployment rate increased dramatically at the beginning of the previous administration's tenure (from 13.4% in January 1998 to 19.5% in January 2000), it has gradually declined since the most recent parliamentary elections of 2002 (from 17.7% in January 2003 to 15.6% in December 2003 and 13.7% in October 2004). As usual, unemployment saw a moderate temporary increase at the end of 2003, mostly due to seasonal factors; however, positive trends were sustained throughout 2004, reducing unemployment from 16.6% in January to 12.6% in November, which was the lowest level since 1998. The average unemployment rate dropped from 17.8% in 2003 to 15.2% in 2003.

Graph 1

Registered unemployment rate in 2003 and 2004 (in %)



Note: The registered unemployment rate is calculated from the number of people registered with employment agencies.

Source: National Labour Authority, 2003; Central Office of Labour, Social Affairs and Family, 2004; graph by authors.

A moderate decline in the unemployment rate compared to previous years may also be illustrated by targeted workforce surveys conducted by the Statistical Office of the Slovak Republic. Compared to data supplied by the Central Office of Labor, Social Affairs, and Family, the unemployment rate established by targeted workforce surveys is significantly higher and even shows a slight increase in 2004 against 2003. In particular quarters of 2003, the unemployment rate developed as follows: 18.4% - 17.0% - 17.0% - 17.4%; in the first three quarters of 2004, it was 19.3%

- 18.5% - 17.5%. The generally higher levels stem from a different methodology applied by the Statistical Office of the Slovak Republic.

While employment agencies base their unemployment figures on how many persons are officially registered (i.e. not how many of them are actually jobless), targeted workforce surveys establish how many people claim they are jobless (i.e. regardless of whether they are officially registered or not). On the one hand, data established by targeted workforce surveys may be distorted by respondents' subjectivity or their reluctance to admit having an informal job in Slovakia or abroad; on the other hand, employment agencies may distort their data by eliminating from the register people who subjectively feel and declare interest in finding a job. The data established by both methodologies shows long term results. The register recently increased, and in the second quarter of 2004 it reached four percent, which was the greatest difference since 2000 (Haško - Staneková, 2004).

Slovakia's high unemployment rate compared to other EU member states is also caused by its high ratio of gainfully employed people to people in productive age.² As a result, countries with a higher share of economically inactive people show lower unemployment rate (*Čo skrýva...*, 2004).

A direct result of a general decline in the unemployment rate has been a slight reduction in the still excessive regional disparities in terms of unemployment. While in 2002 the difference between the district with the highest unemployment (37.2% in Rimavská Sobota) and the district with the lowest unemployment (3.4% in Bratislava III) was 33.8%, in 2003 it declined to 27.3% (30.1% in Rimavská Sobota vs. 2.8% in Bratislava III). In November 2004, for the first time in years, no district in Slovakia recorded an unemployment rate in excess of 30%. The district with the highest unemployment was Revúca with 28.4%; on the opposite pole was Bratislava IV with 2.5%, which is a difference of 25.9%. As far as particular regions are concerned, the lowest unemployment was recorded in the Bratislava, Trenčín, and Trnava regions, while the highest unemployment was recorded in the Banská Bystrica, Košice, and Prešov regions.

MEASURES TO TACKLE UNEMPLOYMENT

The government's labor market policy consists of two constituents, passive and active. The passive policy basically amounts to temporary substituting unemployed people's earned income from unemployment insurance; the active policy comprises measures aimed at increasing employment. The incumbent

² According to the International Labour Organization, economically inactive are people in productive age (i.e. 15 - 64) who are not on the labour market because they are unable or do not want to work, especially students, housewives, prematurely retired people, long-term ill or disabled people, etc. "When comparing Slovakia to OECD countries with a similar rate of employment, we see that Slovakia has a much greater share of people who want to work and actively seek jobs. This means that Slovakia ... has a smaller share of economically inactive people and more unemployed, i.e. people who are ready to work. On the contrary, Greece, Hungary, Italy or Mexico with a similar rate of employment have much fewer unemployed people but simultaneously a much higher share of economically inactive people" (*Čo skrýva...*, 2004).

administration has adopted essential changes to the institutional framework of labor market policy and to the content of its active constituent.

Until the end of 2003, both constituents of labor market policy were administered by the National Labor Authority whose organs were established on a tripartite principle (i.e. government, employers and trade unions). Effective January 1, 2004, the National Labor Authority was abolished. Administration of the unemployment insurance system (i.e. collection of insurance premiums and disbursement of unemployment benefits) was taken over by the Social Insurance Company. The active labor market policy ceased to be financed from unemployment insurance and was taken over by the newly established specialized state administration, namely local offices of labor, social affairs and family financed directly from the state budget. In part, the government finances the active labor market policy from funds provided by the European Social Fund.

Passive labor market policy

Unemployment insurance is designed to substitute unemployed people's earned income immediately after they lose the job. The period during which the unemployed are entitled to receive unemployment benefits has been shortened from nine to six months. The amount of unemployment benefits equals 50% of the assessment base (i.e. the person's previously earned monthly income). In 2004, the maximum amount of unemployment benefits was limited at 20% of the maximum assessment base (i.e. a three-multiple of the average monthly wage in the national economy in the previous year); in 2005, the limit will be increased to 35% of the maximum assessment base. The government intends to abolish the limit in 2006 and the amount of unemployment benefits will equal 50% of the assessment base. This will gradually introduce the merit principle into the system, i.e. the amount of unemployment benefits is determined by the total amount of paid unemployment insurance. Another principle partially incorporated into the system in 2004 was that of choice: while unemployment insurance remains obligatory for employees, it was made optional for self-employed people.

In 2003, the average monthly number of people collecting unemployment benefits was 80,126, which equaled 18.1% of the total number of registered unemployed. In the first half of 2004, it was 95,233, or 21.7% of the total number of registered unemployed. In 2003, the maximum amount of unemployment benefits was 6,315 Sk and their average amount reached 4,327 Sk. In 2004, the maximum amount of the benefit was set at 8,263 Sk and its average amount in the first half of the year reached 4,173 Sk. Jobless people who are not eligible to receive unemployment benefits and those who cease being eligible after six months make up a dominant share of the recipients of material need benefits.

In 2003, the total amount of funds the government spent on unemployment benefits reached 5.1 billion Sk, which was 1.8% less than in 2002; however, due to the lower unemployment rate, the average amount of the benefit disbursed to each person registered as jobless actually increased by 13.7% compared to the year before. In the first half of 2004, disbursed unemployment benefits totaled 2.4 billion Sk.

Active labour market policy

2004 was the first year of operation of the new system of active labor market policy as defined by the Law No. 5/2004 Coll. on Employment Services. Previous administrations perceived active labor market policy as a principal tool for tackling unemployment, especially through supporting creation of new jobs (e.g. subsidies for employers of self-employment), organizing *pro bono* works, subsidizing employment of specific population categories (e.g. long-term unemployed, school graduates, people over 50, disabled people, etc.), and retraining jobless people.

Since its inauguration, the incumbent administration has adopted several changes to the system of active labor market policy:

- An amendment to the Law No. 678/2002 Coll. on Employment stipulated that all people registered as unemployed must actively seek employment and must show up once in 14 days to employment agencies,³ which forced the unemployed to become more active, and complicated the situation of people who were registered as unemployed but simultaneously had an illegal job;
- An amendment to the Social Assistance Act reduced and generally limited the amount of welfare benefits, which helped widen the gap between earned income and income from the social security system and encouraged the jobless to seek employment;
- An amendment to the Labor Code made labor relations more flexible, which was a basic prerequisite in simplifying the process of hiring new employees.

In 2003, the active labor market policy helped 37,187 unemployed people find jobs, a decline by 47% compared to 2002. The government allocated 2.8 billion Sk to active labor market policy tools, a decline by 19.4% (6.7% per capita) compared to 2002. In the course of 2003, the government gradually shifted its focus from organizing *pro bono* works toward encouraging the jobless to develop their skills and undergo retraining programs as principal conditions for improving their employability (*Správa...*, 2004b).

