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SOCIAL POLICY

INTRODUCTION

In Slovakia, social policy usually refers to a set of measures the government takes with respect to social insurance (i.e. the pension system, insurance against illness and unemployment), social support and social assistance. In evaluating the government's social policy in 2002 and 2003, however,[2] we divided these measures into the following four areas:

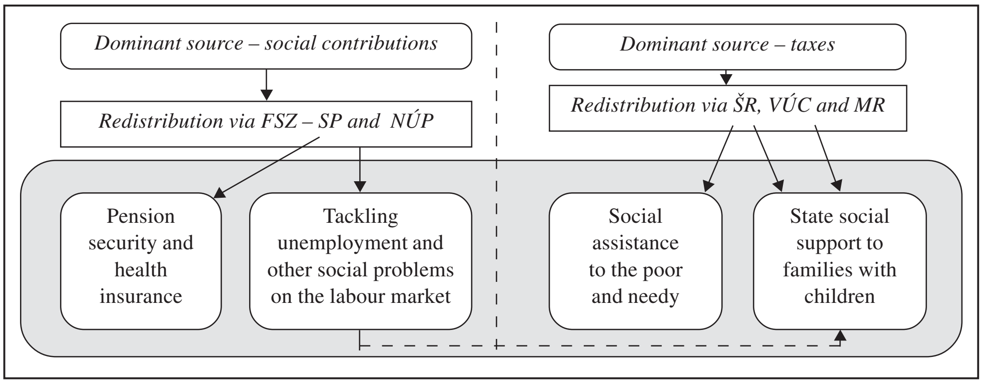
- measures to address unemployment and other problems on the labor market;
- social assistance to the poor and needy;
- state support for families with children;
- pension system and insurance against illness.

Scheme 1 illustrates this classification of the government's social policy.

RECENT DEVELOPMENTS AND MEASURES IN THE WELFARE SECTOR

In 2002 and 2003, social policy in Slovakia was affected by the end of one electoral term and the commencement of another. While the

Scheme 1
Breakdown of social policy in Slovakia in 2003



Note:
1. The scheme presents not only the main fields addressed by social policy in Slovakia but also the main sources and institutions that redistribute aid within the public administration.
2. The scheme does not take into account the system of financing medical care.

FSZ – social security funds
SP – Social Insurance Company
ŠR – state budget
NÚP – National Labor Bureau
VÚC – regional elected governments
MR – local budgets

Source: authors

previous administration was not interested in being thrifty in welfare, especially toward the end of its tenure, its successor took a completely different approach from the beginning of its term. In its program manifesto from November 2002, the current administration pledged to make a number of major changes. In the welfare sphere, it set two priorities: reducing unemployment and increasing the efficiency of social security. In terms of concrete measures the government has taken, some have been successful while others have failed.

Pension reform is among those reform intentions the current administration will probably fail to fulfill, at least not to the extent envisaged in its program manifesto. The reform concept and the related legislation adopted are not fully in line with the government's goal "…to head toward a substantial strengthening of voluntary pension schemes."

The government has succeeded in partially reducing the overall contribution burden. After the pension "reform" is launched, the overall contribution burden will grow temporarily due to the increase in pension security contributions, from 28.0% to 28.75%; however, after other changes occur, the overall burden should decline by about 3 percentage points.

On the other hand, recent developments on the labor market indicate the government is close to fulfilling one of the basic objectives in its program manifesto: "…to motivate people of productive age to active labor." The unemployment rate fell steadily throughout 2003.

Table 1
Rates of compulsory social insurance (% of assessment base)

Insurance	Before December 31, 2003				After January 1, 2004 (January 1, 2005) [e]			
	Employees	Employers	Total	SZČO	Employees	Employers	Total	SZČO
Unemployment (1)	1.0	2.75	3.75	3.0	1.0	1.0	2.0	– [d]
Guarantee (2)	–	0.25	0.25	–	–	0.25	0.25	–
Sickness (3)	1.4	3.4	4.8	4.8	1.4	1.4	2.8	4.4
Pension (4), including: (5) + (6) + (7) + (8)	6.4	21.6	28.0	28.0	7.0	21.75	28.75	28.75
Old-age insurance (5)	6.4	21.6	28.0	28.0	4.0	14.0[b]/5.0[c]	18.0[b]/9.0[c]	18.0[b]/9.0[c]
Invalidity insurance (6)					3.0	3.0	6.0	6.0
Compulsory scheme (7)	–	–	–	–	–	–[b]/9.0[c]	–[b]/9.0[c]	–[b]/9.0[c]
Reserve solidarity fund (8)	–	–	–	–	–	4.75	4.75	4.75
Total [a] (9) = (1) + (2) + (3) + (4)	8.8	28.0	36.8	35.8	9.4	24.4	33.8	33.15

Note:
SZČO – self-employed people;
a – total rates without medical insurance – in 2003 it was 14.0% of assessment base);
b – provided the person does not participate in the old age pension scheme;
c – provided the person participates in the old-age pension scheme;
d – effective January 1, 2004, unemployment insurance will be optional for self-employed people (2% of assessment base);
e – the new rates of pension insurance set by the Law on the Old-Age Pension Scheme will come into effect on January 1, 2005.
Source: Act on Social Insurance; Bill on the Old-Age Pension Scheme; authors

TACKLING UNEMPLOYMENT AND THE SOCIAL CONTEXT OF THE LABOR MARKET

Developments on the labor market

The average rate of registered unemployment in 2002 was 17.8% and the total number of registered unemployed was 513,167, which was 7,475 less than a year before. For the first time since 1996, the unemployment rate showed a year-on-year decline in 2002. In 2003, the fall in unemployment was even more visible. The average number of registered unemployed dropped from 509,193 in January 2003 to 413,086 in December 2003, bringing the registered unemployment rate down from 17.7% in January to 15.6 % in December (see Graph 1).

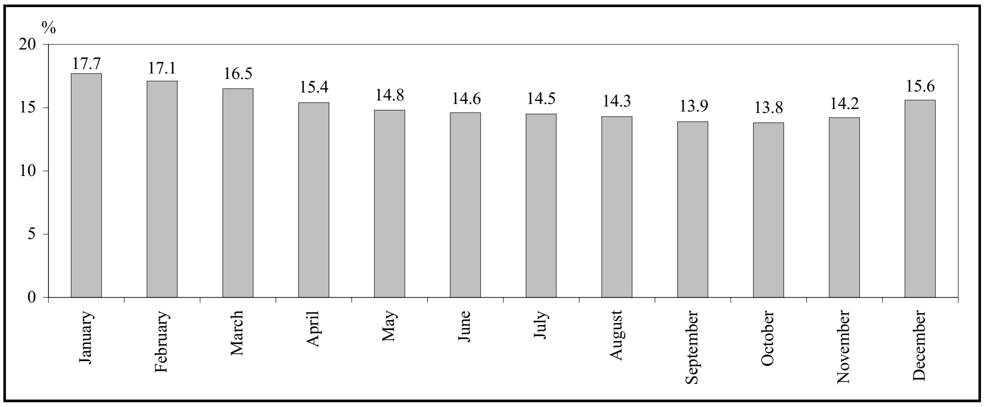
Among OECD member states, Slovakia has one of the highest ratios of people who have been unemployed over the long term. Approximately three in four people registered with the labor office as unemployed have been jobless for longer than six months, and about one in two have not been employed for over a year (*Ekonomické prehľady...*, 2002). People in this category are considered almost unemployable, due to their extremely low education and qualifications.

Other categories of people who find it more difficult to find employment include: people over 50, handicapped people, youth and recent school graduates. Although there are no statistics on the ethnic breakdown of unemployed people, it is common knowledge that unemployment, particularly long-term unemployment, is far above average among the Roma minority.

