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Social Protection Expenditure and Performance Review
Slovak Republic

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and

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International Labour Office

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Preface

This study is one in a series commissioned by the ILO to review national social protection systems, including their expenditure and financing; the scope, extent and levels of coverage; and other aspects of their performance in fulfilling national policy objectives. These Social Protection Expenditure and Performance Reviews (SPERs), which are being undertaken in selected countries around the world, focus on social protection coverage and the overall effectiveness of the national social protection system in reaching the ILO's fourth strategic objective: "to enhance the coverage and effectiveness of social protection for all."

Social protection is typically provided by a number of different national institutions that deliver benefits to the covered population in order to address a range of social needs and to protect against risks related to old age, sickness, disability, death, unemployment, raising and educating children, as well as poverty and general neediness. These institutions form a complex, interlinked system, the performance of which requires careful coordination, monitoring, and evaluation. Are national social policy objectives being achieved effectively and efficiently? To what extent does the system succeed in preventing and alleviating poverty? How well does it assist families in managing social risks? Does it develop skills that add to the social and economic capital of the country? Does it achieve desired equity and social justice requirements? These questions must be answered in order to ensure that public funds are spent in the optimal manner. The social protection expenditure and performance reviews are one of the tools that ILO offers its constituencies to cast light on these questions.

This volume presents the results of a comprehensive social protection spending and performance review in the Slovak Republic, covering the first twelve years of political and economic transformation, 1989-2001. The review provides a broad picture of social protection expenditure trends, the coverage of the population, and the adequacy of benefits. It is intended to assist the government in social policymaking and to empower its social partners as participants in this process. The analysis also focuses separately on each national social protection scheme—old age, disability, survivors, sickness, unemployment, employment injury, family benefits, social assistance, and health insurance—tracing income and expenditures, the size and characteristics of the population covered, benefit levels, inflation adjustments, and, where available, administrative costs. The time span of the review makes it possible to identify effects of reforms adopted early in the 1990s, as well as unaddressed issues and problems that continue to warrant attention.

This study is the work of two national experts, Maria Svorenova, social policy advisor to the Confederation of Trade Unions of the Slovak Republic (KOZSR), and Alexandra Petrasova, a statistician at the National Statistical Office. They completed this project during 2001–2004 using ESSPROS statistics that were then newly available in Slovakia.[1] The Financial, Actuarial, and Statistical Services branch of the ILO Social Protection Sector and the ILO Subregional Office for Central and Eastern Europe in Budapest provided technical support. The project received financial support from the ILO Budapest regional project, *Strengthening Social Protection in Central and Eastern Europe*, sponsored by the French Ministry of Social Affairs, Labour, and Solidarity.

The ILO thanks the authors for their commitment to this project over a long period, their attention to detail, and their high standards of analysis. We also express our gratitude to the French Ministry Social Affairs, Labour, and Solidarity for its support for this study. We appreciate the French Government's understanding of the importance of social protection in strengthening social cohesion in Central and Eastern Europe, as well as its support for the ILO's efforts to promote reforms with this objective.

We hope that the results of this study will prove useful to Slovak government and its social partners, and that the example set here will motivate similar work by social partners in other countries of the region.

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[1] ESSPROS statistics (integrated social protection statistics developed by the Statistical Office of the European Communities, EUROSTAT) are required in all member states of the European Union.

Overview

A decade ago, the ILO presented to the Government of the Slovak Republic a report entitled “Social Protection Expenditure in Slovakia,” together with a simulation social budget model entitled ESTEEM (Employment and Social Transition Expenditure Evaluation Model).[2] The report analyzed the Slovak social protection system in terms of its costs, financing, and performance, as well as providing projections for a ten-year period (1993–2003) under alternative economic and policy scenarios. The conclusions of the report stated:

> “The above analysis indicates …that the overall social expenditure in Slovakia is not excessive. The consolidation measures of previous years have succeeded in keeping the overall economic burden of the social protection system under control. On the other hand, improvements in the unemployment benefit system and social assistance system are definitely necessary to create a consistent and functional overall social protection approach. According to the above global analyses the cost of these additional measures might be in part offset by increased pension ages—the resulting net financial and economic effects appear to be acceptable. The financial burden to the government, which de facto will always act as a financial guarantor, depends directly on whether the government, the National Insurance Agency, are able to strengthen the national contribution collection mechanisms.”[3]

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[2] ILO International Training Centre, Commission of the European Communities PHARE Programme. 1994. *Social Protection Expenditure in Slovakia. Results of a quantitative analysis*. Final Report, November 1994. This was the first social budgeting exercise done under the auspices of the ILO. It was followed by many social budgeting projects and social protection expenditure and performance reviews in other countries around the world.

[3] Op. cit. p. 37.

Looking ahead, this report predicted that social protection expenditure in Slovakia would be in the range of 22–23 percent of GDP after 2000, depending on national economic performance and the policy options that the government adopted. The actual level observed in this study, as captured in ESSPROS data, is about 20 percent of GDP, thus lower than predicted. This is partly due to high economic growth rates, even higher than the rather optimistic scenario we assumed ten years ago. But at the same time, we predicted that the unemployment rate would fall slowly, while in reality it decreased over the mid-1990s and then climbed to much higher levels than previously experienced by the end the decade. High unemployment typically pushes social protection expenditure up, due to increases in unemployment benefits, social assistance, pre-retirement schemes, etc. In the case of Slovakia, however (like some other countries in the region during the second half of the 1990s and at beginning of the current century), the steep increase in unemployment did not have this effect. On the contrary, one can observe a slight downward trend in social protection spending. This resulted from a large-scale consolidation of social expenditure through tightening of entitlement conditions and incomplete indexation of benefits.

One also can observe a steady decrease in public finance after the mid-1990s, as measured by the ratio of general government spending to GDP.[4] While an increasing share of these public funds went to social protection, the share of social protection expenditure in GDP remained stable and even decreased slightly. This was coupled with a steady decline in the level of benefits relative to wages, which also dropped in real terms.

In the pages that follow, Svorenova and Petrasova fill in the details of these broad trends and portray their impacts on various social protection schemes. In doing so, they tell a dramatic story that touched the lives of nearly every Slovak citizen. Citing key statistics from their analysis, they describe the social protection system as progressively impeded by the country's weak economic performance. The high level of inactivity—50 percent of citizens—shifted the largest burden for financing benefits onto the government, which was obli-

[4] This ratio declined from over 49 percent in 1994 to slightly over 40 percent in 2000.

gated by law to pay contributions on behalf of the unemployed, pensioners, workers on parental leave, and other groups without wages. These groups expanded to exceed the size of the active work force. The authors also describe the government's continuing failure to appropriate the contributions it owed on their behalf, instead making partial payments that left the social protection system chronically under financed. This revenue gap distorted the relation between contributions and benefits: at over 50 percent of covered wages, the Slovak contribution rate is high by world standards and burdensome for employers, yet benefits in relative terms are low. One of the key reasons is the actual retirement age, which is low by any standard and pushes up the number of pension beneficiaries.

Svorenova and Petrasova also describe the effects of a long period of legislative inaction in Slovakia in the mid and late 1990s. After an initial spate of reforms that shifted the financing for social insurance from state revenues to contributions and established a new system for unemployment insurance, they show that government reform initiatives stalled repeatedly. Without reform, the sickness and pension schemes became increasingly mismatched to their changing environments. With tight ceilings and floors in the benefit formulas, inflation compressed the range of payment amounts, so that the highest pension came to exceed the lowest by only 18 percent. This meant that contributions by middle and upper income workers did little to improve their benefits, and their recognition of this fuelled more non-compliance. Furthermore, successive Slovak governments found it politically impossible to increase the retirement age, making Slovakia the last country in the region to take this action.

The authors portray health insurance as caught in an even more intractable web. Here, the government's chronic underpayment of contributions on behalf of the large group of inactive citizens caught the entire system in a circle of debt, where by health insurance companies owe providers, providers owe suppliers, and suppliers fall into bankruptcy. The authors call for public education on the economics of health care financing one way of building support for reform.

While Svorenova and Petrasova highlight problems resulting from legislative inaction in a changing environment, they also show that some reforms produced new difficulties. In the early 1990s, social assistance benefits were set near the level of the net minimum wage, creating work disincentives for those with low skills. Family benefits, which remained relatively generous, were means-tested, so that parents of large families stood to lose by working in low paying jobs. A new array of social services to assist persons with disabilities was income-tested, but with a high-income threshold. This created horizontal inequities with other beneficiary groups (families, the unemployed, and the poor without disabilities) and at the same time posed a risk of financial loss from working for the disabled. These reforms and the resulting problems must be interpreted in the context of transition: as in other CEE countries, the new Slovak government faced a steep leaving curve in a period of dramatic social and economic change, pressure from a population in distress, and limited resources.

While Svorenova and Petrasova vividly describe the difficulties of post-socialist transition, their review is also not without bright spots on the horizon. They show that Slovakia has a young population relative to most other European countries, which leaves it in a much stronger position to cope with the costs of demographic aging. Social spending remains in the moderate range, providing some fiscal room to manoeuvre. The social partners, both workers and employers, are becoming more involved in social protection policy deliberations, as evidenced in part by this study. Moreover, the long period of legislative action now seems to be over, with major—and dramatic—changes affecting several areas of social protection having been passed in the period just following completion of this study.[5]

To assess these reforms, their social and economic impacts, and their consequences for the efficiency and effectiveness of the social protection system, it will be necessary to monitor the performance and impact of the reformed schemes carefully using a range of tools, including social budgeting, macro- and micro-simulation models, and performance indicators. The type of analysis introduced to Slovakia ten years ago with the ESTEEM model should be performed on a regular basis, along with follow-up social protection spending and performance reviews like the one provided here. Such reviews and projections should be carried out with the involvement of social partners, as this is

[5] These are described in Chapter 12.

the only way to establish a common (and well informed) basis for a real policy dialogue. This report provides ample evidence of the capacity of the social partners to engage in such a process and, by doing so, to enhance the possibilities for social consensus on effective and enduring reforms.

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Abbreviations

Abbreviation of Countries

A	Austria
B	Belgium
BG	Bulgaria
CH	Switzerland
CY	Cyprus
CZ	Czech Republic
D	Germany
DK	Denmark
E	Spain
EE	Estonia
EL	Greece
EU	EU Member States (15)
F	France
FI	Finland
HU	Hungary
I	Italy
IR	Ireland
IS	Iceland
L	Luxembourg
LT	Lithuania
LV	Latvia
MT	Malta
NL	Netherlands
NO	Norway
P	Portugal
PL	Poland

RO	Romania
S	Sweden
SI	Slovenia
SK	Slovak Republic
UK	United Kingdom
TR	Turkey

Abbreviation of Terms

ALMP	Active labour market policy
AW	Accidents at work
COICOP	Classification of individual consumption by purposes
CP	Cooperators, Cooperating persons
ESA95	European System Accounts (valid methodology)
ESSPROS	European System of integrated Social PROtection Statistics
ESSPROS 1996	valid ESSPROS methodology
EU	European Union
EUR	EU currency
EUROSTAT	Statistical Office of the European Union
GDP	Gross domestic product
GF	Guarantee Fund
GHIC	General Health Insurance Company
HIC	Health insurance company
ILO	International Labour Organisation
LA	Left axis
MT	Means-tested
NBS	National Bank of Slovakia
New Cronos	Eurostat Database available at http://europa.eu.int/newcronos
NIC	National Insurance Agency
NJ	Negotiated job
NLO	National Labour Office
OECD	Organisation for economic cooperation and development
OD	Occupational diseases
PF	Pension Insurance Fund

RA	Right axis
SB	State budget
SAB	Social assistance benefits
SF	Sickness Insurance Fund
SIA	Social Insurance Agency
SKK	Slovak crown
SM	Substance minimum
SOCX	OECD Social Protection Database
SR	Slovak Republic
UB	Unemployment benefit
USD	American dollar
WHO	World Health Organisation

Introduction

Introduction

Transforming the social protection system has been one of the highest priorities in the Slovak Republic since the early 1990s, following the collapse of the state socialist regime. The process is far from finished, and there is widespread agreement today that further reforms are necessary. In order to select the best possible trajectory of reform, we need to know more about how the present system has developed. We also must see which social groups have been the main beneficiaries of the system, which have been neglected, and which merit attention in social protection measures in the future. The aim of this report is to identify trends in the development of the social protection system, to show the outcomes of the reform measures that have taken place, and to highlight the areas where reforms are still missing.

To this end, this report offers a comprehensive description of the social protection system in the Slovak Republic. For the period between 1989 and 2001, the main trends in social protection expenditures are examined and all relevant legislative measures are presented. Three developments underline the importance of such analysis. First, public social expenditure in the Slovak Republic constitutes about one-half of the total public expenditure. Second, the massive economic transformation that the country has undergone over the past 13 years has been followed by reforms in the social protection system only with a delay. And third, we are able, for the first time, to analyze data and trends that are comparable with those of the EU member countries and accession countries. The analysis covers a period in which the beneficiaries of the social protection system lived in three countries: Czechoslovakia, the Czech and Slovak Federal State, and, after the "velvet divorce," the independent Slovak Republic.

In this report, social protection data are generated following the guidelines of the ESSPROS Manual 1996.[1] According to its definition, "social protection encompasses all interventions from public or private bodies intended to relieve households and individuals of the burden of a defined set of risks or needs, provided that there is neither a simultaneous reciprocal nor an individual arrangement involved." In this study, only public bodies are mentioned or described, especially those targeted to provide social protection benefits and services.

The list of risks, conditions, or needs that are covered by social protection measures is organized as follows: old age, disability and occupational injury, survivorship, sickness, health care, unemployment, family and children, and poverty alleviation. The coverage of risks in this study is slightly different from the list of risks the ESSPROS convention defines. For example, ESSPROS includes all benefits paid to persons of retirement age under the old-age benefits category, while this study generally follows the OECD methodology in identifying risks according to their functions: for example, survivors' benefits paid to retired people are discussed under the category "survivors' benefits" and not "old-age benefits."

The report is divided into twelve chapters that give a comprehensive overview of the development in the social protection sphere at the end of the century, as reflected in social protection statistics. The individual chapters provide basic information on the legislative framework of various social protection sectors, while the detailed description of applicable legal instruments is presented in the Appendix A. The chapters focus especially on the trends in expenditure and the extent and depth of coverage by particular functions of the social system. Depending on the availability of data, some of the chapters also include a discussion of gender differences. Each individual chapter ends with a summary of key issues and problems related to the particular area of social protection that is analyzed.

[1] ESSPROS stands for European System of Integrated Social Protection Statistics, a harmonized system providing a means of analyzing and comparing social protection financial flows. In this study, it is referred to as ESSPROS or ESSPROS 1996.

Chapter 1 provides a comprehensive overview of the socio-economic trends in the Slovak Republic during the period between 1989 and 2001. It focuses especially on demographic developments, on the transformation of the economy and trends in GDP growth, on household income and expenditure, on labour market policies, and on the issue of poverty.

Chapter 2 describes the social protection system in accordance with the ESSPROS 1996 methodology. It gives a brief outline of the institutional organization of social protection, lists the benefits by functions to cover various contingencies, and analyzes income and expenditure indicators. The last part of the chapter provides a comparison of Slovak data with trends in some other countries.

Chapter 3 provides a short history of independent public institutions providing pension, sickness, unemployment, and health insurance as well as voluntary pension insurance in the Slovak Republic. It analyzes the development of revenues and expenditures, changes in the number of covered persons, and the methods of calculating contributions within the particular schemes. The chapter also discusses problems with financing the different schemes.

Chapter 4 describes old-age benefits and their development during the 1990s. This chapter describes the various cash and in-kind old-age benefits and the conditions of eligibility for them, and then discusses the main problems and discrepancies within the operation of the system. Statistical data are provided on old age pension benefit expenditures as percentage of GDP, on the covered population, and on the sources of financing. The chapter also identifies the reasons for the chronic financial deficits of the pension system.

Chapter 5 focuses on disability as well as employment injury and occupational diseases. Disability and partial disability benefits are financed from the same source as the old-age benefits, while employment injury insurance is an independent scheme: until 2001 a private company provided it. The chapter also discusses social assistance benefits provided to persons with disabilities, including their scope of coverage and financing.

Chapter 6 provides information on survivors' benefits. The chapter analyzes expenditure trends and compares them with the EU and OECD member states. Next, the scope of coverage and the number of beneficiaries are discussed, with special emphasis on differences between the composite and sole incomes from widow's and widower's pensions. The chapter also gives a comparison of average benefits to some other types of income.

Chapter 7 is devoted to sickness insurance. Following a brief description of benefits, the universe of potential beneficiaries and expenditure trends are discussed. The chapter presents and analyzes various statistical data, such as the average length of short-term inability to work, the number of days per sickness leave, and the ratio of the average sickness benefit to the average wage.

Chapter 8 describes the sphere of health insurance. It describes the conditions for entitlement to health care, analyzes trends in income and expenditures, and discusses some enduring problems with the health insurance system and its financing.

Chapter 9 provides basic information on active and passive labour market policies, especially unemployment benefits. It describes eligibility criteria, how the different elements of labour market policies are financed, and expenditure trends. The chapter also discusses the special problems of unemployment among the Roma.

Chapter 10 focuses on different types of family and children's benefits and allowances, the conditions for eligibility and scope of coverage, and the amounts of spent on particular benefits.

Chapter 11 examines trends in social exclusion and measures taken to alleviate poverty. The chapter reviews the various cash benefits and benefits in-kind provided to those whose incomes are lower than the subsistence minimum. The chapter also discusses trends in expenditure aimed at combating poverty as well as the scope of coverage in this field of social protection.

Chapter 12 offers conclusions on the individual chapters of the study and highlights some issues and problems related to these fields of social protection. The chapter also discusses the most recent legislative changes in the social security system at the end of 2003.

The authors have intended to provide the most comprehensive overview of the social protection system in the Slovak Republic as it developed between 1990 and 2001. The data on social protection revenues and expenditures, as well as the scope and extent of coverage were compiled and calculated based on basic data sources from the Statistical Office of the Slovak Republic; the Ministry of Labour, Social Affairs and Family; the Social Insurance Agency; the National Labour Office; the various health insurance companies; as well as from other relevant ministries and other governmental and non-governmental institutions, journals, expert documents, and web pages. However, not all data were available for every year; for example, many data from before 1995 are not reliable or not comparable with those from later years, and some data for 2001 were not complete at the time of preparation of this study. During the surveyed years, the methodology for calculating GDP and other data also changed, and in some cases specific data were not collected.

Data on social protection expenditures in the European Union, the EU member states and accession countries, as well as in the OECD countries were collected from ESSPROS, EUROSTAT–New Cronos, OECD, and other sources.

The study is completed by a bibliography and three appendices. Appendix A contains a compendium of legal sources, a description of the legal structure and the particular functions of the social protection system, as well as the conditions for eligibility to receive various benefits and the entitlements to them. Appendix B is a statistical annex. Appendix C contains a list of laws, bylaws, and regulations.

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That we were in a position to write this study is testimony to the advice and guidance of many of those we have worked with over the years in the Slovak Republic, as well as in foreign countries and international organisations. Many thanks belong also to our family members for their patience and understanding. Our final thanks are to International Labour Office for publishing this national social protection study.

We have relied on many data sources in this study and have made every effort to acknowledge all of these. Any errors or omissions are of course the responsibility of the authors.

Chapter 1
Demographic, Economic, and Social Developments

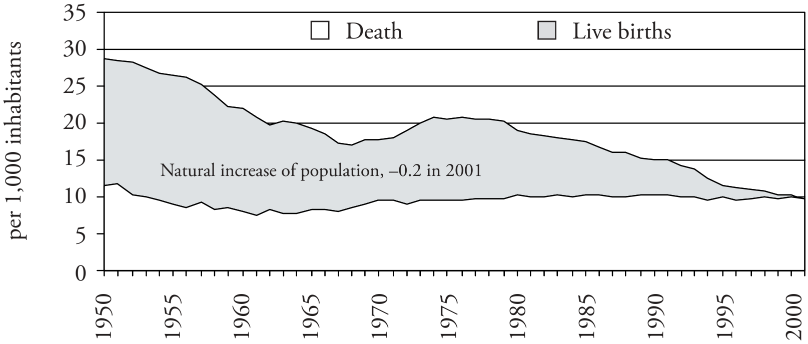
1.1. Demographic Developments

From 1989 to 2001, dramatic changes occurred in the Slovak economy, its government, the welfare and standard of living of the population, and the degree of exposure to globalization, which was mostly experienced as Westernization.

Among the most important changes were the new opportunities to travel abroad and learn about Western European societies. As well, citizens of the Slovak Republic began to seek work in other countries or in multinational companies. Upon closer contact with the economically more developed countries of the West and their business-related habits and customs, many people, especially of the younger generations, started to adapt to the new values and lifestyle they experienced. This newfound mobility encouraged the adoption of new priorities: building a career and earning money, and consequently postponing marriage and child-rearing until later in life.

There has been a decrease in fertility rates and in rates of marriage. Divorce rates now surpass marriage rates while the overall mortality rate has stagnated. The average ages at which people start their first marriage and women give birth to their first child have both increased; this has resulted in a transformation of family and household structures, as well as in the age composition of the population and its rate of ageing. Figure 1.1.1 shows how the natural increase of the population diminished over the past 50 years.

Figure 1.1.1
Diminishing natural increase of population, 1950–2001



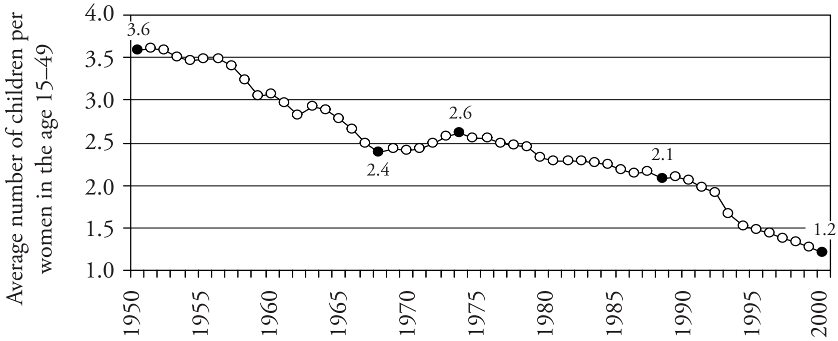
Source: Statistical Office of the Slovak Republic.

Figure 1.1.2 shows that a gradual decrease in the fertility of women, which had been an observable demographic trend throughout the second half of the twentieth century, accelerated after 1989. The average number of children for women between the age 15 and 49 was 3.6 in 1950 and 2.1 in 1989, and dropped to 1.2 in 2001.

Another important demographic development is that women have children later stage in life. By 2001, the average age of mothers giving birth to live-born children in the Slovak Republic reached 26.5 years (from 24.7 in 1990), and the age of mothers giving birth to their first child increased to 24.1 years (from 22.2 in 1990). If we look at the distribution of fertility rates among the various age groups, we can see that the age group 25–29 took the lead for the first time in 2000, surpassing the age group 20–24. Still, the fertility rate decreased in both age groups, more so among younger women. In the age group 30–39, the fertility rate increased slightly, while among women of 40 to 49 years of age, it stayed at the same level (see Figure 1.1.2).

Currently, both men and women tend to marry later in life than previously. According to data available from the Statistical Office of the Slovak Republic, the age at which women enter their first marriage increased from 21.9 in 1993 to 23.8 in 2001; among men, the same figures were 24.3 in 1993 and 26.3 in 2001.

Figure 1.1.2
Total Fertility rate, 1950–2001

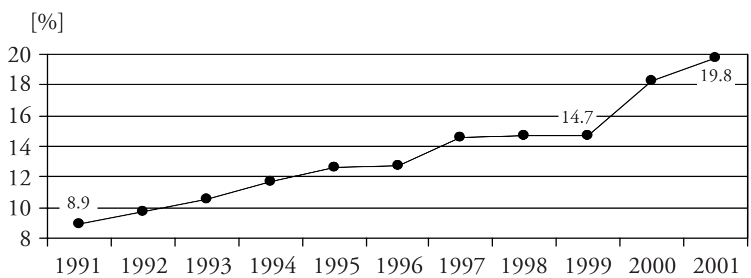


Source: Statistical Office of the Slovak Republic.

While the total fertility rate decreased from 1990 to 2001 by about 60 percent (as Figure 1.1.2 shows), the share of extramarital live births increased during this same period from 8.9 percent of all children born to 19.8 percent (see Figure 1.1.3). A thorough analysis of reasons of this upward trend in extramarital live births has yet to be published in Slovakia.

In 2000, life expectancy (at birth) reached 69.14 years among men and 77.22 among women. Table 1.1.1 shows that life expectancy has been steadily

Figure 1.1.3
Extramarital live births (as percent), 1991–2001



Source: Statistical Office of the Slovak Republic.

increasing for both men and women, and in all age groups. This increase is more significant among women: from 1951 to 2000, life expectancy for women at birth increased by almost 15 years, while for men at birth, by slightly more than 10 years.

Table 1.1.1
Life expectancy at different ages and by gender, 1950–2000

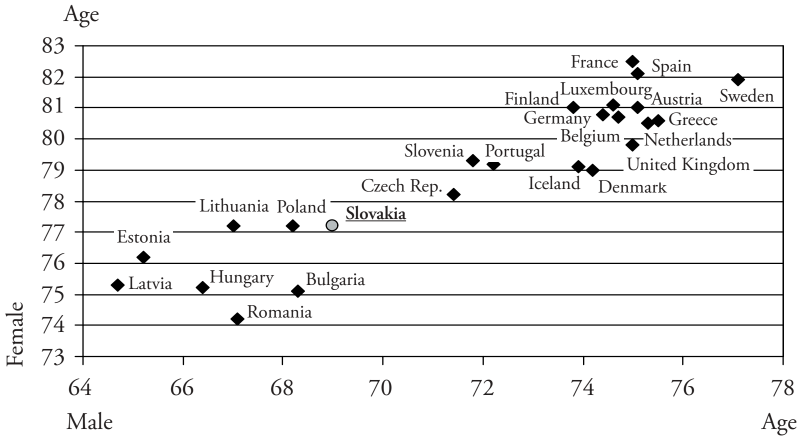
		Age					
Year	**Gender**	**0**	**30**	**40**	**50**	**60**	**70**
1951	male	59.00	40.48	31.80	23.54	16.24	10.20
	female	62.37	42.55	33.62	24.91	16.93	10.20
1970	male	66.73	40.44	31.50	23.07	15.49	9.55
	female	72.92	45.54	36.02	26.86	18.38	11.02
1988	male	67.12	39.43	30.30	22.15	15,33	9.98
	female	75.50	47,11	37.51	28.32	19.84	12.55
2000	male	69.14	40.79	31.52	23.04	15.90	10.27
	female	77.22	48.25	38.51	29.18	20.42	12.66

Source: Statistical Office of the Slovak Republic.

Figure 1.1.4 shows life expectancy at birth in an international comparison, for the year 1999. Among the former state socialist countries, Slovakia fares better than the Baltic states, Hungary, Romania, and Bulgaria, but worse than Slovenia and the Czech Republic. While life expectancy figures for women and men are comparable to those observed in Poland, they are lower than those in any of the EU member states.

As Table 1.1.2 shows, the share of population in the pre-productive age of 0–14 years decreased from 25.5 percent of the total population in 1989, to 18.6 percent in 2001. The proportion of the productive age population (15–59 year-old men, 15–54 year-old women) increased gradually as the baby boom generation, born in the 1970s, entered this age group. The percentage of population in the post-productive age (men aged 60 or older, women aged 55 or older) also slowly increased, year by year, during the observed period. Table 1.1.2 also reveals that by 2001, the youngest, pre-productive segment of the population and the oldest, post-productive segment became almost equal in size, with the former outnumbering the latter by about 15,000 persons. However,

Figure 1.1.4
Life expectancy at birth, age in years 1999



Source: EUROSTAT—New Cronos.

the development of the dependency ratio has been favorable for economically active persons, as their proportion of the whole population increased from 57.2 percent at the beginning of surveyed period to 63.1 percent at its end. Consequently, the inactive, dependent part of the population decreased from 42.8 percent in 1989 to 36.9 percent in 2001. While the pre-working age population decreased by 6.9 percent, the post-working age population rate increased only by 1 percent. All this means that the population in Slovakia is still quite young, which gives a very solid basis for initiating social reforms, especially pension reform. (For an international comparison of dependency ratio figures, see Tables B.3.1 and B.3.2 in Appendix B.)

Changes in the age structure also indicate a steady trend of ageing among the Slovak population, as we can see in Figure 1.1.5. The most dramatic development can be observed in the increase of the ageing index (the ratio of post-productive age population to the pre-productive age population), which reached 98.5 percent in 2001 compared to 68.0 percent in 1989. In 1960, at the starting point of the observed period, the ageing index was 43.3 percent. After a sharp increase to 60.2 percent in 1970, the increase during the next twenty years (to 68 percent in 1989) was very slow, due to the entrance of the children of the post-war, baby boom generation to the labour market.

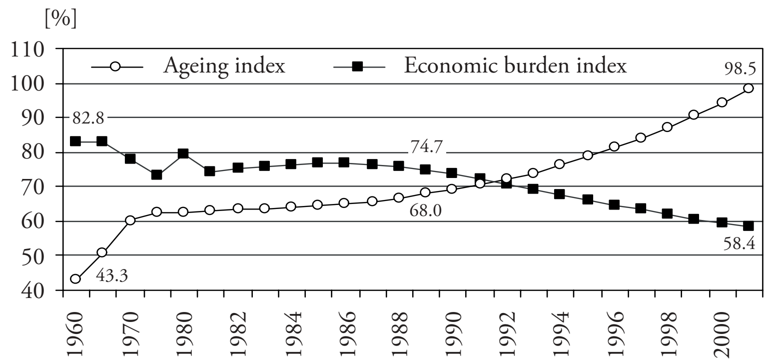
Table 1.1.2
Population by age groups, 1989–2001

Indicators	1989	1993	1995	1996	1997	1998	1999	2000	2001
Total (in 1,000s)	**5,288**	**5,337**	**5,376**	**5,379**	**5,388**	**5,393**	**5,398**	**5,398**	**5,379**
Total (in %)									
Pre-working age population (0–14 years old)	25.5	23.5	22.2	21.7	21.0	20.4	19.8	19.2	18.6
Working age population (females: 15–54, males: 15–59)	57.2	59.1	60.2	60.7	61.2	61.8	62.3	62.8	63.1
Post-working age population (females: 55+, males: 60+)	17.3	17.4	17.5	17.6	17.7	17.8	17.9	18.1	18.3

Source: Statistical Office of the Slovak Republic.

The economic burden index (the ratio of the pre-productive and post-productive age populations together to the productive age population), however, decreased continuously during the whole monitored period. The ratio stood at 82.8 percent in 1960, reached 74.7 percent in 1989, and fell rapidly to 58.4 percent in 2001. This tendency is mostly the result of a decrease in the ratio of the pre-productive age population, in favor of the productive age population.

Figure 1.1.5
Ageing index and economic burden index, 1960–2001



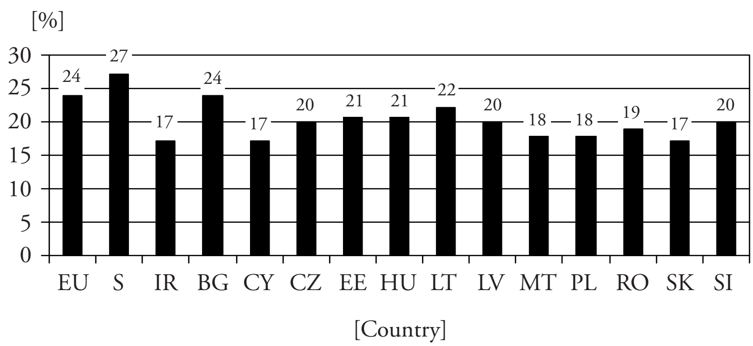
Source: Statistical Office of the Slovak Republic.

According to data from 2000, the Slovak Republic, together with Ireland and Cyprus, belongs to the group of countries with the lowest old-age dependency ratio (proportion of population aged 65 and above to the 15–64 year-old cohort). This is in comparison with both the EU average and the average of the accession countries. As noted previously, this low old-age dependency ratio is very favorable for a country that intends to initiate a reform of the old-age pension schemes, as there is no immediate threat of a sharp increase of expenditure on pensions due to ageing (see Figure 1.1.6).

The age structure and gender structure in the EU are slightly different than those observed in Slovakia. The Slovak population is generally younger than the EU average, and the absolute number and the proportion of the elderly male and female population are lower. This is particularly true for females. The proportion of children until five years of age is roughly the same (see Figure 1.1.7).

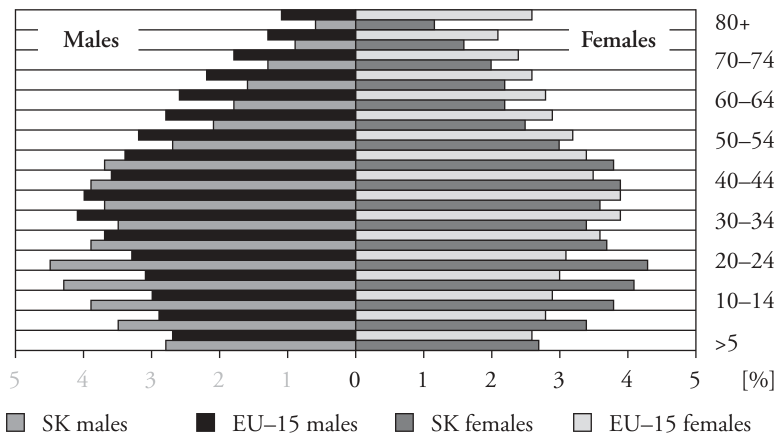
The ratio of pension beneficiaries to the total population increased from 18.9 percent in 1990 to 20.9 percent in 2001. The proportion of pensioners among the total female population rose by 3.5 percent (to 26.1 percent), but in the male population only by 0.3 percent (to 15.3 percent). The significant difference between the proportion of pensioners among total female and male populations may be explained by the earlier retirement age among women, as well as their longer life expectancy (see Figure 1.1.8).

Figure 1.1.6
Old-age dependency ratio, in percent, 2000



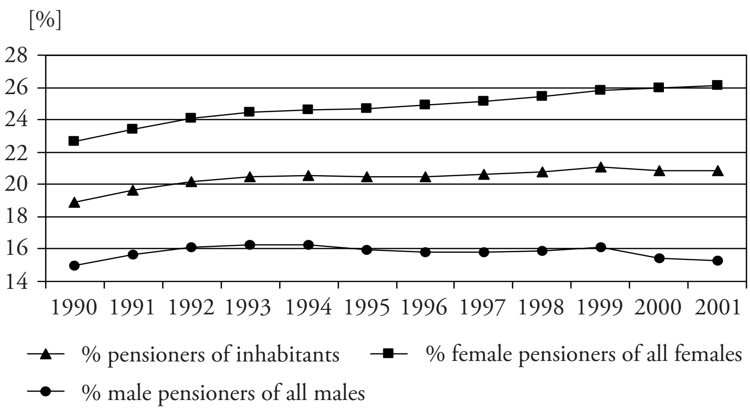
Source: EUROSTAT—New Cronos.