In the first half of 2004, the active labor market policy supported the creation of 3,029 jobs, which is only a splinter compared to the same period of 2003. Due to the change in tools of active labor market policy, it is impossible to compare these figures directly, as the new legislation restricted subsidies to employers for creating new jobs for disadvantaged population groups and abolished *pro bono* works. During the examined period, 2,813 municipalities and over 1,300 organizations participated in organizing activation projects for 116,180 unemployed people.

Some other tools were quite underused, for instance the allowance for commuting designed to reimburse people's costs of traveling between the place of their

³ Besides the general obligation to show up once in 14 days at local offices of labour, social affairs and family, the government in 2004 stipulated other obligations: the long-term unemployed must show up once in seven days, while people who participate in active labour market policy tools must show up once in a month.

permanent residence and the place of their new work that had to be located at least 30 km away. In the first half of 2004, the government spent 594 million Sk on various tools of active labor market policy; activation allowances made up 64% of the total amount (*Správa...*, 2004b). Overall, the government planned to allocate 3.274 billion Sk to active labor market policy measures in 2004; part of this amount would be financed by the European Social Fund (*Národný...*, 2004).

In December 2004, parliament passed the first reading of the Bill on Illegal Labor and Illegal Hiring. Submitted by the cabinet, the bill seeks to increase the efficiency of exposing illegal hiring and introduce stricter sanctions for illegal labor.

During the course of 2004, the influence of trade unions and employers' associations over implementation of labor market policies and social policy in general continued to diminish. The legislation adopted in 2003 abolished the National Labor Authority whose organs were established on the tripartite principle. The newly-created body, namely the Central Office of Labor, Social Affairs and Family, is subordinated directly to the Ministry of Labor, Social Affairs, and Family.

The influence of trade unions and employers' associations was also weakened within the Social Insurance Company. Its director who was previously elected by the management board was replaced by a five-member Board of Directors whose chairman and two vice-chairmen are appointed directly by the cabinet. In fall 2004, parliament abolished the Tripartite Act, which granted the largest trade union organization and the largest association of employers a privileged status when negotiating with the government on prepared economic and social bills. The tripartite was changed into an advisory body whose make-up was determined by the cabinet itself.

ASSISTANCE TO PEOPLE IN MATERIAL AND SOCIAL NEED

The system of social assistance consists of two main constituents - tackling material need and tackling social need. Material need is a situation in which a person's income does not reach the law-stipulated subsistence level. Social need is a situation in which a person is unable to secure basic living conditions on his own or with the help of his family, mostly due to a handicap, health condition, or old age. Until the end of 2003, both constituents were regulated by the Social Assistance Act (Law No. 195/1998 Coll.). Effective January 1, 2004, the issue of material need is governed by the separate Law No. 599/2003 Coll. on Assistance to those in Material Need.

TACKLING MATERIAL NEED

In October 2004, the European Commission released a report stating that people in Slovakia face the lowest risk of poverty among all EU citizens. Immediately afterwards, Eurostat officials announced there had been a mistake and said that

the relative poverty rate in Slovakia and Ireland was the highest in the entire EU. People considered relatively poor are those whose income is below 60% of the median, i.e. the middle value of the average net monthly per capita income. According to this indicator, 15% of all EU citizens are relatively poor; in Slovakia, their share is 5% according to the initially published information, but as much as 21% according to the corrected information. This example clearly shows that the evaluation of relative poverty or material need with respect to the average income in the country is rather flawed, as a country may be evaluated as the best or the worst in the entire EU, depending on the methodology applied (for further details, please see *Priemer...*, 2004; *Európska...*, 2004; *Vieme...*, 2004).

Even if we disregard differences in methodologies of gathering information about the income situation of people from particular countries, the evaluation of people's relative poverty may lead to absurd conclusions, for instance people living in wealthier countries with greater income differentiation are actually poorer than people living in poorer countries where incomes are more level (*Je vo Veľkej Británii...*, 2004). Due to these reasons, tackling material poverty should not focus on mechanically leveling out or eliminating income differences, but rather on guaranteeing the minimum standard of living for people who (mostly out of objective reasons) are unable to take care of themselves, while respecting individuals' primary personal responsibility for their living standard as well as that of their families.

In the past, the system of social assistance discouraged individuals' personal responsibility and increased their reliance on help from the paternalist government. The Social Assistance Act differentiated social assistance benefits provided to citizens in material need according to assessment of the reasons for material need.⁴ Shortly after its inauguration at the beginning of 2003, the incumbent administration reduced the total amount of social assistance benefits to a maximum of 10,500 Sk per family. There were two basic motives behind the decision: first, an attempt to economize public finance; second, an attempt to widen the gap between earned income and income from the social security system in order to encourage the jobless to seek employment.

The Law No. 599/2003 Coll. on Assistance in Material Need that took effect on January 1, 2004, abolished the difference between objective and subjective reasons for material need. According to the new model, the social income of people in material need is differentiated via various allowances to the basic material need benefit, especially the activation allowance. This allowance is disbursed to those citizens in material need who undertake re-qualification training, take part in education and preparation for future employment, or participate in community *pro bono* services or voluntary work for at least 10 hours per week.

⁴ According to the Social Assistance Act, in a state of material need due to objective reasons are those citizens who are unable to earn or increase their income through their own abilities. In a state of material need due to subjective reasons are citizens who do not seek employment, have been registered as unemployed for more than two years, have been eliminated from the register due to their refusal to co-operate with employment agency, refuse to participate in minor community works organized by the municipality, etc.

A protection allowance in the same amount is provided to citizens who due to their age, handicap or unfavorable health conditions are unable to secure basic living conditions and extricate themselves from the state of material need on their own. Eligible to receive this allowance are also lone parents whose children are younger than 31 weeks, and persons who take care of a child or another person with a severe handicap.

Besides these two allowances, the material need benefit may be increased by a health care allowance (50 Sk a month) and a housing allowance. It is also possible to provide a one-time social assistance benefit, which is not claimable.

In 2003, social assistance benefits were provided in line with the Social Assistance Act as follows: an adult in material need due to subjective reasons – 1,450 Sk; an adult person in material need due to objective reasons – 2,900 Sk; another adult in material need due to objective reasons – 2,900 Sk; a minor with means – 1,000 Sk; minor without means – 1,600 Sk. Table 1 shows the amount of the material need benefit and allowances to it provided after January 1, 2004, as well as their increases in 2004.

Table 1
Monthly social assistance benefits and allowances to it in 2004 (Sk)

<i>Material need benefit and allowances</i>	<i>As of January 1, 2004</i>	<i>Increase in 2004</i>
Individual	1,450	1,530
Individual with maximum 4 children	2,160	2,450
Individual with more than 4 children	3,160	3,640
Couple without children	2,530	2,660
Couple with maximum 4 children	3,210	3,630
Couple with more than 4 children	4,210	4,850
Activation allowance	1,000	1,500
Protection allowance	1,000	1,500
Housing allowance for an individual	780	980
Housing allowance for a family	1,330	1,670

Note: The protection allowance and activation allowance were increased effective April 15, 2004, the material need benefit and housing allowance effective September 1, 2004.

Source: Law No. 599/2003 Coll. on Assistance in Material Need; amendment to the Law on Assistance in Material Need (Law No. 191/2004 Coll.); Slovak Government Order No. 486/2004 Coll. that regulates material need benefits and housing allowance.

The total number of people in the state of material need in 2003 was 543,036 (including provided for persons), which equalled 10.1% of Slovakia's total population and represented a 1.4% decline compared to 2002. The average monthly number of social assistance benefits recipients was 278,563, a decline by 13.1% against 2002; the government disbursed social assistance benefits in the total amount of 9.029 billion Sk, a decline of 21% against 2002. Of all recipients of social assistance benefits, 162,648 (58.4%) were in the state of material need based on subjective reasons and 115,880 (41.6%) based on objective reasons; in 2002, their ratio was 51% to 49%. The

average amount of the monthly benefit reached 2,706 Sk, which was 264 Sk or 9% less compared to 2002.