Disparities in the unemployment rate among Slovakia's various regions are becoming worse. In 2002, the gap between districts with the highest and the lowest average unemployment rate was 33.8%, or 2.9% higher than in 2001. The highest average unemployment rate (37.2%) in 2002 was recorded in the Rimavská Sobota district, while Bratislava III showed the lowest rate (3.4%) (*Správa o sociálnej situácii v roku 2002,* 2003).

In the first half of 2003, the general decline in unemployment reduced the number of jobless in the aforementioned risk categories[3], although this was in absolute rather than relative terms. On the other hand, the

Graph 1
Registered unemployment rate in 2003



Source: National Labor Bureau, 2003

general fall in unemployment had a positive impact on regional disparities, as the gap between the districts with the highest and the lowest average unemployment rates fell by 6.4 percentage points, from 34.5% in the first half of 2002 to 28.1% a year later. Likewise, the number of districts where registered unemployment was over 30% dropped from seven in the first half of 2002 to three a year later.

Measures to tackle unemployment

Until 2003, the National Labor Bureau (NÚP) steered labor market policy in Slovakia, and divided its approach between passive and active policies. Passive labor market policy means disbursing unemployment benefits from unemployment insurance; active policy comprises measures to increase employment and the employability of people without jobs.

The basic tools of active labor market policy include retraining, supporting the creation of new jobs (by supporting employers or self-employment), practical training, *pro bono* work, programs to employ specific categories of people (i.e. the long-term unemployed, people over 50, people who have been laid off), supporting the employment of people with limited work abilities (through protected workplaces for the handicapped, counseling, rehabilitation) and others (e.g. subsidizing workers' commuting costs).

In the first half of 2003, active labor policy tools created 21,035 new jobs for the unemployed; in the same period of 2002, the figure was 37,157.

Spending on labor market policies in the first half of 2003 reached 4.1 billion Sk; of that amount, 2.8 billion Sk went to passive labor market policy and 1.3 billion Sk to active labor market policy. Total spending on labor market policies in 2002 was 8.7 billion Sk. However, these funds do not represent the entire cost of sustaining the unemployed. Not even one in five people registered as unemployed in Slovakia receive unemployment benefits. While the average number of registered unemployed in the first half of 2003 was 465,798, the average number of unemployment benefit recipients was 84,798. The rest were in the social security net; 261,233 people registered as unemployed received social benefits to alleviate poverty. In the first half of 2003, the government spent 4.5 billion Sk on social benefits; 90% of the people receiving these benefits were registered as unemployed.

Legislative changes to address unemployment

While previous administrations tried to tackle unemployment on the level of social policy[4] by using various active labor policy tools, the administration inaugurated after the 2002 elections realized the flaws in this approach. The fact that unemployment stopped growing in 2000 and 2001 had been attributed to active labor policy, especially the extensive *pro bono* public works projects. But the labor ministry's strategy to boost employment by reforming the social security system, proposed in February 2003, said the results of active labor programs had been mixed: "Active labor policy and measures to mobilize the unemployed are costly, while of questionable effect… in their current form, they are not an effective way of tackling social problems and encouraging employment" (*Návrh stratégie…*, 2003).

The measures proposed by the strategy are aimed at:

- reducing the discouraging effects of the workforce's tax and contribution burden;
- strengthening individuals' motivation to seek employment and keep jobs;

- encouraging the employment of select categories of unemployed people and welfare benefit recipients;
- increasing the flexibility of the labor market;
- increasing the efficiency of the state administration and services related to the labor market and social affairs;
- eliminating abuse of the social security system.

Besides Slovakia's overall economic growth, which encouraged employment, the fall in unemployment in 2003 was also due to social policy legislation, especially the following:

1. amending the Law on Employment;
2. amending the Law on Social Assistance;
3. amending the Labor Code.

The amendment to the 1996 Employment Law was passed in November 2002 and took effect on January 1, 2003. The law requires all people registered as unemployed to actively seek employment and report to the labor office once every two weeks to show they have been looking for work. Failure to comply results in their elimination from the unemployment registry. The law also improved cooperation between municipalities and district labor offices in tackling unemployment, especially to eliminate illegal, or undeclared labor. This put further pressure on the jobless to seek employment and made life more difficult for people working under-the-table and abusing the social security system. In 2003, tens of thousands of unemployed people were eliminated from the unemployment registry, many at their own request.

The amendment to the Law on Social Assistance and the Subsistence Level was approved in December 2002 and took effect on January 1, 2003. The law reduced social benefits and limited their amount per family, which reduced the negative impact that Slovakia's formerly generous social security system had had on the motivation of the jobless to seek employment. In many cases, there had been little, if any difference between the income one could generate from employment, and the income one could obtain from social security.

The amendment to the Labor Code was passed in May 2003 and took effect on July 1, 2003, increasing the general flexibility of labor relations and reducing state regulation.

The amended Labor Code untied employers' hands in hiring employees by allowing them to renew fixed-term contracts for up to three years and extending their options to hire, including part-time contracts. It also introduced simpler and more flexible procedures for dismissing employees who do not meet with employers' job requirements.

According to the new law, part-time labor contracts can be ended without giving a reason. The new Labor Code extended the possibilities for overtime work; from now on, the employer may order employees to work up to 150 hours a year in overtime, and may agree with them on overtime work of up to 250 hours a year. The new law also restricted the scope of reasons and the number of days employers were obliged to let employees off and still pay their wages.

The new Labor Code restricted trade union privileges, which remain extensive. The final version of the Labor Code was the result of long negotiations between the government and the trade unions.

In fall 2003, parliament passed three important laws that took effect on January 1, 2004, which shifted the focus of the government's labor market policy and substantially changed the conditions for providing "public employment services" (e.g. *pro bono* projects):

a) the Law on State Administration Organs in the field of Social Affairs, Family and Employment Services;
b) the Law on Social Insurance;
c) the Law on Employment Services.

The Law on State Administration Organs in the field of Social Affairs, Family and Employment Services abolished the NÚP effective January 1, 2004, and transferred responsibility for active labor policy to a new network of special state organs, namely the Central Office for Labor, Social Affairs and Family and local offices of labor, social affairs and family. Besides employment services that were performed by labor offices until the end of 2003, the new network also took over the agenda of social affairs departments at abolished district state administration offices.

The Law on Social Insurance transferred the administration of unemployment insurance (i.e. collection of insurance premiums and disbursement of unemployment benefits) from the abolished NÚP to the Social Insurance Company. Financing active labor policy was transferred from the NÚP to the state budget. The unemployment insurance rate was at the same time reduced from 2.75% to 1% of the assessment base for employers and from 3% to 2% for self-employed people; for the latter, unemployment insurance became optional. The rate of unemployment insurance paid by employees remained at 1%. The new Law on Social Insurance, together with the new Law on State Administration Organs in the field of Social Affairs, Family and Employment Services, strengthened the direct responsibility of the labor ministry for managing employment policy.[5]

The Law on Employment Services defines the responsibilities of the new network and modifies previous active labor policy tools. For instance, the law expects to abolish *pro bono* works; also, state budget subsidies for job creation will not be disbursed to employers for hiring anyone without a job, but only for hiring people defined as disadvantaged. The law also introduces subsidies for those who commute to work and perform minor *pro bono* or volunteer activities for the municipality for at least 10 hours a week.

SOCIAL ASSISTANCE TO THE POOR AND NEEDY

The 1998 Law on Social Assistance defined social assistance as the provision of enough money to people 'in need' that allowed them to purchase the necessities of life if they were unable to do so themselves or with the help of their families; it also addressed the needs of citizens with serious handicaps by compensating for their inability to work. People were judged to be 'in need' if their income was below a level defined by the law as the subsistence level.