Figure 1.1.7
Comparison of the population age structure in Slovakia with that in the EU–15, in percent, 1999



Source: EUROSTAT—New Cronos.

Figure 1.1.8
Ratio of pensioners to total population, 1990–2001



Source: Social Insurance Agency of the Slovak Republic; own calculations.

1.2. Macroeconomic Developments

In the early 1990s, political transition was accompanied by a difficult process of economic restructuring. During this economic transformation, the resources potentially available to pursue social goals dropped sharply. At the same time, the number of unemployed and socially excluded people rose.

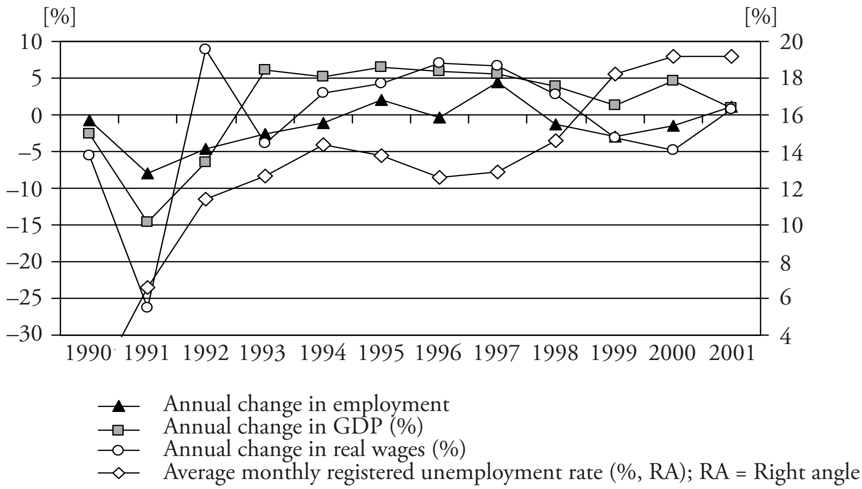
The macroeconomic transformation was most dramatic from 1989 to 1993. The major macroeconomic indicators (GDP growth, employment, unemployment, wages, and inflation) deteriorated quickly, posing a heavy burden on the majority of the population. Although most of these indicators stabilized towards the second half of the 1990s, unemployment increased steadily during the decade.

Figure 1.2.1 illustrates these macroeconomic trends over the past 12 years. Slovakia recorded the fastest economic growth among all accessions countries from the beginning of the 1990s to 1998. However, as in the period between 1998 and 2000, GDP growth slowed down and the unemployment rate increased dramatically.

If one looks at the development of each of the major macroeconomic indicators, it is possible to divide the transformation process into three phases, which are roughly identical to the parliamentary election cycles (1991–1994, 1995–1998, and 1999–2001). At the beginning of the transition from state socialism, GDP was very volatile: in its roller-coaster movement, it showed an annual decrease of 14.6 percent in 1991, then an annual increase of to 6.2 percent in 1994. In this first phase, real wages also displayed extreme fluctuation: there was a 26.3 percent annual decrease in 1992 and an 8.9 percent increase in the following year. Unemployment, however, showed a steady (albeit very disturbing) trend: it increased from 0.6 percent in 1990 to 14.4 percent in 1995. While in 1990, almost 2.5 million people (2,478,000) were employed in the Slovak economy, by 1995, the number had dropped to just over 2 million (2,107,000).

The most salient trends in the second phase (1995–1998) were moderately decreasing unemployment and fast GDP growth, at an annual rate of 5 percent. The third phase (1999–2001) was characterized by the gradual slowing of GDP growth and a striking upsurge of unemployment to 19.2 percent—as the labour market failed to produce new workplaces.

Figure 1.2.1
GDP, employment, unemployment, and wages, 1990–2001



Source: Statistical Office of the Slovak Republic.

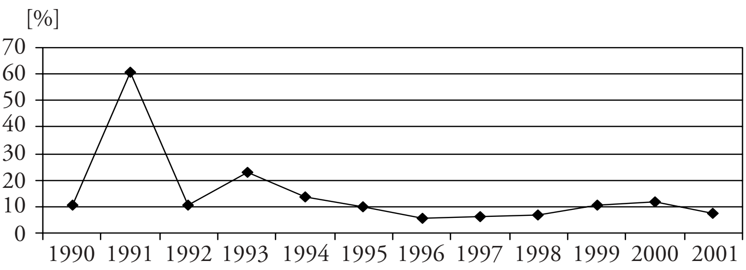
The third phase of post-socialist economic transformation witnessed a shift from the dominance of industries that contribute to fast, but unsustainable economic growth, to the prevalence of industries that contribute to slower, but perhaps more sustainable growth. Gross domestic product growth reached only 1.3 percent in 1999, temporarily increased to 4.6 percent in 2000, then again decreased to 0.9 percent in 2001. Unfortunately, in this process, unemployment figures soared, and reached the highest level in the post-socialist period. Foreign direct investment in Slovakia, which often produces jobs (and especially for the young), also has not reached expected proportions. Higher unemployment, in turn, has meant larger pressures on social assistance expenditures.

The inflation rate during the transition period was influenced by a complex mix of factors: price liberalization, tax reforms, an influx of foreign resources, imbalances in public finances, and resulting distortion of the business environment. As Figure 1.2.2 illustrates, the inflation rate surged twice during the early 1990s. In 1991, this was due to the liberalization of prices combined with changes in exchange rates; consequently, the annual inflation rate reached 60.8 percent. The second cause was the overhaul of the taxation system and, six months later, the devaluation of the Slovak currency. As a result of certain stabilizing measures on the macroeconomic level and restrictive monetary policy, the inflation rate stabilized at around 6 percent between 1996 and 1998. Some economists are of the opinion that such a low level of inflation could be attained only by the government's active interference—by fixing the exchange rate and by maintaining price caps for electricity, gas, and some other commodities provided by natural monopolies.[1]

During the third phase of post-socialist transition, the inflation again rose to 12 percent (by 2000). Right-wing political parties, which formed a coalition government after elections, promoted the deregulation of prices, which had been postponed for a long time. In spite of price liberation and the continuing privatization of state-owned monopolies (for example, in the telecommunications and gas industries, oil pipelines and refineries), the inflation rate decreased to 7.3 percent (in 2001).

In 2000, the per capita GDP amounted to 48 percent of the EU average (see Figure 1.2.3). Slovakia's per capita GDP was higher than that in half of the EU accession countries.

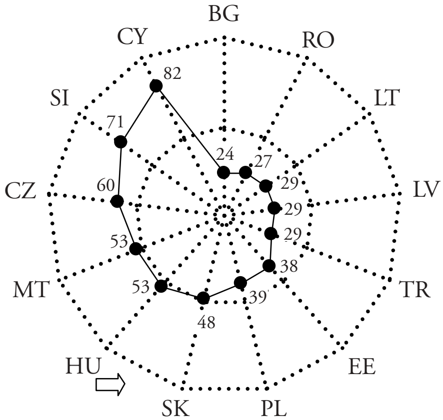
Figure 1.2.2
Inflation rate, calculated by consumer prices, 1990–2001



Source: Statistical Office of the Slovak Republic.

[1] Karol Morvay. 2000. Overall Macroeconomic Development. In *Economic Policy in Slovakia 1990–1999*, ed. Anton Marcinčin and Miroslav Beblavý. Bratislava: INECO–Institute for Economic and Social Reforms. pp.24–28. Based on: *Centrum pre spoločenskú a mediálnu analýzu*, joint program of the Slovak Foreign Policy Association and the Embassy of the United States of America from the Small Democracy Grants Program.

Figure 1.2.3
Per capita GDP among the accession countries, calculated as percentage of the EU–15 average, in PPS, 2000



Source: EUROSTAT.

Figure 1.2.4 shows that general government expenditure (expenditures of the national and municipal budgets, targeted funds of the state, the Social Insurance Agency, health insurance companies, the National Labour Office of the Slovak Republic) increased from 42 percent of GDP in 1991 to 48.7 percent in 1994. During the next five years, the second phase of economic transformation, public budget expenditures decreased to 38.6 percent (by 1999), which was lowest level during entire surveyed period. This was followed by a slight increase to 40.9 percent in 2000.

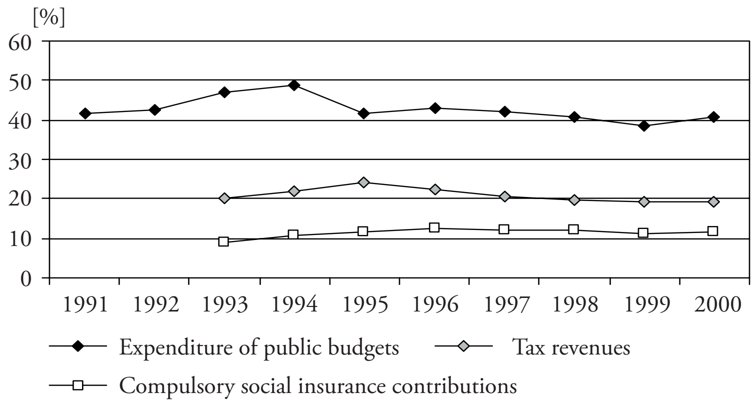
Figure 1.2.4 also indicates that tax revenues provide about half of general government expenditure. Tax revenue figures are available only from the period following the comprehensive tax reform, in effect from 1 January 1993. As a percentage of GDP, tax revenues reached their highest level in 1995 (24.0 percent), but by 2000, they had decreased to 19.1 percent, due to tax cutting measures taken by the government at the beginning of the third phase of economic transformation. In 2001, the corporate tax rate was 29 percent, and the government decided to lower it to 25 percent, starting in 2002. With this measure, the government intended to facilitate faster GDP growth. It also reduced the personal income tax rates across all tax brackets: for example, from

12 percent to 10 percent in the lowest tax bracket and from 42 percent to 38 percent in the highest tax bracket. The government also decided to increase tax deductions, along with other reforms, to encourage people to report income realistically and thus to reduce the extent of the shadow economy.

Social insurance contributions—paid compulsorily by workers and employers to the Social Insurance Agency, to health insurance companies, and to the National Labour Office—accounted for about one-quarter of the general government expenditure during the analyzed period. They fluctuated between 9 and 13 percent of GDP (see Figure 1.2.4).

General government expenditure includes spending on social protection by the Social Insurance Agency, the health insurance companies, and the National Labour Office, and the state budget. Table 1.2.1, by contrast shows only *state budget* expenditures on social services for the population, including health, social security, education, and culture. Social security expenditures in this category in turn encompass social assistance benefits, state social allowances, social services (here, narrowly defined), state contributions to the social insurance of some special groups, public jobs, and special benefits paid through the pension and sickness insurance schemes. These social security

Figure 1.2.4
General government expenditure, social insurance contributions, and total tax revenues as percentages of GDP, 1991–2000



Source: Ministry of Finance of the Slovak Republic; Statistical Office of the Slovak Republic.

expenditures, as a percentage of GDP, increased from 4.4 percent in 1996 to 5.0 percent in 2000, and then decreased to 4.2 percent in 2001. In nominal terms, though, this type of expenditure grew by 14.9 percent from 2000 to 2001. As a percentage of GDP, health care expenditures fluctuated very slightly, from 2.1 percent in 1996 to 1.7 percent in 2001. In nominal terms, however, state budget expenditures on health care increased in 2001 by 16 percent in comparison with the previous year (see Table 1.2.1).

Figure 1.2.5 shows that, although the average nominal wage of employees gradually increased during the monitored period (by about 3.9 times from 1989 to 2001), the average real wage in 2001 never reached its 1989 level. In

Table 1.2.1
State budget expenditures by branches, as of December 31 of each year

Indicator	1996	1997	1998	1999	2000	2001
State budget expenditures (Million SKK)	**191,889**	**217,825**	**197,036**	**231,478**	**241,125**	**249,724**
Of which (as % of total):						
– Social services for the population	40.9	36.7	44.0	39.1	40.7	43.9
– From which:						
• Education	14.4	13.6	15.5	14.0	14.4	14.6
• Culture	1.9	1.6	1.9	1.4	1.6	1.5
• Health	6.9	6.3	6.8	6.1	6.0	6.7
• Social security	14.5	12.3	15.4	14.7	15.0	16.6
Of which (as % of GDP in c.p.):						
– Social services for the population	13.5	13.0	13.5	13.8	14.7	11.1
– From which:						
• Education	4.8	4.8	4.8	5.0	5.2	3.7
• Culture	0.6	0.6	0.6	0.5	0.6	0.4
• Health	2.3	2.2	2.1	2.2	2.2	1.7
• Social security	4.8	4.4	4.7	5.2	5.4	4.2

Note: c.p.—Current prices

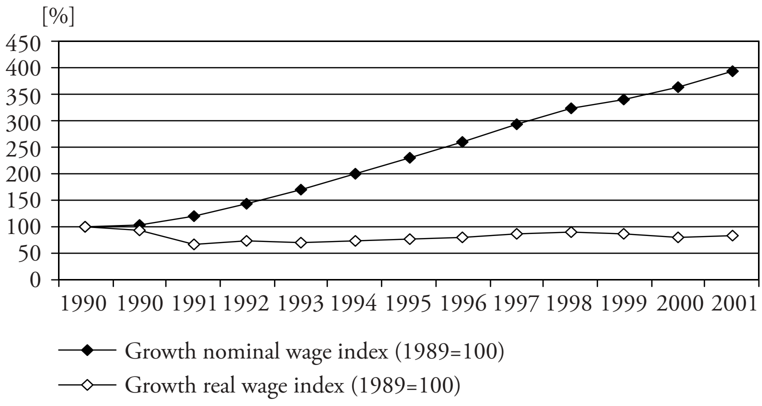
Source: Ministry of Finance of the Slovak Republic.

1991, it was only 67.5 percent of the 1989 level, and although it started to grow after this year, it climbed back only to 89.2 percent in 1998. During the third phase of the transformation process, it decreased again, reaching 82.1 percent of the 1989 level in 2001 (see Figure 1.2.5).

There are many factors that influence wages levels among particular groups of employees: for example, they may depend on the employees' education as well as their gender. There is a high correlation between education and income. Employees who have only primary school education earn the lowest wages, while those with university and postgraduate degrees earn almost always the highest. The disparities are even more significant from a gender perspective: although women play an important role in the Slovak labour market (see Table 1.3.1), they earn less than men. In 2000, the average wage among women was about 76.1 percent of the average wage among men (see Figure 1.2.6). This large gap was caused partly by the difference between the typical women's and men's jobs: for example, in better paying managerial and executive positions, men are clearly over-represented. It is important to note that women earn less than men at all educational levels and in all age groups.

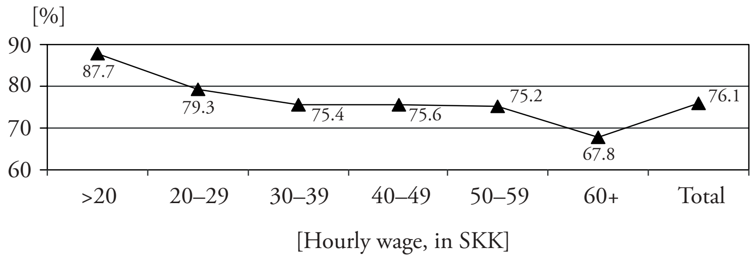
Figure 1.2.6 also shows that the difference between male and female average wages increases significantly with age. Thus, while in the youngest

Figure 1.2.5
Development of employees' average wages, 1989–2001



Source: Statistical Office of the Slovak Republic.

Figure 1.2.6
Average hourly wage of women as percent of men's, by age cohorts, 2000



Source: Statistical Office of the Slovak Republic.

cohort (aged 20 and younger), women on average earn 87.7 percent of the average wage of men, in the age group of 60 and above, women receive only 67.8 percent of the average wage of men.

1.3. Labour Market

In the first phase of transformation, large numbers of jobs were lost due to the collapse of state socialist enterprises, the conversion of the arms industry to civilian production, and the expansion of industries that required imported raw materials. Not only did the absolute level of employment change but also its structure: while massive layoffs occurred in industry, employment in the tertiary sector, especially services, increased.

Table 1.3.1 shows that more than 50 percent of the Slovak population is economically inactive: these individuals were either below or above the official productive age (from 18 to 55 years for women, and to 60 for men) who do not work at all. It is more complicated to determine economic activity among persons who were of the official productive age: employees and self-employed people belong to this category, together with parents on maternity or parental leave and the unemployed. Table 1.3.1 shows that the rate of economically active persons fluctuated between 49.9 percent (in 1991) and 46.1 percent (in 1995). At the end of the monitored period, the figure increased to 49.1

percent. However, those who engaged in regular economic activity with a clear salary (in the Table, "employed") represented less than 40 percent during the entire post-socialist period, reaching 38.6 percent in 2001. The Table also shows that during the entire period (1991–2001), the economic activity rate of men was higher by about 16 percent than that of women (see Table 1.3.1).

Figure 1.3.1 compares employment rates by age and gender during 1994–2000. In these six years, the male employment rate decreased in almost all age groups: among 20–39 year-old cohort, for example, by about 10 percent. The employment rate increased only in the age group of 45–49. For women, the employment rate decreased especially in the age group of 35–39 and increased in the age group of 45–49 (as was the case for men). In general, however, the employment rate of women was nearly the same in 1994 and 2000 for almost all age groups—which is notable when compared to men's situation (see Figure 1.3.1).

The proportion of the economically active and inactive populations (children, elderly people, the unemployed, and others) did not change significantly: on average, 1.5 inactive persons relied on one active person. Figure 1.3.2 shows the ratio of persons engaged in any kind of economic activity (employment or self-employment) to all other persons who were economically inactive (because of age, unemployment status, parental leave, or other reasons). This Figure shows more favorable data for the years 1996 to 1998, during which point the rate dropped below 1.5. The reasons for this are partly demographic (that is, when the baby boomer population of the 1970s entered the labour market) and partly economic (that is, due to GDP growth in the previous years, the increase of the unemployment rate temporarily slowed down) (see Figure 1.3.2).

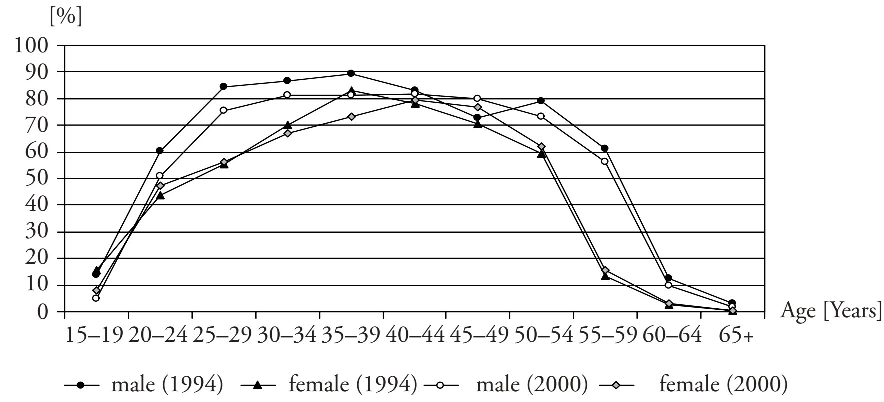
Women in Slovakia have a lower retirement age than men and, as noted earlier, tend to have lower wages than men. This makes it reasonable for many women to retire early and claim a pension benefit, as well as possibly take another (sometimes also irregular) job on the side. This incentive to retire early is very expensive and contributes to the unsustainability of the existing pension scheme. From a labour market point of view, early retirement reduces the unemployment rate and the costs of unemployment benefits and other assistance. From a pension fund management perspective, however, this behavior increases social expenditure considerably. Figure 1.3.3 suggests a core

Table 1.3.1
Economic status of the population, 1991–2001

Indicator	1991	1993	1995	1996	1998	1999	2000	2001
Total (as of 1 January, in 1,000s)	**5,295.9**	**5,336.5**	**5,356.2**	**5,367.8**	**5,387.7**	**5,393.4**	**5,398.7**	**5,402.5**
Of which (as %):								
I. Economically active persons	49.9	49.2	46.1	46.7	47.2	47.7	48.3	49.1
1. Productive age	48.1	47.5	45.3	45.8	46.4	46.8	47.5	48.3
a) Employed	39.7	38.5	39.3	40.6	40.0	38.7	38.2	38.6
b) Persons on maternity leave	2.7	2.1	0.4	0.4	0.4	0.4	0.3	0.3
c) Unemployed	5.7	6.9	6.0	5.2	5.8	7.7	8.9	9.3
2. Post-productive age	1.7	1.7	0.9	0.9	0.9	0.9	0.8	0.8
II. Economically inactive persons	50.1	50.8	53.9	53.3	52.8	52.3	51.7	50.9
Economic activity rate in total (%)			**59.8**	**60.1**	**59.9**	**60.0**	**60.3**	**60.7**
• Men			68.9	68.7	68.9	68.7	68.6	69.2
• Women			51.5	52.3	51.5	52.0	52.6	53.0

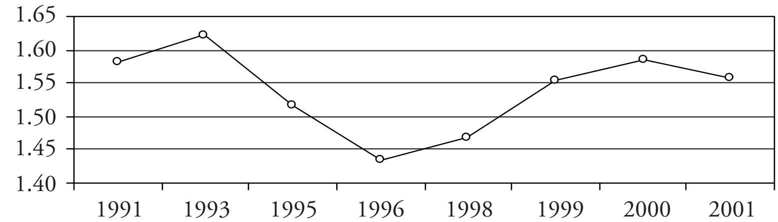
Source: Statistical Office of the Slovak Republic; Labour Force Surveys.

Figure 1.3.1
Employment rates by age and gender, 1994 and 2000



Source: Statistical Office of the Slovak Republic; Labour Force Surveys.

Figure 1.3.2
Relation between inactive and active population, 1991–2001



Source: Statistical Office of the Slovak Republic.

of economically active people, which is surrounded by economically inactive segments of the population, such as children, the elderly, and the unemployed. This tree structure of the population, divided into groups of men and women and into age cohorts, shows that there were more economically active men in the younger age groups (from 15 to 40 years) than women. Among persons 55 years of age or older, there were more absolute numbers of women than men. Among the oldest segment of the population (above the age of 75), there were about twice as many women as men.

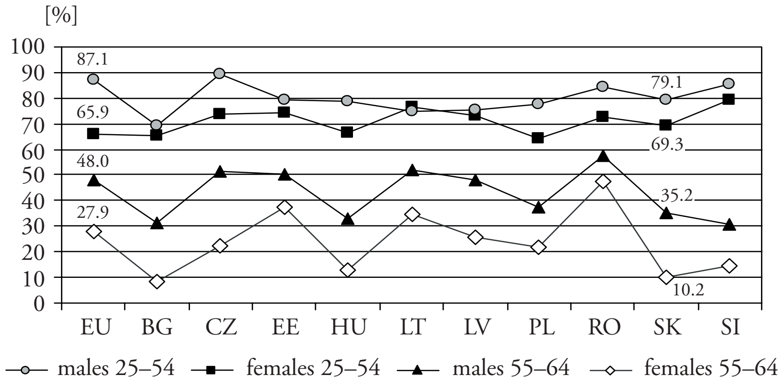
Figure 1.3.3
Economic activity by age and gender, 2001

Source: Statistical Office of the Slovak Republic; Labour Force Surveys.

As Figure 1.3.4 shows, the employment rate dropped significantly among the 60 year-old population in the European Union as well as in Slovakia. Nevertheless, if we return to Figure 1.3.3, the sharp decrease of the employment rate among the 55–59 year-old women in Slovakia is remarkable (see Figure 1.3.4).

According to EUROSTAT data (shown here in Figure 1.3.4), the rate of employment in the different age and gender groups varied among all accession countries. One general conclusion that can be drawn is that the rate of employment among men was higher than among women. Measured at the second quarter of the year 2000, this trend proved to be the same in all of the accession countries as well as in the EU (represented as an average of the 15 countries). In the EU countries, 87.1 percent of men in the 25–54 age group work were employed, compared to only 65.9 percent of women in the same group. The difference between the employment rates of men and women (0 to 15 percent) was not as large in the applicant countries as it is in the EU countries (21.2 percent on average). In Slovakia, the employment rate of young men was only 9.8 percent higher than that of young women.

Figure 1.3.4
Employment rate by age groups, comparison between Slovakia and the EU average and the other accession countries, second quarter of 2000



Source: EUROSTAT; Labour Force Surveys.

In the second age group measured (55 to 64 years of age), the male employment rates show great differences. While the rate stood at 48 percent in the EU countries, it was more than 57 percent in Romania (the highest employment rate among all countries) and only 31 percent Bulgaria and Slovenia (the lowest rate among the accession countries). The rate was 35.2 percent in Slovakia. The trends for female employment rates are similar. Romanian women had the highest employment rate in 2000 (more than 47 percent), followed by the women of Estonia and Lithuania. The average rate was only 27.9 percent in the EU countries, but in Bulgaria, Hungary, Slovakia, and Slovenia it was even lower. In fact, Slovak women in this age group had the lowest employment rate among all the compared countries, at 10.2 percent.

Compared to the employment rate of younger women, which was higher in Slovakia (69.3 percent) than the EU average (65.9 percent), the decrease of the employment rate is remarkable: almost 70 percent. This may be explained by the very low retirement age among women and the advantages for them in claiming an old-age pension. Women's income from regular employment is on average one-third lower than the average wage of men. As the pensions increments that can be earned by working longer are small, women prefer to retire as soon as possible.

1.4. Household Incomes, Income Distribution, and Expenditure

In 2001, the net average income for one member of a Slovak household was 76,667 SKK, which was 1,660 USD or 1,800 EUR. Table 1.4.1 shows structure of net income from employment, self-employment, and social transfers. During the monitored period, the structure of household incomes changed significantly: most importantly, income from employment decreased from 64.4 percent in 1996 to slightly above 60 percent during the next two years and then increased to 66.9 percent by 2001.

Not surprisingly, in households of employees, income from employment was dominant, where it represented slightly more than 80 percent, with the exception of 1997, when it dropped to 65.9 percent. Among farmers, the situation was similar: income from employment fluctuated between 76 and 82 percent of the total household income during the whole surveyed period, except the year 1997, when it dropped to 65.9 percent. Income from business activities was dominant among households of self-employed people, where it represented 61–68 percent of the total household income. Considering that 10 percent of the active population was self-employed, it is striking that income from business reached less than 5 percent of the total household incomes. Although this might be caused by unreported income among the self-employed, there are no useful studies of this yet in Slovakia.[2]

The high level of social transfers between 1995 and 1999 can be explained by the low level of wages, the increasing unemployment rate, and eligibility criteria which make a large number of households able to receive some social benefits. After parliamentary elections in 1998, the new government introduced austerity measures and liberalized some previously regulated prices

[2] However, as shown in Figure 1.4.1, the average household income of self-employed persons was higher than that of employees, pensioners, and farmers.

(electricity, gas, heating, also some basic food), which in turn increased the cost of living and the already high rate of unemployment. Even though the number of households in material and social destitution increased, the new administration sought to reduce social transfers by decreasing benefit levels and tightening rules for eligibility. The result was a sharp decline in the net cash social transfers to households: while in 1999 these transfers represented 25.6 percent of household income, by 2001 this ratio dropped to 18.4 percent.

Table 1.4.1
Structure of net money income of households by social groups, in percent, 1996–2001

Indicator	1996	1997	1998	1999	2000	2001
Net income from employment						
– Households total	64.4	60.3	60.8	62.4	65.2	66.9
• Households of employees	81.3	65.8	80.4	81.2	81.4	80.6
• Households of farmers	79.8	65.9	80.2	76.3	78.4	81.5
Income from business						
– Households total	4.0	4.2	6.5	4.8	4.4	4.7
• Households of self-employed	61.6	61.8	68.3	66.0	64.1	63.8
Cash social transfers						
– Households total	25.2	26.7	25.2	25.6	22.5	18.4
• Households of employees	11.1	8.6	10.3	10.1	9.0	8.1
• Households of farmers	13.6	10.8	11.8	14.1	11.1	9.2
• Households of self-employed	8.3	6.1	7.2	9.4	8.9	7.7
• Households of pensioners	94.0	88.8	93.2	93.1	93.9	92.0
Net money income of households						
(Yearly per capita, averages in SKK)	**48,792**	**56,582**	**59,832**	**62,982**	**68,641**	**76,667**

Source: Statistical Office of the Slovak Republic; Household Budget Surveys.

Table 1.4.2 shows the distribution of household expenditures and their change over the period 1995–2001. Households spent less and less on foodstuffs and beverages, clothing and footwear, as well as on culture and recreation. They spent more on housing, water, gas, electricity, health, and relaxation, as well as on transportation and communication. It is also noteworthy that consumption represents a gradually diminishing share in total household expenditures.

Table 1.4.2
Structure of household net expenditures, in yearly per capita averages, 1995–2001

Indicator	1995	1996	1997	1998	1999	2000	2001
Net money expenditures (SKK)	**40,827**	**47,685**	**55,273**	**60,436**	**62,707**	**67,869**	**75,372**
Of which percent:							
• Consumption expenditures	93.4	93.0	92.1	92.6	92.6	92.0	91.2
• Foodstuffs and non-alcoholic beverages	30.0	29.6	29.6	28.4	27.6	26.2	24.3
• Alcoholic beverages and tobacco	3.6	3.5	3.5	3.4	3.3	3.1	2.8
• Clothing and footwear	11.1	10.7	10.5	9.9	8.6	8.0	7.8
• Housing, water, electricity, gas	13.4	12.9	12.7	12.3	14.6	16.4	15.6
• Furnishing, household equipment, and regular maintenance of the house	6.0	6.0	5.9	6.2	5.7	5.5	5.2
• Health	0.8	1.0	1.2	1.2	1.4	1.5	1.5
• Transportation	7.8	9.1	8.0	8.7	8.0	7.9	9.2
• Communication	1.4	1.5	1.7	2.0	2.4	2.7	3.3
• Recreation and culture	8.5	8.1	7.5	8.0	7.7	7.5	7.3
• Education	0.7	0.6	0.5	0.5	0.5	0.5	0.6
• Hotels, cafés, and restaurants	4.0	3.8	4.5	4.9	5.1	5.1	5.5
• Miscellaneous goods and services	6.1	6.2	6.5	7.1	7.7	7.6	8.1
• Other expenditures*	6.6	7.0	7.9	7.4	7.4	7.6	8.8

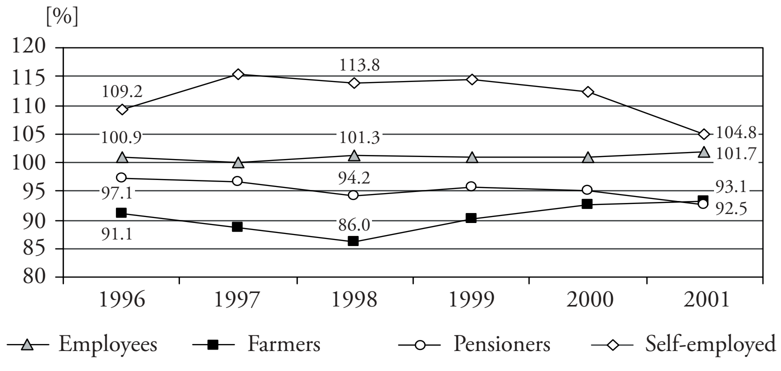
Note: * Other expenditures include administrative fees (for public services, for holding pets at home, for issuing passports and other ID, courts fees, and so on).

Source: Statistical Office of the Slovak Republic; Household Budget Surveys.

If we compare changes over time in net household incomes and expenditures (Tables 1.4.1 and 1.4.2), we can see that incomes were only slightly higher than expenditures during entire period, except in 1998, when expenditures surpassed incomes by 1 percent. In general, one might say that an average household spent nearly all of its income in each year on basic necessities. For example, in 2001 expenditures on housing, clothing, and foodstuffs made up 50.5 percent of all net household expenditures.

Figure 1.4.1 shows changes in per capita net incomes in households headed by persons with different occupations (employed, farmer, self-employed, and pensioner) between 1996 and 2001. The per capita income in households headed by employees did not diverge significantly from the average: it was always around 101 percent. On the other hand, the per capita income in households headed by self-employed persons departed more significantly from the average: it increased from 109.2 percent in 1996 to 115.2 percent in the next year and then gradually declined to 104.8 percent in 2001. The per capita income of households headed by farmers and pensioners was always below the average. The income of pensioner households steadily decreased from 97.1 percent of the average in 1996 to 94.2 percent in 1998 and to 93.1 percent in 2001. The income of farmers was 91.1 percent of the average in 1996, decreased to 86.0 percent in 1998 and then increased to 92.5 percent by 2001. In 2001, self-employed and employed heads of household reported higher than average incomes (by 4.8 and 1.7 percent, respectively); the households headed by farmers and pensioners reported lower than average incomes (by 6.9 and 7.5 percent, respectively).

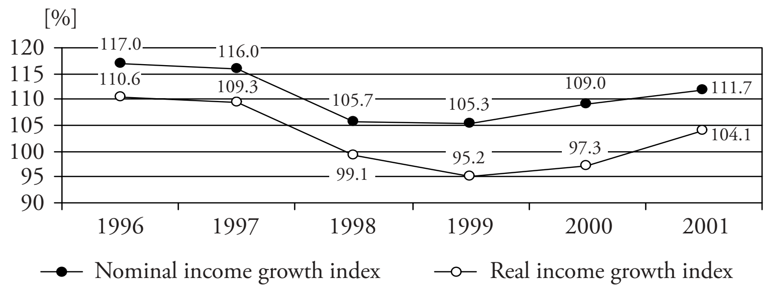
Figure 1.4.1
Household income by household heads, all households=100%, 1996–2001



Source: Statistical Office of the Slovak Republic; Household Budget Surveys.

The second half of the 1990s was characterized by an overall decline in both nominal and real household incomes. As Figure 1.4.2 shows, the growth of net household income decreased sharply from 1997 to 1999, and increased moderately afterwards. Still, by the end of the monitored period, neither the nominal nor the real income had reached 1996–1997 levels.