In the first half of 2004, the total number of people in the state of material need was 400,252 (7.4% of Slovakia's total population), which represented a 3% decline compared to the same period of 2003. The average monthly number of people who received material need benefits and allowances was 187,159, which represented a drop of 35% compared to the average monthly number of social assistance benefits recipients in the first half of 2003; the government disbursed material need benefits totaling 3.079 billion Sk, a drop of 33% compared to the total amount of disbursed social assistance benefits in the first half of 2003. The average amount of monthly benefit including allowances reached 2,742 Sk, which was 137 Sk or 5% more compared to the same period of 2003. As of June 30, 2004, the total number of people eligible to receive activation allowance was 92,970; as of the same date, 11,125 people received protection allowance and 52,238 people received housing allowance.

The new system of social assistance benefits has reduced the social income of some citizens in the state of material need. In first several months of 2004, municipal self-governments turned out to be inadequately prepared to use these people for the purpose of community *pro bono* services and voluntary work projects, which is the basic legal prerequisite to receiving an activation allowance. A direct result of this ill-preparedness was that many poor people were unable to increase their material need benefits by the activation allowance, although they were interested in participating in community *pro bono* services or voluntary work.

The new system has had a profound impact on members of the Romany minority; it is estimated that four in five Roma depend on social assistance benefits (*Spoločné memorandum...*, 2003). The general reduction in the amount of benefits, combined with limited possibilities to become eligible for the activation allowance during the first several months of launching the new system, seriously deteriorated the financial situation of most Roma. In February 2004, desperate Roma joined spontaneous protests against the new system of disbursing social assistance benefits, which in several places evolved into theft and looting of shops, mostly grocery stores. In order to restore public order and protect citizens' private property, the government deployed not only the police, but also armed forces (for further details, please see chapters *Roma* and *Human Rights* in this *Global Report*).

Initially, government officials decried the extent of the problem and denied its apparent connection with the new system of disbursing social assistance benefits. Pressed by the imminent spill-over of social unrest, the government decided to adjust the recently introduced model of social assistance, increasing activation and protection allowances from 1,000 Sk to 1,500 Sk. Although representatives of the Ministry of Labor, Social Affairs, and Family said they had envisaged an increase in these allowances, the circumstances of enacting the increase suggest that the government was under pressure. The Law on Assistance in Material Need was amended by a deputy proposal regarding the discussed amendment to the Law on International Aid and Cooperation in Tax Administration; the

amendment took effect on April 15, 2004, i.e. only 106 days after launching the new system.

Effective May 1, 2004, the government began to disburse allowances for children's boarding in kindergartens, primary schools and special primary schools to families in a state of material need. On September 15, 2004, children from these families began to receive subsidies for school things. The amount of the boarding allowance is up to 25 Sk for school lunches and 6 Sk for other meals. The amount of the subsidy for school materials is a maximum 1,000 Sk per pupil per one fiscal year.

In September 2004, primary school pupils hailing from families in material need began to receive merit scholarships amounting to 200 – 500 Sk per month, depending on their grades. Secondary school pupils hailing from families in material need received social scholarships financed from the European Social Fund; the amount of these scholarships ranges from 600 to 1,200 Sk per month, also dependent on the grades of pupils.

Effective July 1, 2004, the subsistence level increased as follows: from 4,210 Sk to 4,580 Sk for an adult, from 2,940 Sk to 3,200 Sk for another adult, and from 1,910 to 2,080 Sk for a minor with means as well as without means.

TACKLING SOCIAL NEED

The Social Assistance Act (Law No. 195/1998) distinguishes the tackling social needs of regular citizens from tackling social need of citizens with a severe handicap; the two are distinguished by a financial compensation for social implications of a severe handicap. The available forms of tackling people's social need are as follows:

- i) Social counseling;
- ii) Socio-legal protection;
- iii) Social services,
- iv) Financial allowances for compensations and financial allowance for nursing.

Until the end of 2003, assistance to people with a severe handicap was regulated not only by the Social Assistance Act but also by the Regulation No. 151/1988 that served as a procedural regulation to the Social Security Act. Effective January 1, 2004, the compensation of persons with a severe handicap is governed only by the Social Assistance Act.

In 2003, the total number of people receiving financial allowances for the severely handicapped and elderly citizens in compliance with the Regulation No. 151/1988 was 56,347, a decline by 20,001 compared with 2002. The government in 2003 spent 458 million Sk on these benefits, which was 192 million Sk less than in 2002.

In 2003, the average monthly number of people receiving compensation for social implications of a severe handicap in line with the Social Assistance Act was 151,380 persons, an increase by 28,370 compared with 2002. The government

spent 4.553 billion Sk on compensations in 2003, which was 117 million Sk more than in 2002. During the first half of 2004, the average monthly number of people receiving compensation for the social implications of a severe handicap was 106,380 persons, a drop by 35,629 compared to the same period of 2003. The government spent 1.709 billion Sk on compensations in the first six months of 2004, which was 394 million Sk less compared with the first half of 2003.

The reduction in costs was partly achieved by tightening assessment criteria for the compensation of social implications of a severe handicap that was introduced by amendments to the Social Assistance Act passed in the course of 2004. As a direct result of tightening the criteria, 5,000 people saw their identification as a severely handicapped person revoked and a further 2,000 people saw their disability pension cancelled (*Zobrali...*, 2004).

Effective January 1, 2004, provision of nursing services was transferred exclusively to the competence of municipal self-governments, as part of the process of decentralizing social services. A year before, the competence over the provision of nursing services was transferred from district state administration authorities onto municipal and regional self-governments, but this duality lasted for only one year. Between 2003 and 2004, nursing services were financed especially by decentralization subsidies; effective January 1, 2005, it will be financed from the municipalities' own resources, as part of fiscal decentralization.

Just like Law No. 599/2003 Coll. extracted the issue of assistance in material need from the Social Assistance Act, the government intends to pass other separate laws in order to extract other issues from the Social Assistance Act and eventually abolish it altogether. The new law on the socio-legal protection of children and guardianship is envisaged to take effect on June 1, 2005, while the new law on social services and the new law on compensating social implications of a severe handicap should take effect on January 1, 2006.

SOCIAL ASSISTANCE PROVIDED TO FAMILIES WITH CHILDREN

Another area of the government's social security policy is state social support of families with children, which is separate but not isolated from the system of social assistance; this is in compliance with international standards, for instance the ESSPROSS methodology used by Eurostat, which defines family as one of the principal objects of social protection. This chapter views state social support of families with children as part of social policy, i.e. more specifically than family policy. The basic tools of state social support include the following:

- Repetitious and one-off benefits disbursed within the system of state social support (for further circumscription, please see Dostál - Gonda - Thomay, 2003);
- Certain elements of the taxation and contribution system (e.g. tax bonus and contribution bonus).

STATE SOCIAL SUPPORT OF FAMILIES WITH CHILDREN⁵

In Slovakia, the state social support of families with children financed by taxpayers is in the long term concentrated on the most voluminous repetitive benefits, namely children's allowance and parental allowance. This did not change during the examined period, as these two benefits made up 92.1% of total expenditures within this area of social policy in 2003; in the first half of 2004, their share increased to 94.3%. That is one of the main reasons why we decided to pay special attention to these two benefits. Recently, they were joined by specific tools of support within the taxation system (2003) and the contribution system (2004).

Recent developments and measures in the field of children's allowance

Financing the most voluminous state social support benefit, namely the children's allowance, has grown less intense recently. The total amount the government spent on children's allowance in 2003 was 8.818 billion Sk, which represented a decline of almost 5% compared with 2002; the declining trend was even more perceptible in the first half of 2004 when the government's expenditures dropped by 9.4% year-to-year (see Graph 2). The government envisaged that year-end expenditures on children's allowance would be lower than in 2003. According to an agreement between the Ministry of Labor, Social Affairs, and Family and the Ministry of Finance, saved funds should be used to finance the provision of tax bonuses to gainfully employed parents (please see the section *Support of Families through Taxation and Contribution System*).

The number of people eligible to receive children's allowance saw some up and down developments during the examined period. While in 2003 their number increased significantly, in the first half of 2004 it declined slightly (see Graph 2). A similar development was recorded in terms of the number of children for whom their parents received children's allowance.