Recent developments in social assistance benefits

In 2002, the average monthly number of people who were officially in a state of need was 618,191, or 11.5% of the entire population, similar to the ratio in 2001. In the first half of 2003, this number dropped to 561,123, or 10.4%. The average number of citizens who received social assistance benefits in 2001 was 325,195; that number fell to 320,650 people in 2002 and to 289,519 in the first half of 2003. While in 2002 the government spent 11.4 billion Sk on such benefits, in the first half of 2003 it spent 4.5 billion Sk. The average monthly number of recipients of social assistance benefits in the first half of 2003 was 12.2% lower than in the same period of 2002; state spending on these benefits dropped by 23.3% in the same period.

The average monthly social assistance benefit in 2002 was 2,970 Sk (about $90), 1.8% more than the year before. In the first half of 2003, this average amount dropped to 2,605 Sk, or 12.6% less than in the same period of 2002. Nine in ten recipients of social assistance benefits were unemployed registered with labor offices.

Members of the Roma population suffer more from poverty than any other population group. According to official estimates, 80% of the Roma depended on social assistance in 1997 (*Spoločné memorandum...*, 2003). Extreme poverty can be found in isolated and segregated Roma settlements. The problem is clearly related to the high unemployment among the Roma and the fact that the vast majority of the Roma are virtually unemployable.

Measures to tackle poverty

The drop in the number of recipients of social assistance benefits and the funds disbursed for this purpose in 2003 was due not only to falling unemployment but also to the amendment of the Law on Social Assistance and the Subsistence Level. The goal of the changes was to cut state spending for 2003.

According to the amendment, the social assistance benefit tops up the monthly income, to a set maximum, of people who are in need; the amendment also distinguishes between people who are in need due to subjective reasons[6] (i.e. to their own fault) or objective reasons, and between adults and minors. Table 2 shows the changes in the maximum amount the government pays out monthly to various categories of people in need, which took effect on January 1, 2003.

Not only did these cuts keep more money in state coffers, they also made the social security system stricter. Increasing the difference between employment-generated income and income from social benefits encourages the unemployed to seek work.

Further changes in the system to help people in need took effect January 1, 2004, with the Law on Tackling Material Need passed by parliament in November 2003. The new law no longer distinguishes between subjective and objective reasons for poverty. The amount of this social benefit was set at:

- 1,450 Sk for individuals;
- 2,160 Sk for individuals with one to four children;
- 2,530 Sk for couples without children;
- 3,210 Sk for couples with one to four children;
- 3,160 Sk for individuals with more than four children;
- 4,210 Sk for couples with more than four children.

Table 2
Changes in social assistance benefits in 2003 (Sk)

	Before December 31, 2002	January 1, 2003 – December 31, 2003
Adult in need due to subjective reasons	1,965	1,450
Adult in need due to objective reasons	3,490	2,900
Second adult in need due to objective reasons	2,440	2,900
Minor with means	2,440	1,000
Minor without means	1,580	1,600
Maximum amount per family	not stipulated	10,500

Note: Each figure in the chart shows the sum to which the government tops up the income of people in need through social assistance benefits.
Source: Law on Social Assistance

The new law introduced two types of subsidies: mobilizing and protective. People who are willing to retrain or do minor *pro bono* or volunteer activities for their municipality receive a 1,000 Sk mobilizing subsidy. People in need who are retired, disabled or taking care of a child or someone with a serious handicap receive a 1,000 Sk protective subsidy.

STATE SUPPORT FOR FAMILIES WITH CHILDREN

Child allowance plays a major role in the state's support system for families with children, as it is disbursed to the most recipients and represents the greatest volume of disbursed benefits. Child allowance is disbursed to parents of all children, and even to parents with adult children (i.e. between 18 and 25) who study at secondary schools or universities. In 2002 and 2003, child allowance and parental allowance were not only the greatest source of growth in public spending, but were also the main benefits disbursed to support Slovak families.

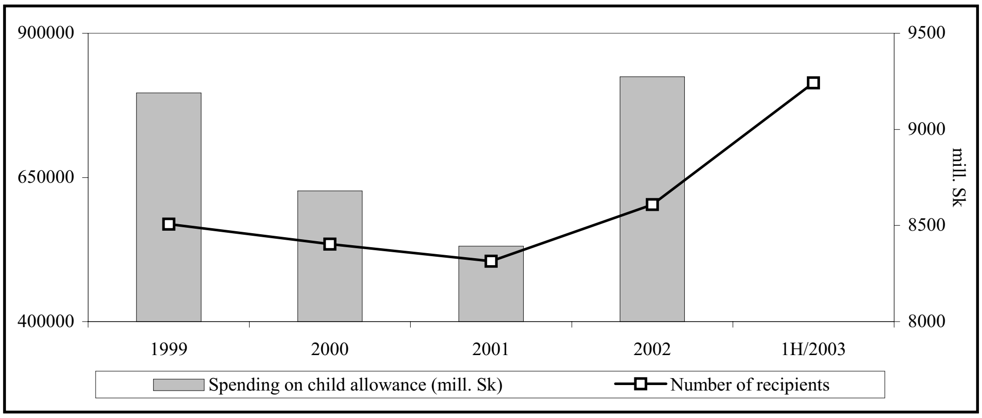
Recent developments in child allowance

The declining trend in the total recipients of child allowance and the overall volume of funds disbursed for this purpose was reversed in 2002, as the number of recipients and the volume of expenditures jumped substantially (see Graph 2). The average monthly number of recipients increased by 19.5% year-on-year in 2002. In the first half of 2003, the average number of recipients reached 814,155, 65% higher than in the first half of 2002. Spending on child allowance reached 9.274 billion Sk in 2002, up 10.5% year-on-year. In the first half of 2003, spending increased by a further 10.3% year-on-year to 4.590 billion Sk.

These changes occurred due demographic and legislative factors influencing the disbursement of child allowance.

Until summer 2002, the decline in the number of child allowance recipients and the volume of disbursed benefits was determined by demographic factors, especially the fall-

Graph 2
Recipients of child allowance and spending on child allowance



Note:
1. The figures on child allowance recipients express the average monthly number of recipients in a given period.
2. Since the graph shows absolute expenditures on child allowance (in million Sk), their total volume for the first half of 2003 is not featured as it could not be compared to annual figures for 1999 to 2002.

Source: Ministry of Labor, Social Affairs and Family; graph by authors ing birth rate and the coming of age of a relatively numerous generation of children. Another important factor was the adoption of the 1998 Law on the Subsistence Level, which allowed the government to separate spending on social benefits from the subsistence level and to not increase them in keeping with the cost of living, a possibility it used to the full between 1999 and 2002.

On the other hand, the number of recipients and the funds spent on child allowance began to grow in the second half of 2002 and the first half of 2003, due especially to a 2002 law stipulating that child allowance be disbursed to all children without means.

Effective July 1, 2002, the law changed the philosophy of this benefit and stipulated that child allowance be disbursed to all children, regardless of the income of their parents and the other people who share a household with them. This substantially increased the number of eligible people, eliminated the selective nature of the benefit and put pressure on public spending. The law tried to maintain the selective nature of the benefit by introducing bonuses to child allowance (see Table 3). At the same time, the law reduced the maximum age of "children without means" whose parents were eligible to receive parental allowance from 28 to 25.[7]

Several months later, the government again amended the Law on Child Allowance due to its anxiety over the increased public spending and fears that the year-end state budget deficit would be overshot. Parliament passed the amendment effective January 1, 2003.

The amendment made the following changes:

- reduced the flat rate of child allowance to 270 Sk;
- abolished higher child allowances for children attending secondary schools;
- increased benefits for people whose income did not exceed 2.2-times the subsistence level (i.e. it introduced two levels of child allowance);
- introduced school attendance as a condition for children to receive the allowance.