Figure 1.4.2
Growth of net household income, yearly per capita, averages, 1996–2001

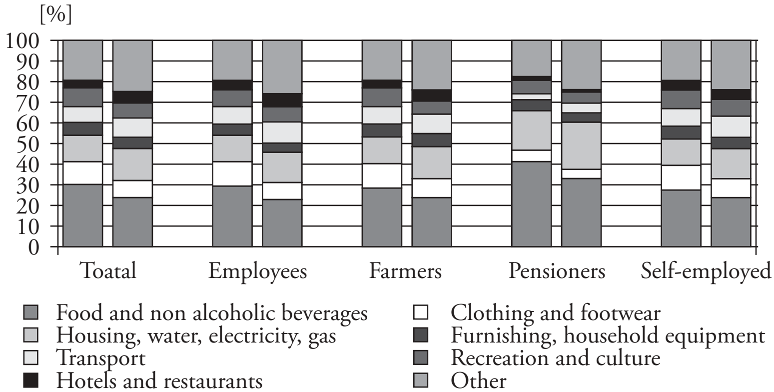


Note: * Previous year=100

Source: Statistical Office of the Slovak Republic.

Figure 1.4.3 shows the structure of net expenditure among the household groups of employees, farmers, pensioners, and self-employed in 1995 and 2001. It is clear that the structure did not change much between these two observed years, except for the households of pensioners. These households spent more of their income than the other groups on foodstuffs and non-alcoholic beverages: about 40 percent in 1995 and nearly 10 percent less in 2001. The other groups spent only about 30 percent of their income on foodstuffs and non-alcoholic beverages, and five percent less in 2001. Housing and utility expenses represented the second largest expense for all household types, again with pensioners spending a larger part of their income on these than the other groups. While housing and utility expenses increased in all households, the difference between the 1995 and 2001 figures was the biggest among farmer households. Transportation expenses also increased, even among pensioners, for whom public transportation is free of charge or provided at a reduced price. It is interesting that in all social groups the expenses marked as "other" increased the most, indicating a growth among unidentified expenses.

Figure 1.4.3
Structure of the net expenditure of households, by social groups, 1995 and 2001



Source: Statistical Office of the Slovak Republic; Household Budget Surveys.

Table 1.4.3 shows consumer prices between 1991 and 2001. The data are calculated in accordance with the COICOP classification, which is the international classification of household expenditure. One observes a sharp increase in the prices of all goods and services after 1989. The consumer price increase was the highest in 1991, when the year-to-year index reached 160.8 percent. The second highest increase (to 123.1 percent) came in 1993, when the former Czechoslovak Federation split. After 1994, the situation stabilized and consumer price increases remained below 10 percent. In the third phase of the transformation, consumer price indices surpassed 10 percent again: the year-to-year index was 110.6 percent in 1999 and 112.0 percent in 2000 (see Table 1.4.3).

Looking at particular goods and services, we can see that the highest price increase was in 1991 for practically all groups of commodities. Utility, maintenance, and furnishing prices increased the most, by 88.8 percent. Such

Table 1.4.3
Consumer price indices, cost of living, 1991–2001

Branches and groups by COICOP* classifications	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
	The same period in the previous year=100										
Total	160.8	110.7	123.1	113.5	109.9	105.8	106.1	106.7	110.6	112.0	107.3
Food and non-alcoholic beverages	154.1	107.5	120.6	117.0	113.0	104.0	105.7	105.8	102.7	105.2	105.6
Alcoholic beverages and tobacco	130.9	104.2	131.7	113.3	105.3	103.4	104.0	111.8	104.3	109.6	103.3
Clothing and footwear	164.8	113.3	118.3	115.6	109.1	107.2	107.6	107.8	107.5	103.1	102.4
Housing, water, electricity, gas and other fuels	188.8	145.0	121.1	108.0	107.0	104.6	107.2	106.3	129.7	132.5	117.2
Furnishing	188.8	109.1	120.2	111.7	108.7	106.1	104.7	107.0	107.8	104.1	99.5
Health	149.6	108.4	110.4	117.9	122.0	117.7	112.6	106.8	110.5	110.2	101.7
Transportation	156.9	106.2	127.2	109.6	108.4	106.3	106.0	102.5	112.5	115.6	103.2
Recreation and culture	152.6	110.2	120.7	116.8	109.5	110.5	106.3	108.2	109.3	106.9	104.8
Education	127.5	102.5	116.8	120.3	114.1	111.7	104.5	97.7	109.1	107.9	105.1
Hotels, cafes, restaurants	154.8	107.1	134.1	113.7	113.8	105.9	106.3	106.6	108.2	107.7	107.7
Miscellaneous goods and services	167.8	107.8	124.1	111.5	106.8	105.5	104.9	112.1	109.4	108.4	106.9

Note: * COICOP—Classification Of Individual COnsumption by Purpose

Source: Statistical Office of the Slovak Republic.

a sharp increase did not recur for any commodity group in any subsequent year. In 1993, the year the independent Slovak state was created, the prices of hotel and restaurant services increased the most, by 34.1 percent; the prices of alcoholic beverages and tobacco grew by 31.7 percent. In this year, price increases surpassed 20 percent for nearly all commodity groups. The most recent price increase of significance occurred during 1999–2001 in housing and utilities. In each of these three years, the housing and utilities price index surpassed 17 percent.

1.5. Poverty

During the 1990s, the living standards of certain groups increased markedly, while other social groups suffered from deprivation and today live in material and social destitution. Despite the establishment of the institutions of a modern social safety net in the 1990s, subsistence levels were never calculated on the basis of needs, thus the measurement of the extent of poverty was not possible. Instead of setting a "poverty line," a certain level of "subsistence minimum income" was determined by the government. Since 1991, political decisions have been made on this basis, which until recently served as the eligibility threshold for social assistance.

In this period, the social assistance system provided benefits that were very generous in comparison with employment earnings. Social assistance benefits were paid to families, whose income fell below the statutory subsistence minimum, and who found themselves in social or material destitution. Subsistence minimum rates were calculated according to family size, but without a maximum limit, thus enabling some large families to enjoy higher levels of income than they would have received from employment. Furthermore, the level of benefits was determined on a national basis, irrespective of the cost of living in the particular geographic regions.

As Table 1.5.1 shows, social assistance benefits were provided in two different amounts, depending on whether the reasons for material distress were objective or subjective. In 1999, the amount for a particular household in material distress for objective reasons was same as the statutory subsistence minimum for that size of household. In 2001, after legislation was amended to reduce expenditures, benefits did not reach the level of the subsistence minimum; nevertheless, compared to the statutory net minimum wage (2,957 SKK in 1999 and 3,863 SKK in 2001), income from social assistance benefits was still higher for every type of household, except for the single person household. Compared to the average net wage in 1999 (8,213 SKK), the social assistance income for a family with two children was slightly higher. Income from social assistance benefits for families with four and more children was higher than average net wage in both analyzed years and in all income groups (see Table 1.5.1).

In 2001, eligibility requirements became stricter, partly due to budgetary restraints and partly to make job seeking more attractive for those who rely on social assistance benefits. The government decided to cut social assistance. Instead of setting an official poverty line, it amended the law to drop the minimum income of those who depend on social assistance benefits below the official subsistence minimum level.

Figure 1.5.1 shows that the difference between the net average minimum wage and the average subsistence minimum (for a one-person household) was not large, and in 1998 and 1999 the average value of the subsistence minimum was even higher than the net average minimal wage. This indicates that poverty is perpetuated by the system itself, as individuals do not search for jobs once they or their family members have higher incomes from social assistance benefits than from their low paying employment.

This problem was further reinforced by the relationship among low education, low wages, and high unemployment. Among the unemployed population, people with basic education were over-represented. They could be hired only for jobs with the lowest wages in the economy, thus for them the social assistance benefits might produce a higher income than wages. This discourages them from trying to find work. Table 1.5.3 shows that among those households that lived in poverty and receive social assistance benefits, the majority had a head with a low level of education.

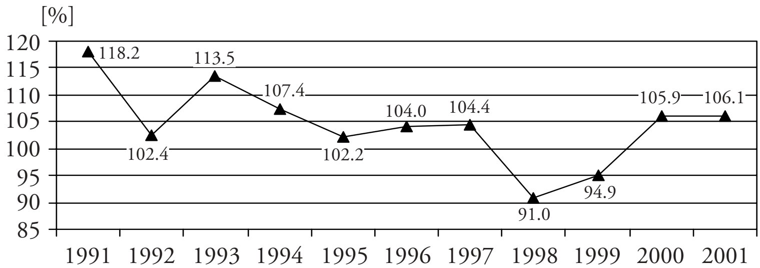
Table 1.5.1
Social assistance benefits and statutory subsistence minimum for different households and their comparison with net minimum wage and net average wage, in SKK, 1999 and 2001

Year		Household	Social assistance benefits	Statutory subsistence minimum*	Net min. wage	Net average wage
1999	In material distress: For objective reasons	2 adults	5,490	5,490	2,957	8,213
		1 adult+1 child	4,690	4,690		
		2 adults+2 children	8,410	8,410		
		2 adults+4 children	11,330	11,330		
	For subjective reasons	2 adults	3,875	5,490		
		1 adult+1 child	3,075	4,690		
		2 adults+2 children	6,795	8,410		
		2 adults+4 children	9,715	11,330		
2001	In material distress: For subjective reasons	2 adults	5,930	6,440	3,863	9,898
		1 adult+1 child	5,070	5,510		
		2 adults+2 children	9,090	9,880		
		2 adults+4 children	12,250	13,320		
	For subjective reasons	2 adults	4,335	6,440		
		1 adult+1 child	3,475	5,510		
		2 adults+2 children	7,495	9,880		
		2 adults+4 children	10,555	13,320		

Note: * The statutory subsistence minimum is stated by *Act No. 125/1998 (Coll. of Laws) on the Subsistence Minimum and on the Determination of Sums for State Social Benefits Purposes*, subsequently amended. However, as of 2000, social assistance benefits are not paid at the level stated by this law.

Source: Statistical Office of the Slovak Republic; own calculations.

Figure 1.5.1
Ratio of net average minimal wage to average subsistence minimum, 1991–2001



Source: Ministry of Labour, Social Affairs, and Family of the Slovak Republic; own calculations.

Table 1.5.3
Poverty rates for individuals, as percentage of group total, 1992 and 1996

Indicators	1992	1966
Economic activity of household head*		
• Employed	9.4	9.0
• Unemployed	67.2	44.7
• Pensioners	7.3	6.0
Education of household head (highest level completed)*		
• Elementary	18.1	14.3
• Apprenticeship		8.8
• Middle vocational	13.6	10.1
• Completed middle vocational	11.5	8.2
• Completed middle general	6.2	12.8
• Higher vocational	7.5	11.1
• University	2.2	7.9
Region*		
• Bratislava	5.5	8.8
• Western Slovakia	11.8	10.1
• Central Slovakia	10.8	8.7
• Eastern Slovakia	15.6	12.0
Gender of household head		
• Male	11.8	9.7
• Female	14.5	11.1
Family composition		
• Single parent with children	32.0	27.8
• Other families with children	16.9	17.7
• Single elderly male	1.0	0.1
• Single elderly female	2.7	1.1
• Multiple elderly only	4.5	3.2
• Other families with children	5.5	6.7
Total	12.2	10.1

Notes: Individuals. *Elderly* defined as 65 or older, and *children* defined as 0 to 15 years of age. Poverty based on total income and less than the minimum subsistence level.

* These variables are not equivalent in the Luxembourg Income Study version of the 1992 Micro Census and the Statistical Office of the Slovak Republic version of the 1996 Micro Census.

Source: Ana Revenga, *et al.* 2001. *Slovak Republic: Living Standards, Employment, and Labour Market Study*. World Bank Report No. 22351–SK. Washington, DC: World Bank. p.20. Based on: Luxembourg Income Study 1992; Micro Census 1996.

We can assume that all those eligible for social assistance benefits and their dependents were persons living in poverty because their income was below the subsistence minimum level. Following this assumption, as Table 1.5.2 shows, between 1995 and 2001 the number of persons living in poverty increased by more than 200,000 and reached 12.1 percent of the entire population.

Table 1.5.2 also indicates that there were three groups, the incomes of which were fully or partially financed from the state budget through social transfers due to their low income from regular sources or lack of any income. Besides social assistance recipients, there were persons eligible for the social pension (see Chapter 4), which supplemented other sources of income up to the subsistence minimum, and recipients of the benefit called "sole source of income," which provided a supplement up to 1.1 times the subsistence minimum. All three benefits alleviated poverty among particular groups of persons without sufficient income.

Table 1.5.2
Population in material distress, as of 31 December of each year, 1995–2001

Indicator	1995	1996	1997	1998	1999	2000	2001
Persons in material destitution with jointly assessed person	408,507	378,637	392,927	506,440	584,941	610,650	630,708
Social pension recipients	8,662	7,870	7,201	6,641	6,160	5,773	5,472
"Sole source income" recipients	44,597	44,884	26,786	34,302	37,479	36,975	37,166
Share in total population (%)	8.6	8.0	7.9	10.1	11.6	12.1	12.5

Source: Statistical Office of the Slovak Republic; Ministry of Labour, Social Affairs, and Family of the Slovak Republic.

In 2001, the majority of the 630,708 persons living in households of social assistance recipients had a high-risk profile: the unemployed, persons with a low level of education, members of the Roma minority, people who were disabled or sick for a long time, as well as drugs addicts and homeless people. There was a very strong correlation between employment status of the head of household and poverty. Without social transfers, poverty would have been much more widespread: among households in which the head of household is unemployed, for example, it would have increased to almost 80 percent.[3]

Unfortunately, we do not have reliable data on poverty in Slovakia, as the only data source (the micro census) is not carried out with sufficient frequency: the last one was in 1996. Micro censuses do not cover the most significant group of the poor, which is the Roma minority. No relevant and representative monitoring and surveys on poverty have been done in Slovakia, and this makes the extent of the social destitution area very obscure. The most important obstacle is that there is no official agency responsible for collecting and analyzing data and evaluating programs and measures of the social safety net.

Further light can be cast on the extent of poverty by examining indicators of purchasing power parity. Table 1.5.4 shows that while the share of households with income below 50 percent of the median equivalent income increased from 2.1 percent in 1992 to 5.9 percent in 1996, the share of households with income below the subsistence minimum level decreased from 9.3 percent in 1992 to 7.9 percent in 1996. In the case of individuals, the situation is very similar: the share of individuals with income below 50 percent of the median increased and those with income below the subsistence minimum decreased (see Table 1.5.3).

However, micro censuses are not representative of all social groups, and the subsistence minimum is defined rather arbitrarily by the government, not taking into account the cost of living index.

[3] Ana Revenga, *et al.* 2001. *Slovak Republic: Living Standards, Employment, and Labour Market Study*. World Bank Report No. 22351–SK. Washington, DC: World Bank. pp.xxviii, 15.

Table 1.5.3
Poverty by head count, 1992 and 1996

Indicators	Households		Individuals	
	1992	1996	1992	1996
Below 50 % of median equivalent income	2.1	5.9	1.4	5.8
Below 2.15 USD PPP* per person per day	0.2	2.1	0.1	2.6
Below 4.30 USD PPP* per person per day	2.7	6.3	3.9	8.6
Below the minimum subsistence level	9.3	7.9	12.2	10.1

Note: PPP: Purchasing Power Parity.

Source: Ana Revenga, *et al.* 2001. *Slovak Republic: Living Standards, Employment, and Labour Market Study*. World Bank Report No. 22351–SK. Washington, DC: World Bank. p.18. Based on: Luxembourg Income Study 1992; Micro Census 1996.

Chapter 2
The Social Protection System in the Slovak Republic

2.1. Definition of Social Protection, Scope of Coverage

Social protection is recognized in the Slovak Republic as one of the important functions of the state, even though there is no universally accepted, clear definition of what, exactly, "social protection" is. For the purposes of this study, the definition of social protection is based on international documents that were adopted by the Slovak legislation. The most important among these are the conventions and recommendations of the International Labour Organization (ILO). The ILO social security instruments define social security to include nine branches: medical care; sickness protection; unemployment protection; old-age protection; protection against employment injury and diseases; family and maternity benefits; disability protection; survivor's protection.[1]

This report, however, covers a somewhat wider field than the social security, as we have indicated in the Introduction. Our study relies on the social protection-centered definition and methodology provided by EUROSTAT, the Statistical Office of the European Communities. This is the ESSPROS (European System of Integrated Social Protection Statistics) instrument of statistical observation of social protection in the European Community

[1] Martin Humblet and Rosinda Silva. 2002. *Standards for the 21st Century: Social Security*. Geneva: International Labour Office. p.5.

member states. According to the ESSPROS definition, the welfare provisions of the state social protection system have the central function to reduce risks that individuals and families face as a result of certain contingencies.[2] Thus, the social protection system has been designed to achieve these general aims:

- insurance against risks related to health status (e.g. illness, injury);
- insurance against risks of particular life events (e.g. old age, unemployment);
- compensation for some types of extra costs (e.g. children allowances);
- financial support in case of insufficient income and to alleviate poverty;
- redistribution of resources across people's life cycles; and
- redistribution of resources from the rich to the poor.[3]

On the basis of these definitions, this report focuses on the following categories of risks or needs, which are covered by social protection provisions:

- old age;
- disability and employment injury and diseases;
- survivorship;
- sickness;
- health care;
- unemployment;
- family and children; and
- poverty alleviation and social assistance.

The main actor organizing and operating the social protection system is the state: it assumes responsibility to protect and promote the welfare of all citizens. It has the capacity to determine overall policy, control expenditure, and prepare social protection legislation. Within the state, different government

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[2] EUROSTAT. 1996. *ESSPROS Manual 1996*. Luxembourg: Office for Publications of the European Communities. p.19. Available at http://forum.europa.eu.int/Members/irc/dsis/esspros/library?l=/4_publications/esspros_manual_1996&vm=detailed&sb=Title.

[3] Tables and figures providing statistical and other data, prepared following the ESSPROS methodology, are presented in Appendix B.

ministries, local governments, and specific state institutions have the responsibility to organize and operate the system that provides social insurance, social assistance, social services, and health care.[4]

The organization of the Slovak social protection system is shown in Table 2.1.1. It illustrates the legislative, management, financial, and supervisory functions of the various ministries and state authorities. The Ministry of Labour, Social Affairs, and Family of the Slovak Republic has the central role in providing social protection, while the Ministry of Health has exclusive competency in providing health care and financing medical treatment. These two central government bodies oversee the planning of social security and health care provisions, as well as initiating legislation in these fields.

Table 2.1.1 also shows that health insurance, social security insurance, and unemployment insurance benefits and services are provided through separate agencies. Although ministries of the central government delegate representatives to these compulsory social security organizations, the ministries do not govern them. Competencies in providing certain welfare benefits and services (family and children allowances, housing benefits, social assistance, etc.) are delegated to regional and local authorities. As well, some are provided by employers and specified agencies (for example, the Social Insurance Agency).

The armed forces and certain groups of state employees (policemen, customs officers, firemen, etc.) have their own social security schemes, independently legislated and financed. Thus, the Ministry of Internal Affairs and the Ministry of Defense also play some roles in managing the social security system. These two ministries have set up specific funds for collecting contributions and providing statutory old-age benefits, sickness benefits, and part of family, children, and unemployment benefits. Their benefits and contribution rates are established by specific legislative measures. Due to the lack of data from these two ministries, this study does not cover their social security schemes. Finally,

[4] Social services available in the Slovak Republic include: retirement (seniors) homes; boarding homes for pensioners' social services homes (social care establishments for physically and mentally handicapped, young and adult persons); children's homes; attendance service facilities; special canteens for seniors; seniors' clubs; crisis centers; re-socialization and rehabilitation centers; homes for single parents; protected housing facilities; retraining of the unemployed, etc.

the Ministry of Finance has the role of supervising the financial operations of the social protection system.

Regional and local state authorities play an important role in providing welfare benefits and social services. As part of the political transition, the state administration was partly decentralized and certain competencies were delegated from the central government to regional and local authorities. Consequently, regional and local authorities took over the responsibility to assess the needs of the local population and to ensure that these are met. Financed from the central state budget, all state authorities provide social assistance benefits and certain types of health care benefits, either directly or through various authorized institutions. Certain state social allowances are paid through the employers.

In the organizational structure of social protection providers, the Social Insurance Agency, the National Labour Office, and the health insurance companies represent the next level. The Social Insurance Agency and its branches collect contributions and provide old-age, disability, and survivors insurance, occupational disease and injury insurance, and sickness insurance. The National Labour Office and its regional units are responsible for paying unemployment benefits and managing active labour market policies. A plurality of providers is allowed only in the field of health insurance. Therefore, besides the General Health Insurance Company and the Common Health Insurance Company, which have the statutory roles of providing health insurance for certain insured persons listed by law, private health insurance companies may also operate in Slovakia. The role of health insurance companies is to collect contributions and to cover the financing of health care provisions, such as inpatient and outpatient health care in hospitals and polyclinics or medical aid.

At a lower level of the organizational structure of social protection providers, there are supplementary pension insurance companies that provide voluntary old-age insurance (see section 3.5 in Chapter 3). From 1990, private social assistance providers may also operate within the social protection system.

Table 2.1.2 lists the public social protection benefits provided within the social protection system, divided by functions, following the ESSPROS categories. There are cash and in-kind benefits provided to alleviate a social risk classified by the scheme. This report is organized according to these functions of social protection, and the subsequent chapters describe the specific benefits provided, the conditions for entitlement to them, the calculation of benefits, and their legal basis.

Table 2.1.1
Organization of the social protection system in the Slovak Republic

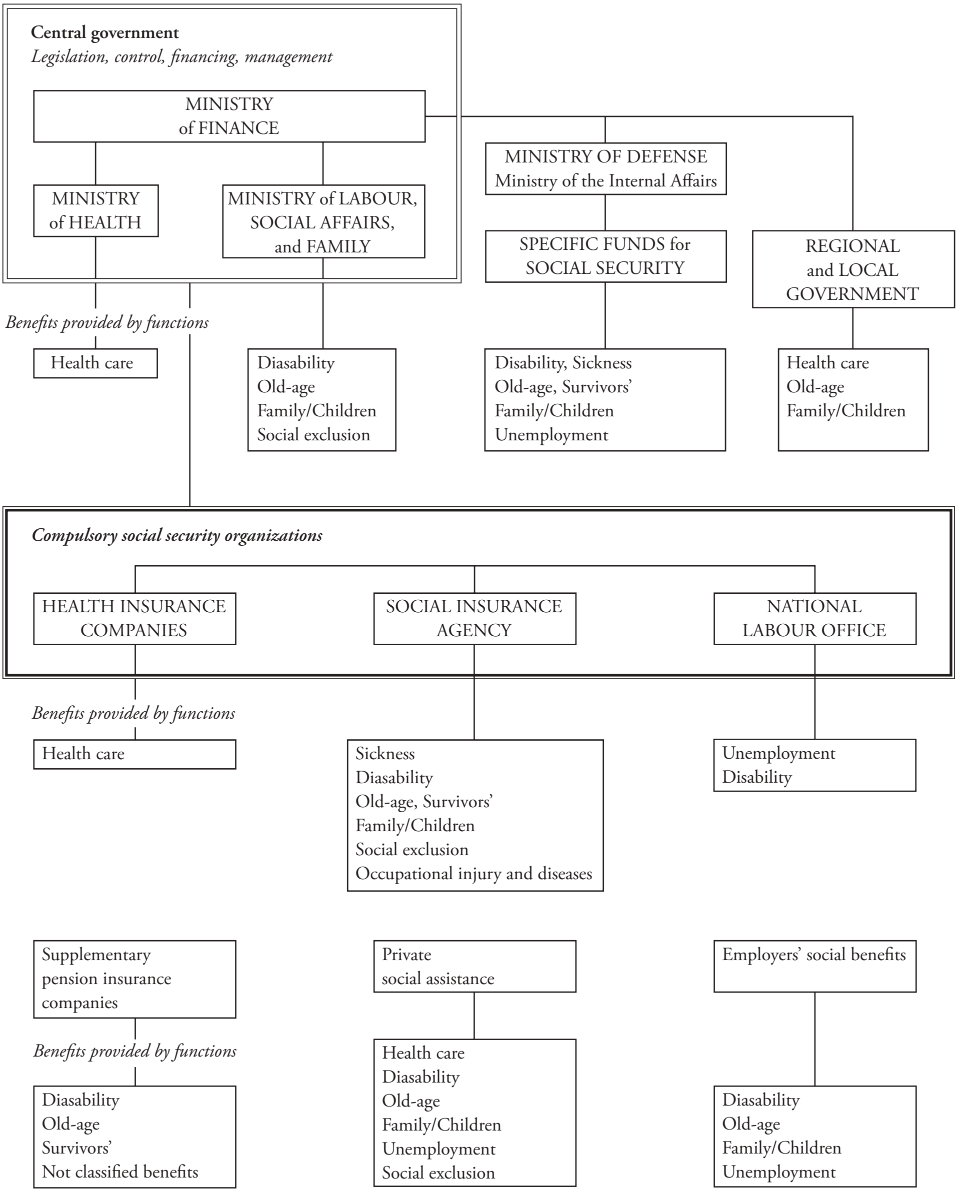


Table 2.1.2
Public social protection benefits, by function

Function of social protection (contingency or need)	Benefits
Old age*	*cash benefits:* old-age pension (3 categories), proportional pension, pension for recognized years of work, social pension, wife's pension, increase due to immobility *benefits in-kind:* attendance service, communal catering, transportation service, senior homes, boarding houses for pensioners, senior clubs, personal hygiene centers, laundries, spa treatment
Disability	*cash benefits:* disability pension, partial disability pension, increase due to immobility, compensatory financial contributions, financial contribution for personal assistance *benefits in-kind:* compensatory social services, social services homes, protective housing facilities, rehabilitation centers
Occupational injury/diseases	*cash benefits:* compensation for loss of earnings, for suffering and difficulties with social reintegration, for efficient spending of funds to medical treatment and for material damage *benefits in-kind:* spa treatment
Survivors	*cash benefits:* widow's pension, widower's pension, orphan's pension *benefits in-kind:* funeral expenses
Sickness	*cash benefits:* sick leave benefit, benefit for care of a family member *benefits in-kind:* spa treatment benefit
Health care	*benefits in-kind:* inpatient health care, outpatient primary and specialized health care, direct provision of pharmaceutical products and medical aids, etc.
Unemployment*	*cash benefits:* unemployment benefit, early retirement pension *benefits in-kind:* retraining
Family/children	*cash benefits:* income maintenance in the event of pregnancy and childbirth, maternity leave benefit, single parent's benefit, parental allowance, housing contribution for soldiers, child allowance and additional child allowance benefit, childbirth contribution, contributions to parents of three or more children born simultaneously or to parents of multiple-child births repeated within two years, foster care cash benefits *benefits in-kind:* foster care in-kind benefits, nurseries, children's homes, homes for single parents, attendance service stations, foster care facilities, crisis centers, re-socialization centers
Poverty, social exclusion	*cash benefits:* social benefits due to material destitution, housing contribution, temporary social assistance benefit (social loan, single assistance payment) *benefits in-kind:* shelters, personal hygiene centers, laundries

Note: * Following the ESSPROS methodology, benefits (cash benefits in the disability and survivor functions) paid to beneficiaries over the standard retirement age are considered as old-age benefits, and the early retirement pension is considered an unemployment benefit.

Table 2.1.3 provides a brief overview of the scope of coverage in the Slovak Republic at the time of research, indicating what type of social protection covered which population groups. The chart shows that only employees with an employment contract were provided obligatory coverage for all social protection functions. Nevertheless, the differences in the coverage of the various population groups were not significant, and everyone who was protected by obligatory coverage was treated more or less equally. The differences that did exist among the population groups within a particular social protection function are discussed in the corresponding chapters of this study. Some groups were, for various reasons, excluded from one or more types of coverage: dependent students, for example, were not protected by unemployment benefits; or in the case of certain social assistance benefits, it was not the children but their parents who participated in the system on their children's behalf (see Table 2.1.3).

Table 2.1.3
The scope of social protection coverage, by selected population groups

Population groups	Old age[1]	Disability	Injury/ diseases	Survivors	Sickness	Health care	Unemploy-ment	Family/ children[2]	Poverty/ social exclusion
Persons with employment contract, members of cooperatives	*	*	*	*	*	*	*	*	*
Self-employed persons [3]	*	*		*	*	*	*[4]	*	*
Cooperating persons [5]		*				*	*	* [6]	*
Persons registered as unemployed and receiving an unemployment benefit	*	*		*	*	*	*	*	*
Persons registered as unemployed not receiving an unemployment benefit [7]	*	*		*	*	*	*	*	*
Voluntary insurance contributors [8]	*	*		*	*	*	*	*	*
Dependent students [9]	*	*		*	*	*		*	*
Dependent children				*		*		*	
Persons caring for young children, receiving disability pensions or providing full-time care, in the military and civil service	*	*		*		*		* [6]	*
Other economically inactive persons		*[10]		*[10]		*		* [6]	*

Notes:

1. Following the ESSPROS methodology, benefits (cash benefits in the disability and survivor functions) paid to beneficiaries over the standard retirement age are considered old-age benefits.
2. Child allowance is provided to all residents with dependent children whose income does not exceed a stipulated amount.
3. Only those self-employed persons participate in the pension security and sickness insurance scheme whose income during the previous calendar year was higher than 100,000 SKK.
4. Self-employed persons are covered by unemployment insurance only on a voluntary basis.
5. Persons cooperating with self-employed individuals are covered by old-age security and sickness insurance only voluntarily; disability benefits can be provided to them under loose eligibility conditions.
6. Not eligible for maternity benefit paid from sickness fund.
7. The registered unemployed not receiving unemployment benefit were covered by old-age and sickness insurance only until the end of 2001.
8. By law it is possible to participate in the statutory schemes on a voluntary basis.
9. High school and university students are covered by sickness insurance. University students may be voluntarily covered by pension insurance if they are not obligated to pay contributions.
10. All disabled persons are eligible for disability pensions, even those without any work history. The survivors of these persons are also eligible for survivor's benefits.

2.2. Trends in Social Protection Revenues and Expenditures in the Slovak Republic between 1989 and 2001

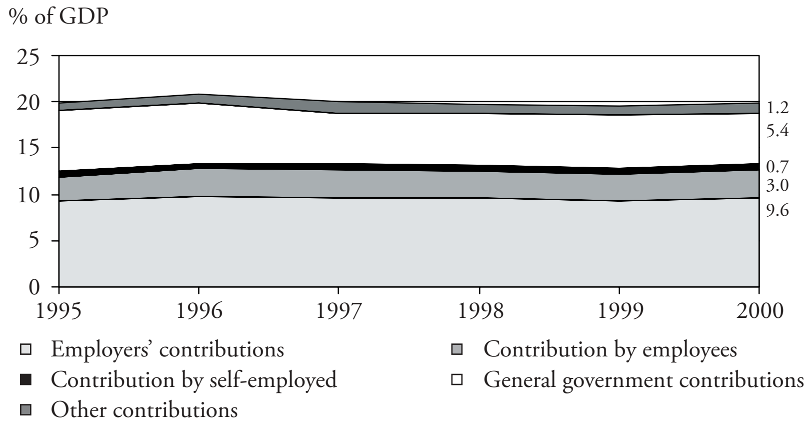
This analysis of trends in social protection revenues and expenditures is limited by a shortage of data. Data on social protection expenditures are available for the entire period between 1989 and 2001, but data on revenues exists only for 1995 to 2000.

Expressed as a percentage of GDP, social protection revenues in total were more or less stable during the entire period, even though the GDP increased. This means that although revenues increased in nominal terms, in real terms the social welfare of the population did not improve significantly. In 1995, social protection revenues comprised 19.84 percent of GDP and in 2000, 19.86 percent. The share of social protection income in GDP was highest in 1996, when it reached 20.9 percent (see Appendix B, Table B.1.1).

Figure 2.2.1 shows that during the monitored period, the share of various types of contributors did not change significantly. Employers' contributions represented the largest revenue source throughout the period: in 1995, their nominal value was 9.22 percent of GDP and in 2000, it was 9.64 percent. This increase is due to an overall increase of wages. General government contributions represented the second largest source of social protection revenues: 6.59 percent of GDP at the beginning of the period and 5.36 percent of GDP in 2000. Employees' contributions made up about 3 percent of GDP in practically ever year, while at 0.7 percent of GDP the share of contributions paid by self-employed persons was insignificant. The small growth from 0.52 percent of GDP in 1995 to 0.69 percent in 2000 can be explained by the increase of the number of self-employed persons, following legislation that promoted their activities (see Figure 2.2.1.).

Table 2.2.1 shows that, between 1995 and 2000, nominal revenues grew by 67,593 million SKK, which represents a 59.9 percent increase. If we look at different sources of revenues, social contributions paid by employers and protected persons (including employees) increased by 4.5 percentage points, from 62.6 percent to 67.1. Employers' contributions represented 46.4 percent in 1995, and increased to 48.5 percent in 2000. The share of employees' contributions also increased between 1995 and 2000, altogether by 1.5 percentage points. It is important to note that during the same period, the

Figure 2.2.1
Social protection revenues by type of contributors, 1995–2000



Source: Statistical Office of the Slovak Republic.

proportion of general government contributions decreased by 6.2 percentage points[5] (see Table 2.2.1).

According to the ESSPROS 1996 methodology, social protection revenues are also divided into the sectors that exist in national accounts. Figure 2.2.2 shows that contributions by companies and enterprises increased from 6.3 percent of GDP in 1995 to 6.5 percent in 2000, while contributions by the general government decreased from 9.4 percent of GDP in 1995 to 8.3 percent

[5] General government expenditure means all expenditures paid from the state budget to cover pension, sickness and health insurance, as required by law; all expenditures on state benefits (e.g. children's allowances); and contributions to health insurance on behalf of children, elderly, and other legally identified groups of people for which the state must make contributions. It also comprises of subsidies to hospitals to cover their infrastructural investments, and to state-owned companies and enterprises to pay off their debt if they could not pay social protection contributions on behalf of their employees. Expenditures on social assistance benefits and services financed by regional and local governments are also a part of the general government expenditure. General government expenditure in this study is classified in accordance with EUROSTAT methodologies ESSPROS 1996 and ESA 1995 (European System of Accounts).

Table 2.2.1
Revenues in the social protection system, 1995–2000

Indicator	1995	1996	1997	1998	1999	2000
Total revenues (in million SKK)	**112,899**	**130,984**	**131,447**	**153,375**	**163,595**	**180,492**
of which, as percent of total:						
I. Social contributions	**62.6**	**63.8**	**66.3**	**66.6**	**65.5**	**67.1**
1. Employers' contributions	46.4	46.6	48.4	48.3	47.5	48,5
2. Contribution by protected persons	16.2	17.2	18.0	18.3	18.0	18,6
Of which: contributions by employees	13.6	14.5	15.0	15.1	14.8	15,1
II. General government contributions	**33.2**	**30.2**	**28.0**	**28.7**	**29.5**	**27.0**
III. Other revenues	4.1	5.0	5.7	4.6	5.0	5.9

Source: Statistical Office of the Slovak Republic.