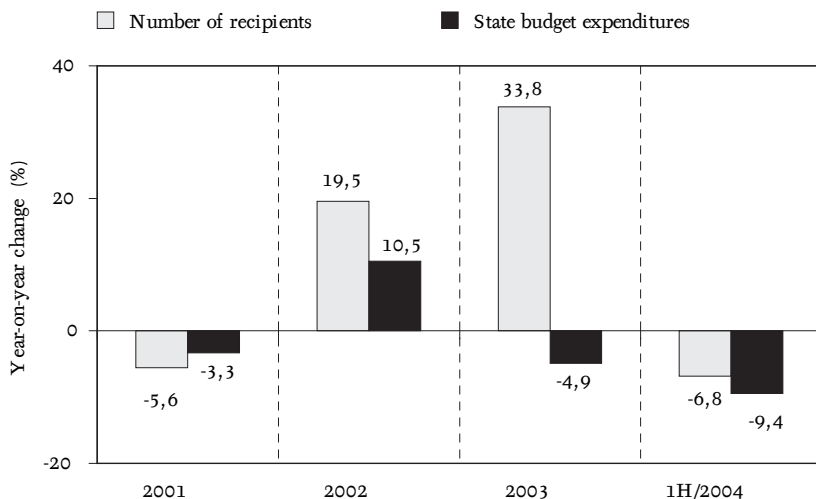
Graph 2 clearly illustrates that the year-to-year change in the total number of recipients in 2003 was essentially different from the year-to-year change in state budget expenditures on children's allowance, which indicates that the total volume of expenditures in 2003 (the only such year over the past four years) was influenced by factors other than the number of recipients. In 2004, the development returned to "normal" and, as in 2001 or 2002, the total number of recipients and/or children was directly proportional to the total volume of expenditures.

The main reasons for the decline in state budget funds spent on children's allowance in 2003 were legislative changes introduced by the amendment to the Law on Children's Allowance which took effect on January 1, 2003. The most important changes included a perceptible reduction in the amount of children's

⁵ The term "state social support" is used in compliance with terminology circumscribed and applied by the Ministry of Labour, Social Affairs and Family.

Graph 2

Year-on-year changes in the number of recipients of children's allowance and the volume of state budget expenditures



Note:

1. The figures until 2003 (including) incorporate contributions to children's allowance. The figures for 2004 do not, since contributions to children's allowance were abolished effective January 1, 2004.
2. The figures on the number of recipients express their average monthly number in the given period.

Source: Ministry of Labour, Social Affairs and Family; calculations and graph by authors.

allowance to a flat 270 Sk, an increase in the benefit's amount for persons whose income and the income of persons they share the common household with does not exceed a 2.2-multiple of the subsistence level (i.e. it introduced two levels) and stipulating children's proper school attendance as an eligibility condition to receive the children's allowance.

Tightening the conditions for disbursing children's allowance, along with other factors was in 2004 reflected by a decline in the total number of recipients and an even more perceptible decline in expenditures on children's allowance (please see Graph 2). Another factor that probably catalyzed the decline in expenditures was the abolition of contributions to children's allowance, given the significant share of low-income recipients who were eligible to receive contributions. The decline was not compensated by an increase in the benefit's amount from 270 Sk to 500 Sk per month. In 2004, the government introduced a tax bonus, which is a brand new tool designed to support gainfully employed parents (for further details, please see the section *Support of Families through Taxation and Contribution System*).

Besides, preserving the flat rate of the child allowance, which is hardly justifiable, the government also preserved disbursing the benefit to parents whose children who are legally adults but still study (i.e. "children" between 18 and 25). Also, the government simplified the logistics of disbursing the benefit, as it is now

disbursed by a single institution, namely local offices of labor, social affairs and family; previously, disbursing the benefit involved the Social Insurance Company, employers, and district state administration authorities.

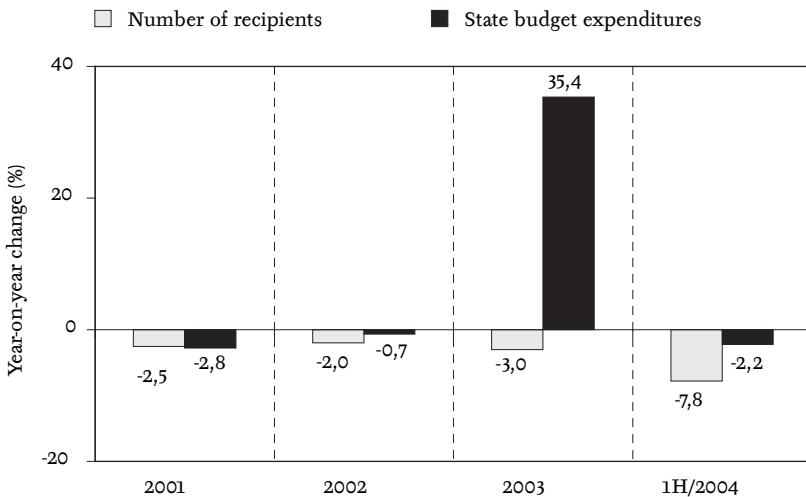
Recent developments and measures in the field of parental allowance

Parental allowance is another important benefit disbursed within the framework of state social support of families with children. This benefit is designed to support daycare of children under three or under six, provided that the health condition of parents is unfavorable in the long term.

Following a significant increase in 2003, state budget expenditures on parental allowance resumed the declining trend of the previous years. The same also applies to the total number of this benefit's recipients (please see Graph 3). The share of those parental allowance recipients that simultaneously receive social assistance benefits (or material need benefits since 2004) also demonstrated a slight decline: while in 2003 the average monthly share hovered at almost 10% of all parental allowance recipients, in the first half of 2004 the share dropped to 4.5%.

Graph 3

Year-on-year changes in the number of recipients of parental allowance and the volume of state budget expenditures



Note: The figures on the number of recipients express their average monthly number in the given period.

Source: Ministry of Labour, Social Affairs and Family; calculations and graph by authors.

The main reasons behind the constantly declining number of recipients as well as the volume of state budget funds allocated to this benefit include the following: long-term declining trend in the birth rate, people's increasing age in marrying and having their first child, and a greater time interval between

individual childbirths. Another reason is an amendment to the Law on Parental Allowance that took effect on January 1, 2003, which abolished the provision of parental allowance to parents that simultaneously received maternity benefits and shortened the period during which the child's second parent is eligible to receive the benefit for three months.

The substantial growth in state budget expenditures on parental allowance in 2003 was caused by an increase in the benefit's amount from 2,740 to 3,790 Sk, which was the subsistence level at that point.

Several years ago, the government introduced a reduced rate of parental allowance (1,200 Sk per month). Eligible to receive the benefit are the following categories of parents:

- Parents who take care of a child and are gainfully employed at the same time;
- Parents who receive sickness insurance benefits (except maternity benefits);
- The second parent, provided that both parents receive parental benefits for one month.

The total number of persons who claimed eligibility to receive the lowered rate of parental allowance in the first half of 2004 was 20,478, which represented approximately 16.5% of all parental allowance recipients.

SUPPORT OF FAMILIES THROUGH TAXATION AND CONTRIBUTION SYSTEM

In terms of supporting families, the most important change in the field of the taxation system was a tax bonus introduced in 2004. It should replace the tax deductible part of income tax (16,800 Sk per child annually) that was in force until the end of 2003 and should complement children's allowance disbursed on the across-the-board principle.

A gainfully employed parent whose income is at least six times higher than the minimum wage may subtract 4,800 Sk per year per child (i.e. 400 Sk per month) from his/her tax assessment base. Every family in which at least one parent is gainfully employed is eligible to discount the bonus. The government's primary motive was to introduce a selective tool of supporting families whose members demonstrate an interest in being gainfully employed.

Besides the tax bonus, taxpayers may discount a higher amount from their tax assessment base; the non-taxable minimum was set at 19.2-multiple of the subsistence level (i.e. 80,832 Sk in 2004), which is a significant increase from the previously valid non-taxable minimum of 12,000 Sk. Also, if the spouse's income is lower than the non-taxable minimum, the taxpayer may deduct from his assessment base the difference between the minimum and the spouse's income.