Table 3
Changes in child allowance

		Before June 30, 2002	**July 1, 2002 – December 31, 2002**	**January 1, 2003 – December 31, 2003**		**After January 1, 2004**
Child allowance	**Conditions of eligibility**	Maximum income of 1.37 times the subsistence level	All children	All children, provided they attend school		All children, provided they attend school
	Child allowance (Sk / month)					
	– under 6	680	480	270		500
	– 6 to 15	830	590	270		500
	– over 15	890	620	270		500
Bonus to child allowance	**Conditions of eligibility**	Maximum income of 1.37 – 2.1 times the subsistence level	Maximum income of 1.37 times the subsistence level	Maximum income of 1.37 times the subsistence level and children's school attendance	Maximum income of 2.2 times the subsistence level and children's school attendance	–
	Bonus to child allowance (Sk/month)			1st level	2nd level	
	– under 6	480	200	410	210	–
	– 6 to 15	590	240	560	320	–
	– over 15	620	270	620	350	–

Source: Authors; Ministry of Labor, Social Affairs and Family

The inconsistency of the government's approach to family policy and child allowance continued with another amendment to the Law on Child Allowance that took effect on January 1, 2004, increasing the benefit to 500 Sk per month and abolishing bonuses to child allowance. Table 3 offers an overview of the changes adopted over the past 18 months.

Recent developments in parental allowance

In terms of volume, parental allowance is the second most important benefit distributed to families with children within the framework of state social support. Unlike child allowance, this benefit is for parents who are disadvantaged because they take round-the-clock care of a child in pre-school years, which excludes them from the labor market. Parental allowance is disbursed during the first three years of a child's life, or six years in the case of a child with health problems. In Slovakia it is disbursed not only to jobless parents but also to parents who are gainfully employed.

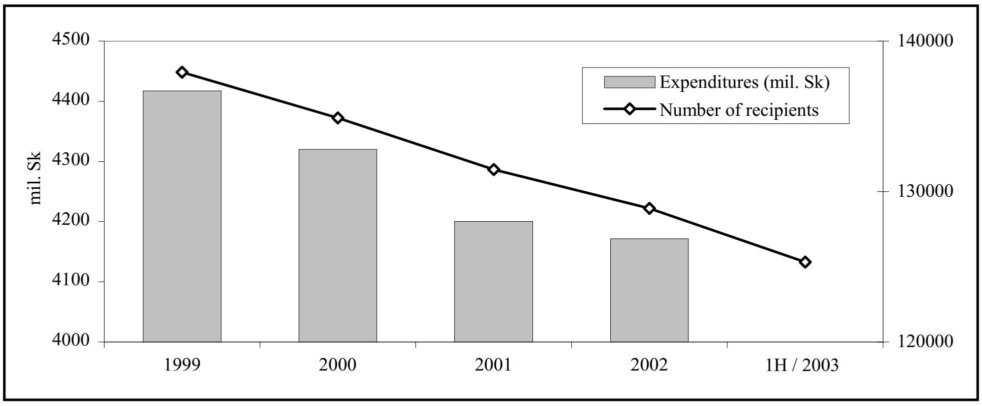
The number of parental allowance recipients declined by 2% in 2002 and a further 2.8% in the first half of 2003. As of June 30, 2003, the number of recipients fell to 125,315 due to new eligibility restrictions. In 2002, spending on parental allowance dropped by 0.7% to 4.172 billion Sk. The fall in expenditures on parental allowance thus continued in 2002 from previous years (see Graph 3).

The steadily declining number of parental allowance recipients and spending on this benefit is the result of long-term socio-demographic trends, such as the falling birth rate, the higher age of young people on entering marriage and having their first children, and the longer time intervals between the births of children in families.

The amendment to the Law on Parental Allowance took effect on November 1, 2002, and has not reversed the decline. The main changes included:

- increasing the amount of the benefit from 2,740 to 3,790 Sk per month, which equals the subsistence level;

Graph 3
Recipients of parental allowance and spending on parental allowance



Note: Since the graph shows absolute expenditures on parental allowance (in million Sk), their total volume for the first half of 2003 is not featured, as it could not be compared to annual figures for 1999 to 2002.
Source: Ministry of Labor, Social Affairs and Family; graph by authors

- reducing the size of the benefit disbursed to parents who are gainfully employed or receive sickness insurance benefits together with maternity benefits; at the same time, the amendment abolished a previous condition that only parents whose income was under 50% of the minimum wage were eligible.

The changes did not extend the period of eligibility for parental allowance, although the current administration's program manifesto mentioned the possibility of increasing the eligible age for disbursing the benefit to five years.

Other tools for supporting families with children

Slovakia's social security system has other direct and indirect tools for supporting families with children beyond the state social support system. A classic example of a direct tool is maternity benefits, which are part of sickness insurance benefits and are a direct predecessor of parental allowance. Indirect tools include tax benefits.

Until the end of 2003, taxpayers could write off 16,800 Sk from their annual tax base for each child; this discount could be doubled if the child had a serious handicap. Effective January 1, 2004, taxpayers will be allowed to discount 4,800 Sk for each child directly from their annual income taxes; this means that if a taxpayer's income tax is lower than the sum of his tax bonuses for children (which may well be the case with large families), they can collect the difference from the tax office.

PENSION SYSTEM AND SICKNESS INSURANCE

In 2002, the government redistributed approximately 90 billion Sk through the pension system and sickness insurance. Spending on the pension system alone totaled 8% of GDP.

Developments in the pension system

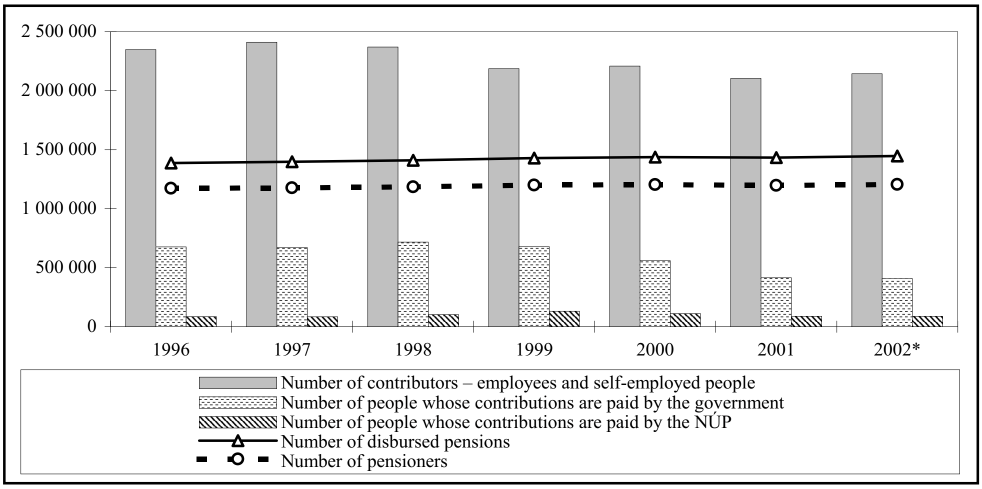
As of the end of 2002, 1.2 million Slovak citizens received pension benefits from public sources; in the course of 2002, the Social Insurance Company disbursed 1.45 million pensions (250,000 people received more than one pension benefit) every month, totaling 81.3 billion Sk (see Graph 6).

Since 1996, the number of pensioners has increased by 32,000 to 1.2 million; during the same period, the number of contributors to the pension system has fallen by 470,000 (by 15%) to 2.64 million, due mostly to changes in the rules of participation for economically inactive people. As a result, there are only 1.8 contributors per pensioner, while in 1996 the ratio was 2:1.[8]

Regarding the structure of disbursed pension benefits, old age pensions (66.8%) made up the greatest share in 2002, followed by disability pensions (24.7%). Graph 4 illustrates the structure of pension benefits.