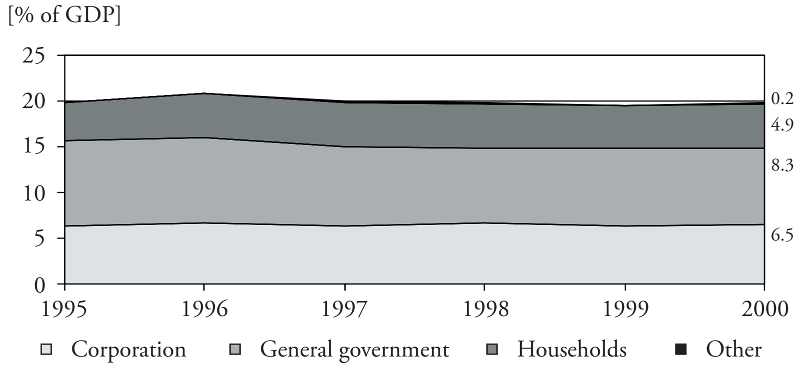
in 2000.[6] Contribution payments by households increased only slightly, and revenues from other payers were only 0.2 percent in 2000 (see Figure 2.2.2).

Figure 2.2.3 shows changes over time in expenditures on seven major social protection benefits paid in cash. These particular benefits represented 9.5 percent of GDP in 1989; spending on them peaked at 1992 at 11.9 percent and declined to 10.1 percent in 2001. For detailed data on social protection expenditures by type and function (in accordance with ESSPROS 1996 methodology), see Appendix B, Tables B.1.3 and B.1.10.

As one can see from the chart, old-age pensions represented the largest share among the social protection expenditures throughout the entire period: 4.0 percent of GDP at the beginning of the decade and 4.8 percent at the end. This development is partly a result of the fact that there was no major pension reform in Slovakia, but benefits were regularly adjusted for inflation. Pensioners formed a large group among the total population, and it would

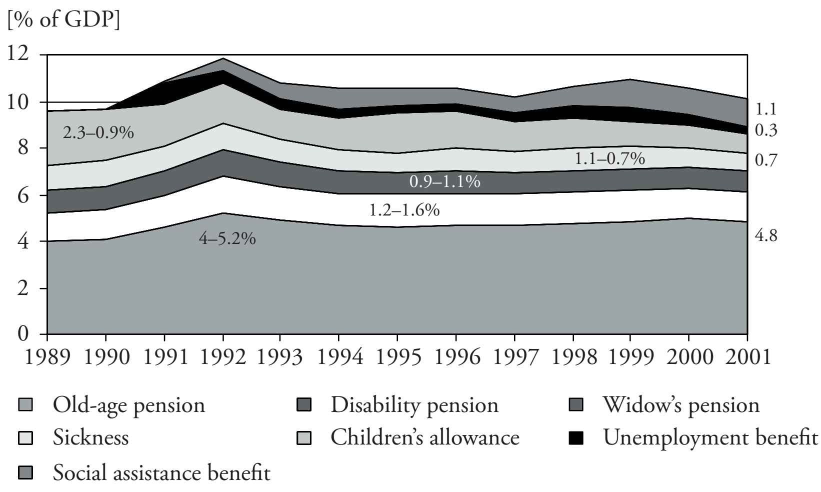
6 "General government" is a term of ESA 1995 methodology (EUROSTAT). It includes four sub-sectors: central, state, and local governments, and social security funds.

Figure 2.2.2
Revenues by sectors, 1995–2000



Source: Statistical Office of the Slovak Republic.

Figure 2.2.3
Changes over time in expenditures on various types of social benefits, as percent of GDP, 1989–2001



Source: Statistical Office of the Slovak Republic.

be a difficult task for any government to retrench pension benefits even if it were necessary (for more on this, see Chapter 4). Expenditures on children allowances decreased markedly from 2.3 percent of GDP in 1989 to 0.9 percent in 2001. This was a result of means-testing these types of allowances, as well as the sharp decrease in the number of new born children (see Chapter 10).

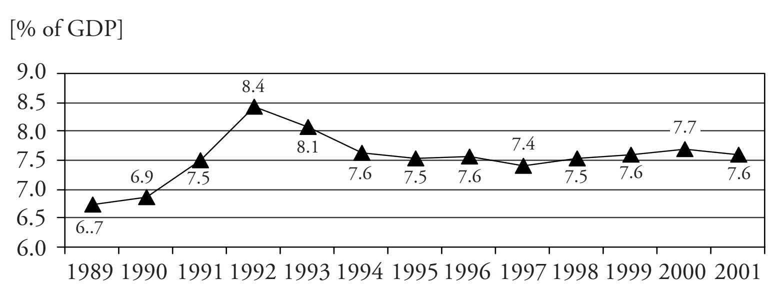
In the early 1990s (namely, 1991), new social protection benefits appeared, such as unemployment benefits and various social assistance provisions to protect the population against poverty.

In the year following the introduction of unemployment provisions, expenditures on these benefits represented 0.9 percent of GDP. This figure dropped to 0.3 percent in 2001 (see Chapter 9).

Even though GDP gradually increased, expenditures on social assistance benefits increased from only 0.1 percent of GDP in 1991 to 1.1 percent in 2001, which is one sign of increasing poverty in the country (see Chapter 11).

Figure 2.2.4 shows changes in expenditures on all kinds of pension benefits (old-age, disability, and survivors). Together, these comprised 6.7 percent of GDP in 1989 and increased to 7.6 percent in 2001. The early 1990s witnessed a sharp increase, when expenditures peaked at 8.4 percent of GDP. After 1994, the figure stabilized at around 7.6 percent of GDP (see Chapters 4, 5 and 6).

Figure 2.2.4
Development of pension expenditures, as percent of GDP, 1989–2001



Source: Ministry of Labour, Social Affairs and Family of the Slovak Republic; Statistical Office of the Slovak Republic.

2.3. Social Protection Revenues and Expenditures in an International Context

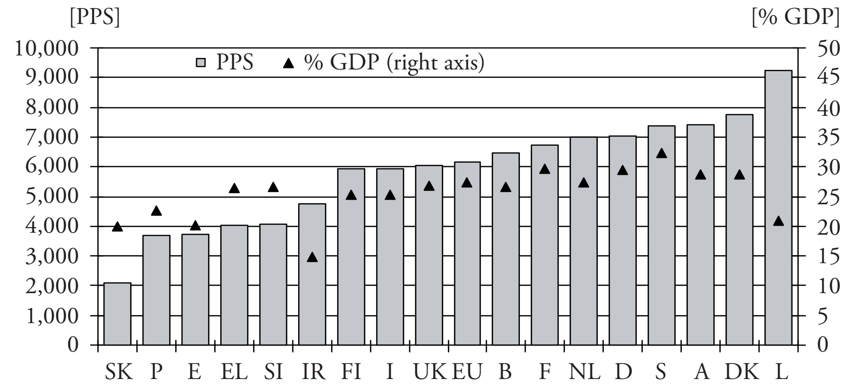
For a reliable picture of social protection expenditures in Slovakia, it is necessary to compare with the European Union and individual member states. Only then we can see whether the Slovak social protection system was too expensive and generous, or whether it provided Slovak citizens with necessary and reasonable protection. (For detailed data on social protection expenditures by function, as well as their international comparison with the respective data from the EU member countries, as percent of GDP, per head in ECU, and PPS for 2000, see Appendix B, Tables B.2.1 to B.2.3.)

In 2000, social protection expenditures in the EU represented, on average, 27.3 percent of GDP, while in Slovakia, the equivalent figure was only 20 percent (Figure 2.3.1). Slovakia was more or less at the same level as Spain and Luxembourg, but represented only two-thirds of the expenditure in five other EU member states (France, Germany, Sweden, Austria, and Denmark). If we express these expenditures in PPS per capita, they amounted to an average of 6,155 EUR in the EU member states and only 2,095 EUR in Slovakia (see Figure 2.3.1).[7]

As Figure 2.3.2 shows, in 2000, the share of expenditures on sickness benefits, health care, and disability benefits in the Slovak Republic reached the percentage observed in those countries that spent the most on these areas among all EU member states. On the other hand, the share of expenditures on old-age and survivors' benefits were lower in Slovakia than the EU average. Only four countries (Ireland, Norway, Iceland, and Finland) spent less on old-age and survivors' benefits than Slovakia (see Figure 2.3.2).

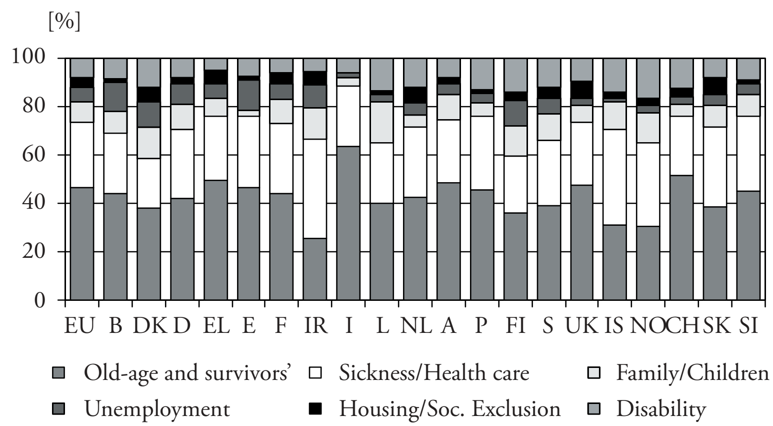
[7] PPS refers to Purchasing Power Standards, which is an independent unit of any national currency that removes the distortions due to price level differences. The PPS values are derived by using Purchasing Power Parities (PPPs) that are obtained as a weighted average of relative price ratios in respect of a homogeneous basket of goods and services, comparable and representative for each Member State.

Figure 2.3.1
Expenditure on social protection, in PPS per capita and as percent of GDP, 2000



Source: EUROSTAT, Statistical Office of the Slovak Republic.

Figure 2.3.2
Expenditure on social benefits, by function, 2000

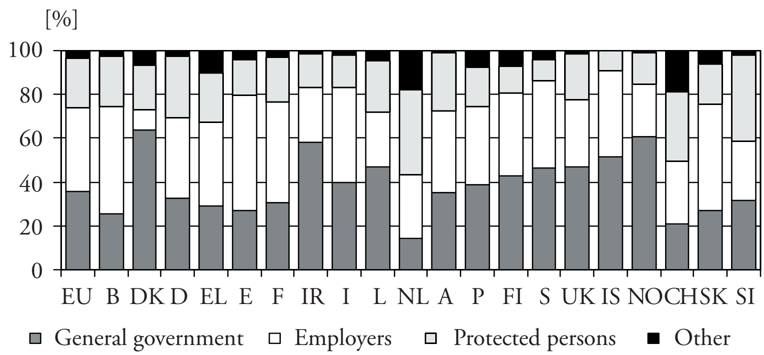


Source: EUROSTAT; Statistical Office of the Slovak Republic.

Figure 2.3.3 shows that employers' contributions to the social protection budget in Slovakia were proportionately larger than the average employers' contributions in the EU member states; actually, only Spain and France show a proportionately higher share of contribution by employers. Contributions by the state represented a larger share in the majority of EU member countries (as well as in the EU average) than in Slovakia. Only three countries, the Netherlands, Switzerland, and Belgium, had the same or a lower proportion of state revenues in social protection than Slovakia. The share of contributions paid by protected persons (employees and self-employed) was only slightly lower than the EU average. Figure 2.3.3 also shows, however, that a general trend cannot be observed among the EU countries, and there exists a great variety in the proportions of the different types of contributors.

Figure 2.3.4 shows the composition of social protection revenues by type, in Slovakia and in comparison with the EU member states, from 1993 to 1999. Unfortunately, data for the Slovak Republic are available only since 1996. In general, the EU member states showed higher contributions, as percentage of their GDPs, than did Slovakia. Each group of contributors in Slovakia paid less on average than their counterparts in the EU, even though the employers' contributions in Slovakia were close to the EU average. While in the European

Figure 2.3.3
Social protection revenues, 2000

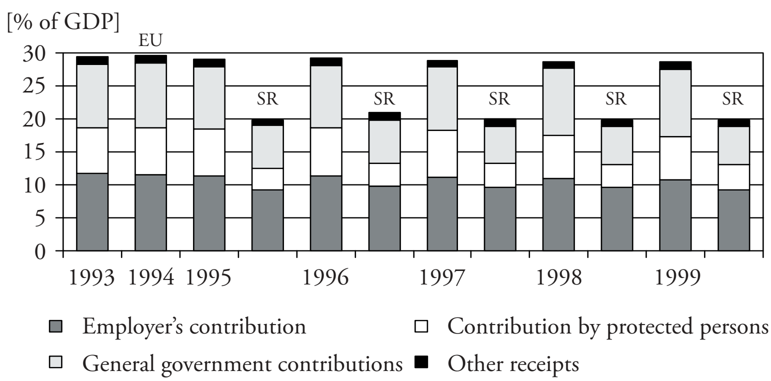


Source: EUROSTAT; Statistical Office of the Slovak Republic.

Union the share of employers' contributions was 11.7 percent of GDP in 1993 and decreased to 10.8 percent in 1999, Slovak employers contributed 9.22 percent of GDP in 1995 and 9.3 percent in 1999. However, while in the EU member states, the share of the general government in the social protection revenues was on average 9.7 percent of GDP in 1993, and increased to 10.2 percent in 1999, the Slovak government contributed 6.59 percent of the GDP in 1995 and 5.78 percent in 1999. In Slovakia, the contributions of protected persons represented about only one-half (increasing from 3.22 to 3.69 percent of the GDP between 1995 and 1999) of the share of the same group in the EU member states (decreasing from 6.9 to 6.5 percent of the GDP between 1993 and 1999) (see Figure 2.3.4).

Figure 2.3.5 compares the average value of monthly pensions in the accession countries for the years 1996 and 2001. Among the compared countries, the average pension in Slovakia occupied the middle ground. It was much lower than in the Czech Republic in both years, even though Slovakia shared the same statutory pension scheme with the Czech Republic during their 75 years of common state history, until 1993. At the year of the "velvet divorce," pension benefits had nearly same value in both parts of the Czech

Figure 2.3.4
Social protection revenues by type, comparison between the EU–15 average and the Slovak Republic, as percent of GDP, 1993–1999



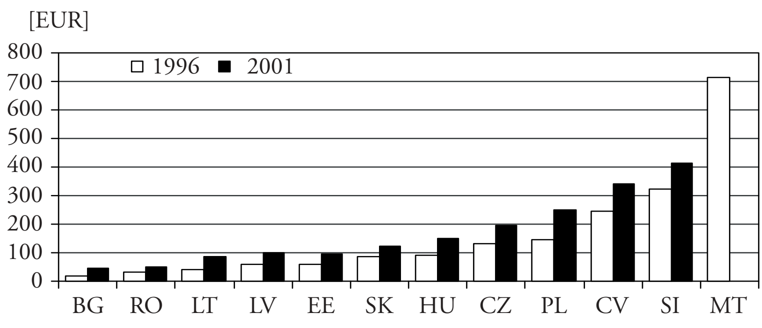
Source: EUROSTAT; Statistical Office of the Slovak Republic.

and Slovak Federation. While in 1996 the difference between the Slovak and Czech average monthly pension was 43 EUR, in 2001 it was 72 EUR.

Among the accession countries in 1996, Malta had the highest average pension at 712 EUR per month, next came Slovenia with 324 EUR. At the other end of the scale, Bulgaria had the lowest average monthly pension with 18 EUR, followed by Romania with 32 EUR. For 2001, data from Malta are not available; thus, Slovenia had the highest average pension with 414 EUR. This is not surprising if one considers that among the post-socialist countries, Slovenia has had the highest GDP per capita figures during the transition period. Average monthly pensions in Cyprus and Poland also exceeded 200 EUR, at 340 EUR and 248 EUR, respectively. Four other accession countries had average monthly pensions over 100 EUR: Slovakia and the Czech Republic belong to this middle group, with 124 and 196 EUR respectively. The average monthly pension in Slovakia represented 82.7 percent of the Hungarian, 63.3 percent of the Czech, 60 percent of the Polish, and 30 percent of the Slovenian average pension.

Figure 2.3.6 shows changes over time in pension expenditures, expressed as a percent of GDP, in the 12 accession countries during 1996 and 2001. A remarkable decrease can be observed in half of these countries, including the

Figure 2.3.5
Average monthly pension in accession countries, in EUR, 1996 and 2001

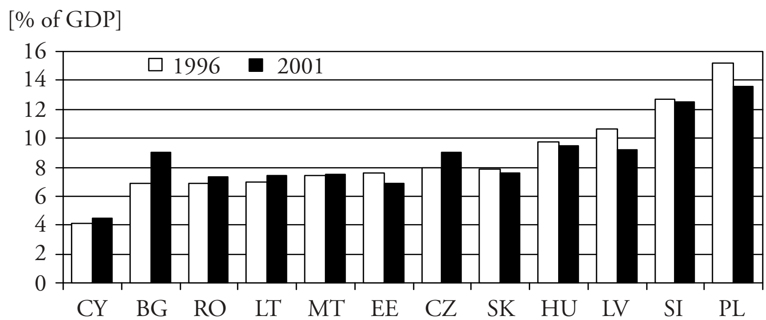


Source: EUROSTAT; Statistical Office of the Slovak Republic.

Slovak Republic.[8] As a percent of GDP, expenditures decreased by 1.6 percent in Poland, 1.4 percent in Latvia, 0.7 percent in Estonia, and 0.2 percent in Hungary. In all four of these countries, the decrease occurred following partial privatization of the pension system. Slovakia and Slovenia also experienced decreases of 0.3 and 0.2 percent of GDP, respectively, though they did not privatize. There were also countries where pension expenditures increased: Bulgaria and the Czech Republic recorded the highest growth at 2.1 and 1.0 percent of the GDP, respectively, while in Malta, these expenditures increased by the lowest rate: only 0.1 percent of GDP (see Figure 2.3.6).

Figure 2.3.6 also shows that only Poland and Slovenia spent more than 10 percent of GDP on pension expenditures in the year 2001, with figures of 13.6 and 12.5 percent, respectively. The majority of the accession countries devoted

Figure 2.3.6
Pension expenditures in the accession countries, as percent of GDP, 1996 and 2001



Source: EUROSTAT; Statistical Office of the Slovak Republic.

[8] Expenditure on additional contributions to pensions in the Slovak Republic was also included into pension expenditure. These additional contributions are: increase of pension because of immobility, rehabilitation, participation in rebellion, and increase of pension as only source of income not reaching the amount of 1.1 times the subsistence minimum. A similar list of types of pension benefits is included in pension expenditure of other surveyed countries.

about 7 percent of their GDP (Slovakia, 7.6%; Estonia, 6.9%; Malta, 7.5%; Lithuania, 7.4%; and Romania 7.3%) to pension provisions. At the other end of the scale, Cyprus spent only 4.5 percent of GDP on pension expenditures.

* * *

The following chapters offer details to enhance this broad overview by describing particular social protection schemes and insurance systems. Each chapter will analyze the revenues and expenditures of particular social security functions: the means of financing the schemes and the benefits provided by them. The chapters will also analyze the scope, extent, and depth of coverage within these functions.

Chapter 3
Social Insurance Comapnies in the Slovak Republic

3.1. Introduction

Until the end of 1992, all Czechoslovak social security expenditures were financed directly from the state budget. In 1993, the newly independent Slovak Republic commenced social security reform with the creation of the National Insurance Agency (NIA). The NIA was originally responsible for providing health insurance, sickness insurance, and pension insurance. Its task was to collect contributions, pay benefits, and carry out several related administrative functions.

After one year of operating all three schemes within one institution, Parliament approved new legislation under which the NIA was divided into two bodies. The first was the Social Insurance Agency (SIA), with responsibility for sickness insurance and pensions. The second was the General Health Insurance Company, which was given responsibility to collect health insurance contributions and finance health care services. Under the same legislation, the GHIC was authorized to establish other public and private health insurance companies.[1]

[1] This plurality of providers was allowed in the field of health insurance but not for sickness insurance or pensions, even though legislation suggested that such companies would be established in the future for the latter two schemes. For more detail, see Appendix A.3.a.

3.2. The Social Insurance Agency: Revenues and Expenditures

The SIA operates as a state monopoly in collecting statutory sickness and pension contributions from the majority of employees and employers, as well as from self-employed persons, those who work with them ("cooperating persons"), and certain other persons, such as voluntary scheme participants, many of whom are employed abroad.

In addition, the state pays contributions to the pension system on behalf of special groups of persons specified by law, such as those obligated to provide military service, mothers on maternity leave, parents on parental leave, persons with disabilities, and dependent students from 18 to 25 years of age. The National Labour Office also pays contributions for registered unemployed persons who are entitled to unemployment benefits.[2]

Beginning on 1 January 2002, the SIA also started to administer insurance for occupational injury and diseases, financed by employers.

The contribution rates stipulated by the Social Insurance Agency Act have been changed several times since the insurance principle was introduced in 1993, as shown in Table 3.2.1.

As can be seen in Table 3.2.1, the contribution rate for sickness insurance was 4.8 percent in 2001, and for pension insurance, 28 percent. This applied to employers and employees as well as to the self-employed. The rates applicable to the state and the National Labour Office were set in the state budget act each year. For 2001, the rate was the same as for other contributors, that is, 4.8 percent for sickness insurance and 28 percent for pension insurance; but the assessment base was lower (see below). Despite this legal requirement, the state and NLO typically paid lower contributions. This lapse did not disadvantage workers, since both benefits were calculated according to wages rather than contributions: sickness benefits were based on a person's earnings immediately

[2] In addition, two government ministries pay sickness and pension contribution for persons in the armed service, police, railway police, customs service, penitentiary service, intelligence service, and the National Security Office. However, no data is available on these payments. See Chapter 4.

Table 3.2.1
Contributions to sickness and pension funds, in percent, 1993–2001

Payers	1993–94		1995		1996		1997–2000		2001	
	SF*	PF*	SF	PF	SF	PF	SF	PF	SF	PF
Employers	4.4	20.6	3.4	21.6	2.4	22.6	3.4	21.6	3.4	21.6
Employees	1.4	5.9	1.4	5.9	1.4	5.9	1.4	5.9	1.4	6.4
Employers + employees	5.8	26.5	4.8	27.5	3.8	28.5	4.8	27.5	4.8	28.0
Self-employed and cooperating persons	5.8	26.5	4.8	27.5	3.8	28.5	4.8	27.5	4.8	28.0

Note: * SF=Sickness Fund, PF=Pension Fund.

Source: *Act No. 7/1993 (Coll. of Laws) on Creating the National Insurance Company and on Financing Health Insurance, Sickness Insurance, and Pension Insurance* and *Act No. 274/1994 (Coll. of Laws) on the Social Insurance Agency*, as subsequently amended.

before the illness and pensions are based on the last 10 years of earnings prior to retirement. This payment of full benefits on the basis of partial contributions has, however, posed a significant financing problem for the pension scheme.

The 1994 Social Insurance Agency Act also stipulated minimum and maximum assessment bases for contributions paid by employees, employers, and the self-employed. In subsequent years, these bases were adjusted to reflect inflation, though not on a regular basis. In 2001, the minimum assessment base was 4,000 SKK, which was slightly lower than the statutory minimum wage. The maximum assessment base was 32,000 SKK, which was about three times the average wage. For the self-employed, the base was one-half of the average monthly income of the person from the previous year, also subject to a ceiling and a floor. The assessment base for state contributions on behalf of specified groups (students, persons on maternity and parental leave, soldiers, etc.) was 2,400 SKK. For the National Labour Office, the assessment base for contributions paid on behalf of unemployed receiving unemployment benefits was 2,700 SKK.

The 1991 Act on Pension Adjustments calls for adjustments that are in line with the cost of living and the average wage, but it does not say how frequently this should be done or how the exact adjustment should be calculated.

3.2.1. Funds of the Social Insurance Agency

In compliance with applicable legislation, the SIA operates four funds. Two of these, the Sickness Insurance Fund and the Pension Security Fund, collect contributions and fees as well as paying benefits. The sickness insurance benefits paid by the SIF are as follows: sickness leave benefit; benefit for care of a family member; income maintenance in the event of pregnancy and childbirth; pregnancy and maternity leave benefit; and one in-kind benefit, spa treatment. The Pension Security Fund pays the following benefits financed from contributions: old-age pension; pension for recognized years of work; proportional old-age pension; disability and partial disability pension; and survivors benefits (widow's, widower's, and orphan's pensions). In addition, the SIA pays some other non-insurance benefits, such as a social pension for persons over age 65 with no other pension, wife's pension, a pension increment to help cover the costs of immobility, a pension increment for those who participated in rebellion and rehabilitation (principally, the Slovak National Rebellion following World War II), and some children's allowances paid to pensioners. Spa treatment was also provided for pensioners.[3] Throughout the period under review (1990–2001), all these additional benefits were financed from the state budget. The third fund, the Administrative Fund, covers costs related to SIA legal activities. In 2001, 3.5 percent of contribution revenues were allocated to it for this purpose (this represented a cut of 0.5 percent from the previous year). The fourth fund, the Reserve Fund, was created to provide a financial reserve in case the Sickness Insurance Fund and Pension Security Fund are unable to accumulate enough contributions to pay benefits or in the event that scheme expenditures would rise unexpectedly. The Reserve Fund receives 0.5 percent of all collected contributions each year. In addition, it holds the residual left from the previous years and any annual residual from the Administrative Fund.

[3] Originally, under *Act No. 54/1956 (Coll. of Laws) on the Sickness Insurance of Employees*, spa treatment was provided as a sickness insurance benefit only for employees. However, a subsequent amendment extended this benefit to pensioners; and expenditure on it has since been covered by the state budget.

Table 3.2.2
Revenues of four Slovak social security funds, as percent of GDP, 1995–2001

Indicator	1995	1996	1997	1998	1999	2000	2001
Funds total	9.77	10.43	10.19	10.22	9.44	9.20	8.99
Sickness Insurance Fund	1.55	1.65	1.72	1.81	1.73	1.50	1.38
Pension Security Fund	7.94	8.42	8.01	7.89	7.18	7.14	7.10
Reserve Fund	0.04	0.09	0.12	0.23	0.25	0.29	0.25
Administrative Fund	0.25	0.28	0.33	0.30	0.28	0.27	0.24

Source: Social Insurance Agency; own calculations.

Table 3.2.2 shows the revenues collected by particular funds of the SIA each year, as a percent of GDP. A general decline is observable during the last three years, when GDP grew faster than collections. The balance in the Pension Security Fund declined by 0.84 percent of GDP, while the Sickness Insurance Fund balance declined by 0.17 percent.

Since the benefits provided by these funds are financed by contributions paid by someone—employers and employees, the self-employed, the NLO, or the state—it would be revealing to determine who paid how much to particular funds. Such an analysis could then be used to compute the benefit return received on contributions by various groups of payers. However, data on the sickness and pension benefits paid to employees, self-employed, and persons for whom the state or the NLO made contributions are not available; there are unfortunately no separate records for these groups. What can be said generally is that, given the high degree of distribution in the Slovak benefit formula, those groups that paid low contributions (the self-employed, their cooperating persons, low wage workers, and insured persons of the state and the NLO) received a much higher return on their contributions than those who paid high contributions (see Table 3.2.3).[4]

Table 3.2.3 shows that, throughout the period under review, the highest average monthly contribution was paid by employees together with their

4 As illustrated in Chapter 4, Table 4.1.7.2.

Table 3.2.3
Average monthly contributions to sickness and pension insurance, in SKK, 1995–2001

Sickness insurance	1995	1996	1997	1998	1999	2000	2001
Average monthly contribution paid by							
– Employee and employer	293	268	340	361	388	409	539
– Self-employed	119	102	127	141	139	155	202
– NLO for job applicants	11	91	109	113	117	168	108
– State by law	13	10	13	19	19	21	108
Pension insurance	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Average monthly contribution paid by							
– Employee and employer	1,520	1,589	1,789	2,019	2,175	2,319	2,623
– Self-employed	623	725	718	766	749	845	1,167
– NLO for job applicants	393	682	635	646	671	957	786
– State by law	560	398	68	114	126	153	727

Source: Statistical Office of the Slovak Republic; own calculations.

employers. In 2001, the average monthly contribution paid to sickness insurance by and on behalf of employees was 2.7 times higher than that paid by the self-employed, and five times higher than that paid by the NLO and the state on behalf of those whom they insure.

This table also shows that a similar pattern holds for pension insurance. In 1995, the average monthly contribution paid by the self-employed was only 41 percent of that paid by workers and their employers. This ratio was basically sustained across the years and, in 2001, stood at 44.5 percent. This gap is largely due to the very low assessment base for the self-employed, which equals only half of their income after deductions for various business expenses.[5] Given the redistributive features of the Slovak benefit formula, these

[5] These include a wide range of items such as the expense of a car, fuel, business trips, and rent.

low contributions provide a high benefit yield and, as a result, cause financial difficulties for the system. In addition, many self-employed persons also work as employees and are covered by social security in that job. Because of the various ceilings on benefits, they have little or no financial incentive to report their self-employment earnings.

3.2.2. Social Insurance Agency Budget

A look at the budget of the Social Insurance Agency (Table 3.2.4) quickly reveals that expenditures increased more than the revenues during 1995–2001. Specifically, revenues grew by about 31,946 million SKK, while the expenditures increased even more, by 35,682 million SKK. Thus, a deficit of 3,736 million SKK grew over these years.

Table 3.2.4.
Total revenues, expenditures, liabilities, and receivables of the Social Insurance Agency, in million SKK, 1995–2001

Indicator	1995	1996	1997	1998	1999	2000	2001
Revenues in total*	52,795	58,959	62,061	67,926	67,823	78,250	84,741
Expenditures in total	48,938	55,033	61,400	68,167	73,507	79,465	84,620
Liabilities	3,165	4,046	4,661	3,042	5,412	8,226	12,026
Accounts receivable	5,840	8,571	20,402	34,711	48,537	54,816	62,508

Note: * Does not include carryovers from previous years.

Source: Financial statements, Ministry of Finance of the Slovak Republic.

In 1995–1996, the system as a whole collected nearly 4 billion SKK more than was necessary to pay benefits. This resulted in surpluses in the Sickness Insurance Fund. In 1997, this surplus dropped to only about 661 million SKK. In 1998–2000, the system as a whole went into the red and began to experience annual deficits. This was due to a shortfall in the Pension Security Fund. The biggest gap was in 1999, when the deficit reached 5,684 million SKK. In 2000, the deficit dropped to just over 1.2 million SKK. The Administrative Board of the SIA made a decision to use the surpluses accumulated by the SIF in earlier years to cover the pension deficit, in this way, keeping the system afloat without any external funds. In 2001, the situation reversed itself and revenues again covered expenditures (with a small surplus of 121 million SKK). However, the factors causing the pension financing imbalance were not addressed, and its debts to the SIF remained on the books.

Table 3.2.5
Revenues of the Social Insurance Agency, 1995–2001

Indicator	1995	1996	1997	1998	1999	2000	2001
Sickness insurance revenues (million SKK)	*7,693*	*7,310*	*9,576*	*9,817*	*10,001*	*10,995*	*11,512*
Of which insurance premiums paid by (%):							
– Employees	27.4	33.7	27.9	26.8	26.2	25.4	26.4
– Employers	67.4	58.2	64.8	64.0	62.8	60.6	63.2
– Self-employed and cooperating persons	3.9	3.7	4.0	4.6	4.6	4.8	4.1
– Government	1.2	1.0	0.9	1.6	1.6	1.8	9.0
– National Labour Office	0.2	1.3	1.3	1.7	2.0	1.7	1.2
– Voluntary payers and other payments	0.0	2.2	1.2	1.4	2.8	5.8	6.3
Pension security revenues (million SKK)	*44,603*	*50,932*	*51,430*	*56,299*	*56,546*	*66,635*	*67,207*
Of which insurance premiums paid by (%):							
– Employees	18.5	18.1	19.5	19.1	19.0	17.4	20.2
– Employers	66.4	68.5	71.3	69.5	69.2	63.0	68.6
– Self-employed and cooperating persons	3.5	3.8	4.2	4.3	4.4	4.3	4.1
– Government	10.6	6.5	1.0	1.7	1.7	1.1	5.5
– National Labour Office	1.0	1.4	1.4	1.7	2.1	1.6	1.2
– Voluntary payers and other payments		1.7	1.4	3.7	3.7	12.6*	7.0

Note: * Includes payment of past-due social insurance contributions (arrears), mostly by state institutions such as railways and hospitals.

Source: Statistical Office of the Slovak Republic; own calculations.

As shown in Table 3.2.5, sickness revenues increased by 33.2 percent over the seven-year period, while pension revenues grew by 33.6 percent. Employers were the largest contributors by far, providing between 58.2 and

71.3 percent of the total SIA budget—nearly 30 percent of sickness revenues, and between 17.4 and 20.2 percent of pension revenues. The self-employed and their cooperating persons contributed between 3.7 and 4.8 percent of sickness revenues and between 3.5 and 4.4 percent of pension revenues. The government share of contributions ranged between 0.9 to 1.8 percent of total sickness revenues, except for 2001 when it comprised an unusual 9 percent.[6] State pension contributions were much more variable, ranging from 10.6 percent in 1995 to 1.1 percent in 2000, then rising to 5.5 percent in 2001. This occurred because the state simply changed its contribution in the State Budget Act. For this same reason, NLO contributions did not change in spite of a notable increase in unemployment between 1998 and 2001.

Table 3.2.6
Expenditures of the Social Insurance Agency, 1995–2001

Indicator	1995	1996	1997	1998	1999	2000	2001
Expenditures on benefits in total (million SKK)	47,146	53,477	59,115	65,857	71,366	77,458	82,257
– As percent of GDP	8.3	8.5	8.3	8.5	8.5	8.5	8.3
Of which, as percentage of total expenditure:							
– Sickness insurance benefits	12.1	13.8	13.7	13.6	13.3	11.8	10.8
– Pension security benefits	87.9	86.2	86.3	86.4	86.7	88.2	89.2

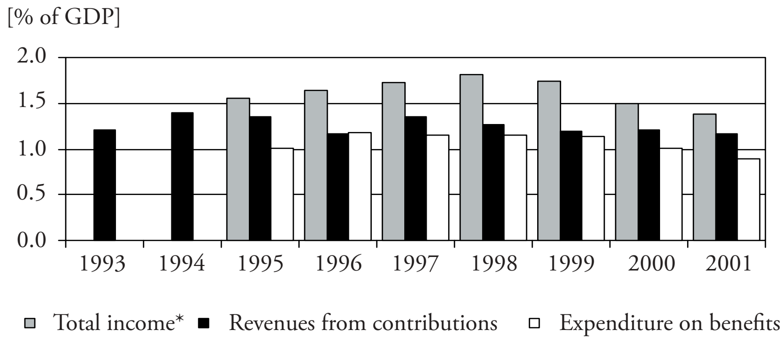
Source: Statistical Office of the Slovak Republic; own calculations.