Despite all improvements, some laws in Slovakia's legal system continue to contradict the concept of a sound family policy, for instance the reintroduced

law on substitution maintenance for parents. One month after its inauguration, the incumbent administration abolished a law that guaranteed compensation to all parents whose partners refuse to pay maintenance; in summer 2004, though, parliament reintroduced the law, although it is somewhat more moderate the law which was abolished.

Apart from the taxation system, in 2004 the government also introduced elements of family support to the contribution system. In 2004, parliament passed a new law on social insurance that introduced the so-called contribution bonus, which is an allowance from the contribution rate in the amount of 0.5% per child.

PENSION AND SICKNESS INSURANCE

Social contributions (or the so-called social insurance) represent a serious financial burden on economically active citizens and systems financed from social contributions continue to be one of the greatest public finance problems.

Due to the present chapter's extent and focus, the authors decided to pay special attention to pension security (insurance) and health insurance. In 2003, the government redistributed almost 95 billion Sk through these two systems, which equaled 7.9% of the country's gross domestic product (GDP).

PENSION SYSTEM

Recent developments in the public pension system

Our special focus on the public pension system can be justified by the recent statistical data demonstrating its financial intensity: in 2003 and the first half of 2004, the pension system disbursed almost 1.5 million pensions to approximately 1.2 million pensioners. Their total volume in 2003 was approximately 87 billion Sk (7.2% of GDP) and in the first half of it reached almost 47 billion Sk. It is plain to see that the volume of funds necessary to finance the public pension system is constantly increasing, mostly on the back of old-age pensions disbursed from the pay-as-you-go system.

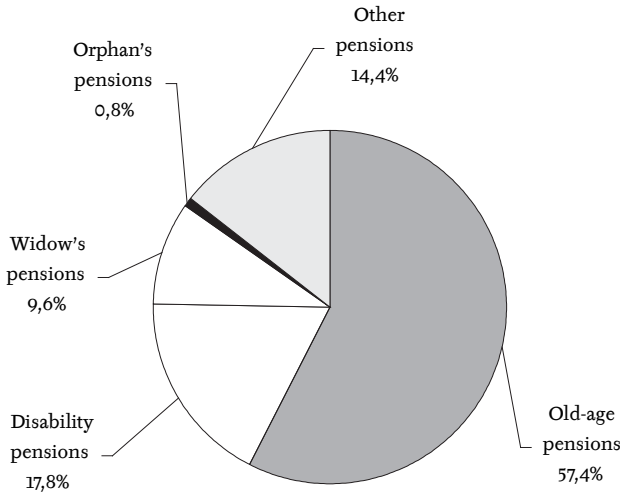
Old-age pensions represent the greatest and ever-increasing share of the system's total expenditures; over the past several years, its share increased from 48.7% in 2001 to 52.9% in 2002 and 57.4% in 2003 (please see Graph 4). Old-age pensions are clearly the greatest financial burden on the pension system and quite understandably have become the top priority of the pension reform. The second largest burden of the public pension system is disability pensions whose total share in 2003 reached 17.8%.

Direct factors affecting an increase in the total volume of disbursed pensions are particularly:

- Demographic factors, i.e. ageing of the population;
- Increase in disbursed pensions.

Graph 4

Structure of expenditures in Slovakia's public pension system in 2003

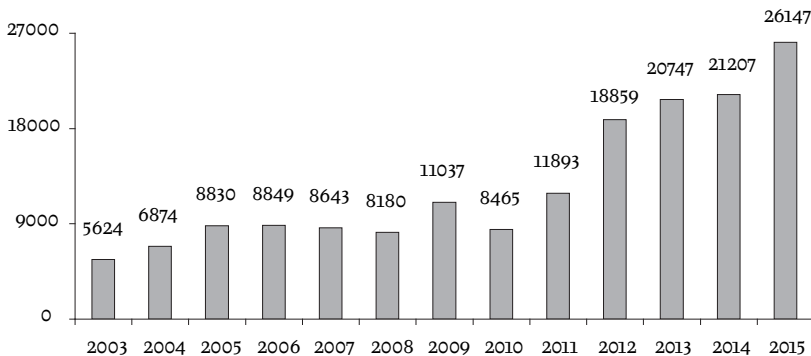


Source: Social Insurance Company, 2004; graph by authors.

Although Slovakia's population is relatively young (particularly compared to some western countries), it demonstrates an increasingly strong ageing trend; in the foreseeable future, a steep growth in the absolute number as well as the relative share of elderly people in the Slovak society is expectable. According to a forecast of population growth in Slovakia until 2050 elaborated by Infostat, the absolute number of elderly people should see strong year-to-year increases especially after 2012 (please see Graph 5), which is likely to increase the system's financial intensity and present greater requirements in terms of the long-term care provided to elderly people.

Graph 5

Year-on-year increase in the total number of people over 65



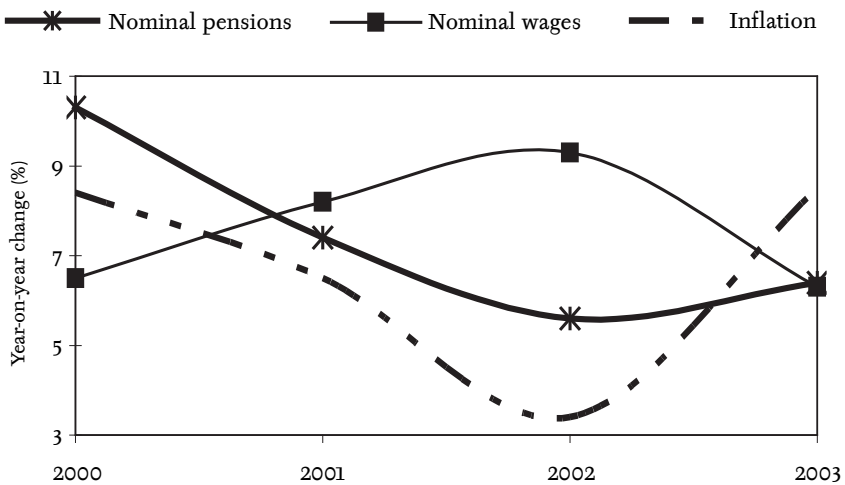
Note: The figures in the graph express the growth in number of people older than 65 in the given calendar year.

Source: Infostat, 2002; calculations and graph by authors.

In recent years, increasing the disbursed pensions did not have a substantial impact on increasing the system's total expenditures. This is true particularly during 2003 when pensions grew at a slower pace than inflation; for the sake of comparison, in 2000 parliament endorsed an increase in pensions that was not only higher than the inflation rate but was also higher than the wage growth. At the end of 2003, the average amount of old-age pensions reached 6,503 Sk (5,971 Sk for women and 7,110 Sk for men) and in the first half of 2004 it increased further to 6,745 Sk. In 2004, pensions were valorized in two phases - in February and December. The rate of substituting the gross wage by the old-age pension (ratio of pension/gross wage) equaled 45.26% in 2003; according to an estimate by the Ministry of Labor, Social Affairs and Family, it would decline to 44.54% by the end of 2004 (*Správa o...*, 2004).

Graph 6

Comparison of developments of pensions, wages and inflation



Source: Social Insurance Company; Ministry of Labour, Social Affairs and Family.

For several years now, the public pension system's revenues have been unable to finance its growing expenditures, this despite the already excessive contribution burden; consequently, the pension security fund regularly shows annual deficits. In 2004, the fund's deficit ballooned even further; available estimates from the beginning of December 2004 suggested that the fund's year-end deficit might reach almost 17 billion Sk, in spite of the effort by the Social Insurance Company that regularly patches the hole from other funds, usually from the health insurance fund.