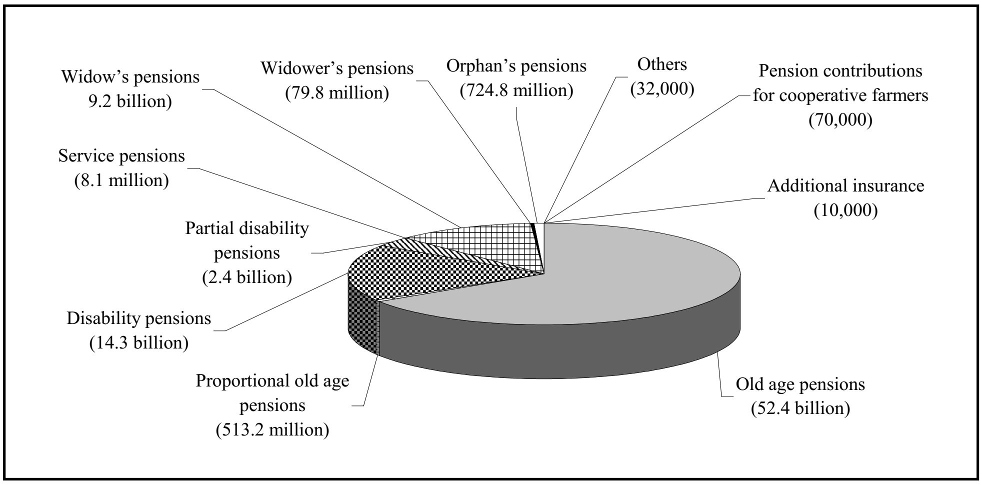
As of June 30, 2003, the average monthly old-age pension was 6,120 Sk ($190). The ratio of pension benefits to gross wages in the economy remained around 45% (see Graph 6).

Graph 4
Contributors and beneficiaries in the pension system



Note: * The figures on contributors in 2002 are as of September 30, 2002.
Source: Ministry of Labor, Social Affairs and Family

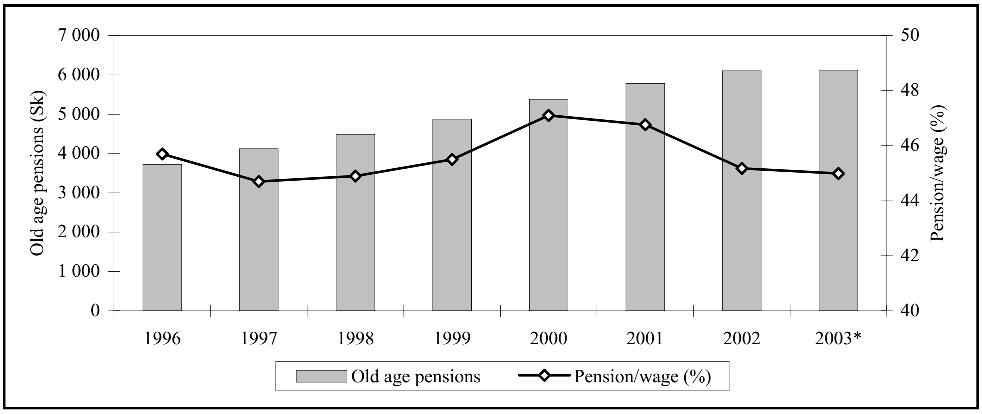
Graph 5
Structure of spending on various types of pensions as of December 31, 2002 (Sk)



Source: Ministry of Labor, Social Affairs and Family, 2003

In 2002, the government distributed almost 2.2 million benefits through the sickness insurance system, a decline of 7.3% year-on-year. Total spending on the sickness insurance system in 2002 was 8.7 billion Sk, down 3% year-on-year. As usual, most were sickness benefits, totaling 7.2 billion Sk. Other benefits disbursed within the sickness insurance system (i.e. nursing benefits, maternity benefits and pregnancy compensations) ate up 1.5 billion Sk. In the first half of 2003, total spending on the sickness insurance system reached 4.7 billion Sk, with sickness benefits representing 84% of all benefits.

Graph 6
Average old-age pension and ratio to average gross monthly wage



Note: * Data as of June 30
Source: Ministry of Labor, Social Affairs and Family

Valorizing pensions

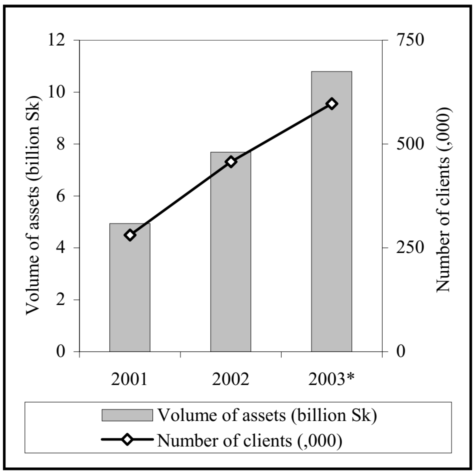
Under current legislation, the valorization process (annual increases to keep up with inflation, etc.) for pension benefits concerned old age, disability, survivor (i.e. widow's and orphan's pensions) and service pensions (disbursed to members of the police force, armed forces, etc.). Effective July 1, 2002, these pension benefits increased by 5%.[9] Pension benefits disbursed in 2002 were increased by 3.5% and a fixed sum depending on the type of benefit (in the case of old age pensions it was 1,204 Sk). According to new legislation that took effect at the beginning of 2003, pension benefits disbursed in the first half of 2003 were increased by 12.1% and a fixed sum (in the case of old age pensions it was 1,270 Sk).

Effective January 1, 2003, the maximum monthly pension benefit was set at 8,697 Sk. On June 17, 2003, parliament passed a law valorizing pension benefits by 6%. At the same time, the law valorized the maximum pension benefit by 6%, increasing it to 9,219 Sk. These adjustments applied to pension benefits that began to be disbursed in the second half of 2003.

Recent developments in complementary pension insurance

As of December 31, 2002, the number of policyholders insured within the supplementary pension insurance system (DDP) was 457,432, a hefty 62.7% increase from the end

Graph 7
Basic parameters of the complementary pension insurance system between 2001 and 2003



Note: * Year-end estimates
Source: Ministry of Labor, Social Affairs and Family, INEKO

of 2001. The total volume of pension assets within the DDP at the end of 2002 was 7.7 billion Sk, a 55% year-on-year increase.

As of December 31, 2002, supplementary pension insurance companies disbursed pension benefits to approximately 35,000 policyholders, a year-on-year increase of 78%. The total volume of benefits distributed since the launch of the DDP system was 845,000 Sk as of December 31, 2002, almost double from the year before.

Measures in pension security and sickness insurance

Legislation governing pension security and sickness insurance was practically unchanged in 2003. The effect of the Law on Social Insurance enacted in May 2002 was postponed at first; later, the entire law was abolished. The supplementary pension insurance system has not seen any legislative changes since October 2002.

After the current administration's inauguration in fall 2002, the new labor ministry leadership announced its intention to make sweeping changes to the pay-as-you-go system of financing pension security. The envisaged changes were to introduce a strong fully-funded system (i.e. compulsory old age pension scheme), reducing the importance of the pay-as-you-go pillar and firming up the legal status and transparency of the DDP system.

Pension system reform concept

After about four months of preparations, the labor ministry submitted the *Draft Concept of Pension System Reform in the Slovak Republic*, which outlined the future pension system reform. In April 2003, the cabinet approved the document and scrapped the previous administration's strategy from 2000.

According to the new strategy, the existing pension system is unsustainable, not only because of the expected graying of the population, but also due to the expected increase in mobility on the labor market, the absence of ownership rights (which means that contributors do not own their contributions to the system), and the lack of motivation to participate in the system (*Návrh…*, 2003, p. 2).

Therefore, the document argued, motivational elements had to be introduced to the system, which required a thorough reform to introduce a compulsory fully-funded pillar, to reduce the importance of pay-as-you-go financing, and to preserve the philosophy and strengthen the importance of voluntary pension schemes.

The strategy envisaged the launch of the pension reform on January 1, 2004. On this day, the pay-as-you-go pension system would become a system that provides pension benefits "depending on the number of years citizens have participated in the system and the amount of their contributions" (*Návrh…*, 2003, p. 3); on the same day, the compulsory fully-funded pillar would be introduced.