Table 3.2.6 shows that even though SIA expenditures increased very sharply in absolute terms, their share of GDP was remarkably stable, in the range of 8.3–8.5 percent during the entire period. Sickness benefits increased from 12.1 to 13 percent between 1995 and 1999, then fell to 10.8 percent in 2001. Pension benefits, which comprised the great bulk of SIA spending, increased from 87.9 percent of GDP in 1995 to 89.2 percent in 2001.

As shown in Figure 3.2.1, sickness expenditure data became available only in 1995.

[6] The reasons for this are explained in section 3.2.3, Temporary Measures for Financing of the Social Insurance Agency.

Figure 3.2.1
Revenues and expenditures of the Sickness Insurance Fund, as a percent of GDP, 1993–2001

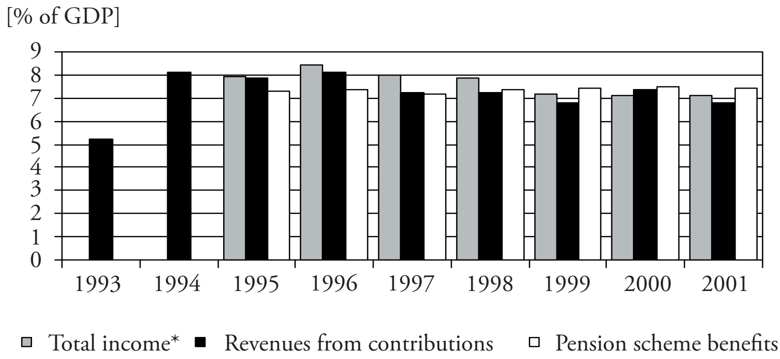


Note: * Contribution revenues plus transfer of balance from previous year.

Source: Social Insurance Agency; own calculations.

Despite some gaps in available information, Figure 3.2.2 shows that the Pension Security Fund was in a quite different financial situation during the 1990s. In 1994, the first year that the SIA existed, pension revenues were at their highest point, 8.1 percent of GDP. The overall balance was most positive in 1996, when revenues were again at 8.1 percent and expenditure, at 7.4 percent. This situation deteriorated rapidly, however, and in 1998, expenditure declined to 7.34 percent while contributions declined to only 7.26 percent. Since then, the gap between revenues and expenditures has increased every year, expanding the Fund's cumulative debt. In 2001, the difference between revenues and expenditure was 0.63 percent of GDP.

Figure 3.2.2
Revenues and expenditures of the Pension Security Fund, as percent of GDP, 1993–2001



Note: * Contribution revenues plus transfer of balance from previous year.

Source: Social Insurance Agency; own calculations.

3.2.3. Temporary Measures for Financing the Social Insurance Agency

To address the pension financing problems just described, the government took several actions to boost scheme income. In 2000, working pensioners were required to pay contributions on their earnings. (However, their pensions were not adjusted to reflect either these earnings or the extra period of work.) In addition, the government increased the upper and lower limits on the contribution assessment bases. When both these measures proved to be insufficient, the government finally resorted to increasing the contribution rate. An increment of 0.5 percent was added in 1991, thus bringing the rate to 6.4 percent for employees and 28 percent for the self-employed (see Table 3.2.1).

At the same time, however, the government repealed the requirement for state contributions on behalf of students age 18 and above. This resulted in a drop in state contributions to 1.1 million SKK in 2001 (see Table 3.2.5).

Because the net effect of the above measures were still insufficient to cover the annual pension system deficit, the Administrative Board of the SIA decided to use its legislative authority to transfer amounts from the Reserve Fund and the Sickness Insurance Fund to the Pension Security Fund. Specifically, the Board transferred 8,815 million SKK from the Sickness Insurance Fund and 1,500 million SKK from the Reserve Fund, for a total of 10.3 billion SKK. Furthermore, the state allocated 1.2 million SKK on behalf of the state-owned Railway Company of the Slovak Republic to cover arrears to sickness and pension insurance. The state also transferred 1.4 million SKK on behalf of the state-owned health care establishments. Together, these measures boosted the financial balance of the Pension Security Fund by 12,956 million SKK as of 31 December 2001.

These transfers were stopgap measures rather than solutions. In 2001, the government projected that the pension system would continue to experience deficits in future years, unless reform legislation were enacted cutting benefit outlays.

3.2.4. Insured Persons and Pensions in Payment

As shown in Table 3.2.7, the number of persons covered by sickness insurance was nearly constant throughout the examined period. Upon closer examination, however, one can observe a decrease in the number of employees and self-employed persons, offset by an increase in the number of those for whom the state paid contributions.[7] Pension insurance, by contrast, experienced a decline in coverage. From 1995 to 2001, the number of insured persons decreased by 478,000. Except for voluntary contributors, the various subgroups of insured persons decreased in rough proportion with the overall rate of employment.[8]

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[7] As explained previously, the state pays contributions on behalf of certain economically inactive persons. The majority are students over the age of 18 (for whom the state paid sickness contributions until 2000 and continued to pay pension contributions in 2001), persons on maternity or parental leave, men in military and similar obligatory service, and disability pensions recipients.

[8] The rate of economic activity among the entire population decreased from 49.9 percent in 1991 to 49.1 percent in 2001 (see Chapter 1, Table 1.3.1).

Table 3.2.7
Persons covered under schemes of the Social Insurance Agency, as of 31 December of each year, thousand persons, 1995–2001

	1995	1996	1997	1998	1999	2000	2001
Persons covered under sickness insurance	***2,974***	***2,990***	***3,088***	***3,134***	***3,027***	***3,076***	***2,986***
Of which:							
– Employees[1]	2,075	2,122	2,177	2,059	1,910	1,925	1,874
– Self-employed persons[1, 2]	208	230	250	265	274	281	195
– Contributions paid by state	601	545	568	690	698	778	811
– Contributions paid by NLO	90	93	93	120	145	92	94
– Voluntary payers							13
Persons covered under pension insurance	***3,081***	***3,097***	***3,183***	***3,165***	***2,992***	***2,699***	***2,603***
Of which:							
– Employees[1]	2,075	2,122	2177	2,059	1,910	1,925	1,874
– Self-employed persons[1, 2]	208	230	250	265	274	281	195
– Contributions paid by state	704	649	659	719	634	399	419
– Contributions paid by NLO	90	93	93	120	145	92	94
– Voluntary payers	4	4	4	2	2	2	21

Note: [1] Among employees and self-employed persons, those persons are also listed who have both an employment contract and provide self-employment activities, from which they also have to pay sickness and pension contributions.

[2] Including cooperating persons.

Source: Statistical Office of the Slovak Republic; own calculations.

One can also observe a decrease in number of insured self-employed in 2001, by 86,000, following continuous growth since 1995, which we are not able explain. One guess is that a large portion of those providing self-employment while working as employees terminated their self-employment activities. The number of persons whose pension insurance was paid by the government decreased from 704,000 in 1995 to 419,000 in 2001. This resulted from a decreasing number of persons on maternity leave,[9] men on obligatory army

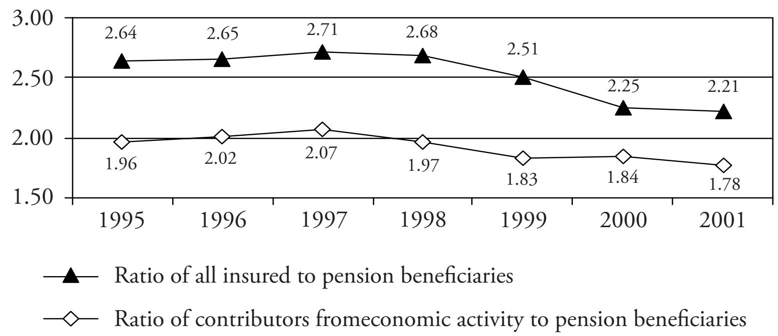
[9] The number of persons on maternity leave as a percentage of all economically active persons decreased from 2.7 in 1991 to 0.3 in 2001 (see Table 1.3.1 in Chapter 1).

services,[10] as well as a legal amendment under which only university students have been insured on an obligatory basis by the state since 2000. There was a noteworthy leveling out of the previous increase in the insured unemployed in 1999. This is not explained by any improvement in the employment situation. Rather, the majority lost eligibility for benefits as well as participation on social insurance because of their long-term unemployment status. The number of persons voluntarily participating in pension insurance increased remarkably in 2001, by 17,000 persons, compared to the previous year. It is possible that some self-employed persons whose coverage became optional due to a statutory amendment joined the pension scheme voluntarily.

Figure 3.2.3 shows that the ratio of pension contributors to beneficiaries was not conducive to financial stability.

Between 1995 and 1997, the number of contributors per pensioner increased slightly, from 1.96 to its peak at 2.07. After that, even though there were many new entrants to the labour market, the ratio decreased. In 2001, it stood at just

Figure 3.2.3
Ratio of all insured and economically active contributors to pension beneficiaries, 1995–2001



Source: Social Insurance Agency of the Slovak Republic; own calculations.

10 The number of young men in obligatory army service decreased from 35,000 in 1995 to 19,000 in 2001.

1.78 contributors per pensioner. The ratio of all insured persons to pensioners was considerably higher in 1995, at 2.64.[11] However, by the end of the period, it too had decreased, in this case to 2.21 insured persons per pensioner.

As noted earlier, the pension contributions of the state and the NLO were always lower than those of economically active contributors. As the ratio of non-economically active persons was very high throughout the period (in 1995, it was 25.7; in 1998, 26.5 percent; and only in 2001 did it drop to 19.7 percent), insufficient contribution payments by the state were one of the key sources of the pension system's financing problems.

Tables 3.2.8 and 3.2.9 show how the number and composition of pensioners changed between 1990 (Table 3.2.8) and 2001 (Table 3.2.9). It is obvious that there was a large increase in women receiving pensions. While female recipients of old-age pensions were fewer in number than their male counterparts by 30,803 persons in 1990, in 2001, elderly female pensioners outnumbered elderly male pensioners by almost 20,000. There are two major reasons for this reversal. One reason concerns the relatively low retirement age, combined with increasing life expectancy of women. A second reason is the high ratio of females in employment in the country since World War II. These women established their own rights to old-age pensions, and in later life, many combined this with a widow's pension.

The third largest group of pensioners was those with disabilities. Their number increased from 222,749 in 1990 to 260,503 in 2001. In 2001, recipients of full disability pensions reached almost 194,000 persons, while partial disability pensions were received by more than 66,000 persons. The number of men receiving disability pensions was slightly higher than that of women: by 24,749 in 1990, and by 22,823 in 2001.

As was mentioned previously, the only group in which the number of recipients decreased from 1990 to 2001 comprised of those receiving orphans' pensions.

[11] This group includes all economically active persons (employees, self-employed and cooperating persons) and groups of obligatory insured persons on behalf of whom state or the National Labour Office pay contributions, such as persons on maternity and parental leave, men in obligatory military and similar services, registered unemployed receiving unemployment benefits, and others specified by the law.

Table 3.2.8.
Number of paid pensions by type and by gender of recipient, 1990

	Old-age		Proportional		Disability		Partial disability		Orphan´s		Social		Widow´s sole		Widow´s composite		Wife´s	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
0–19				2	494	378	122	108	19,773	19,773	5			159				
20–24				3	1,853	1,566	833	546	1,432	1,435	17			659				7
25–29				24	2,483	2,208	1,299	895	3	3	49			1,669		5		17
30–34				50	3,063	3,276	2,551	1,612			49			1,669		52		53
35–39				140	3,894	4,504	4,187	2,760			114			3,315		136		102
40–44				210	4,594	5,736	5,055	3,539			182			4,484		326		136
45–49				224	5,819	7,979	6,350	4,389			172			5,341		797		285
50–54	89	6,356		317	9,323	12,191	7,696	4,305			189			6,740		3,467		626
55–59	3,231	71,356		515	16,118	13,293	7,812	829			243			3,784		20,983		1,613
60–64	78,065	68,086		781	14,608	10,762	625	372			254	1,140		6,142		31,958		3,043
65–69	77,777	50,634	56	1,161	11,315	8,120	84	254			290	2,077		10,982		41,091		8,286
70–74	38,847	18,460	39	871	4,867	3,575	38	81			165	1,142		10,942		24,653		4,502
75–79	37,200	12,072	127	1,285	4,586	2,850	22	64			226	1,138		17,346		27,431		4,178
80–84	21,171	4,896	370	1,339	2,607	1,661	17	25			188	699		16,810		17,268		2,100
85+	8,253	1,970	722	1,455	1,432	1,118	2	4			125	375		9,827		6,984		495

Source: Social Insurance Agency of the Slovak Republic.

Table 3.2.9.
Number of paid pensions by type and by gender of recipient, 2001

	Old-age		Proportional		Disability		Parial disability		Orphan´s		Widower´s		Social		Widow's sole		Widow's composite		Wife's	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
0–19					628	447	274	216	14,893	14,893			5			1				
20–24					2,586	2,081	1,140	788	2,008	2,008	3		37			70		2		1
25–29					3,291	2,675	1,545	1,233	5	5	46		53			440		8		5
30–34					3,309	2,850	1,927	1,572			136		40			1,086		27		19
35–39					4,409	4,312	3,069	2,766			322		58			2,249		81		40
40–44					6,239	6,488	5,162	4,571			670		102			3,504		279		110
45–49					9,689	10,501	7,837	7,751			882		163			5,455		887		188
50–54	790	8,369			13,805	15,743	8,942	8,490			653		232			6,688		3,758		269
55–59	2,171	85,698			17,648	15,539	7,767	685			296		216			1,398		19,522		403
60–64	73,417	74,713	25		16,633	12,160	294	124			105		212	628		1,695		31,578		761
65–69	66,399	56,051	124		12,271	7,882	40	96			35		161	2,100		2,749		43,229		1,211
70–74	59,523	38,978	128		6,510	5,317	32	82			8		162	2,536		5,487		52,128		2,131
75–79	42,382	21,837	83		3,986	2,824	16	45			1		133	1,473		9,245		49,506		2,292
80–84	19,314	7,027	19		1,643	1,020	14	29					62	302		8,065		25,599		1,008
85+	11,273	2,805	72		946	547	11	6					75	242		9,053		16,446		305

Source: Social Insurance Agency of the Slovak Republic.

3.3. National Labour Office

In 1993, the Employment Fund was established as the first public legal institution providing unemployment insurance in the Slovak Republic. It commenced its activities independently of other social insurance institutions. Its Administrative Board included representatives of the government, employers, trade unions, and some other citizens' organizations. In 1996, it merged with the State Administration of Employment Services and a new institution was created, the National Labour Office. It is now governed by a tripartite administrative body, members of which are nominated by the social partners and appointed by Parliament. For more about the legislative mandate and institutional structure of the National Labour Office, see Appendix A.3.a.

3.3.1. Unemployment Insurance Contributions

In 1993, the contribution rate for unemployment insurance was set at 4 percent for the employer and employee combined, and 4 percent as well for the self-employed. The employer paid 3 percent and the employee, 1 percent. After the creation of the Guarantee Fund in 2000, the employer rate was reduced to 2.75 percent and the remaining 0.25 percent was diverted to the Guarantee Fund (see section 3.3.2). At this time, the contribution rate for the self-employed was reduced from 4 percent to 3 percent. No specific rationale was offered for this reduction. These changes are illustrated in Table 3.3.1.

Table 3.3.1
Contributions to unemployment fund, in percent, 1993–2001

Contributors	1993–1999	From 2000
Employers[1]	3.00	2.75
Employees[2]	1.00	1.00
– *Employer plus employee total*	4.00	3.75
Self-employed[3]	4.00	3.00
Employers' contributions to the Guarantee Fund		0.25

Note: [1] From payroll.
[2] From gross wages.
[3] From the half of the previous year's tax base.

Source: *Act No. 10/1993 (Coll. of Laws) on the Employment Fund and on Amending and Complementing Certain Other Laws*; and *Act No. 387/1996 (Coll. of Laws) on Employment*, with later amendments.

3.3.2 NLO Funds

As required by law, the National Labour Office established and maintains four funds. The *Basic Fund* finances expenditures on passive and active labour market policies. The *Administrative Fund* is designed to cover costs related to the NLO's activities; it receives 16 percent of all collected revenues and other sources of income. The *Reserve Fund* is to be used in the event that the Basic Fund does not have enough revenues to pay benefits. The Reserve Fund balance is supposed to be least three times the monthly average expenditure of the Basic Fund. If the Reserve Fund sources are not used because the Basic Fund is able to cover all necessary expenditures, then at the end of each year, the balance of the Reserve Fund is transferred to the Basic Fund.

The *Guarantee Fund*, discussed briefly above, was created 2000 to meet the requirements of *ILO Convention No. 173 on the Protection of Employees' Rights in Case of Employer's Insolvency*. In accordance with a provision of the Employment Act, the state matches the aggregate amount of the employer contributions to this fund.

Table 3.3.2
Revenues and expenditures of NLO funds, as percent of GDP, 1995–2001

Indicator	1995	1996	1997	1998	1999	2000	2001
Total generated funds	**1.29**	**1.47**	**1.48**	**1.38**	**1.27**	**1.35**	**1.53**
– Balance brought forward	0.08	0.16	0.27	0.22	0.21	0.16	0.31
Of which:							
– Basic Fund			1.17	1.14	0.99	0.99	1.12
– Administrative Fund			0.24	0.16	0.16	0.17	0.17
– Reserve Fund			0.07	0.09	0.12	0.15	0.11
– Guarantee Fund						0.05	0.13
Expenditures	**1.27**	**1.23**	**1.24**	**1.16**	**1.09**	**1.01**	**0.87**
Of which:							
– Basic Fund	**0.00**	**1.17**	**1.00**	**1.00**	**0.93**	**0.85**	**0.71**
– Administrative Fund		0.05	0.24	0.16	0.16	0.16	0.15
– Reserve Fund			0.00	0.00	0.00	0.00	0.00
– Guarantee Fund						0.00	0.01
Balance as of 31/12	**0.18**	**0.25**	**0.24**	**0.22**	**0.18**	**0.34**	**0.66**
Of which:							
– Basic Fund		0.25	0.17	0.13	0.06	0.14	0.41
– Administrative Fund		0.00	0.00	0.00	0.00	0.01	0.02
– Reserve Fund		0.06	0.07	0.09	0.12	0.15	0.11
– Guarantee Fund						0.05	0.12

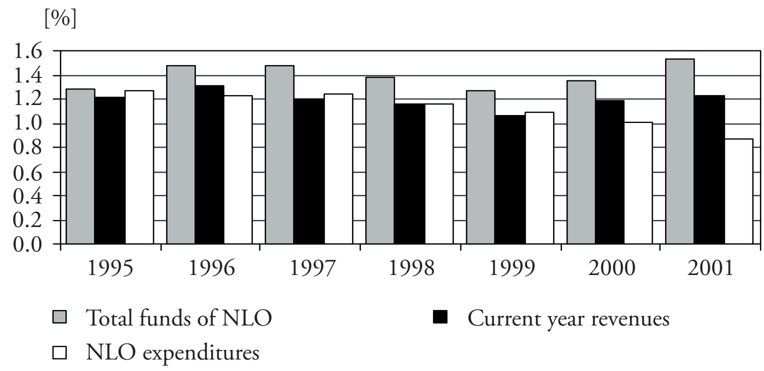
Source: National Labour Office; own calculations.

Table 3.3.2 shows that, although the average wage in the national economy increased steadily, the total amount of revenues collected increased only moderately as a percentage of GDP, from 1.29 percent in 1995 to 1.53 percent in 2001. As also shown in the table, data on allocations among funds has been available only since 1997. This breakdown reveals that despite an increase in aggregate revenues, the Basic Fund balance decreased from 1.17 percent of GDP in 1997 to 1.12 percent in 2001. Moreover, the expenditure of the Basic Fund for every year was lower than projected. This is partly because unemployment benefits were kept very low.[12] In 1998, for example, Slovakia's expenditure on unemployment as a percent of GDP was only one-third of the EU average.

However, administrative spending was much higher for the NLO than for the Social Insurance Agency. This is partly attributable to the nature of the benefits being paid—short-term versus long-term—and the naturally higher ratio of administrative expenses for short-term benefits. In 1997, the NLO's Administrative Fund was 16.2 percent of collected revenues and in 2001, 11.11 percent. Compared to that, the SIA Administrative Fund in 1997 was only 3.24 percent of its total revenues and in 2001, only 2.67 percent.[13]

One can also observe a large gap between the NLO's income and outgo (expenses, etc.). The difference between collected revenues and expenditure increased from 0.18 percent of GDP in 1995 to 0.66 percent in 2001. The government has never offered any official explanation for this. It is striking that, in spite of the high unemployment rate, the NLO continued to accumulate a surplus.[14]

Figure 3.3.1
National Labour Office revenues and expenditures, as a percent of GDP, 1995–2001



Source: National Labour Office.

[12] The average unemployment benefit ranged between 30.6 and 41.6 percent of the net average wage during 1995–2001, as shown in Chapter 9, Figure 9.3.3.

[13] Stated another way, in 1997 the Administrative Fund of the SIA was 0.33 percent of GDP and, in 2001, 0.24 percent of GDP (see Table 3.2.2).

[14] The unemployment rate rose from 12 percent in 1993 to nearly 20 percent in 2001, as shown in Chapter 9, Figure 9.3.1.

Figure 3.3.1 shows that, as a percent of GDP, expenditures decreased continuously from 1.27 in 1995 to 0.87 in 2001, while aggregate revenues (those collected in the current year plus the surplus from previous years) rose to 1.53 percent in 2001. Because the NLO spent only a portion of its revenues on unemployment benefits (0.28 percent of GDP in 1995, 0.64 percent in 1999, and 0.35 percent in 2001), it was able to spend a much higher amount on active labour market policy measures. However, it did this only during the first three years of the surveyed period. A sharp decrease occurred in 1999, as shown in Table 3.3.3, simultaneously with an increase in unemployment (see Chapter 9, Figure 9.3.1). A consequent rise in spending on passive employment policy (unemployment benefits) forced a reduction in the scope of NLO's active labour market activities.

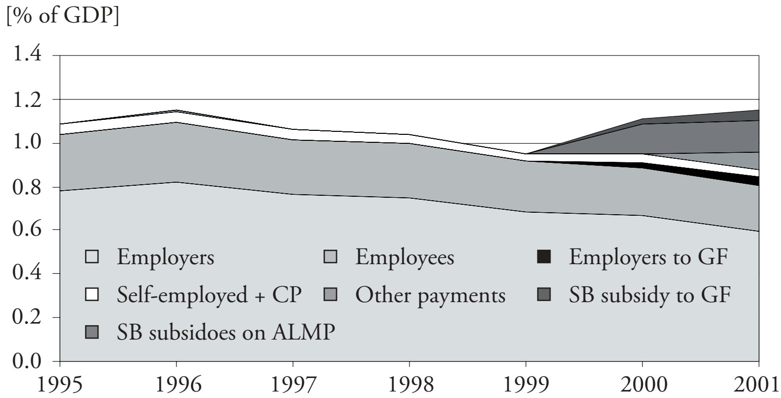
3.3.3. Financing Employment Policy

As shown in Figure 3.3.2, the great bulk of NLO revenues came from employers' contributions. This revenue source decreased from 0.78 percent of GDP in 1995 to 0.6 percent in 2001. Employees' contributions also decreased, in this case from 0.26 percent of GDP to 0.2 percent during the same period. The smallest portion of revenues came from the self-employed—0.05 percent of GDP in 1995, falling to 0.03 percent in 2001. The diversion of employer contributions to the Guarantee Fund in 2000, as described earlier, resulted in revenues to that fund equal to 0.02 percent of GDP in 2000, rising to 0.04 percent in 2001. The state matched this with an equal amount. Spending on active labour market policy was about 0.13 percent of GDP in 2000 and 0.15 percent in 2001 (see Figure 3.3.2 and Table 3.3.3).

Table 3.3.3 shows the composition of labour market policy expenditure during 1995–2001. As described earlier, during the first three years (1995–1997), spending on active labour market policies exceeded that on passive policies. After the 1998 election, when unemployment began to increase significantly again, spending on the latter rose and reached its peak at 0.87 percent of GDP in 1989. After that, it dropped precipitously over the next two years, even though unemployment continued to increase.

Table 3.3.3 also shows that the NLO collected far more social insurance contributions than was necessary to pay benefits in every year. This is what

Figure 3.3.2
National Labour Office revenues from contributions and subsidies, 1995–2001



Notes: CP—Cooperating persons; SB—State budget; GF—Guarantee Fund; ALMP—Active Labour Market Policy.

Source: National Labour Office; own calculations.

allowed the NLO to spend large amounts on active labour market policy measures in the mid-1990s, such subsidizing existing jobs and creating new ones, especially for recent graduates and the long-term unemployed. During 1995–1996, expenditure on active labour market policy measures reached 0.69–0.68 percent of GDP. Though there was no decrease in unemployment, expenditure then dropped to 0.44 of GDP in 1997. Following this, an increase in unemployment pushed expenditure further down to 0.05 percent of GDP, its lowest point, in 1999. Since then, spending slowly increased, reaching 0.23 percent of GDP in 2001 (see Figure 3.3.3.).

The three main active labour market measures aimed at improving employment and employability are shown in Figure 3.3.3. These are: re-training; subsidies to employers who hire persons with disabilities; and three subsidies to employers and the self-employed for creation of new work places. The latter is the most important as well as the most costly of the measures. Expenditures of these measures varied dramatically during 1995–2001. While an amount equal to 1.05 percent of GDP was spent on job creation in 1992, the next year it decreased to just 0.24 percent of GDP. This was followed by

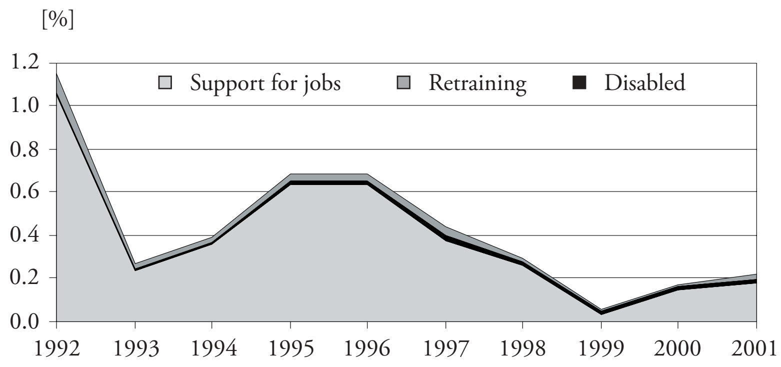
Table 3.3.3
Expenditures on labour market policy, 1995–2001

Indicator	1995	1996	1997	1998	1999	2000	2001
Expenditures in total (million SKK)	**6,157**	**7,433**	**7,089**	**7,774**	**7,716**	**7,759**	**8,638**
Of which (as % of GDP):							
Expenditures on passive labour market policy	***0.38***	***0.49***	***0.56***	***0.71***	***0.87***	***0.68***	***0.48***
– Unemployment benefits to the registered unemployed	0.28	0.31	0.40	0.51	0.64	0.49	0.35
– Re-routed contributions from NLO to health, sickness and pension insurance	0.10	0.18	0.17	0.20	0.23	0.19	0.14
Expenditures on active labour market policy*	***0.69***	***0.68***	***0.44***	***0.30***	***0.05***	***0.17***	***0.23***
Of which:							
– Expenditures on retraining	0.029	0.032	0.032	0.022	0.009	0.007	0.020
– Expenditures on creation of new jobs			0.176	0.160	0.023	0.143	0.176
Of which:							
Public service jobs[1]	0.139	0.213	0.104	0.087	0.013	0.140	0.153
– New jobs for self-employment			0.045	0.010	0.003	0.001	0.016
– New jobs with employers			0.023	0.054	0.007	0.002	0.007
– New jobs for graduates and juveniles	0.032	0.053	0.003	0.010	0.001	0.000	0.000
– Expenditures related to handicapped	0.021	0.014	0.025	0.015	0.012	0.017	0.023
[1] Of which: targeted subsidies of state budget for negotiated public service jobs for the long-term unemployed and other active labour market policy measures						0.132	0.146

Note: * Gaps are due to the unavailability of data on active labour market policies in the required structure for each year.

Source: Statistical Office of the Slovak Republic; own calculations.

Figure 3.3.3
Structure of active labour market policy expenditures, as percent of GDP, 1992–2001



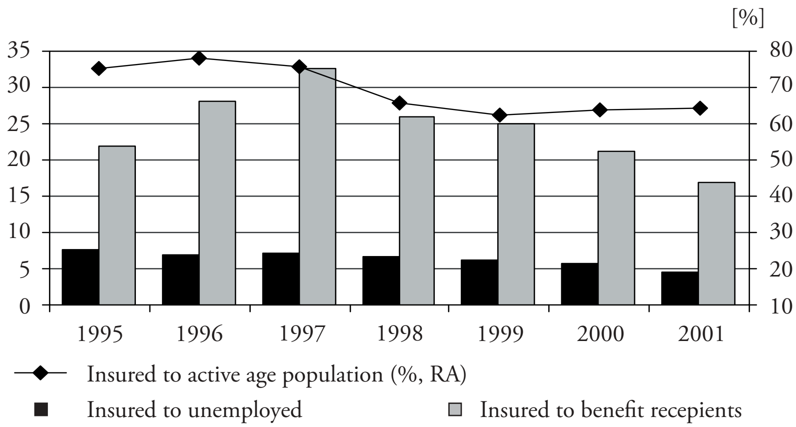
Source: Statistical Office of the Slovak Republic; own calculations.

another sharp rise to 0.64 percent of GDP in 1995 and 1996, then by another dramatic fall to its lowest level in 1999, when new jobs were supported only by 0.04 percent. One observes a small recovery in spending thereafter, ending at 0.18 percent of GDP in 2001.

Remarkably, the amount spent on improving employment was lowest during 2000–2001, when unemployment was far higher than during previous years. Expenditure on retraining as percentage of GDP declined from 0.09 percent in 1992, to 0.03 percent in 1993, to 0.02 percent in 2001. Support provided to those employing people with disabilities ranged between 0.01 percent of GDP (1992) and 0.02 percent (2001) (see Figure 3.3.4.).

Figure 3.3.4 compares the number of insured unemployed with the total unemployed, the active population, and the number of benefit recipients. Because unemployment insurance is obligatory for every employee as well as for the majority of self-employed, and the state pays contributions on behalf of some groups of people who are not employed, the ratio of the insured population to the working age population was generally very high. In 1995 it reached 75.5 percent, peaked at 78.2 percent in 1996, decreased to its lowest level of 62.5 percent in 1999, and finally rebounded slightly to 64.4 percent

Figure 3.3.4
Ratio of unemployed and benefit recipients to number of insured persons, 1995–2001



Source: Statistical Office of the Slovak Republic; National Labour Office of the Slovak Republic.

in 2001. Figure 3.3.4 also shows that in 1995 there were 7.57 insured persons for each unemployed person. After the unemployment rate started to increase, this ratio slowly decreased to 4.51 insured persons per unemployed person in 2001. The ratio of unemployment insurance recipients to insured persons developed similarly, starting at 21.82 insured per beneficiary in 1995 and ending at 16.81 in 2001.

3.4. Health Insurance: Revenues and Expenditures

Act No. 273/1994 (Coll. of Laws) on Health Insurance, Health Insurance Financing, and Establishing the General Health Insurance Company, and on Establishing of the Sector, Branch, Enterprise, and Civil Health Insurance Companies (hereinafter, "Health Insurance Act") established the General Health Insurance Company (GHIC) as a public institution. It was managed by an Administrative Board composed by representatives of government, employers, trade unions, and other citizens' organizations. That same act provided authority for any legal entity to found a health insurance company, after receiving a license from the Ministry of Health (for more, see Appendix A.3.a). In addition to the GHIC, special laws established three other statutory health insurance companies. The Ministry of Transport and Communication founded the Railway Health Insurance Company, GARANT, for providing health insurance to railway employees. The Ministry of Internal Affairs also established the Health Insurance Company which covered police and civil servants of the ministry. The Ministry of Defense founded the Military Health Insurance Company, which provided health insurance to soldiers and other state military forces. In 1997, after all the special state insurance companies had experienced financial problems, the government decided to merge them into one Common Health Insurance Company. This was done by *Act No. 280/1997 (Coll. of Laws) on the Common Health Insurance Company*.

After the Health Insurance Act came into force, some private organizations founded health insurance companies as well. In 1995, there were eight private health insurance providers. However, some went bankrupt or merged with other companies.

In 2001, only two statutory companies, the GHIC and the Common Health Insurance Company, as well as three private health insurance companies, were still functioning.

Health care is financed by statutory contributions paid by employees, employers, self-employed and their cooperating persons, as well as by the state and the National Labour Office. Dependent members of families are not covered by contributions paid by their breadwinners. However, dependent children and some other legally specified persons are covered by insurance paid by the state.

In 1993, when health insurance was established, contribution rates were set by a kind of guesswork, since there was little or no information on health care expenditures. Rates were based on a rough guess about future health expenditure. Unfortunately, this turned out to be far off target, and the demand for services exceeded the available revenues, requiring that contributions be increased. As shown in Table 3.4.1, as of 1 January 2001, the contribution rate increased from 13.7 percent to 14 percent of the assessment base. Because employers strongly opposed against all social insurance rate increases, only employees and self-employed rates were given an increase of 0.3 percent of their assessment base.

Table 3.4.1
Contributions rates for health insurance, as percent of assessment base, 1993–2001

Payers	1993–2000	2001
Employers[1]	10.0	10.0
Employees[1]	3.7	4.0
Self-employed[2]	13.7	14.0
Non-resident and others[3]	13.7	14.0

Notee: [1] From employees' gross wages.

[2] From one-half of the average monthly incomes.

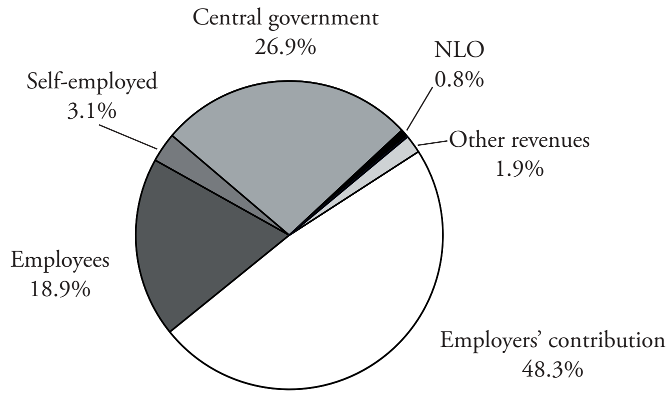
[3] From a lump-sum specified by law.