In 2004, the pension security fund's economic management was complicated by accumulation of several negative factors, for instance failing to claim owed insurance premiums, disbursing a single time compensatory payment to pensioners (1,000 Sk per person), etc. This caused severe problems in the entire public finance sector and documented the financial and functional non-viability of

the existing dominant public system financed on the pay-as-you-go model, which is further aggravated by the growing ratio of recipients to contributors, also called a dependency ratio. In 2003, the ratio reached 55% and official forecasts suggest that it will see a steep increase in the following years and that in over 10 years the number of recipients will probably exceed the number of contributors.

Recent developments in the field of supplementary pension insurance

Voluntary schemes within Slovakia's pensions system continue to be seriously underdeveloped, mostly due to the excessive weight of the public pillar; in fact, the only voluntary scheme operating in 2004 was supplementary pension insurance. The government supports this scheme by making supplementary pension insurance premiums tax deductible; taxpayers may deduct from their tax assessment base up to 10% of their annual income not more than 24,000. Due to this policy, employees as well as employers are becoming increasingly interested in the supplementary pension insurance scheme.

In 2003, the total number of policyholders in all five supplementary pension insurance companies (DDPs) that operate on the market⁶ increased by almost 95,000 (20.7%); in the first half of 2004, it increased by further 28,000 to exceed 580,000.

Since the beginning of their existence, combined revenues of all DDPs increased by 2.2 billion Sk to reach 12.1 billion Sk. An interesting indicator is the average profitability rate per single policyholder, which reached 4,643 Sk at the end of June 2004. The assets of DDPs are also growing fast; their combined value increased from 0.02% of the GDP in 1997 to 0.95% of the GDP (12.5 billion Sk) in 2004 (*Správa o...*, 2004).

On the other hand, one must realize that the volume of disbursed pensions is very low for the time being; until the end of June 2004, DDPs disbursed 2.1 billion Sk to approximately 191,000 clients.

Main legislative changes of the pension system

2004 was a crucial year in which the government managed to enact the remaining legislative changes necessary to launch the pension reform on January 1, 2005. The changes were aimed at transforming the existing single-pillar model (pay-as-you-go system) into a three-pillar model, mostly by:

- i) Strengthening the merit principle in the compulsory and publicly administered pay-as-you-go system – 1st pillar (Social Insurance Act);

⁶ The following supplementary pension insurance companies (DDP) operated on the Slovak market in 2004: First DDP Tatry-Sympatia, DDP Stabilita, Pokoj DDP, DDP Credit Suisse Life Pensions and ING DDP. Another DDP to obtain the licence effective January 1, 2003, was the First National DDP; however, this company still has not launched activities stipulated by the Law on Supplementary Pension Insurance.

- ii) Introducing the compulsory fully-funded system in 2005 in which people will save funds in their personal accounts through old-age pension contributions – 2nd pillar (Law on Old-Age Pension Scheme);
- iii) Indirect support of voluntary pension schemes – 3rd pillar (Law on Supplementary Pension Insurance).

Select changes to the pay-as-you-go system (1st pillar)

The most important change in the Social Insurance Act with respect to disbursed pensions was the strengthening of the merit principle. From now on, the amount of old-age pensions disbursed from the first pillar will be largely determined not only by policyholders' average wage, but also by the total number of years they worked and by the actual value of pensions at the point they become eligible to receive them.

The basic condition for becoming eligible to receive old-age pensions is that a person must contribute to the system for at least ten years. The retirement age will be 62 and will be the same for men and women; it will apply to men born in 1946 and later and women born in 1962 and later (in the case of childless women in 1953 and later). For elderly men, the retirement age will increase by nine months every year.

An indisputable positive of the new Social Insurance Act is the automatic valorization of old-age pensions by the percentage that is the average of the year-to-year growth in the average wage in national economy and the year-to-year growth in consumer prices. This is expected to eliminate the political influence on the amount of disbursed pensions.

On the other hand, a serious negative (not only in the context of the public pay-as-you-go pillar but in terms of the pension reform in general) was increasing the total rate of pension insurance contributions from 28% to 28.75% (for childless policyholders) and extending the assessment base for calculating the amount of contributions from 32,000 Sk to three-multiple of the average wage (for further details, please see the section *Main Problems of the Social Security System*).

Introduction of a compulsory fully-funded system (2nd pillar)

The Law on the Old-Age Pension Scheme established a fully-funded system in which citizens will save pension funds in pension asset management companies (DSS). Participation in the new system was made compulsory for all citizens who enter the country's labor market in 2005; their employers will have to channel 9% of the assessment base to personal accounts administered by a DSS chosen by the employee. The remaining 19.75% will be paid to the Social Insurance Company. Between January 1, 2005, and June 30, 2006, other citizens will be free to decide whether they will divide their social insurance contributions between the Social Insurance Company and DSS or continue to pay the entire amount to the Social Insurance Company; after June 30, 2006, it will no longer be possible to enter the second pillar.

The key role in the second pillar will be played by pension asset management companies that are established as private joint stock companies. Their principal role will be to administer and increase the value of pension assets in three various types of pension funds established (i.e. growth, balanced and conservative) and disburse old-age pensions to their clients. The Law on Old-Age Pension Scheme introduced a variety of requirements that regulate their entry to the market, investment patterns, and principles of doing business. For instance, within 18 months of establishing the three funds, each DSS must have 50,000 registered clients; otherwise, it faces sequestration. The law stipulates that equity capital of a DSS be at least 300 million Sk.

Supervision over particular subjects and proper functioning of the old-age pension scheme will be performed by the Financial Market Authority (UFT). Even in this pillar that will be administered on a private basis, the Social Insurance Company will perform several important roles, such as keeping the register of policyholders/savers, collecting contributions or disbursing special expenditures from the so-called reserve solidarity fund.

Table 2

Comparison of compulsory payments to the pension scheme before and after the reform - example of an employee participating in the 2nd pillar (%)

Compulsory contributions	Before December 31, 2003			After January 1, 2005		
	Employee	Employer	Total	Employee	Employer	Total
Old-age insurance (PAYG to SIC)	6.4	21.6	28.0	0 - 4,0*	5,0*	5,0 - 9,0-
Disability insurance (PAYG to SIC)				3.0	3.0	6.0
Reserve solidarity fund (paid to SIC)	-	-	-	-	4.75	4.75
Total payments to SIC				3.0 - 7.0*	12.75	15.75 - 19.75*
Old-age savings (paid to DSS)	-	-	-	-	9.0	9.0
Total	6.4	21.6	28.0	3.0 - 7.0*	21.75	24.75 - 28.75*

Note: * - each employee (one parent in the family) may reduce old-age insurance contributions by 0.5% for each child without means; ** - provided that the employee participates in the compulsory old-age scheme.

SZČO - self-employed persons; PAYG - pay-as-you-go system; SIC - Social Insurance Company;

DSS - supplementary pension asset management companies.

Source: Ministry of Labour, Social Affairs and Family; calculations and table by authors.

Changes to supplementary pension insurance

The final legislative change that had to be made before launching the pension reform was the adoption of the Law on Supplementary Pension Insurance in October 2004. The law officially establishes the third pillar, which is the only voluntary pillar and its role is rather complementary. This is unlikely to change in the near future, as the first two pillars already represent an excessive financial burden for most citizens.

Therefore, the key objective of this law was to encourage people's trust in this segment and interest to participate in it. The law's most important features include:

- Making ownership relations in supplementary pension insurance companies (DDPs) more transparent and separating their property from their clients' savings;
- Introducing certain motivational elements, although their effects were made relative by some restrictions;
- Making supervision of DDPs uniform and more effective.

During the transformation period, i.e. by the end of 2005, supplementary pension insurance companies will have to transform into supplementary pension companies (DDS), i.e. standard asset management joint stock companies that administer specialized funds like investment companies. This should guarantee greater transparency of ownership relations and clearly separate DDS's own property from its clients' savings, which is hoped to enhance security of deposits and encourage people's confidence.

People's capital investments in life insurance, portfolio investment, and long-term purpose-bound deposits in banks and insurance companies were also made tax deductible by the law. On the other hand, employees may deduct their capital savings up to 10% of their tax assessment base, but the maximum limit was reduced from 24,000 Sk to 12,000 Sk.