Most people were free to decide: they could either participate in the fully-funded pillar, transferring 10% of their total social insurance premiums (28%) to individual accounts administered by newly established pension asset management companies (DSS), or remain in the existing pay-as-you-go system.

Two categories of people were denied the freedom of choice. Those citizens who would be paying in to the fully-funded system for less than five years after switching over were prevented from participating. On the other hand, participation in the fully-funded system was compulsory for people who entered the labor market after the reform was launched.

The remaining social insurance premiums were to be channeled to the pay-as-you-go system (10%) and to the compulsory life insurance system, i.e. to life insurance companies that would subsequently disburse disability and survivor pensions (8%). Life insurance companies were expected to play an important role in the system, not only in disbursing disability and survivor pensions but especially in disbursing old age pensions as life annuities. Later, the idea of transferring the administration of disability and survivor pensions to life insurance companies was reconsidered, and they remained within the pay-as-you-go framework.

Social Insurance Law

The new Social Insurance Law took effect on January 1, 2004. It introduced a major change to the philosophy of disbursing pension benefits by strengthening the link between contributions and benefits. From now on, the amount of benefits disbursed will better reflect people's income during their productive lives. Unlike the previous law, the new law also governs the legal status of the Social Insurance Company, strengthening the cabinet's influence over its statutory organs.

The law envisages a gradual increase in the retirement age by nine months a year, until that age reaches 62 years. To be eligible to receive old-age pensions, people must have participated in the pay-as-you-go system for at least 10 years. Citizens who have done so may apply for early retirement, but only if their old-age pension according to the benefit formula equals at least 1.2-times the subsistence level for an adult, or 0.6-times the subsistence level if the applicant has participated in the compulsory fully-funded pillar. The maximum assessment base for calculating contributions was increased to triple the average wage in the national economy, while the minimum assessment base remained at the level of the minimum wage.

From now on, pension benefits will be indexed on July 1 of each calendar year by an amount calculated as the average growth in inflation and wages in the national economy. The percentage increase will be determined by the labor ministry, which will prevent it from becoming the focus of political haggling in parliament.

The law also introduced major changes to sickness insurance. Employees become eligible to receive sickness benefits from the state on the 11th day of sick leave. The obligation to disburse sickness benefits to employees during the first 10 days of illness was transferred from the Social Insurance Company to employers; in the case of self-employed people who are obliged to participate in the system and voluntary policyholders, the Social Insurance Company disburses sickness benefits from the first day of sick leave. The amount of sickness benefits is 55% of the employee's average daily wage; in the case of self-employed people it is 25% during the first three days of sick leave.

Law on the Compulsory Old Age Pension Scheme

The Law on the Old Age Pension Scheme, whose final version was to be approved in January 2004, introduced a new system of savings for personal pension accounts administered by the newly established pension asset management companies (DSS). Participation in the scheme is compulsory for all citizens who enter the labor market after January 1, 2005, and people now participating in the pay-as-you-go system may voluntarily decide to participate in the fully-funded system between January 1, 2005, and June 30, 2006. Only people who are not yet 45 on January 1, 2005 will be entitled to receive additional contributions to their old age pensions from the scheme.

The amount of contributions to the scheme was pegged at 9% of the assessment base. The contributions will be paid by employers, individuals whose participation is compulsory or voluntary, the government and the Social Insurance Company. The overall rate of social insurance for the purpose of pension security was increased from 28% to 28.75% of gross wages, to be divided as follows: 9% to pension insurance, 9% to the old-age pension scheme, 6% to disability insurance and 4.75% to the 'reserve solidarity fund' which would disburse pensions during the reform's transitional period (for details see Table 1).

The system is envisaged to pool the funds from which old-age pensions will be disbursed, either in the form of life annuities or account withdrawals in combination with life annuities. Individual pension savers will receive their life annuities from the life insurance company with which they signed a contract. In the case of a contributor's death, the insurance company will disburse survivor pensions or lump-sum compensation.

In order to receive old-age pensions from the system, contributors must have participated in the scheme for at least 10 years and must have reached retirement age. To receive premature old-age pensions, contributors must first be granted the status of a premature pensioner in keeping with the new Social Insurance Law, and must have accumulated savings that will yield old-age pensions of at least 0.6-times the subsistence level, so that the combined amount of the premature old-age pension disbursed from the 1st and 2nd pillars totals at least 1.2-times the subsistence level.

Each DSS will have to create three pension funds with different investment strategies: a conservative fund (comprising only bonds and financial investments), a balanced fund (a maximum of 50% in stocks and at least 50% in bonds and financial investments) and a growth fund (a maximum of 80% in stocks). The DSS must guarantee a minimum yield for each fund, depending on the industry's average rate of return. During the first year after establishing the funds, each DSS must acquire at least 50,000 participants. The funds do not have a separate legal identity, and their assets must be separated from the DSS's own assets; this should guarantee that in the case of bankruptcy or loss of license by a DSS, the participants in the system will not lose their savings.

The majority shareholder of a DSS must be a bank, insurance company, securities trader, asset management company or foreign entity with a similar field of activity. The minimum equity capital of a DSS was set at 300 million Sk. Up to the point of acquiring its license, a DSS must not pursue any self-advertising activities. The Financial Market Authority will supervise all DSS firms. The law sets a number of start-up conditions and requirements for DSS firms, including investment limitations and 'circumspect enterprise criteria'.

The Social Insurance Company was entrusted with collecting contributions to the old age pension scheme, and will collect insurance premiums for the first and second pillar. This was justified by the need to harmonize the reform with the government's determination to meet the Maastricht criteria for joining the European Monetary Union.[10] The law should take effect on January 1, 2005, but some of its provisions will take effect a year earlier.

Bill on the Supplementary Pension Scheme

The main purpose of this bill is to transform the existing supplementary pension insurance system (DDP). The law tackles the system's most obvious problems, such as the inadequate legal status of supplementary pension insurance, insufficient transparency, lack of clarity in accounting, ownership and property issues, poor supervision of the industry, unsatisfactory investment possibilities, and inadequate protection for contributors' assets.

According to the proposal, the supplementary pension scheme can only be provided by a DSS, i.e. an entity with a license to operate within the 2nd pillar. All existing supplementary pension insurance companies will have to apply to the Financial Market Authority to be transformed into supplementary pension insurance funds. The basic condition for being granted a license is acquiring at least 50,000 signatures from the fund's participants.

The bill seeks to abolish the existing practice in which people deduct contributions to DDP from their income tax; instead, it introduces a state bonus equaling 18% of the amount of annual contributions but not exceeding 20% of the average monthly wage. This is unfortunate, as the bill introduces an element of redistribution that is completely foreign to the otherwise voluntary nature of the supplementary pension scheme.

BIGGEST PROBLEMS IN THE WELFARE SYSTEM AND POSSIBLE SOLUTIONS

OVERVIEW OF PROBLEMS IN THE WELFARE SYSTEM

Despite certain positive measures the government adopted in 2002 and 2003, the country's social security system continues to be plagued by major problems. Most are rooted in the public finance sector's main deformation, which is **the government's excessive role in the economy and society and the excessive level of government-enforced social solidarity**.

From the viewpoint of social policy, the following problems are especially serious:

- too many people and families depend on social benefits and outside sources in general;
- the limited and equalized benefits of most target groups (e.g. pensioners);
- the government's inability to finance the increasing demand for social benefits.

In Slovakia, the dependence of so many people on social benefits, outside sources and other people's decisions is the result of deep deformations in people's way of thinking as well as in the economic system (including social security financing) produced during the communist era. These inherited deformations have not been eliminated since 1989. Many people have not changed their bad habits from the previous system, especially their reliance on the government, even when it comes to their own socio-economic situation. This long-term level of 'social comfort', which is free of any pressure to increase personal responsibility, is now confronting market forces. Not only have many people failed to adapt to the changed conditions, many have grown even more passive and apathetic.