Source: *Act No. 9/1993 (Coll. of Laws) on Health Insurance and on the Management of the Health Insurance Fund* and *Act No. 273/1994 (Coll. of Laws) on Health Insurance, Financing of Health Insurance, and Establishing the General Health Insurance Company, and on Establishing of the Sector, Branch, Enterprise, and Civil Health Insurance Companies*, with amendments.

As a result, employers were required to contribute 10 percent of their monthly payroll, employees contributed 4 percent of their assessment base (usually their monthly gross wage), and self-employed paid 14 percent of their assessment base (which was half of their average monthly income calculated from previous year). Self-employed persons were themselves responsible for calculating their contributions, while employees' contributions were deducted and paid by their employers. Employers who employed disabled persons contributed only 2.6 percent of the assessment base.

Under the Health Insurance Act, a ceiling and floor were placed on the income subject to contributions. In 2001, the ceiling was 32,000 SKK per month, and the floor was 3,000 SKK. However, there were some exemptions: for partially disabled persons and persons below a certain age (e.g. older than 16 but younger than 18) the employee's minimum assessment base was only 2,250 SKK. For beneficiaries of full disability pensions and employees younger than 16 years, there was an even lower minimum assessment base, 1,500 SKK per month.

Figure 3.4.1
Insurance revenues of health insurance companies, 2001



Source: Statistical Office of the Slovak Republic.

As Figure 3.4.1 shows, in 2001, employers provided nearly half of all health insurance revenues (48.8 percent). The remaining amount was divided nearly equally between government and employees. Revenues from other payers were miniscule, accounting for only 1.1 percent of the total.

The state provided health insurance contributions for children, students, pensioners, persons with disabilities, soldiers in military service, prisoners, refugees, persons caring for children or disabled persons, and other persons stipulated by the Act on Health Insurance. Altogether, the state paid on behalf of about 3.2 million persons in 2001. The National Labour Office (the NLO) contributed on behalf of the unemployed persons who were eligible for unemployment benefits. The amount of payments of the state and the NLO has been determined every single year by the State Budget Act.

Both the General Health Insurance Company and the Common Health Insurance Company are obligated to submit yearly budgets to the Parliament for approval. However, other health insurance companies have their own self-governing bodies and are not required to do this. Thus, the allocation of resources within the health insurance and health care system is decentralized, and the resources that go to a particular health care provider are determined by a contract between provider and insurance company. The state cannot influence the contractual process, and the insurance companies have the dominant position in the negotiation. However, the systems of reimbursement were established by the Ministry of Health in cooperation with the Ministry of Finance in accordance with the relevant legislation.

Table 3.4.2
Revenues of the health insurance companies, 1993–2001

Indicator	1993	1994	1995	1996	1997	1998	1999	2000	2001
Insurance revenues – In total (million SKK)	16,035	19,973	25,994	34,366	37,562	39,684	41,102	43,853	48,008
– As percent of GDP	3.9	4.1	4.6	5.5	5.3	5.1	4.9	4.8	4.9
Of which insurance premiums paid by (as percent of total amount of revenues):									
– Employees		20.7	16.2	17.7	18.0	18.4	18.2	18.6	19.0
– Employers	68.9	55.7	52.0	47.8	49.8	49.6	48.8	50.0	48.8
– Self-employed persons*		2.5	3.7	2.8	3.0	3.3	3.4	3.3	3.2
– Others			0.1	0.8	0.6	0.7	0.6	0.6	1.1
– Central government		25.4	27.4	30.0	27.7	26.6	26.9	25.5	27.2
– National Labour Office			0.6	0.9	0.9	1.2	1.4	1.2	0.8

Note: * Including cooperating persons.

Source: Statistical Office of the Slovak Republic; own calculations.

During 1993–2001, the largest source of revenues for health care came from employers, as shown in Table 3.4.2. They provided about half of the revenues except for 1993, when they provided 68.9 percent. Even though the state contributed on behalf of a large group of the population, its contributions, specified every year by the State Budget Act, were only as much as it decided to appropriate. As noted previously, even with lower per capita contributions by the state, every person was still entitled to same quality of health care (see Table 3.4.3).

Health care expenditures were, however, constrained by the level of contribution revenues collected. As Table 3.4.3 shows, expenditures increased very significantly, by 66.4 percent from 1993 to 2001. As a percent of GDP, they rose from 3.9 to 4.8 percent overall, with a temporary hike to over 5 percent

Table 3.4.3
Expenditures of health insurance companies, 1993–2001

Indicator	1993	1994	1995	1996	1997	1998	1999	2000	2001
Expenditures on health care (million SKK)	16,035	19,973	25,247	33,182	36,859	39,442	41,156	43,576	47,687
– As percent of GDP	3.9	4.1	4.4	5.4	5.2	5.1	4.9	4.8	4.8
Of which, as percent of total spending:									
– Primary outpatient health care			11.9	13.9	13.5	11.3	11.1	11.5	10.8
• of which, dental			5.2	5.8	7.2	5.7	5.0	4.7	4.4
– Specialized outpatient health care			6.6	8.0	9.0	8.3	7.9	8.4	7.8
– Combined examination and therapeutic units			10.1	8.6	9.0	9.4	7.0	9.5	7.5
– Ambulance service			2.2	2.4	1.9	1.8	1.3	1.7	2.0
– Prescription drugs			27.9	27.3	27.3	28.8	30.7	33.2	33.2
– Medical aids			2.3	2.8	3.7	2.8	3.0	3.0	3.1
– Inpatient health care			36.0	32.3	29.8	30.5	35.4	30.3	33.0
• of which, hospitals			31.6	No data	26.9	26.5	32.0	27.2	29.8

Source: Statistical Office of the Slovak Republic; own calculations.

during 1996–1998. The two largest categories of spending were prescription drugs and inpatient care, which were nearly equal. No cost control measures had been taken in relation to prescription drugs as of 2001.

Table 3.4.4
Total revenues and expenditures, liabilities and receivables of health insurance companies, as percent of GDP, 1995–2001

Indicator	1995	1996	1997	1998	1999	2000	2001
Revenues in total	6.8	7.4	7.0	6.6	6.2	5.9	6.0
Expenditures in total	6.6	7.5	7.0	6.8	6.2	5.9	5.9
Liabilities	0.8	0.6	1.5	1.9	1.9	2.1	2.2
– Annual growth		0.0	0.9	0.5	0.2	0.3	0.2
Receivables	0.3	0.6	1.2	2.1	2.3	2.6	3.1
– Annual growth		0.3	0.7	1.0	0.5	0.5	0.7

Source: Ministry of Finance of the Slovak Republic; own calculations.

The financing of health care has been quite volatile, as shown in Table 3.4.4. Revenues increased dramatically as a percentage of GDP between 1995 and 1996, from 6.8 to 7.4. Then they declined until 2000, when they bounced back slightly to 6.0 percent in 2001. Generally, the expenditures of health insurance companies followed this pattern, except for 1996 and 1998, when they exceeded revenues slightly, and 1995 and 2001, when they fell below the level of revenues collected. Spending did not, however, cover all the companies' liabilities to providers and pharmacies. As a percent of GDP, liabilities increased from 0.8 percent in 1995 to 2.2 percent in 2001. Due to the failure of many contributors to make owed contributions (due to insolvency and other reasons), the receivables of insurance companies also increased significantly, from 0.3 percent in 1995 to 3.1 in 2001.

The picture that emerges from these numbers is one of a troubled health care system, crippled by problems inherited from the past and new ones emerging from privatization. As of 2001, no major reform had been undertaken. In the absence of reform, hospitals continued to be chronically under-financed and heavily in arrears on their energy bills and debts for other public services. Drug companies and pharmacies were not fully reimbursed by insurance companies when they provided drugs for those who are unable to pay. Large amounts of contribution revenues were owed to the system. There was a tight circle of debts that appeared unbreakable.

3.5. The Voluntary Pension Scheme

Compared to other CEE countries, the Slovak Republic established a voluntary supplemental pension system relatively early. Its creation in 1996 marks the most important achievement of the Trade Union Confederation of the Slovak Republic (KOZ SR). In the early 1990s, trade unions established the goal of creating a mandatory supplemental pay-as-you-go pension scheme for all employees, similar to the system in France. This, they thought, would be the best means of addressing the inadequacy of benefits under the existing scheme. But the government did not agree with this approach and instead prepared legislation authorizing funded supplementary pensions.

The original concept for this scheme was that it would be occupational and financed by employers, with any employer able to contract with any licensed supplementary pension insurance company. However, when *Act No. 123/1996 (Coll. of Laws) on the Supplementary Pension Insurance of Employees* (Supplementary Pension Insurance Act) was prepared, it was drafted only to apply to covered employees in private sector firms. The government gave assurances that it would also create separate independent schemes for civil servants and the self-employed soon after. However, it failed to do that.

Finally, an amendment to the Supplementary Pension Insurance Act was adopted in 2001, which gave the self-employed and their cooperating persons the right to participate in the general supplementary pension scheme for employees. This approach raised some hard questions. For example, it was not clear who would represent self-employed in self-governing bodies of the supplementary insurance companies and whose interests they would promote.

While the Trade Union Confederation had sought a public supplemental scheme, the one that emerged from the legislative process operates primarily on private principles. That is, as explained earlier, it is an occupational scheme open only to employees of firms that contract for coverage. Allowing the self-employed to participate weakens this occupational principle. This change was made in response to a strong lobby from supplementary pension insurance providers who wished to expand their market.

In 2001, there were four supplementary pension insurance companies operating in the Slovak Republic: the First Supplementary Pension Insurance Company TATRY-SYMPATIA, the Supplementary Pension Insurance Company STABILITA, the Supplementary Pension Insurance Company POKOJ, and the Supplementary Pension Insurance Company LIPA. The aggregate performance of these companies since 1998 is described in Tables 3.5.1 and 3.5.2. As the workers covered by these companies up to 2001 were only those in the private sector, the potential pool of insured persons was around two-thirds of all employees (see Table 3.5.1).[15]

Table 3.5.1
Revenues and expenditures of supplementary pension insurance companies, 1998–2001

Indicator	1998	1999	2000	2001	2001/2000 (%)
Cumulative revenues in total (million SKK)	**534.5**	**862.6**	**1 328.1**	**1 961.3**	147.7
– as % of GDP[1]	0.07	0.10	0.15	0.20	
from which premiums paid by					
– Employees	0.03	0.05	0.07	0.09	**131.5**
– Employers	0.04	0.06	0.07	0.10	**138.3**
Expenditures in total (million SKK)	**7.4**	**44.4**	**106.8**	**218.4**	**204.5**
• as % of GDP[1]	0.0010	0.0050	0.0120	0.0220	**187.9**
– Supplementary disability pension	0.0000	0.0000	0.0000	0.0001	**137.8**
– Supplementary old-age pension	0.0005	0.0023	0.0039	0.0052	**133.5**
– Supplementary long-term service pension	0.0000	0.0000	0.0001	0.0038	**6,871.4**
– Supplementary survivor's pension	0.0000	0.0000	0.0001	0.0001	**165.4**
– Supplementary lump-sum compensation[2]	0.0005	0.0029	0.0077	0.0129	**167.5**

Note: [1] Subcomponents do not equal total due to rounding.

[2] These figures aggregate two similar lump-sum benefits. See Appendix A for the legal definitions.

Source: Ministry of Labour, Social Affairs, and Family of the Slovak Republic; own calculations.

[15] There were about 2 million employees in Slovakia during the surveyed period. See Table 3.2.7.

Table 3.5.1 shows slow growth of both membership and revenues. By 2001, the aggregate capital of the four supplementary pension insurance companies was still very low, having reached only 0.20 percent of GDP. Contributions of employees were nearly same as those of employers, and they increased in similar proportions between 2000 and 2001, with employer contributions rising by 31.5 percent and employers' contributions, by 38.3 percent. Benefit payouts remain very low, as the scheme is still immature and early withdrawals are not allowed. However, as shown in the table, allowable lump sum payments far exceeded periodic payments.

Table 3.5.2
Basic indicators for supplementary insurance companies, 1998–2001

Indicator	1998	1999	2000	2001	01/00 (%)
Number of employers contracts (as of 31 December)	553	1,216	2,132	4,884	229.1
Number of insured (as of 31 December)	92,240	124,977	182,334	281,088	154.2
Average monthly number of beneficiaries of:					
– supplementary disability pension	0	13	39	64	164.1
– supplementary old-age pension	47	935	1,790	2,980	166.5
– supplementary long-term service pension	0	0	41	2,807	6846.3
– supplementary survivor's pension	1	26	66	135	204.5
– lump-sum compensation*	69	365	688	1113	322.2

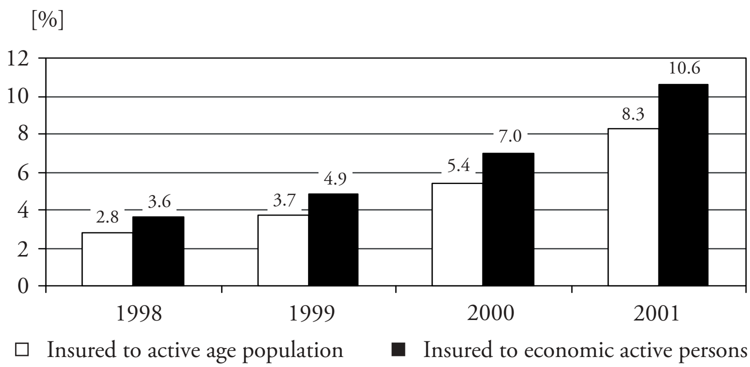
Notce: * Two types are combined here, see Appendix A.

Source: Ministry of Labour, Social Affairs, and Family of the Slovak Republic.

The first requirement for obtaining a license from the Ministry of Labour, Social Affairs, and Family is to conclude contracts with employers for future benefit provision and to develop a potential pool of insured persons, their employees. The number of such contracts entered into between insurance companies and employers increased from 553 in 1998 to 4,884 in 2001, and the pool of insured employees increased from 92,000 to 281,000. However, this represents only about 10 percent of all economically active persons (see Figure 3.5.1).

While in 1998 the number of persons covered by supplementary pension insurance comprised only 3.6 percent of the economically active population,

Figure 3.5.1
Percentage of people insured under supplementary insurance companies, 1998–2001



Source: Ministry of Labour, Social Affairs, and Family of the Slovak Republic.

by 2001 their share had nearly tripled, reaching 10.6 percent. This growth reflected the desire of Slovak citizens to secure a decent income in old age. However, the weak economic situation prevented the majority of the population from participating; and low wages limited the level of capital accumulated by those who did join.

Table 3.5.3
Insured persons by supplementary insurance companies, as percent of total insured, 1999–2001

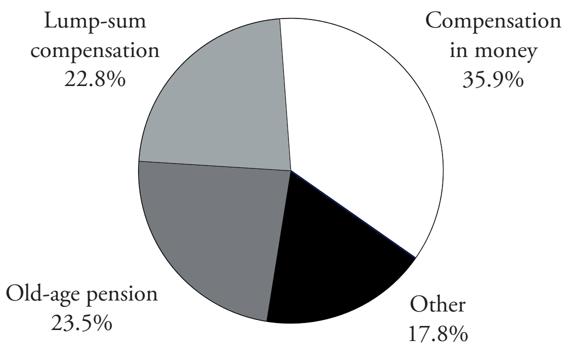
Insurance companies	1999	2000	2001
TATRY-SYMPATIA	67.3	57.1	56.2
STABILITA	24.0	28.6	26.2
POKOJ		6.0	9.5
HORIZONT	6.2		
LIPA	2.5	7.1	8.1

Source: Ministry of Labour, Social Affairs, and Family of the Slovak Republic.

Table 3.5.3 shows that the largest share of persons covered by the supplementary pension scheme during the entire period was insured by TATRY-SYMPATIA. In a sense, this is not surprising, since it was the first company to obtain a license and has been operating in the Slovak insurance market since 1997. The number of its members doubled by 2001, reaching 158,000 persons. However, the overall growth of the market was still greater and it did not maintain its market share, which decreased from 67.3 percent in 1999 to 56.2 percent in 2001. The second largest company, STABILITA, increased its market share slightly during 1999–001, from 24 to 26.2 percent. A third company, HORIZONT, wound up its activities in 2000 and a new one, POKOJ, entered the market (see Figure 3.5.2).

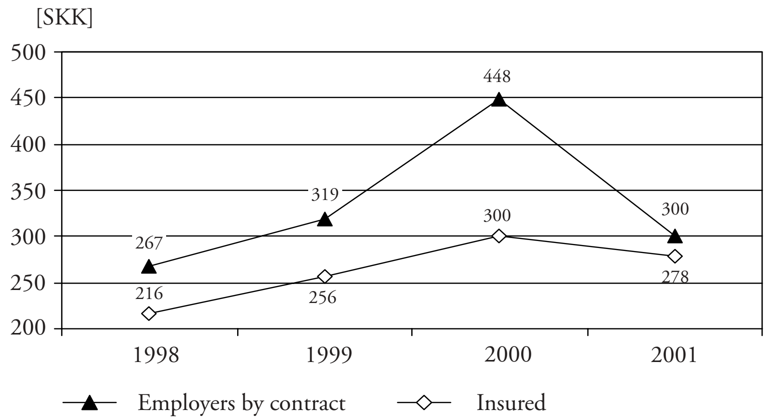
The major problem with the supplementary benefits scheme is shown in Figure 3.5.2, which indicates that the bulk of payments were not pensions but lump sums. This is at odds with the fundamental purpose of the scheme, which is to replace lost wages with guaranteed periodic payments. The trend is slightly positive, however, as this unfavourable situation represents an improvement of 191 percent over the previous year (2000). This boost probably reflects the desire of workers nearing retirement to secure their income for old age (see Figure 3.5.3).

Figure 3.5.2
Structure of paid supplementary benefits, 2001



Source: Ministry of Labour, Social Affairs, and Family, Slovak Republic.

Figure 3.5.3
Average level of monthly contributions, in SKK, 1998–2001



Source: Ministry of Labour, Social Affairs, and Family of the Slovak Republic.

As shown in Table 3.5.3, the average contributions made by employees and employers are very low. Two main factors explain this. First, when employer contributions are set in collective agreements, they usually do not exceed the tax-deductible amount, that is, 3 percent of the employer's total wage bill. Second, some employers insist on a clause requiring that employees match their contribution.[16] Given the low wages in Slovakia, this presents a major barrier to expansion of supplemental coverage.[17]

[16] The decrease in contributions shown in the table is probably fueled by an increase in the number of newly insured employees, who have low wages. This explanation is highly speculative, however, as there is no hard data to account for this.

[17] According to EUROSTAT figures, the average wage in Slovakia in 2001 was the lowest of all candidate countries except for Romania and Bulgaria.

Chapter 4
Old-Age Benefits

4.1. Pension Insurance and Old-Age Benefits

4.1.1. Development of the Pension Security System during the 1990s

Under state socialism, social protection was designed based on an assumption of full employment. The prime objective of the pension system was to replace income lost due to old age, disability or death for all workers, as nearly everybody had the duty to work. The pension system was financed through general taxation, directly from the state budget.[1] The value of pensions reflected previous wages and the low wage differentiation in the economy.

Under *Act No. 100/1988 (Coll. of Laws) on Social Security* (hereinafter, "Social Security Act"), which was in effect during the 1990s and at the beginning of the twenty-first century, the majority of employees were entitled to pensions equal to 50 percent of their previous wages. There were, of course, certain exceptions in the Social Security Act, such as advantaged labour categories, ranking members of the Communist Party, and state representatives to which the system was much more generous (and whose benefits were not financed by higher taxes or special contributions).[2]

Due to the collectivist ideology and paternalistic government practice in Czechoslovakia, people were not expected to assume full responsibility for

[1] Martin Macha. 2002. The Political Economy of Pension Reform in the Czech Republic. In *Pension Reform in Central and Eastern Europe.* Volume 2. ed. Elaine Fultz. Budapest: ILO-CEET. p.78.

[2] For more about the history of the pension system in Slovakia, see Martin Macha, as cited previously. pp.75–78.

their own material well being in old age. Thus, they generally did not take steps to secure themselves against unfortunate turns of events, nor did they prepare for retirement. The pension system simply provided everybody reaching the retirement age with some kind of pension. The Slovak population's strong expectation of state support in retirement had numerous consequences during the political transition throughout the 1990s, complicating changes to the pension system. On the one hand, because there were no supplementary pension schemes until 1996, statutory pensions had to be sufficient to ensure the elderly a decent living. On the other hand, when the pension system was separated from the state budget and the financing method was shifted to contributions in 1993, the entire burden of financing pensions granted in the socialist period was placed on those employees and self-employed who paid contributions. This shift proved to be unrealistic, as evidenced in the enormous debt incurred by the system over the next 10 years, the flattening of the benefit structure by inflation, and the inadequacy of benefits to cover the basic needs of the majority of the elderly (see Table 4.1.5.1).

The promises of successive Slovak governments during the 1990s to increase the living standards of pensioners to a decent level also proved to be unrealistic. This was mainly because the system's obligations to a large population of pension beneficiaries could not be fully met by the contribution income scheme of the system. One may say that pensioners have been among the victims of the economic transformation and the weak Slovak economy. In the current economy, which excludes one-fifth of the labour force from employment, and in which pensions are growing faster than contributions, the options for financing pensions are simply drying up.

Moreover, it seems that the old fashioned statutory pension system is one of the main reasons that Slovakia is on the verge of a pension crisis. The redistributive benefit structure gives middle and upper income workers no incentive to pay contributions, but rather to look for every potential way to avoid them.

During the 1990s, there were several attempts to pass pension reform legislation, based on substantively new ideas and principles; but none of them was successful. The first reforms in the social sphere were made in 1990, when Slovakia was still part of the Czechoslovak Republic. Since the establishment of the Slovak Republic in 1993, subsequent governments have all declared their intention to implement radical reform measures in the social sphere, including the pension system. However, none of them succeeded during the period under examination here. Thus, during the 1990s, the pension system still operated under the Social Security Act that came into force in 1988 under the principles and conditions of state socialism. In 2001, at the end of the monitored period, Slovakia and Ukraine were the only countries from the Central and Eastern European region, which had not reformed their pension systems.[3]

Although comprehensive reform was not enacted until after the period under review in this report, some small changes were introduced to make the pension scheme more suitable for the transition economy. Some of them were adopted under pressure from trade unions, such as adjusting pensions to take account of the cost of living or wage increases. At the same time, its powerful position in a tripartite social dialogue[4] allowed the Trade Unions' Confederation of the Slovak Republic to block some legislative proposals that could have made the eligibility conditions stricter or even excluded some people from pension coverage.

4.1.2. Statutory Pension System and Old-age Benefits

The statutory pension system in Slovakia is composed of two types of schemes. The general pension insurance scheme covers the majority of inhabitants and is operated by the Social Insurance Agency of the Slovak Republic (hereinafter, "SIA"). The other type is provided by the state for the professional military and

[3] See Elaine Fultz and Marcus Ruck. 2000. *Pension Reform in Central and Eastern Europe: An Update on the Restructuring of National Pension Schemes in Selected Countries*. Budapest: ILO-CEET.

[4] In 1990, the Council of Economic and Social Agreement was established with parity in the number of representatives of the government, the Trade Unions' Confederation and the Association of Employers' Unions and Associations "as an independent bargaining and initiating body." It is "a platform for negotiations on legislation and the policies of the government concerning citizens' living standards and social security issues." See Maria Svorenova. 2000. The Development of Trade Unions in Slovakia during the Last Decade. In *South East Europe Review*. 3:2/2000. Baden-Baden: Hans-Bockler-Foundation. pp.134–138.

members of special state services, such as the Police, Railway Police, Customs Service, Penitentiary Service, State Intelligence Service, and National Security Office. Pension benefits for workers in these categories are financed through special accounts established by the Ministry of Defense and the Ministry of Internal Affairs.

The special pension scheme is markedly different from the general pension scheme, in that the former is financed from the state budget. Thus, the current recipients and future beneficiaries do not form an insurance community with the rest of the population. As this special pension scheme was only created in 1998, all former employees from the above-mentioned special state services, who are currently retired, now receive pensions from the general pension insurance scheme and are subsidized by this scheme. Only those who retired after the establishment of the special pension scheme receive pensions from these accounts.

As data are not available on the number of participants in the special pension scheme, nor on the expenditures involved, this report focuses only on its operation and development over time.

Old-age benefits may be divided into two groups: cash benefits and benefits in-kind. As noted earlier, cash benefits are financed from contributions or from the state budget. All benefits in-kind are financed from the state budget or from budgets of local governments.

The old-age welfare system provides the following *cash benefits* to eligible recipients:

a) paid from the statutory pension scheme:
   - old-age pension;
   - pension for recognized years in service; and
   - proportional old-age pension;

b) paid from the state budget:
   - social pension;
   - wife's pension;
   - increment for participation in the rebellion and rehabilitation;[5] and
   - additional benefit (for those whose pensions are low and constitute their only source of income).

[5] Rebellion refers to the Slovak National Rebellion during World War II.

Pensioners might also be eligible for the following *benefits in-kind* financed from the state budget or from budgets of local governments:

- attendance services provided in seniors' homes;
- homes for pensioners;
- facilities (rest homes) where attendance services are provided;
- boarding homes for pensioners;
- seniors' clubs;
- canteens for pensioners;
- personal hygiene centers;
- laundries; and
- others.[6]

All the above-mentioned benefits are described in Appendix A.4.a. For the structure of revenues, the assessment base, the number and structure of contributors to the statutory pension insurance system, see Chapter 3, section 3.2.

4.1.3. Retirement Age

As in other European countries, the retirement age was relatively low in Slovakia during the period under analysis: 60 for men and 53–57 for women, depending on the number of children raised (see Appendix A.4.a). Due to strong opposition from trade unions, as well as from the majority of people in the country, policymakers avoided the issue for a long time. The Dzurinda government, which took office in 1998, undertook a public opinion poll in 2000 on the principles and directions of pension reform.[7] The majority of

[6] If a person is immobile or not able to perform activities of daily living because of old age, he or she may also be eligible for other types of cash or in-kind benefits. Most of these are provided to persons with disabilities. See Chapter 5 and Appendix A.5.a.

[7] In the opinion poll, some 10 questions were asked, such as "Are you satisfied with the current pension system and the pensions it provides?" "Do you agree that the pension system should be reformed?" and "Do you agree that the retirement age increases?"

respondents were very supportive of reform in general terms, but they rejected the idea of working longer. The most frequently offered rationales were: first, that the high level of unemployment would only increase further; and second, that life expectancy in Slovakia is significantly lower than in the EU countries.

Nevertheless, the government eventually made a decision to increase the official retirement age independently of other pension reforms. Three key factors led to this decision: the growing insolvency of the pension system; increasing life expectancy, especially among women; and the inertia of the reform process.

The government circulated among the social partners three options for increasing retirement age. The trade unions pushed for adopting the "softest" version, which was eventually selected. In 2001, after a long public discussion, the government adopted the option for harmonizing the retirement age of women and men, preferred by the Trade Union Confederation of the Slovak Republic (and, presumably, by most of the general public as well).[8] Later, Parliament also approved this. It called for the retirement age for women to increase gradually over 16 years (2003–2019). In 2019, the retirement age for all groups of women would be equalized, at age 60, which is the current retirement age for men. Thus, for those women who may retire at the age of 57 (without having raised any children), four months would be added every year starting in 2003; for those eligible to retire at 56 (having raised one child), the increase would be five months per year; for women with the current retirement age of 55 (with two children raised), it would be six months per year; for women who now may retire at the age of 54 (with three or four children raised), the increase would be seven months per year; and for women with the current official retirement age of 53 (with five or more children raised) nine months would be added every year.

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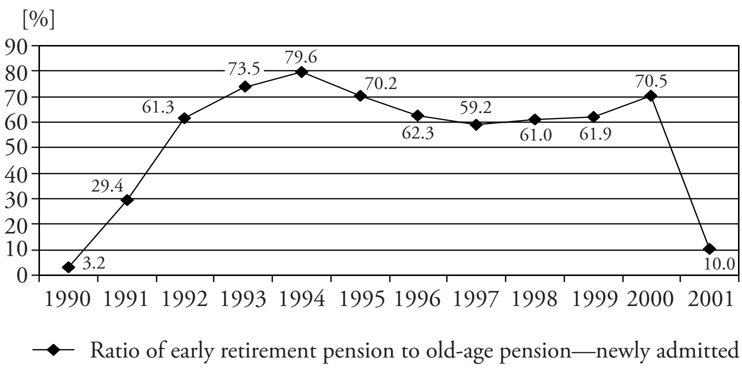
[8] Harmonogram vyrovnávania veku odchodu do dôchodku žien a mužov (Time schedule for equalizing the age of retirement for women and men). Prijatý uznesením vlády Slovenskej republiky č. 941 z 3. októbra 2001 (Adopted by Government Resolution No. 941/2001). http://www.rokovania.sk/appl/material.nsf/0/0355C08B56AEDECBC1256AD30030FD7E?OpenDocument

4.1.4. Early Retirement

Since 1988, the law has provided an early retirement option. Under it, employees may claim an old-age pension up to two years prior to the official retirement age. This possibility to retire earlier applied only to dismissed employees who were not able to find another job, as confirmed by the regional labor office. As the amount of an early old-age benefit was the same as it would have been for regular retirement, many employees who lost their jobs when approaching the retirement age readily took this opportunity to leave the labour market. (For more on pension eligibility and benefit calculation, see Appendix A.4.a) (see Figure 4.1.4.1).

This early retirement option caused a major change in the composition of pension beneficiaries, as Figure 4.1.4.1 shows. The portion of all new pensioners who retired early increased sharply during the early 1990s, from 3.2 percent in 1990 to 79.6 percent in 1994. This was due to the restructuring of the economy and to the very sharp increase in the resulting rate of unemployment. The rate then leveled off and dropped slightly during 1994–1998. A bout of unemployment after 1998 brought a new rise in the ratio, driven especially by women who welcomed very warmly the possibility to leave the labour

Figure 4.1.4.1
Ratio of new early retirement pensions on all new old-age pensions, 1990–2001



Source: Social Insurance Agency of the Slovak Republic; own calculations.

market early on more favourable terms. Another factor was the work force's anticipation of the termination of the option on 1 January 2001, and the effort of some older workers to "get in under the wire." All in all, the existence of this generous option eliminated much hardship for workers during the 1990s, but also placed a major financing burden on the pension scheme.

4.1.5. Adjustment of Pensions

During the early 1990s, price liberalization brought high inflation, which was followed by a gradual increase in wages. This raised the living costs of both employees and pensioners. Legislation, providing for automatic increases for both groups, became a necessity. In 1991, the Act on Pension Adjustments took effect (see Appendix A.4a). In general, it stipulated that pensions must be increased by an (unspecified) percentage in any year in which wages increased by 5 percent compared to the previous year, and that pensions should be increased by a lump-sum amount (again, unspecified in the law) in any year in which the cost of living increased by at least 10 percent compared to the previous year. As can be seen in Table 4.1.5.1, the adjustments that were made pursuant to this law did not cause the average old-age pension to keep pace with wage increases.

As can be seen, the welfare of retirees declined during the 1990s, not only in relation to pre-1989 levels, but also in relation to that of employees. The living costs of pensioners increased by 405.9 percent from 1989 to 1998, while the nominal value of pensions increased by only 292.0 percent. While cost-of-living adjustments were provided every year, the average old-age pension in 2000 was nowhere near its 1989 level. By 1993, it had decreased to just 66.5 percent of this level, where it bottomed out and then began to rise. By 1998, it had reached 83.4 percent of the real value in 1989; but then it experienced another big drop (about 5.4 percent), due to the austerity measures adopted by the new (Dzurinda) government. The ratio for 2000 (78.6 percent) shows only a small increase over 1999.

It is noteworthy that the average old-age pension did not decline in relation to the average gross wage. Starting from 45.6 percent in 1989, this ratio fluctuated modestly throughout the decade and stood at 44.1 percent in

Table 4.1.5.1
Real and nominal value of average old-age pension and average wage, 1989–2000[9]

Year	Share of average old-age pension on average gross wage	Index value of pension		Index value of wage		Share of average old-age pension on average net wage	Index living costs	
		nominal	real	nominal	real		employees	pensioners
	%	%	%	%	%	%	%	%
1989	45.6	100.0	100.0	100.0	100.0	*	100.0	100.0
1990	47.2	108.2	90.3	104.3	94.4	*	110.6	110.3
1991	50.0	131.6	72.6	120.0	69.6	79.0	172.5	190.9
1992	45.3	143.7	70.7	144.6	75.7	65.8	191.0	248.5
1993	44.0	165.3	66.5	171.2	72.8	58.6	235.1	281.8
1994	45.3	199.2	70.7	200.3	75.0	60.8	267.1	296.6
1995	43.1	216.6	73.3	229.0	78.2	58.4	292.7	310.8
1996	42.7	242.9	78.2	259.6	83.8	58.2	309.7	331.6
1997	41.7	268.6	81.0	298.6	89.2	57.6	328.9	350.2
1998	41.8	292.0	83.4	321.8	91.8	58.3	350.6	405.9
1999	42.4	317.7	78.0	341.4	88.2	59.4	387.1	*
2000	44.1	351.7	78.6	363.8	84.2	58.3	432.0	*

Note: * Data not available.

Source: Ministry of Labour, Social Affairs, and Family of the Slovak Republic; own calculations.

[9] Since 2000, it has not been possible to follow the development of all indicators in this table, because the methodology for calculating some indicators has changed.

2000. However, as no taxes or contributions are paid from old-age pensions in Slovakia, it is much more revealing to compare the average old-age pension with the average *net* wage. Available data shows that this ratio declined from 79.0 percent in 1991 to just 58.3 percent in 2000.

4.1.6. Impact of Pension Adjustments

Slovakia's long failure to change its 1991 pension adjustment mechanism has had some unfortunate consequences. As can be seen in Table 4.1.7.2, reliance on this mechanism has caused progressively greater equalization of pensions and deeper and deeper deformation of the benefit structure. This method would also have caused new pension benefits to drop far below pensions in payment in every year since 1992, were it not for an extra adjustment to make them comparable with existing pensions.

With every adjustment of newly granted pensions and pensions in payment, there must also be an adjustment factor established for future pensions, which will insure comparability in benefit levels across years. Since 1991, there have been 10 legal adjustments of this kind. For example, in 1992, every new old-age pension was automatically increased by a lump sum, 290 SKK. In 1993, they were boosted by 20 percent of their value. In 2002, every new old-age pension was boosted by 103.5 percent of its value, plus a lump sum of 1,240 SKK.