An important change was a transferring supervision over DDPs from the Ministry of Finance and the Ministry of Labor, Social Affairs, and Family to the Financial Market Authority.

RECENT DEVELOPMENTS AND LEGISLATIVE CHANGES IN SICKNESS INSURANCE

In 2003, the government spent 8.6 billion Sk on health insurance benefits, which was almost the same as in 2002. There is a constantly declining trend in all types of benefits disbursed from the health insurance system (i.e. sickness benefits, contribution to nursing a family member, maternity benefits and pregnancy allowance), both in terms of the number of recipients and the total amount of benefits.

The total number of recipients of sickness benefits, which make up approximately 83% of all expenditures of the health insurance system, has declined since mid-1999. This is most probably related to changes adopted in 1998, when the amount of sickness benefit was set at 90% of 350 Sk and has not been valorized since. The declining real value of sickness benefits has logically pushed down the share of people in Slovakia who are officially declared unfit for work.

The share of people unfit for work has declined moderately over the past several years, from 4.6% in 2002 to 4.57% in 2003 and 3.9% in the first half of 2004; however, in some regions (paradoxically those plagued by high unemployment) it still remains too high, for instance in the district of Stropkov or the district of

Stará Lubovňa where it reached 10.8% and 12.1%, respectively, in the first half of 2004.

The decline in revenues as well as expenditures of the Social Insurance Company related to sickness insurance was largely caused by amendments to the Social Insurance Act and the Law on Income Substitution during Sick Leave that took effect on January 1, 2004. These amendments stipulated that in the first ten days of sick leave, the employee's sickness benefits are financed by the employer and not the Social Insurance Company as it was the case before. The amount of the benefit was differentiated in time: the employer pays the employee 25% of the assessment base during the first three days of a sick leave and 55% during the remaining seven days. From the eleventh day on, the Social Insurance Company takes over, paying the employee 55% of the assessment base. The maximum period of receiving sickness benefits was set at 52 weeks.

Employers' increased expenditures on sickness benefits should be outweighed by reducing sickness insurance contributions from 3.4% to 1.4%.

MAIN PROBLEMS OF THE SOCIAL SECURITY SYSTEM

Despite indisputably positive effects of several recently adopted and implemented measures in the field of social security, certain problems within the system lingered on, others were further aggravated, and some new ones emerged. Some of these problems as well as possible solutions are outlined in the following section.

PROBLEMS OF TACKLING UNEMPLOYMENT

The authors of this chapter believe that the shortest way toward solving the unemployment problem leads through freeing the space for business subjects' private initiatives in a market environment, further reducing the tax and contribution burden, and generally curbing the rate of regulations from the public sector.

Unemployment represents a natural element of the market economy, which is why any effort to achieve the full rate of employment is illusory. Short-term unemployment as a by-product of the employee's decision to change a job, the employer's decision to renew his workforce or the natural process of companies' emergence, development and decline is not a negative phenomenon by itself. Therefore, it seems unjustified that the government continues to enforce the principle of solidarity through compulsory unemployment insurance.

The government's decision to make unemployment insurance optional for self-employed people was certainly a move in the right direction; however, it seems right to extend the voluntary principle to include also employees. Another positive change was strengthening the merit principle, i.e. introducing a direct relation between how much an individual puts into the system and how much he takes from it should the need arise. The best solution seems that the rate of protection – in this case the amount of assessment base – should also be left up to the citizens themselves.

A number of negative social phenomena are directly related to long-term unemployment; however, even here the “government’s care” should not substitute individuals’ personal responsibility for their lives. As in most areas, state interventions in this area tend to be ineffective. Therefore, it is desirable to reduce them to the minimum inevitable level, which should amount to assisting objectively disadvantaged citizens, especially citizens whose ability to work is limited by a severe handicap. Various tools of active labor market policy introduced in 2004 are more targeted compared to previously applied tools; however, the government still seems to place exaggerated hopes in the effectiveness of its interventions. Solutions adopted as a result of government interventions tend to be costly and usually are only temporary.

Despite the important role municipal self-governments plays in terms of organizing municipal *pro bono* projects aimed at activating the unemployed, the entire system of active labor market policy remains heavily centralized. The authors of this chapter believe it would pay off to decentralize and denationalize the system of employment services and transfer basic executive powers from the state administration onto municipal and regional self-governments. In this context, it is clearly negative that private subjects providing employment services on a commercial basis have not been deregulated.

It is highly positive that the government curbed trade unions’ influence over social policy in general and labor market policy in particular, especially by abolishing the Tripartite Act. Nevertheless, the authors of this chapter believe it would be desirable to also abolish the tripartite as a permanent institution, which would not prevent holding *ad hoc* negotiations between the government and representatives of trade unions and employers’ associations if the need arises.

Thanks to amending the Labor Code in 2003, Slovakia’s labor law has become more flexible and the degree of regulating labor relations has become lower compared to other EU member states; however, the authors of this chapter still find it unjustifiably excessive. In this context, it is important to point out negative implications of the possible harmonization of labor law or other areas of social policy within the EU. Similar efforts would most probably lead to a higher degree of regulation and a less effective social security system in Slovakia. That is why all such efforts must be emphatically rejected.

PROBLEMS OF TACKLING MATERIAL NEED

The basic problem when tackling the issue of poverty lies in paternalistic expectations, individual passivity, and insufficiently developed natural forms of solidarity in society.

Compared to the previous model of social assistance, the new model of helping people in a state of material need is a positive shift toward a greater degree of personal responsibility as it encourages activity and initiative of individuals. Tightening eligibility conditions for receiving material need benefits, widening the gap between earned income and income from the social security system, and a motivation element in the form of activation allowance are all positive measures according to the authors of this chapter.

On the other hand, the way of introducing the new system may be evaluated as problematic, as a great number of municipal self-governments turned out to be inadequately prepared to create conditions for labor activity of the unemployed (i.e. their participation in community *pro bono* services and voluntary work projects), which is the basic legal condition for adding activation allowance on top of the material need benefit. Increasing the amount of activation allowance by 50% three months after its introduction indicates that its original amount was set too low. Even its current amount of 1,500 Sk cannot really be viewed as encouraging labor activity among the unemployed. The same applies to the minimum eligibility criterion of working at least 10 hours per week. The authors of the chapter believe it would be more beneficial to tie the financial benefit to labor activity and differentiate the amount of the benefit according to its length. Citizens in the state of material need who would refuse to accept it would only be entitled to assistance in kind.

It seems desirable to decentralize executive powers in the field of tackling material need all the way down to the level of municipalities that could apply a differentiated approach, depending on specific local conditions. At the same time, it would allow particular municipalities to test and compare the effectiveness of various models of tackling material need.

PROBLEMS IN STATE SOCIAL SUPPORT OF FAMILIES WITH CHILDREN

Public support and appreciation of a traditional family in society is justifiable and important. However, social policy should rather focus on providing social protection of objectively to disadvantaged families (including their temporary failure to secure income) and their protection against poverty. The authors of this chapter believe that social policy should be free of any across-the-board financial benefits (subsidies) disbursed to all families regardless of their income and property situation.

A typical example of such a benefit is the child allowance. After two and a half year of constantly changing the philosophy (and adopting four legislative changes), the government in 2004 began to disburse the child allowance on an across-the-board principle, i.e. in the equal amount for all children, including children of parents who do not need them at all given their level of income and/or property. Allocating taxes paid by childless low-income citizens to parents with children who happen to be wealthy is morally and economically wrong, if does not “absurd”. Furthermore, this approach countermands the officially declared intention to strengthen the individual principle of social policy and places greater financial demands on public finance. The government’s argument that all EU member states except Spain and Italy apply a similar approach (Zachar, 2004) can barely serve as an excuse.

The tax and, to a certain extent, the contribution bonus per child seem more acceptable tools for helping families with children, as they directly reduce the tax/contribution burden of parents who are gainfully employed, i.e. they do not require further redistribution through public expenditures. Theoretically, i.e. by the principle of “negative pension tax” theoretically described by Milton

Friedman, Nobel Prize laureate for economy from 1976 (please see Friedman – Friedmanová, 1992), this approach should replace the previously adopted approaches. Unfortunately, this is not the case in Slovakia; the tax bonus was introduced merely as a complement to the child allowance.