The government's excessive meddling with the economy, particularly with the labor market and the social security system, promotes this culture of dependence. The model of financing social protection does not encourage people to leave the social net, mostly because it is not sufficiently selective and provides excessive social security guarantees (for instance, social security benefits have long been just below the minimum wage).

Recent restrictions on social assistance for families are likely to improve the situation somewhat.

Most Slovak citizens continue to be passive payers of compulsory (and excessive) contributions and equally passive recipients of social security benefits. Their self-help abilities remain very low. Many have lost not only the ability to provide for themselves and their families but, to a certain extent, also their interest in public affairs and voluntary solidarity.

These major problems have led to other characteristic features of Slovakia's social policy, although they have begun to improve recently:

- passivity and low understanding of volunteerism among the public, which does not bode well for strengthening voluntary schemes in social policy;
- the non-transparent, complicated and costly system of social security financing.

Despite the recent measures, Slovakia's social security system continues to satisfy the excessive demands of citizens who may not necessarily need the support; on the other hand, it inhibits the activities and efficiency of economic entities.

Unemployment

Despite some positive measures adopted recently, one cannot ignore the glaring problems in the government's approach to the labor market. The high tax and contribution burden remains and continues to increase employers' non-wage labor costs. The high social security contributions remain the principal barrier to creating new jobs. While the government did reduce income tax rates, the overall tax burden did not fall due to the increase in indirect taxes.

Active labor policy tools (e.g. retraining) are failing to boost the creation of new jobs. Lingering administrative barriers to enterprise along with excessive regulation of the business environment (including on the EU level) are the main obstacles to making full use of the potential of the free market and private enterprise, the most important prerequisite for increasing employment.

Positive steps included abolishing the National Labor Bureau, transferring the administration of unemployment insurance to the Social Insurance Company, reducing unemployment insurance rates and making it voluntary for self-employed people. However, the very existence of compulsory unemployment insurance is a display of excessive government-enforced "solidarity" that goes beyond guaranteeing a minimum standard of living for people. It discourages individual responsibility and initiative and encourages paternalistic expectations and reliance on the government.

Compared to the past, active labor policy has become more selective. Nevertheless, it is not a systematic solution to the unemployment problem because it is a deformation of the market environment. It is ineffective, costly and in many ways temporary. It includes elements of social engineering and government meddling with the market. For example, subsidizing commuting costs will only increase the immobility of the Slovak workforce. Active labor policy will continue to distort market relations and benefit much broader target groups than those who are truly disadvantaged. It also seems foolish to leave employment services in the care of state organs and to continue to regulate private entities operating in this sphere.

Despite some praiseworthy amendments to the Labor Code in 2003, the regulation of labor law in Slovakia remains excessive and unjustified. The position of trade unions should not be guaranteed by the law, whether on the corporate or the national level. Relations between employers and employees should be voluntary to the maximum degree possible, just like collective bargaining between trade unions and employers.[11]

Here are some measures that could address unemployment while obeying market principles:

- substantially reducing the tax and contribution burden;
- simplifying conditions for doing business, eliminating administrative and other barriers that complicate free enterprise, and minimizing the negative effects of EU market regulations;
- promoting and extending the principle of voluntary unemployment insurance, which should gradually lead to its complete privatization; the government's role here should be merely to create a suitable legal framework for the operation of commercial entities providing unemployment insurance;
- denationalizing, decentralizing and liberalizing employment services, abolishing local offices of labor, social affairs and family, transferring their powers in the field of employment services to regional and municipal elected governments, and eliminating the regulation of private entities providing employment services on a commercial basis;
- adopting a new and concise Labor Code that leaves relations between employers and employees up to them;
- abolishing the Law on the Tripartite and subsequently abolishing the tripartite.

Material and social need

The government's drive to tighten the social security system following the 2002 parliamentary elections was positive, as it encouraged people to become more responsible, eliminated their paternalistic expectations, and limited room to abuse the social security system. On the other hand, the system of professed values, the prevalence of paternalistic expectations, passivity, reliance on others (particularly the government), lack of initiative and underdeveloped natural forms of voluntary solidarity remain major problems for Slovakia's social policy, and will take a great deal of effort and time to redress.

One of the main problems is that the new system for addressing need, which was to take effect on January 1, 2004, preserves the strong position of the state. The role of municipal and regional elected governments and their participation in addressing people's need is expected to increase; however, social security benefits will continue to be disbursed by the state. Responsibility for providing for people's basic standard of living will not be transferred to municipalities until two years after social benefits begin to be disbursed by local state authorities. The new system does, however, feature elements to encourage activity by benefit recipients; for instance, the mobilizing subsidy is conditional on the recipient's undergoing retraining or performing minor *pro bono* or volunteer work for the municipality.

Programs to address need should begin by reducing the redistribution rate of public funds and the extent of government-enforced solidarity. As for social assistance, the government should consider the following objectives:

- reducing the rate of redistribution of public money and the overall extent of social security, especially non-selective, flat-rate benefits (e.g. those disbursed from social insurance or as state support for families with children);

- creating non-state actors (both commercial and non-profit) in the social sphere and promoting natural (i.e. voluntary) forms of solidarity;
- abolishing local offices of labor, social affairs and family and transferring their powers in addressing need to regional and municipal elected governments;
- making decisions by municipal and regional governments as free as possible on the best way to address need and social problems, including grass-roots initiatives;
- using material forms of assistance instead monetary ones;
- conditioning the disbursement of social benefits to people who are fit to work on their performance of minor *pro bono* or public work activities for the municipality.

Support for families with children

A complete and functional family is the basis of a sound society and the prerequisite for growth in the quality of life, including economic performance and people's financial situation. However, the government's support for families in Slovakia is unjustified and inefficient. The main problems are the following:

- flat-rate child allowances and paying benefits to adult "children" who study;
- the many types of benefit in the system, including lump-sum benefits;
- limited parental allowance to parents who take round-the-clock care of their children on the one hand, and unjustified support for parents who are gainfully employed on the other.

Child allowance is paid from taxpayers' money to the parents of all children, regardless of whether they need it. As a result, child allowance is often seen as an automatic source of income. Paying child allowance to adult "children" who study also discourages them from taking personal responsibility.

Although the government introduced a "tax bonus per child" as part of the tax reform, it did not abandon the system of disbursing child allowance. It also preserved various lump-sum benefits, despite their highly unsystematic nature.

Parental allowance, the second most costly benefit in the social support system, is not fully justifiable either, as it does not require its recipients to provide any equivalent value. Unlike child allowance, however, this benefit at least focuses on a group of people who face a demonstrable disadvantage. In other words, this benefit may be seen as society's financial 'appreciation' for parents who surrender their gainful occupation to take proper care of their children. It is thus baffling that the benefit is provided only until the child turns three and not throughout its pre-school years, and that the benefit is derived from the subsistence level and does not represent a true compensation for earned income, such as the minimum wage.[12]

Nevertheless, the issue of families with children should be seen in a broader context, i.e. not just from the financial aspect but also from the viewpoint of values. From this viewpoint, the status of families with children in Slovakia has long been in decline. This can be corroborated by the declining ratio of people who live in matrimony compared to the share of people who remain single, and the falling average number of children per family (now 1.5).

To improve support for families with children, the government should consider the following:

- restrict child allowance to minor children (i.e. under 18) and make the benefit more

selective, with a view to abolishing it in the future;
- preserve parental allowance (at least for a certain period), but extend eligibility from three to five years, provided the recipient is not gainfully employed;
- abolish all lump-sum financial benefits (e.g. birth contribution, etc.).

Pension system and sickness insurance

The prepared pension reform failed to lay the groundwork for a gradual elimination of the dominant compulsory pension security scheme, as it failed to pave the way for gradually reducing the excessive contribution burden and supporting the development of voluntary pension schemes, which are key to pulling off the pension reform.