As one can see in the Table 4.1.6.1, increases in the minimum wage have not kept pace with increases of newly granted pensions. While the ratio of the pension to the gross minimum wage from which it was calculated reached 63.2 percent in 1992, in 2002, it had risen to 113 percent. Thus, workers earning the minimum wage had higher income in retirement than while employed. If we compare the average minimum wage (second column, Table 4.1.6.1) with the pension calculated from it and then adjusted under the stipulated legal conditions (fifth column in the Table 4.1.6.1), we can see that, from 1992 to 2002, the minimal wage increased by 123.63 percent, while the old-age pension calculated from it increased by 257.7 percent.

Table 4.1.6.1
Newly calculated old-age pensions computed from minimum wage, 1992–2002

Year	Minimal wage*	Adjustment of newly calculated pensions		Value of pension**	Share of old-age pension on minimum wage	
					Gross minimum wage	Net minimum wage
	(SKK)	(%)	(SKK)	(SKK)	(%)	(%)
1992	2,200		290	1,390	63.2	79.9
1993	2,450	20.0		1,470	60.0	69.1
1994	2,450	16.0	300	1,721	70.2	81.0
1995	2,450	23.0	530	2,037	83.1	95.8
1996	2,700	31.0	610	2,292	84.9	99.0
1997	2,700	46.8	683	2,568	95.1	110.9
1998	3,000	61.5	751	2,905	96.8	113.9
1999	3,600	74.4	811	3,312	92.0	107.1
2000	4,000	81.4	1,010	3,731	93.3	107.1
2000	4,400	81.4	1,010	3,853	87.6	101.8
2001	4,920	90.5	1,204	4,189	95.2	100.6
2002	4,920	103.5	1,240	4,972	113.0	no data

Note: * Refers to gross minimum wage.

** The pension is calculated from the minimum wage and adjusted according to legal requirements passed every year, as described above. No taxes are paid from pensions.

Source: Maria Svorenova. 2002. Aktuálne problémy sociálneho zabezpečenia—vývoj dôchodkových dávok v rokoch 92 až 2000 a miera solidarity v dôchodkovom zabezpečení (Current Issues of Social Security—the Development of Pensions Benefits from 1992 until 2000 and the Degree of Solidarity in the System of Pension Security). In *Právny obzor, Teoretický časopis pre otázky štátu a práva*. Volume 85, No. 1/2002. Bratislava: Slovak Academic Press, p.41; own calculations.

4.1.7. Replacement Rates

As can be seen in Table 4.1.7.1, the replacement rate for those with low and average incomes is dramatically lower than for those subject to the highest wage threshold for paying contributions. The result is a highly compressed and redistributive benefit structure. After the various redistributive elements of the benefit formula are applied, the difference between the highest and lowest pensions does not exceed about 18 percent. (For the rules for calculating pensions, see Appendix A.4a.)

The pension system introduced during state socialism divided all jobs into three categories, according to the level of danger of the workplace.[10] A different formula was used for each category, but based on the same assessment base. The law provides that the third category of pensions should replace approximately 50 percent of prior earnings; the second category, 55 percent; and the first category, 60 percent. Table 4.1.7.1 compares current pensions with current earnings (rather than with the past earnings of workers receiving pensions today). This shortcut for estimating replacement rates provides a good estimate about what such rates might be if they were to be measured over time: the low ceiling on covered wages in the Slovak benefit formula means that for most workers, the assessment base is the same in each counted year.[11] One can see that for a person earning the average in 2001, replacement rates measured in this way are not from the target specified in law.

The great equalization of pensions that occurred as a result of continuing to use the outdated 1988 calculation rules in the new transition environment for so long is shown in Table 4.1.7.2. Here, we have chosen as examples three typical persons with different lengths of working careers: 25 years, which is the minimum length for eligibility for a regular old-age pension; 37 years, which is the average length of time women work; and 42 years, which is the average length of work for men.

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[10] See Appendix A.4.a. The accumulation of pension credits according to these categories was ceased in 2000; however, preferences such as lower retirement age, a higher replacement rate, and a higher ceiling on pensions will continue until 2023.

[11] Specifically a pension calculated from a wage higher than 10,000 SKK earned during last five years before retirement would have same assessment base for every year, 4,047 SKK, while the average wage in 2001 was 12,365 SKK.

Table 4.1.7.1
Replacement rate of old-age pensions, 2001

Assessment base (covered wages)	Period spent in employment, in years and categories of jobs										
	25			37			40			42	47
	III	II	I	III	II	I	III	II	I	Female**	Male**
Minimum wage	96.8	114.0	124.3	113.3	138.8	143.6	120.2	149.1	184.8	154.6	161.4
50 percent of average gross wage	76.1	90.2	98.7	89.7	110.6	114.6	95.3	119.1	133.6	123.6	129.3
Average gross wage	40.9	48.8	53.4	48.4	60.0	62.2	51.6	64.7	66.8	66.8	66.8
200 percent of average gross wage	20.5	24.4	26.7	24.2	30.0	31.1	25.8	32.3	33.4	33.4	33.4
Maximum assessment base	15.9	18.9	20.7	18.8	23.3	24.1	20.0	25.1	25.9	25.9	25.9

Note: In 2001, a maximum pension amount (ceiling) was set for each labour category, and pensionable income was also subject to an upper limit. The ceiling for pensions calculated for a subset of occupations in the first category was 8,282 SKK. After being increased for various reasons, the ceiling for pensions for the remaining occupations in the first category was 7,286 SKK, and for pensions in the second and third categories, the celiings wre set at 6,566 SKK and 6,389 SKK per month.

** Replacement rates calculated for both males and females after five years of work after the statutory retirement age, which means 65 years of age for men and 60 years of age for women on average.

Source: Own calculations.

As can be seen in the first line of Table 4.1.7.1, a person who works 25 years in the third job category would receive 4,154 SKK per month as an old-age pension, which would be only 136 SKK less than the average wage for such persons. After 37 working years, this person's monthly pension would be 571 SKK higher than the average wage, and after 42 years of work, it would be 866 SKK more. By contrast, a person earning the national average wage (12,400 SKK) after 42 years of employment would receive an old-age pension that is only 52 percent of that wage, or 6,006 SKK less.

For those in the first and second job categories, monthly pensions were much more adequate in relation to wages. For the second category, the old-age pension calculated from the average gross wage (12,400 SKK), was 6,046 SKK after 25 years of employment, 7,440 SKK after 37 years (which is 60% of the average wage) and 8,021 SKK after 42 years (64.7% of the average wage). The old-age pension for a person in the first job category and earning 12,400 SKK per month was 6,627 SKK after 25 years of work (or 53.4%); after 37 years of work, 7,711 SKK (or 62.2%); and after 40 years at work, 8,282 SKK (66.8%).

This formula kept the benefits of higher income workers quite low, as can also be seen from the table. This is caused in the first instance by the assessment base (see the third column of Table 4.1.7.2), the highest value of which was 4,067 SKK. Added to this, benefits were subject to a ceiling. The highest ceiling for all old-age pensions in any category, and adjusted for years at work over the retirement age, was 8,282 SKK in 2001. At the bottom of Table 4.1.7.2 we can see the impact of these restrictive measures.

The last two columns of Table 4.1.7.2 show how the pension can be increased for years worked after the normal retirement age. Here, pensions are calculated for workers employed in the third job category and also from a gender perspective. A woman earning the minimum wage, who worked five years past the regular retirement age and had 42 years of work, could receive a monthly old-age pension of 6,631 SKK. That is 1,770 SKK higher than after 37 working years. For men working 47 years (also at the minimum wage), or five years past the retirement age, the monthly old-age pension was 6,926 SKK, which is just 1,770 SKK higher than a woman who did not work these extra five years. The table also makes it clear that working longer was more rational for those with the average wage or lower earnings, since the pension for woman would be 2,275 SKK higher and, for a man, 1,888 SKK higher than if he retired at the statutory age.

Table 4.1.7.2

Average old-age pension in the three labour categories, years of service and value of assessment base, in SKK, 2001

Assessment base (covered wages)	Contributions assessment base (wage up to ceiling)	Pensions essment base (reduced average wage[12])	Period of employment, in years and category of job										
			25			37			42 (valid only for men)			42 female[1,2]	47 male[1,3]
			III	II	I	III	II	I	III	II	I[1]		
Minimum wage	4,290	3,097	4,154	4,891	5,333	4,861	5,953	6,159	5,156	6,395	7929	6,631	6,926
50% of average gross wage	6,200	3,687	4,716	5,593	6,120	5,558	6,858	7,103	5,909	7,384	8282[5]	7,665	8,016
Average gross wage	12,400	4,067[4]	5,078[5]	6,046[5]	6,627[5]	6,007[5]	7,440[5]	7,711[5]	6,394[5]	8,021[5]	8282[5]	8,282[5]	8,282[5]
200% of average gross wage	24,800	4,067[4]	5,078[5]	6,046[5]	6,627[5]	6,007[5]	7,440[5]	7,711[5]	6,394[5]	8,021[5]	8282[5]	8,282[5]	8,282[5]
Maximum assessment base	32,000	4,067[4]	5,078[5]	6,046[5]	6,627[5]	6,007[5]	7,440[5]	7,711[5]	6,394[5]	8,021[5]	8282[5]	8,282[5]	8,282[5]

Note: [1] In 2001, the ceiling for pensions calculated for some occupations in the first category and for pensions increased for working past retirement age could not exceed 8,282 SKK. Thus, pensions in last three columns are the same amount.

[2] Value of an old-age pension for a woman working five years past the women's regular retirement age (55) in the third category.

[3] Value of old-age pension of a man working five years past the men's regular retirement age (60) in the third category.

[4] Under the legally stipulated calculation method, the old-age pension assessment base (calculated from the average previous wage) could be at most 4,067 SKK, without regard to level of wages on which the person had paid contributions.

[5] Because of the legally stipulated maximum assessment base (which could not exceed 4,067 SKK) for calculation of old-age pensions, the value of pensions are the same (8,021 SKK), regardless of the fact that the assessment bases were significantly different—as is clear from first two columns.

Source: Own calculations.

12 Reduced average wage is a component in the benefit formula, as explained previously and in Appendix A.4a.

Generally, one can say that the benefit formula provided a disincentive to pay contributions during working years, but at the same time, it offered a financial motivation to work longer after retirement age. This is illustrated by the fact that, in 2001, the difference between higher and lower pensions in the third category after 37 years of work was only 1,146 SKK. However, the difference between monthly contributions paid from the lowest and highest assessment bases was 7,759 SKK per month. Pensions calculated from the monthly average gross wage (12,400 SKK) and the highest assessment bases (32,000 SKK) were exactly the same (6,007 SKK monthly), even though the difference between the contributions was 5,488 SKK per month (from the average wage it was 3,472 SKK and from the highest assessment base, 8,960 SKK).

The severe compression of the range of benefit amounts means that the replacement rate varied significantly, as shown in Table 4.1.7.1. The low replacement rate for higher income workers provided an incentive for evading the contribution requirement by the self-employed, those who cooperated with them, and all others who had some capacity to control their own assessment base. This low return on contributions often drove workers and employers into the shadow economy. There were many employers, especially small businesses, who prefered to pay part of wages to their employees in cash to avoid paying contributions. Some employees welcomed this kind of remuneration, because they also avoided paying contributions on the unofficial part of their income. Since social security contributions were 50.8 percent of the gross wage paid to employees in 2001, providing cash payments of wages was significantly more profitable for both employees and employers.

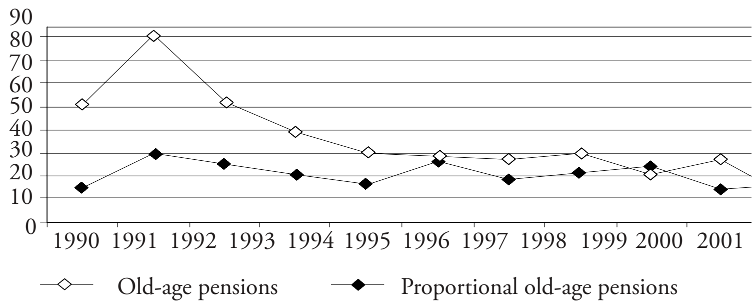
This situation poses a danger of destabilizing the pension scheme, as the number of those with low contributions and expectations of high benefits greatly exceeds the number of those earning more than the average wage, who must pay high contributions and expect much less in return for them.[13] It also fuels dissatisfaction with the pension system from higher income workers and has fueled the system's debt since 1995. For more about the financial situation within the pension scheme, see Chapter 3, section 3.2.

[13] According to a 2002 survey of the Statistical Office of the Slovak Republic, the average gross wage in 2001 was 12,365 SKK per month, and 68.4 percent of all workers had earnings which fell within the range 0–13,000 SKK. See Statistical Office of the Slovak Republic. 2002. *The Structure of Employees' Wages in the Slovak Republic in 2001*. Bratislava: Štatistický úrad Slovenskej Republiky.

4.1.8. *Inflow and Outflow of Pensioners*

As shown in Table 4.1.8.1, the financial strength of the pension system has been further eroded by an imbalance between the inflow and outflow of pensioners. The imbalance was especially marked at the beginning of the decade, when the inflow of old-age pensions was very high and the ratio of newly awarded to ceased pensions increased from 1.6 in 1990 to 2.2 in 1991. Even though the subsequent inflow decreased sharply (to 1.2 in 1994), the net result over the examined period was a large increase. The sharp drop in the inflow of both types of old-age pensions during 2000–2001 resulted from elimination of the early-retirement option, as discussed earlier (the last possibility was 1 January 2001). It is reasonable to assume that the majority of those who would become eligible for regular old-age pension in the two years following 1 January 2001 had already applied for early retirement if they could.[14]

Figure 4.1.8.1
Ratio of newly awarded pensions to ceased pensions (flow of pensions), 1990–2001



Source: Social Insurance Agency of the Slovak Republic; own calculations.

[14] As explained earlier, from 1988 to 1 January 2001, those employees who were dismissed two years before reaching regular retirement age and were not able to find another job were eligible for an early retirement pension, which was calculated without any actuarial reduction.

4.1.9. Other Old-Age Cash Benefits

In addition to pensions, the elderly also receive other cash benefits financed from the state budget. Except for one special benefit related to past participation in military action (the increment for participation in rebellion and rehabilitation), eligibility for these benefits is predicated on need.[15] The benefits are:

- social pension;
- wife's pension;
- increment for participation in rebellion and rehabilitation; and
- an additional benefit for those whose pensions are low and constitute their only source of income.

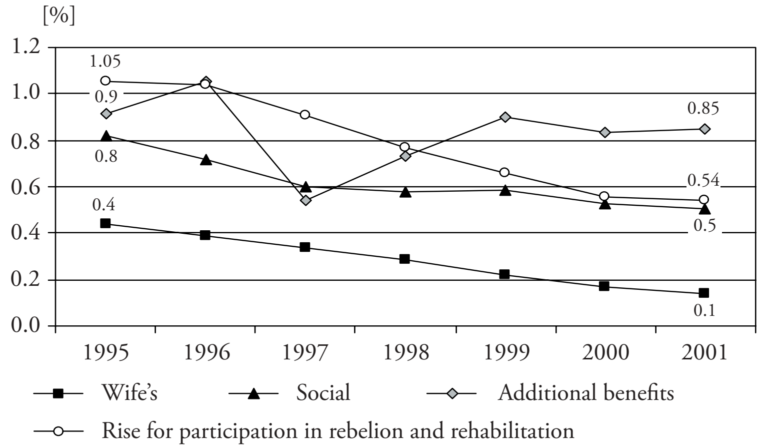
A more complete description of these benefits and the conditions for receiving them is provided in Appendix A.4.a.

As one can see in Figure 4.1.9.1, expenditure on these benefits varies from year to year, depending on each year's adjustment of pensions and the value of the subsistence minimum. This figure also makes it clear that the last of these benefits, which boosts all pensions up to the subsistence minimum, is the most important and costly. In 1997, a sharp drop in the ratio of spending on the additional benefit to spending for old-age pensions was caused by unusually large adjustments of old-age pensions and a small increase in the subsistence minimum. Later, due to inadequate valorization of the old-age pension, the gap between low-level pensions and the subsistence minimum increased, leading to an increase in expenditure on additional benefits. Over seven years, expenditure on additional benefits as a percentage of old-age pension expenditure remained rather steady, decreasing from 0.92 percent in 1995 to 0.85 percent in 2001 (see Figure 4.1.9.1).

Social pensions were granted to persons without income, over age 65, who were not eligible for statutory old-age benefits. Between 1995 and 2001, the ratio of expenditure on social pensions to that on old-age pensions decreased

[15] As explained previously, this increment is intended for those who participated in the Slovak National Rebellion during World War II.

Figure 4.1.9.1
Ratio of expenditure(s) on additional benefits, social pensions, increment for participation in rebellion and rehabilitation, and the wife's pension to old-age pensions expenditure, 1995–2001

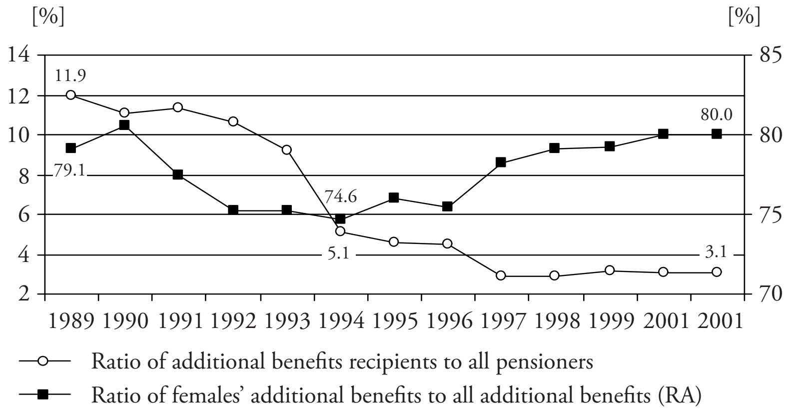


Source: Social Insurance Agency of the Slovak Republic; own calculations.

significantly, from 0.82 to 0.51 percent. This happened even though the average social pension was, in nominal terms, higher than at the beginning of the 1990s. One reason was the decreasing number of social pension beneficiaries. Expenditure on the wife's pension decreased continuously during the seven years examined, from 0.44 percent in 1995 to 0.14 percent in 2001. The increment for participation in rebellion, a special supplementary benefit paid to persons who participated in a revolt authorized by law, dropped the most as a percentage of old-age expenditure, from 1.05 percent in 1995 to 0.54 percent in 2001. This was due to the diminishing population of survivors of the Slovak National Rebellion during World War II (see Figure 4.1.9.2.).

As can be seen in Figure 4.1.9.2, 11.9 percent of old-age pension beneficiaries received the additional benefit in 1989. The numbers in this group decreased significantly during the early 1990s, declining to 5.1 percent in 1994. There was another decline to 2.9 percent in 1997, after which this ratio remained relatively stable. In 2001, additional benefits reached 3.1 percent of

Figure 4.1.9.2
Ratio of recipients of additional benefits to all pensioners, 1989–2001



Source: Social Insurance Agency of the Slovak Republic; own calculations.

all old-age pensioners. One of the main reasons for this decline in the mid-1990s was the method of adjusting old-age pensions, described earlier, and the adjustment made in newly awarded pensions to keep them in line with current beneficiaries (see section 4.1.7 Replacement Rate and Appendix A.4.a). In other words, low old-age pensions increased so much in this period that the great majority of them exceeded the minimum income threshold for pensioners. In this way, the state divested its responsibility to provide a minimum income to pensioners from the state budget, shifting this burden instead onto current pension insurance contributors.

Not surprisingly, the majority of recipients of additional benefits were women. In 1989, women comprised 79.1 percent of this group; in 1990, their ratio increased to 80.5 percent; in 1994, it declined to 74.6 percent; and in 2001, it was 80 percent. The major reason for this situation is a rather obvious one: namely, women's pensions are calculated from their previous wages and were therefore much lower than men's. In Slovakia, women's wages reach, on average, approximately only two-thirds the wages of men.

4.1.10. *In-Kind Benefits for the Elderly*

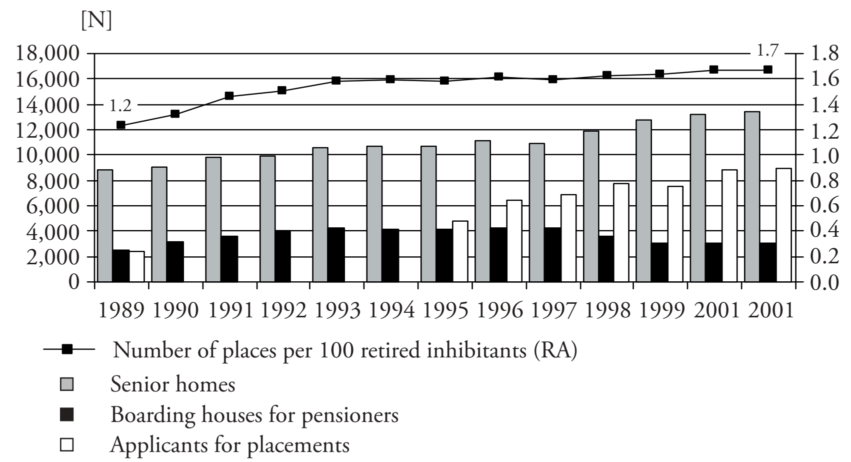
Elderly persons may also be entitled to social assistance benefits provided in-kind. Those who need the help of another person to perform activities of daily living are eligible for personal attendance service or are placed into social service establishments for elderly and disabled persons.

Benefits in-kind, financed from the state budget or from budgets of local governments, were as follows:

- attendance services provided at pensioners' homes;
- senior homes;
- rest homes, or facilities where attendance services are provided;
- boarding homes for pensioners;
- seniors' clubs;
- canteens for pensioners;
- personal hygiene centers; and
- laundries.

For more on these, see Appendix A.4a.

Figure 4.1.10.1
Places in institutions for the elderly, 1989–2001



Source: Statistical Office of the Slovak Republic; own calculations.

As seen on the right axis of Figure 4.1.10.1, the total number of places per 100 retires increased from 1.2 in 1989 to nearly 1.7 in 2001. Yet, the number of places was still far from adequate. Since 1995, the number of applicants nearly doubled, reaching 9,000 in 2001. An increase in places in institutions for the elderly of 54.6 percent would be required to meet this demand. A majority of residential homes for elderly persons continued to be provided by the state or municipalities. Efforts by private, voluntary, or charitable organizations to establish such homes were limited and slow throughout the 1990s.

Municipal (state or local) authorities also operate seniors' clubs, canteens for pensioners, personal hygiene centers, and laundries.

Table 4.1.10.1
Social services provided under social assistance by municipal authorities, 1990–2000

Year	Personal hygiene centers		Laundries		Number of	
	Number of facilities	Expenses (1,000 SKK)	Number of facilities	Expenses (1,000 SKK)	Houses	Flats
1990	149	1 228	84	714	92	3,717
1993	80	759	30	409	66	3,408
1994	58	1,718	28	765	82	3,291
1995	53	1,226	35	765	70	3,339
1996	38	1,815	25	1,024	70	3,244
1997	35	472	24	1,457	68	3,307
1998	38	2,033	30	1,396	64	3,178
1999	37	3,341	30	2,072	53	2,743
2000	17	1,594	18	1,892	30	1,610

Source: Ministry of Labour, Social Affairs, and Family of the Slovak Republic; own calculations.

Table 4.1.10.1 provides information on social services and facilities for the elderly provided by municipal authorities. Although the number of *personal hygiene centers* decreased dramatically from 149 in 1990 to 17 in 2000, the expenditure on them increased by 29.8 percent. The number of *laundries* also decreased significantly from 84 in 1990 to 18 in 2000, and expenditure on them increased even more, by 65 percent (from 714 thousand to 1,892 thousand SKK). The number of special *homes for the elderly* also decreased from 92 in 1990 to 30 in 2000. The biggest decrease in hygiene centers, laundries, and accommodation facilities occurred at the beginning of 1990s and then in 2000. We do not have an explanation for this increase, and can only assume that increasing prices and funding shortages in municipality budgets were the primary driving forces.

Table 4.1.10.2
Care provided in other social services facilities, 1990–2000

Year	Special canteens for pensioners		Pensioners' clubs	
	No.	Expenses (1,000 SKK)	No.	Expenses (1,000 SKK)
1990	59	18,534	701	45,216
1993	75	23,775	567	26,491
1994	86	31,945	582	26,184
1995	106	30,239	623	26,518
1996	100	23,182	565	33,263
1997	81	39,887	674	31,099
1998	108	48,365	585	27,590
1999	89	36,430	506	31,157
2000	68	36,397	403	23,789

Source: Ministry of Labour, Social Affairs, and Family of the Slovak Republic; own calculations.

Canteens for pensioners are very popular among eligible persons, and they also often provide meals for workers at reasonable prices. As one can see in Table 4.1.9.2, their number varied significantly, from 59 in 1990, to 108 in 1998 —the highest number of canteens. We assume that this variation was caused by funding changes by local municipalities. The expenditure on canteens for pensioners increased by 17,863,000 SKK from 1990 to 2000. Pensioners' clubs were also quite popular as places for socialization. Due to concerns about isolation of the elderly from the larger community, the number of *pensioners' clubs* decreased from 701 in 1990 to 403 in 2000.

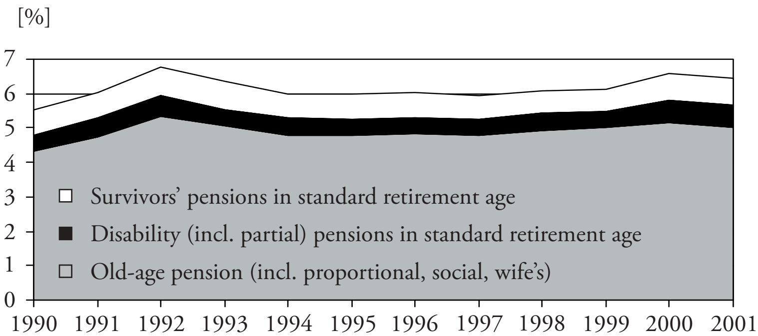
4.2. Trends in Public Expenditure on Pension Benefits

Under the ESPROSS methodology, disability, and survivors' pensions are also included with old-age benefits expenditure if they were paid to persons at or above the standard retirement age.[16] Figure 4.2.1 shows expenditure on pensions paid to all those of retirement age as percent of the GDP from 1990 to 2001. These expenditures increased significantly, from 5.5 percent of GDP in 1990 to 6.9 percent in 1992. From 1992 to 1994, spending then decreased to 6.0 percent and then remained stable for about six years. In 2000, there was a half a percentage increase; and in 2001, spending equaled 6.4 percent of GDP.

As we can also see in Figure 4.2.1, there was unusual stability in expenditures on disability and survivors' pension benefits provided to persons above the standard retirement age. The former ranged between 0.5 percent and 0.6 percent of GDP and survivors' pensions, between 0.7 percent and 0.8 percent of GDP, for the entire period.

Financing of the old-age function (which in ESPROSS terms refers to all cash and in-kind old-age benefits) is based on contributions from employees,

Figure 4.2.1
Expenditure on pensions in retirement age as percent of GDP, 1990–2001

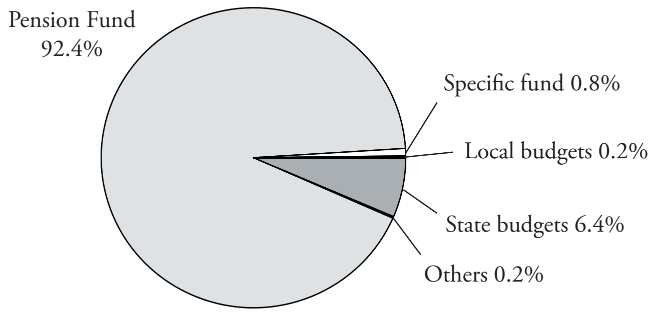


Source: Social Insurance Agency of the Slovak Republic; own calculations.

16 Standard retirement age means 55 years (on average) for women and 60 for men.

other economically active persons, the state, local authorities, and some other institutions stipulated by law, as reflected in the Figure 4.2.2.[17] The Social Insurance Agency of the Slovak Republic (SIA) is the only general institution authorized to operate a statutory pension scheme for the majority of inhabitants and collect contributions from employees, employers, self-employed, persons cooperating with self-employed, the state treasury, and the National Labour Office on behalf of persons specified by law. In 2000, the SIA covered the largest part of expenditure by far, as shown in Figure 4.2.2. Compared to the NLO's 92.4 percent, the state's share was only 6.4 percent. Local budgets contributed a miniscule 0.2 percent, other contributors also paid 0.2 percent, and the specific fund contributed 0.8 percent.[18] In 2000, a total of 64.6 billion SKK was spent on the old-age function as a whole.

Figure 4.2.2
Sources of financing for the old-age function (cash and in-kind benefits), 2000

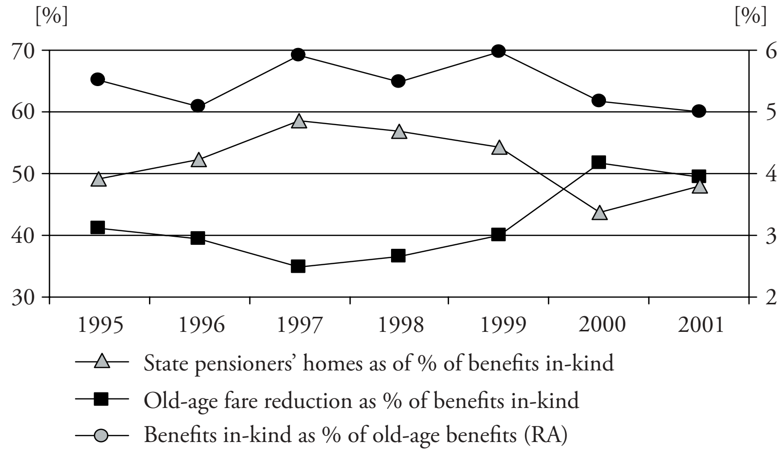


Source: Statistical Office of the Slovak Republic.

[17] The list of covered benefits is provided in section 4.1.2 Statutory Pension System and Old-age Benefits.

[18] Specific funds established by the Ministry of Defense and the Ministry of Internal Affairs provide the pension security of members of military forces, policemen and other special state employees in armed forces. For more see section 4.1.2 of the present chapter.

Figure 4.2.3
Expenditure on old-age benefits in-kind, 1995–2001

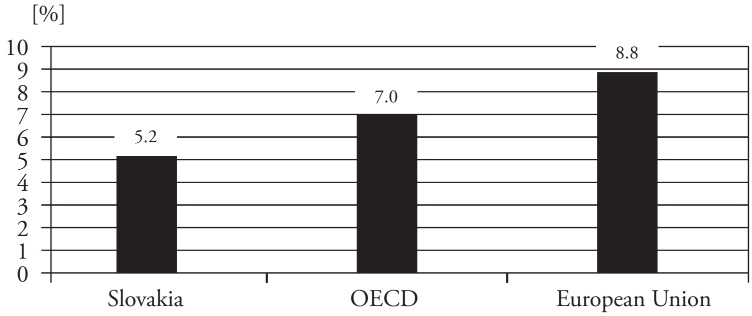


Source: Statistical Office of the Slovak Republic; own calculations.

As can be seen in Figure 4.2.3 (top line), expenditure on in-kind benefits as a portion of all old-age benefit expenditures has been rather stable, oscillating between 5 and 6 percent of GDP since the mid-1990s. The expenditure on pensioners' homes as percent of expenditure on all benefits in-kind was 48 percent in 1995, increasing to its peak of 58.6 percent in 1997. After that, it began to decrease. The biggest cut in funding of pensioners' homes was made in 2000, when these expenditures reached only 43.7 percent of all in-kind expenditure. This cut reflects a state policy to reduce the number of pensioners' homes. The slight bounce back after the cut shows that these homes are still recognized as important and necessary by society.

One can also see that, in the middle of the 1990s, the government made a major cut in its historically generous fare reductions for the elderly. As a result, expenditures fell from 41.3 percent of in-kind benefits in 1995 to 34.9 percent in 1997. Subsequent growth was fueled by increasing transport prices. Overall, the ratio of the expenditure on fare reductions to the expenditure on all benefits in-kind increased by 16 percent from 1997 to 2000, when it reached 51.8 percent. However, another drop can be seen in 2001.

Figure 4.2.4
Expenditure on old-age cash benefits in Slovakia compared to average OECD and EU level, as percent of GDP, 1998



Source: OECD (SOCX).

In comparison with the EU and the OECD member states, Slovak expenditure on cash benefits in the old-age was rather low. While in 1998, the expenditure on the old-age function in Slovakia represented only 5.2 percent of GDP, in the OECD countries, on average it was 7 percent. In the EU-15 member states, it reached 8.8 percent. The very low level of Slovak expenditure resulted in part from the very low wages earned by employees during former regime, from which pensions were calculated. Other reasons include the relatively young population in comparison with the EU countries (see Chapter 1).

4.3. Trends in the Scope, Extent, and Depth of Coverage

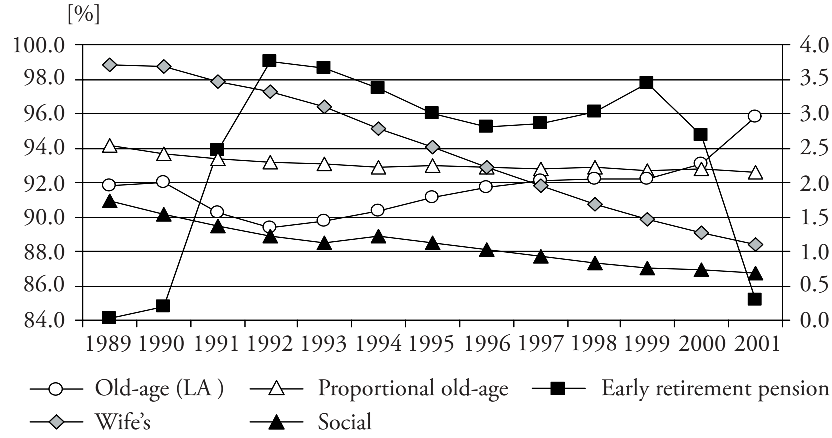
In 2001, nearly all inhabitants were covered by the statutory pension scheme. All employees, nearly all self-employed individuals, and some persons who cooperated with the self-employed participated in the scheme on a mandatory basis. The only excluded groups were the voluntarily unemployed, the registered long-term unemployed, and those persons working without a contract. Moreover, because in the Slovak Republic the pre-transformation pension law was valid during whole surveyed period, all persons became eligible for some kind of pension (for more, see Appendix A.4.a). Generally those who did not pay contributions for at least 25 years were not entitled to a regular old-age pension. However, such persons could be eligible for a social pension or a wife's pension without having made any contributions, and to a proportional pension with less than 25 years of contributions.[19]

As Figure 4.3.1 shows, the majority of beneficiaries of retirement age were regular old-age pensioners. Their ratio to all pension benefit recipients increased slowly from 91.8 percent in 1989 to 95.8 percent in 2001. From 1991 to 1994, their ratio was at or below 90 percent, due to the increasing use of the early retirement option. The share of early retirees increased from zero in 1989 to 2.5 percent in 1991 and 3.8 percent in 1992. From 1994, the ratio fluctuated around 3 percent until 1999, when unemployment caused another rise. In 2001, the ratio of early retirees fell to 0.3 percent, as this was the last year before the repeal of this option. The ratio of proportional old-age pensioners to total old-age pensioners was quite stable throughout the period, at just over 2 percent. Social pension beneficiaries were never a significant proportion of all pensioners, as the great majority of the population was entitled to old-age pensions based on their own work and were therefore not dependent on pensions granted to the elderly by the state. In fact, the portion of social pension recipients decreased from 1.7 percent in 1989 to 0.7 percent in 2001. Recipients of the wife's pension also decreased from 3.7 percent of all pensioners in 1989 to 1.1 percent in 2001. As we can see in Appendix A.4.a, a woman who had never been employed could be entitled to a wife's pension. However, women's high levels of attachment to the work force during socialism limited the reliance on this pension (see Figure 4.3.1.).