Parental allowances are yet another benefit redistributed from taxpayers' money that are not fully justifiable; unlike the child allowance, though, they are at least targeted at a specific group of citizens who are objectively disadvantaged. It is therefore somewhat more acceptable as society's financial appreciation of parents who provide full-fledged daycare to their children, by which they give up earned income. If we apply the same philosophy, though, providing parental allowance to gainfully employed parents (though at a reduced rate) appears non-systemic, to say the least. According to the chapter's authors, it is also wrong that the parental allowance is not provided throughout children's pre-school age, but only during the first three years of their lives and that it is tied to the subsistence level and is not a substitution of earned income, i.e. the currently existing institution of minimum wage.

The law that again established the substitution support fund which encourages parents who refuse to pay child support and forces taxpayers to pay their liabilities. The currently valid law stipulates that the "state" will make up for the unpaid child support up to 1.2-multiple of the subsistence level to all families whose income does not exceed 2.2-multiple of the subsistence level. Furthermore, this non-systemic law is completely pointless, as the Criminal Statute defines negligence or refusal to pay child support for longer than three months as a criminal offence.

ESSENTIAL PROBLEMS IN THE PENSION AND SICKNESS INSURANCE SYSTEM⁷

Compared to changes adopted in other areas of social policy, the recently launched pension reform is more complicated and financially much more demanding. The eventual system, which may be described as "bold" compared to pension systems in western countries, should reduce the system's rate of public administration and relieve the pay-as-you-go model of financing. The three-pillar model should spread financial risks related to disbursing pensions between the labor market and financial markets.

However, the currently implemented model of pension reform does not tackle the essential problems and deformations of Slovakia's current pension system that stem mostly from suppressing people's personal responsibility and motivation to save; equally importantly, it implies significant additional costs, not only for individual citizens but also for the entire public finance system.

The new pension system inherently has *two key problems*:

- Increasing the already excessive contribution burden and sustaining the high demands placed on financing pension security benefits;

⁷ Due to the limited space provided by the *Social Policy* chapter on the one hand and the scope and seriousness of problems within the pension system, the authors decided to present "only" select (i.e. the most relevant) problems.

- Preserving the excessive weight of the compulsory system and, consequently, a failure to extend the space for development of voluntary pension schemes.

The pension reform already increased the overall rate of pension insurance contribution by 0.75% (please see Table 2). Increasing the maximum assessment base for calculating pension security contributions to a three-multiple of the average wage will further increase the contribution burden. Besides, the chances to reduce future contributions are rather slim. The government also missed out on an opportunity to simplify the system by transferring the obligation to pay contributions solely to employees. In spite of a moderate reduction in other types of social contributions (e.g. unemployment insurance or sickness insurance), the new pension system will sustain the high non-wage labor costs borne by employers and thus continue to limit creation of resources in Slovakia's economy that are necessary for financing investments or, for that matter, pensions.

The contribution burden and labor costs are further increased by contributions to the so-called reserve solidarity fund administered by the Social Insurance Company. The resources from this fund should cover the deepening deficit in the first pillar, but also make up for damages emerging in the second pillar (e.g. bankruptcy of a pension asset management company); however, the authors of this chapter believe that both these expenses should be financially covered by other resources (e.g. privatization, savings on the expenditure side of the state budget, etc.).

The first pillar and the second pillar of the new system were made compulsory, and increased the overall rate of the pension contribution burden to 28.75%. This is likely to discourage people from participating in voluntary pension schemes by depleting their available resources. Satisfactory development of voluntary pension schemes cannot be achieved through tax allowances or other forms of incentives.

The second pillar presents greater problems and financial risks for inhabitants as well as for the public finance system. Besides the "philosophical" problems (i.e. forcing people to save and leaving them no free choice) and "methodological" problems (i.e. mixing private administration and compulsory participation), this pillar may bring several serious practical risks, namely the following:

- The risk of high administration costs;
- The risk of low real yields on assets;
- The risk of lower pensions with respect to wages.

Recently introduced legislative changes in the field of sickness insurance – especially transferring the obligation to finance employees' sickness benefits during the first ten days of a sick leave from the Social Insurance Company onto his employer – are expected to prevent employees from abusing the scheme and curb the sickness rate in general. On the other hand, they increased employers' administration costs. And although they are hoped to be partially compensated by a lesser sickness rate of their employees and a reduced rate of sickness insurance contributions (from 3.4 to 1.4%), the employers' overall financial burden is likely

to increase. Such proposals should not be viewed as systemic solutions to sickness insurance, as they do not transfer the full responsibility onto employees by giving them the freedom to decide on their own sickness insurance.

CONCLUSION

Our evaluation of recent developments, adopted measures, and lingering problems in particular areas of social policy in 2004 shows that the incumbent administration has embarked on implementing previously unseen changes. Many of them may be evaluated as justifiable and correct, for instance measures adopted in the field of tackling material need.

On the other hand, the system still does not require recipients to provide any equivalent value for any financial benefit. Even worse, certain measures in other areas of social policy have aggravated the already existing systemic defects. For instance, the across-the-board principle of disbursing children's allowance contradicts the individual principle, the re-introduced institution of substitution maintenance discourages citizens' personal responsibility and the new pension system increases the weight of the "compulsory" at the expense of the "voluntary".

All problems in particular areas of social policy have the following common denominators:

- The excessive (both broad and high) rate of compulsory solidarity, which stems from the government's reluctance to reduce its role in economy;
- The excessive rate of contribution burden, which is related to the inevitability of financing excessive social solidarity.

The government-enforced compulsory solidarity requires greater redistribution and is set too broadly, as there are too many social security benefits that are questionable in the context of the classic concept of social policy focusing on the needy and objectively disadvantaged. Many benefits are disbursed to all recipients on the universal principle, e.g. single time state social support benefits, child allowances, commuting allowance, etc.

Like in western European countries, the rate of social solidarity in Slovakia is also set too high, as particular benefits and services financed from public funds, i.e. taxes and contributions often exceed the basic standard of living.

Fifteen years since the beginning of economic and social transformation, maintaining the excessive rate of compulsory solidarity stems especially from the fact that most people continue to have excessive expectations of the government and take most social security benefits for granted, as they are not required to demonstrate the objective need or to provide any equivalent value.

A general conclusion may be drawn that the "dependence culture" inherited from socialism continued to be typical for a significant part of Slovakia's population in 2004; however, besides the "dependence culture" there are also other negative by-products of the long-term excessive rate of compulsory solidarity and the government's role in economy, especially:

- Increased pressure on financial resources, i.e. taxes and social contributions, while particularly the latter are already too high in Slovakia;
- Elbowing out voluntary (i.e. natural) forms of solidarity and togetherness.

Social and health care contributions whose combined value reaches almost 50% of the assessment base form the greatest financial barrier to enterprise and creation of new jobs in Slovakia. In a study titled *Small Enterprise in 2004*, most entrepreneurs said that “contributions are the greatest obstacle to enterprise and reducing them should be the government’s top priority”. Excessive contributions directly increase employers’ costs, encouraging them to prefer black labor to official labor contracts. The average tax and contribution costs make up approximately 52% of employers’ total labor costs, which leaves less than half of the labor costs pie (48%) for employees’ net wages (*Trend* weekly, No. 40/2004).

Due to the excessive contribution burden and other financial restrictions, voluntary forms of solidarity and togetherness via natural social “institutions” (i.e. family, civil associations, church, community, etc.) are seriously limited; however, their potential is immense and they could in time largely replace the existing public programs based on government-enforced social solidarity.

Therefore, the eventual objective of reforms in the field of social security should be restoring traditional values such as personal responsibility, voluntary solidarity, and togetherness within the family as well as the community. The authors of this chapter are convinced that social security reforms in general and pension reform in particular should in the long term be aimed at achieving the following model:

- Dominant pillar funded from private resources and based on a voluntary principle;
- Supplementary public pillar financed from taxes and based on compulsory social solidarity that would guarantee the minimum standard.

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