Compared to its predecessor, the new Law on Social Insurance brought certain positive changes, such as a closer link between the contributions paid and the benefits received, and the indexation rule that eliminates political influence; however, the philosophy of the new law did not differ much from the Social Insurance Law of 2002. The government failed to use the time to make deeper changes or ponder alternative ways of reforming the pay-as-you-go system.

In terms of future adjustments to the pay-as-you-go system, the government should ponder the following:

- reducing contributions to the now-dominant compulsory system and reducing its importance;
- increasing the retirement age to 65 years;
- making better use of actuarial principles in calculating pension benefits (especially early);
- strengthening the link between contributions and benefits in the system.

Introducing the fully-funded pillar in its proposed form will cause problems. The main risk of the new system is that it reduces the amount of pension benefits in relative terms, even compared to the potentially well-adjusted pay-as-you-go system. The reasons for this may be the following:

- real wages are likely to grow, increasing the "implicit rate of return" of the pay-as-you-go system;
- the high administrative costs of the compulsory fully-funded system will be impossible to reduce greatly, given experience to date with similar systems around the world;
- the high transformation costs of the reform;
- the low expected rate of return on the assets pension funds will be allowed to invest in (Slovak securities must make up at least 50% of pension funds' portfolios).

A serious risk in the pension reform is the government's attitude to financing the reform's transition costs. The government assumes that a maximum of 50% of current policyholders will opt to participate in the fully-funded scheme, and has not even considered seeking extra resources to finance the reform's transitional deficit if the ratio of people who want to participate in the fully-funded pillar is higher.

Indeed, if the ratio of interested participants exceeds 50%, it could spell serious problems for public finances, which could increase the tax and contribution burden or the public debt. Therefore, additional sources of financing for the reform must be identified, while a legislative commitment to using privatization-generated revenues for this purpose, or to thoroughly reforming public expenditures, must be signed.

The introduction of the compulsory fully-funded pillar in Slovakia will be successful only if:

- pension asset management companies are allowed to achieve the highest possible return on their assets; this requires freeing them from the obligation to invest at least 50% of the available pension funds into Slovak securities;
- the inevitable transitional deficits of the pay-as-you-go system are financed to the maximum extent possible from revenues generated by privatization or savings from reform of public spending, rather than raising the tax and contribution burden or the public debt.

As for the changes in the supplementary pension insurance system, the proposal is unlikely to increase the importance of voluntary pension schemes, which was the main aim of the *Concept of Pension System Reform in the Slovak Republic*. Here's why: the administration of supplementary pension funds was entrusted solely to pension asset management companies; a state savings bonus replaced the existing and acceptable system of tax allowances; and disbursement of pension benefits from the supplementary system was made conditional on eligibility to receive pension benefits from the compulsory pension security system.

CONCLUSION

Recent developments in social policy, i.e. the government's efforts to tackle isolated problems on the one hand and lingering systematic deformations on the other, indicate it will be impossible to solve the deeply rooted problems in this sphere overnight and without coordinating the various reform measures.

Therefore, the precondition for any successful reform of social policy is its close coordination with other social policy reforms and public finance reform. This means significantly reducing the government's role and the rate of enforced social solidarity, and turning the indirect "responsibility" of state organs for people's welfare into the direct responsibility of individuals and families for their own lives.

This chapter has suggested some principles to help the government steer its social policy in the long term. They may be summed up as follows:

- a shift from publicly provided social security to private social security;
- a shift from central public administration to the local level;
- a shift from the compulsory principle to the voluntary principle;
- a shift from across-the-board disbursement of social security benefits to a more selective approach;
- a shift from long-term and general support for all families to short-term (but not lump-sum) specific support for those families that are demonstrably disadvantaged.

It is also important that any changes observe the basic economic rules and principles:

- encouraging people's personal responsibility for themselves and their families while respecting their personal freedom and private ownership;
- decentralization and subsidiarity that respects the following progression: individual and the family (as the basis of society) → private organizations and churches → municipality → regional elected government → central government;
- the principle of voluntary cooperation (voluntary solidarity, philanthropy…);
- efficiency and quality.

Implementing a precisely targeted strategy that envisages a significant reduction in public social insurance and, consequently, social benefits will require eliminating various forms of resistance, especially from the EU, various interest groups (particularly trade unions), state organs and a significant share of the population.

Convincing people who have become used to government-guaranteed "social comfort and security" will probably be the most difficult. It will take a long time and will require thorough public education in line with the aforementioned economic rules and principles.

ENDNOTES

1. The authors would like to thank Oľga Reptová for her inspiring observations and comments. The opinions and viewpoints presented herein are exclusively those of the authors.
2. We prefer an even more specific definition, such as one that approximates the Anglo-Saxon approach, which understands social policy as social assistance provided to the poor and other needy people.
3. The number of long-term unemployed fell from 249,781 in the first half of 2002 to 232,834 in the second half of 2003; the number of unemployed citizens with a handicap dropped from 29,816 to 25,413 in the same period; the number of unemployed school graduates fell from 40,132 to 32,892, and the number of unemployed youth from 7,930 to 4,303.
4. Unemployment is primarily an economic problem, as it reflects the general state of the economy as well as the values professed by society. Therefore, addressing unemployment through social policy is an indirect way of coming at the problem.
5. Originally, social affairs departments at district and regional state offices were part of the general state administration and reported directly to the labor ministry or the cabinet. The director of the National Labor Bureau (NÚP) was appointed and removed by the minister of labor, social affairs and family at the proposal of the NÚP executive board. Appointing and removing the director of the Central Office for Labor, Social Affairs and Family will be fully in the hands of the minister. The director of the Social Insurance Company was originally appointed and removed by its supervisory board, which comprised an equal number of government officials and representatives of trade unions and employers and was elected by parliament. The new law replaced the director by the Council of Directors, which has five members elected by the cabinet; the chairman and two vice-chairmen are proposed by the minister of labor, social affairs and family, one member is suggested by employers and one member by trade unions and other interest associations representing the recipients of pension benefits.
6. People unable to earn an income through their own abilities are considered to be in a state of need due to objective reasons. People who do not seek employment, have been registered as unemployed for more than two years, have been eliminated from the registry due to their refusal to cooperate with the labor office, who refuse to participate in minor community work organized by the municipality, or ignore their obligation to pay maintenance, etc. are considered to be in a state of need due to subjective reasons.
7. The existing practice of disbursing child allowance to the parents of adult children who study is one of the many deformations in a system that already has many deformations; the practice discourages the personal responsibility and independence of university students and, on the other hand, increases their dependence on their parents.
8. Had the government not made suitable adjustments to the system (such as by increasing the retirement age), this ratio would have fallen to 0.7 given the projected demographic development over the next 40 years. Maintaining pensions at even the current level would be impossible without a substantial increase in contributions, taxes or the public debt.
9. In 1996, these benefits were raised by 12%, in 1997 by 10%, in 1998 by 8%, in 1999 by 4% and a fixed sum (old age pensions increased by 167 Sk) and in 2000 by 5% and a fixed sum (old age pensions increased by 228 Sk). On October 1, 2001, pension benefits were valorized by 7%.

10. As a result, contributions to personal accounts will be qualified as income for public budgets, which in the government's opinion should reduce the public finance deficit. Apart from other conditions, joining the European Monetary Union requires the country to keep the public finance deficit below 3% of GDP.
11. The criteria for assessing the flexibility of the labor market should be more than merely comparing it to labor law regulation in the original Labor Code from 2001 or in EU member states.
12. The minimum wage is an artificial limit on the price of labor on the labor market and a deformation in a standard economic environment. However, since it exists, it might as well serve as the reference point for the minimum compensation for the lost income. If the government decides to abolish the minimum wage, as it should, then the minimum compensation for the lost income could be some percentage of the average wage in the national economy during the previous period.

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