Figure 4.3.2 shows the ratio of old-age pensioners to all those in the post-productive population. It shows that during the first three years of transformation, this ratio increased by 17 percent, from 69.2 percent in 1990 to 76.2 percent in 1993. This reflects a combination of normal retirement and use of the early retirement option by those who lost their jobs and decided

[19] As its title suggestions, the proportional pension was a pro rata reduction paid to those with less than 25 years of service.

Figure 4.3.1
Recipients of various types of pension benefits, as percent of total, 1989–2001



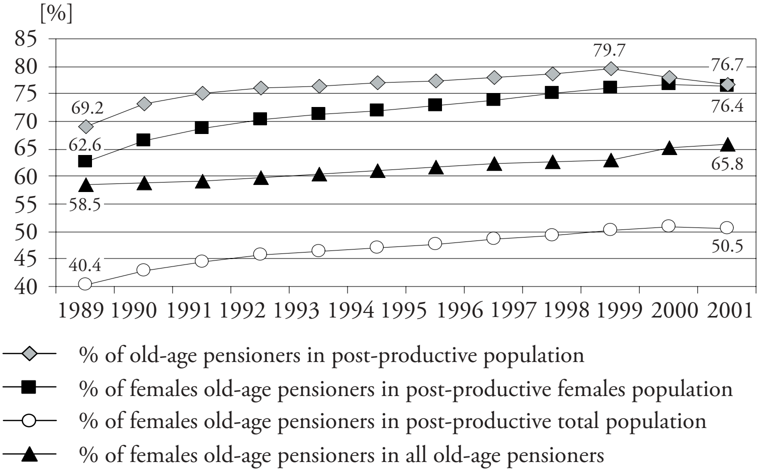
Source: Social Insurance Agency of the Slovak Republic; own calculations.

to leave the labour market. For some in this group, retiring was simply easier than trying to cope with rapidly changing social and economic conditions. Another contributing factor was the increasing number of elderly people in Slovakia (see Chapter 1). In 1999, the ratio of old-age pensioners to the post-productive population reached the highest level, 79.7 percent, but afterward, it started to decrease. In 2001, the ratio was 76.7 percent.

Figure 4.3.2 also shows another interesting phenomenon: the increasing ratio of females to all old-age pensioners in post-productive age. In 1990, female pensioners already comprised 62.6 percent of the post-productive population. In the 1990s, their numbers continued to climb, reading 76.8 percent in 2000 and moderating slightly to 76.4 percent in 2001 (see Figure 4.3.2).

Figure 4.3.3 provides some gender comparisons. It reveals most strikingly that women's pensions were much lower than those of men. This is due to women's lower average wages and shorter average lengths of employment. While the ratio of the average female's old-age pension to average for all pensioners in 1989 was only 83 percent, the male average was 115.2 percent. Even though the female average pension increased during the period, it still

Figure 4.3.2
Ratio of old-age pensioners on post-productive population, 1990–2001



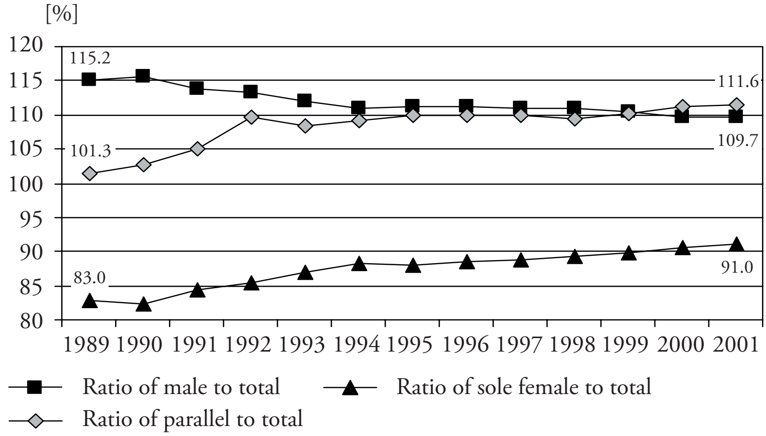
Source: Social Insurance Agency of the Slovak Republic; own calculations.

only reached 91.7 percent of the average total in 2001. Widowed women were eligible to receive a widow's pensions along with their own pensions (60 percent of the deceased husband's pension, up to a ceiling). During 1999–2001, the income from their average composite old-age pension (cumulative old-age and widow's) actually surpassed the men's average pension income. In 2001, the ratio of the average composite pension income of widows reached 112 percent of the average total. The ratio of average male pension to the total was lower, at 109.8 percent. For more about widows' pensions, see Chapter 6.

Figure 4.3.4 shows newly awarded males' and females' old-age pensions by benefit amount for 2000. Not surprisingly, women were disproportionately concentrated at the lower end of the benefit scale.

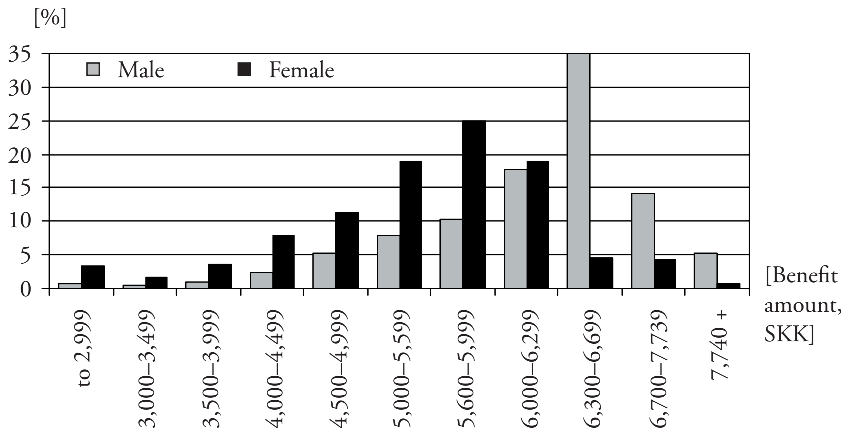
Figure 4.3.5 shows different pensions (average amounts) in relation to the average gross monthly wage. The decreasing slopes of all the lines were caused mainly by irregular adjustment of pensions, as well as by the fact that such adjustments never compensated exactly or fully for inflation. The regular *old-age pension* started at 49.1 percent of the average gross monthly wage in 1989, and increased by 4.6 percent during the first two years of the 1990s. One

Figure 4.3.3
Ratio of male and female old-age pensions to average of all old-age pensions,1989–2001



Source: Social Insurance Agency of the Slovak Republic; own calculations.

Figure 4.3.4
Number of newly awarded old-age pensions by benefit amount and by recipient gender, 2000



Source: Social Insurance Agency of the Slovak Republic; own calculations.

can assume that this increase was due to the sharp increase in nominal wages, which was incorporated into the assessment base for calculating pensions. During the next eight years, the ratio of the average old-age pension to the gross average wage fell, and then rose slightly. Only in 2000 did it return to the 1993 level, 47.1 percent. In 2001, the ratio decreased again to 46.6 percent of the average gross wage.

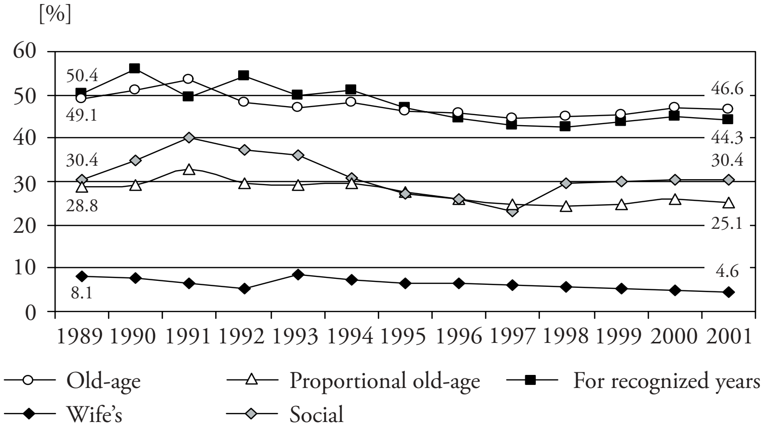
The average pension for recognized years in service is a special old-age pension for legally stipulated groups of employees (see Appendix A.4.a). In the early 1990s, this type of pension was higher than the regular old-age pension in all but one year (1991). Since 1996, it has fallen behind by a small increment. The ratio of the average social pension to gross average wage oscillated between 30 and 40 percent during the first half of the decade. After that, a sudden decrease followed to 30.9 percent in 1994 and to its lowest ratio in 1997, when it was only 23 percent of the average wage. For the next four years, the ratio increased, and the social pension reached 30.5 percent of the average wage in 2001, its highest level during second half of the 1990s.

The ratio of the average proportional pension to average gross wage was 28.8 percent in 1989, then it oscillated around 30 percent till 1995, when it fell to 27.4 percent. It declined slowly to 25.1 percent in 2001.

The wife's pension, a benefit for a stipulated group of wives who never contributed into the pension scheme, was always very low, as it was supposed to provide a additional income supplement for a couple that had one breadwinner (of which there were few in the Slovak Republic, as previously discussed). The wife's pension was a flat-rate amount. In 1989, its ratio to average gross wage was 8.1 percent, then it decreased to 5.2 percent in 1992. After small increase in 1993 to 8.4 percent, it decreased in relation to the average wage for the next eight years, hitting just 4.6 percent in 2001 (see Figure 4.3.5.).

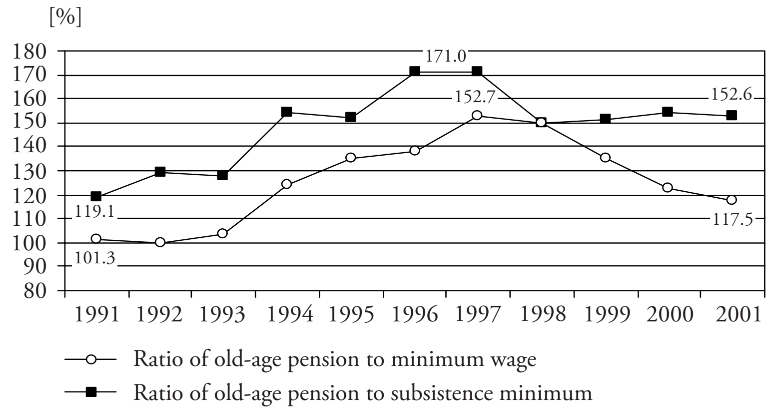
Figure 4.3.6 measures the average old-age pension against two other benchmarks, the gross minimum wage and the subsistence minimum. Both ratios rise and fall over the decade examined. The increases observed in the early 1990s were driven benefit adjustments, designed to help the elderly cope with price liberalization, as well as by increases in nominal wages, driven by inflation. However, the new government, which came to power in 1998, did not continue in the same policy towards retirees as previous ones, and the average pension started to lose value in comparison with the minimum wage.

Figure 4.3.5
Average amounts for different retirement pensions, as percent of the gross average monthly wage, 1989–2001



Source: Ministry of Labour, Social Affairs, and Family of the Slovak Republic; own calculations.

Figure 4.3.6
Ratio of average old-age pension to gross minimum wage and subsistence minimum, as of 31 December of each year, 1991–2001



Source: Social Insurance Agency of the Slovak Republic; own calculations.

It decreased for the remainder of the period, reaching only 117.5 percent in 2001. This shows that the majority of pensioners in the Slovak Republic live near the poverty level. In addition, as noted previously, most Slovak pensioners do not have any other income, because supplementary pension schemes were not provided during the socialist regime.

The relationship between the average pension and the subsistence minimum showed a somewhat different pattern. This ratio was 119.1 percent in 1991, then it climbed to 154 percent in 1994. In 1996 and 1997, it reached its highest level: 171 percent. However, this increase is partly the result of insufficient adjustments in the value of the subsistence minimum. As 1998 was an election year and a large increase was provided, we can that this caused the ratio to decline again to 149.7 percent. In 2001, the ratio was 152.6 percent. Taking into account that in 2001, pensions were on average 1.5 times the income of those who rely on social assistance, we have to recognize that pension scheme did not provide those who worked and contributed for whole their life with decent pensions.

Table 4.3.1
Pensioners continuing in employment (in percent), 1984–2000

Proportion of pensioners continuing employment (in %)	1984	1987	1990	1992	1994	1996	1998	1999	2000
of all pensioners	24.8	25.5	22.9	8.1	7.8	6.5	6.0	5.4	5.4
of old-age pensioners	33.3	32.7	27.7	13.1	12.6	10.4	9.2	8.7	8.1

Source: Statistical Office of the Slovak Republic (until 1996, status as of 31 May); Social Insurance Agency of the Slovak Republic (1998–1999, status as of 30 September, and 2000, status as of 31 December).

Table 4.3.1 casts some light on the work patterns of pensioners. As can be seen, the portion of old-age pensioners continuing in employment decreased significantly over the 1990s, from 27.7 percent in 1990 to 8.1 percent in 2000. The main reason was undoubtedly the high level of unemployment, which rose from official zero to approximately 19 percent in 2000. On the one hand, weak legislation (see Appendix A.4.a) allowed pensioners receiving old-age pensions to have additional income from employment after retiring. This increased the financial burden of pension scheme. On the other hand, pensions are so low that for many pensioners, employment offers the only possibility to protect themselves against poverty or dependency on state allowances. Many employers welcome this situation, because pensioners are usually employed in places where younger employees do not want to work because of unsatisfactory working conditions or very low wages.

Looking at the numbers from the socialist period, it is clear that many more pensioners were employed (their number was stable, at 33.3 percent in 1984 and 32.7 in 1987) than during the 1990s. Also, the share of employed pensioners on recipients of all kinds of pensions was very high before 1990. As shown in Table 4.3.1, the ratio of pensioners continuing employment to all pensioners (old-age as well as survivor and disability pension recipients) decreased significantly between 1990, when it stood at 22.9 percent, and 2000, by which time it had fallen to 5.4 percent. This pattern is probably attributable to the same factors just explained.

4.4. Issues and Problems

As has been shown, the long period of reliance on the pre-transition pension law in Slovakia was a source of many problems. Pension amounts were adjusted every year since 1991, but the calculation method under the outdated formula (from 1988) results in the anomaly that new pensions were lower than adjusted old ones. Therefore, it became necessary to pass an act every year that added to newly awarded pensions a stated percentage and lump-sum increase. Combined with the existing ceiling on pension benefits, this adjustment caused lower pensions to increase more rapidly than higher ones. In 2001, the difference between the newly calculated lowest and highest old-age pensions was only about 1,200 SKK, while the difference in the assessment base for paying pension contributions was much wider: 4,290 SKK versus 32,000 SKK. After 37 years of service, the lowest pension in the third category was 4,861 SKK and the highest, 6,007 SKK. After 42 years of work in this category, the lowest pension was 5,156 SKK and the highest 6,394 SKK.

The pension formula also provided strong financial work disincentives to employees and the self-employed. Because of expectations of receiving a low return on their contributions, workers—especially those with middle and higher incomes—were not motivated to pay contributions and tried to avoid any and all obligations to pay. As previously noted, the most common form of evasion was that the employer paid only a part of the actual wage (usually up to the value of the minimum wage) as part of the work contract. This amount served as the basis for calculating contributions. The rest of the wage was paid to the employee in cash. In this way, both the employer and the employee could avoid paying taxes and social insurance contributions on some part of the actual salary. Self-employed persons and their cooperating persons typically reported an income comparable to the minimum wage (usually an amount just a little higher), and paid minimal contributions to the pension, sickness, and health insurance funds, as is clear from their assessment base in the SIA records. This weakened the financing of the pension scheme and drove up the debt in the Social Insurance Agency.

Another more recent problem was that some employers (small as well as large) stopped paying both wages and contributions. There were also some employers who did not transmit contributions to the SIA, even through they deducted them from employees' wages. It became necessary to take measures to enforce the contribution requirement in the same way as taxes are enforced. In 1999, new paragraphs were incorporated into the Criminal Code, which stipulated that the non-payment of contributions constituted a criminal act.

In this grave situation, the Social Insurance Agency was able to collect less and less of the contributions due by law. The only reason that it stayed afloat was the real growth of wages (and thus contributions) relative to pensions. However, it was continuously buffeted by the freezing of wages in mid-1990s,[20] the dramatic increase of unemployment,[21] and the continuing increase of prices.[22]

[20] In 1994, the government prepared a bill to freeze wages in an effort to control inflation. In the end, this bill was never enacted into law, in part because of strong opposition from trade unions. However, the national and municipal governments, as well as all enterprises and companies owned by the state brought the objective of this bill to life by freezing wages or providing very low adjustments in them.

[21] The unemployment rate increased sharply, from 15 percent in 1998 to 20 percent by the end of 1999.

[22] The inflation rate also increased from 6.7 percent in 1998 to 12 percent in 2000 as the result of the government's austerity measures (see Chapter 1, Figure 1.2.2).

The evolution of the national economy during the transition period, and especially during the last four years examined in this study, point to the need for a substantial reform of the pension system. This need has been widely recognized. The only question to be addressed is thus what kind of reform.

Chapter 5
Disability and Employment Injury Benefits

5.1. Cash and In-Kind Benefits

Disability pensions, both full and partial, are paid from the pension system along with old-age pensions and survivors' pensions. Almost every person suffering from adverse health resulting in long-term incapability to work is eligible to receive a disability pension, regardless of whether the cause of disability was an occupational injury, disease, or any other accident or condition (see Appendix A.5.a). Under *Act No. 100/1988 (Coll. of Laws) on Social Security*:

> "…[A] person is disabled if, as a result of a long-term adverse health condition, he or she is unable to engage in regular employment or is able to engage in systematic employment only under very special circumstances (that is, requires specialized equipment or an adapted work environment). A person is partially disabled if due to prolonged ill health his or her physical or mental capacity for work falls below half that of a healthy person; he or she is only able to perform his or her current occupation or any other permanent job with specialized equipment or an adapted working environment; or his or her general living conditions are considerably worsened."

A person who is completely disabled is eligible for a full disability pension, while a partially disabled person is eligible for a partial disability pension, which is calculated as half of the full disability pension.

Employment injury and occupational disease insurance is provided by employers for their employees. However, there is no separate insurance scheme for people suffering from employment injury and occupational diseases in Slovakia. Thus, short-term benefits (sickness leave benefits) as well as long-term benefits (full and partial disability pensions) are paid to them from the statutory pension security and sickness insurance funds and at the same rate as to every sick or disabled person. Occupational injury and disease benefits are paid as allowances additional to the basic old-age, disability, or survivors' pensions. Health-related costs (hospitalization and medication) resulting from injuries at work are covered by the basic statutory health insurance system. Compulsory insurance for the case of employment injury and occupational diseases covers only additional costs of health care and cash benefits.

On 1 April 2001, the management of the employment injury and occupational disease insurance was transferred from the commercial Slovak Insurance Company to the publicly managed Social Insurance Agency, which also provides statutory pension security and sickness insurance.

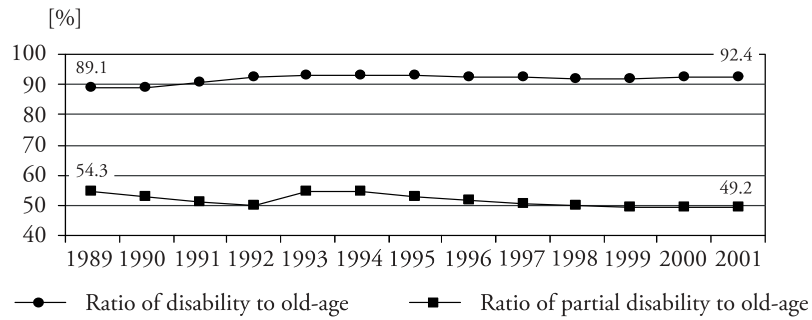
5.1.1. Disability Pension and Partial Disability Pension

Because a disability pension is calculated under the same conditions as an old-age pension (see Appendix A.5.a), there is no major difference between the values of old-age and disability benefits.

To calculate a disability pension, the employment record of the person in question is taken into account and the years missing until the retirement age are also calculated as years in work. In reality, this means that nearly every claimant to a disability benefit is credited with the same employment record as a person who has worked for his or her whole life.

Figure 5.1.1 shows that the value of the average disability pension, as a percentage of the average old-age pension, was stable during the monitored period. Starting from the 89.1 percent level in 1989, the ratio peaked at 93.1 percent in 1994, and then remained around 92 percent in the second half of the 1990s. In 2001, the average disability pension reached 92.4 percent of the average old-age pension. It should be noted that among disability pension beneficiaries, there are many who paid contributions only for a short time or not at all. In nominal value, the average disability pension increased from 1,376 SKK in 1989 to 5,342 SKK in 2001.

Figure 5.1.1
Ratio of disability and partial disability pensions to old-age pensions, 1989–2001



Source: Social Insurance Agency; own calculations.

The value of the average partial disability pension, as a percentage of the average old-age pension, fluctuated around 50 percent during the period. It was 54.3 percent in 1989, decreased to 50 percent in 1992, suddenly increased to 54.4 percent in 1994, and then continuously declined to reach 49.2 percent in 2001. Expressed in terms of its nominal value, the average partial disability pension increased form 838 SKK in 1989 to 2,844 SKK in 2001.

Persons entitled to disability pensions may remain in an employment or entrepreneurial contract and earn a salary or other reimbursement. Furthermore, if the claimant performs an economic activity for at least five years, he or she is eligible to ask for a recalculation of the disability pension.

Under the conditions for entitlement to receive a partial disability pension (see Appendix A.5.a), a person is eligible only if current income from the work does not exceed two-thirds of earnings prior to the onset of disability. Thus, eligibility for this pension benefit does not depend on previous contributions (years and amount) paid to the pension system but rather on the level of income from current employment.

5.1.2. Social Assistance for the Disabled

Disabled persons are entitled to several social assistance benefits (see Appendix A.5.a) paid from the state budget. Some of them are cash benefits, usually paid as a lump sum, while others are benefits in-kind. Certain social assistance benefits are provided to a wider range of beneficiaries, not only to disabled persons. However, some of the benefits are addressed only to those suffering from a long-term adverse state of health. The social assistance benefits that are granted to disabled persons can be divided into two major groups. The first is social services, which are specialized services to deal with the conditions of material or social destitution (such as attendance care, boarding and transportation services, social care establishments, and so on). The second group consists of compensatory social services, the compensatory financial contributions, and a financial contribution toward personal assistance. These are designated to help in overcoming or mitigating the social consequences of the severe health impairment.

In assessing the right of a person with a disability to receive compensation, adverse health status is considered as well as state of mind, family environment, and ability to integrate within society. Severely disabled persons may receive targeted benefits from the social assistance system to help perform activities of daily living (such as cleaning, eating, cooking, moving around their apartment, etc.) and to facilitate their integration into society. The portion of persons with disabilities receiving these benefits has varied significantly. While in 1995, only 34.9 percent of all disabled received targeted benefits, 75.9 did so in 1999.

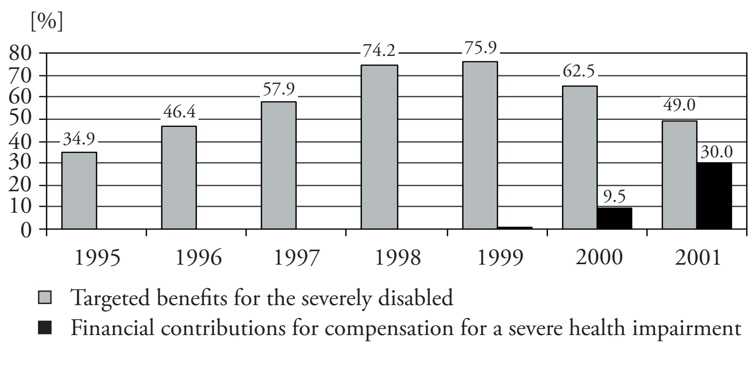
The main reason was a new state social policy. Under the influence of EU social policy, the Slovak government adopted *Act No. 195/1998 (Coll. of Laws) on Social Assistance* (hereinafter, "Social Assistance Act"). However, it was never implemented completely: after parliamentary elections in 1998, the new government decided to reduce the values of some social assistance and compensatory benefits because of budget limitations, as well as the perceived excessive generosity of the new benefits.

As a result, the number of recipients of targeted benefits for the severely disabled decreased. Figure 5.1.2 shows how their number declined in proportion to full disability pension recipients. Between 1999 and 2001, this ratio decreased by 26.9 percent. The situation was just the opposite for the recipients of compensatory benefits for people with severe health impairments. In 1998, the Social Assistance Act introduced a broad range of compensatory benefits into the social assistance scheme. The next year, in 1999, only 0.8 percent of all disabled persons were recipients of these benefits. However, by 2001, their ratio increased to 30 percent among all full disability pension recipients (see Figure 5.1.2.).

Figure 5.1.3 shows how targeted and compensatory benefits relate to the average monthly subsistence minimum from 1995 to 2001. As only 0.8 percent of all disabled were recipients of compensatory benefits for people with severe health impairments (see Figure 5.1.2 above), and 310.4 million SKK were spent on their compensatory benefits, the average monthly benefit reached almost nine times (865.3 percent) the amount of the subsistence minimum for one adult person in 1999. During the next two years, this ratio decreased, due to the government's cutback of this program.

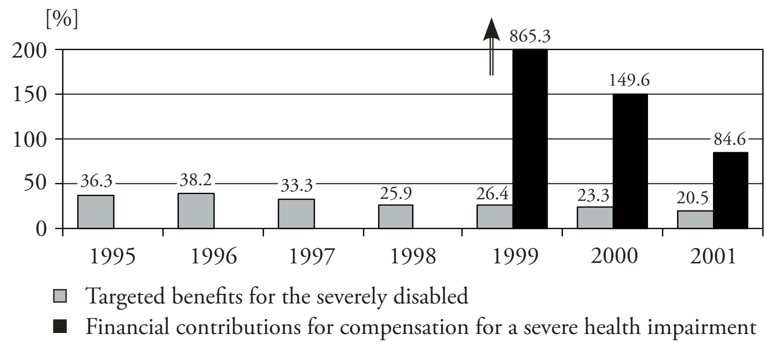
The growing number of recipients of this kind of benefit (from 1,850 in 1999 to 67,000 in 2001) placed a severe strain on the state budget. However, despite the government's actions to reduce these expenses, the total expenditure on compensatory contributions increased very sharply, surpassing 1.3 billion SKK in 2000 jumping to 2.5 billion SKK in 2001.

Figure 5.1.2
Ratio of recipients of targeted benefits and compensatory benefits to full disability pension recipients, 1995–2001



Source: Ministry of Labor, Social Affairs, and the Family of the Slovak Republic; own calculations.

Figure 5.1.3
Ratio of average monthly compensatory benefit to the average monthly subsistence minimum for one adult person, 1995–2001



Source: Ministry of Labor, Social Affairs, and the Family of the Slovak Republic; own calculations.

Between 1995 and 2001, the value of targeted benefits for the severely disabled also decreased slightly in comparison to the average monthly subsistence minimum. In this case, however, the reason was not a decline in the value of the benefit, but the increase in the subsistence minimum. This means that the real value of the targeted benefits decreased. On the other hand, during the last three years, the disabled were generously supported by compensatory benefits, especially in comparison with the benefits paid to persons in material or social destitution (see Chapter 11).

5.2. Trends in the Public Expenditure on Disability and Employment Injury Benefits

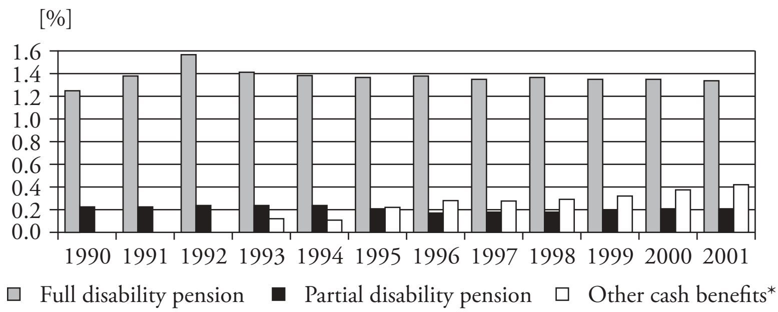
During the 1990s, expenditures on disability, occupational injury, and occupational disease benefits increased significantly in absolute terms, while their ratio to GDP was relatively stable.

Figure 5.2.1 shows changes over time in expenditures on cash disability benefits paid to eligible persons without regard to their age (that is, before or after reaching retirement age). Among these benefits, the full disability pension represents the most significant part, while the partial disability pension and other cash benefits (paid in cases of immobility, health impairment, dependence on attendance services, and other conditions) play less important roles. Expenditures on the full disability pension were fairly stable and fluctuated between 1.25 percent of GDP in 1990 and 1.34 percent in 2001. The only remarkable divergence from this trend came in 1992, when the ratio reached 1.57 percent of GDP.

Expenditures on the partial disability pension show a similar trend: they generally remained between 0.21 and 0.23 percent of GDP. As a rare exception, the ratio increased to 0.25 percent of GDP in 1993 and decreased to 0.18–0.19 percent between 1996 and 1998.

Expenditures on other cash benefits for the disabled, however, increased steadily, after they were first recorded in 1993. Expressed as portion of GDP, expenditures on these types of benefits increased from 0.13 percent in 1993 to 0.43 percent in 2001. This development is due to the increasing number of beneficiaries and the widening range of benefits, as described previously.

Figure 5.2.1
Changes over time in cash disability benefits, without regard to the age of beneficiaries, as percent of GDP, 1990–2001



Note: * Includes: increase benefits for immobility, targeted and contributory benefits

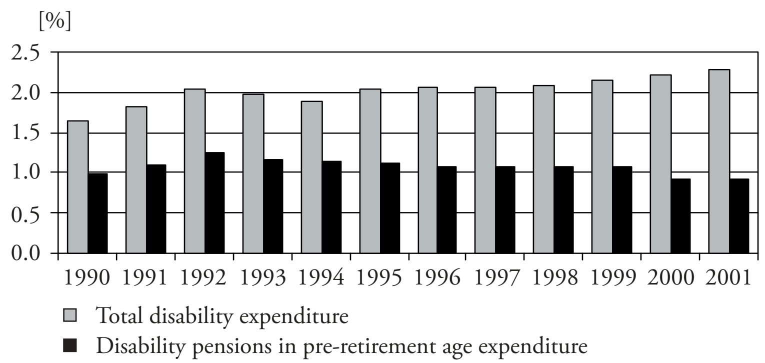
Source: Social Insurance Agency; Ministry of Labor, Social Affairs, and the Family of the Slovak Republic; own calculations.

Total disability expenditures (Figure 5.2.2) consist of cash benefits, such as full and partial disability pensions; targeted and compensatory social assistance benefits; social security benefits provided by the Ministry of Internal Affairs and Ministry of Defense for the armed forces (for more details, see Chapter 4, section 4.1); disability benefits paid directly by the state budget to certain employees of the state (for example, judges or custom officers); disability benefits paid from the voluntary pension insurance scheme; and various in-kind benefits, such as social services provided in social service establishments, and transportation price discounts for the disabled.

During the 1990s, the total disability expenditures increased by more than five times in absolute terms. However, as percent of GDP, the increase was only 38 percent. Disability expenditures in this total increased from 1.6 percent of the GDP in 1990 to 2.05 percent in 1992. After a temporary decrease to 1.88 percent in 1994, the portion grew continuously until 2001, reaching 2.14 percent of the GDP in 1999 and 2.28 percent in 2001.

Expenditures on disability pensions paid to persons of pre-retirement age represented 0.98 percent of GDP in 1990, and increased to 1.26 percent in 1992. This was the highest ratio during the analyzed period, and a continuous

Figure 5.2.2
Total disability expenditures and expenditures on disability pensions for persons of pre-retirement age, as percent of GDP, 1990–2001



Source: Social Insurance Agency; Ministry of Labor, Social Affairs, and the Family of the Slovak Republic; own calculations.

decline followed: from 1.17 percent of GDP in 1993 to 0.92 percent in 2001. Overall, expenditures on pre-retirement disability pensions, as a percent of GDP, decreased by 6 percentage points between 1990 and 2001.

In the case of employment injury or occupational disease, during the state socialist period, all employers were responsible for paying benefits to affected employees or their survivors. This system remained in place until 1993: employers paid benefits directly to their sick or disabled employees and to their survivors.

In 1993, the insurance principle was introduced, and a private insurance company (the Slovak Insurance Company) was selected as the provider. The data provided by the Slovak Insurance Company on collected premiums and paid contributions, however, were not very transparent. The regulations changed only at the end of the decade, and the competence to provide this type of insurance was moved to the Social Insurance Agency (SIA) only in 2001. The SIA, as a public legal entity governed on a tripartite principle (see Chapter 3 and Appendix A.3.a), is expected to provide transparent and reliable data as well as to transform this insurance scheme for the benefit of the general public.

Table 5.2.1 shows that the aggregate collected premiums varied significantly: they increased from 0.098 percent of the GDP in 1995 to 0.105 percent in 1997, and then gradually decreased to 0.088 percent in 2000. However, expenditures increased continuously during the same period: from 0.018 percent of GDP in 1995 to 0.047 in 1998 and 1999. In 2000, there was a slight decrease to 0.044 percent. Considering the unreliability of the data provided, it is not surprising that so far, no serious analysis has been done of this peculiar pattern. When the Social Insurance Agency took over the management of this scheme, they introduced a new statistical methodology to monitor the revenues and expenses. However, their data is not comparable with those presented in Table 5.2.1.

Figure 5.2.3 shows the expenditures on disability benefits as a percent of GDP Slovakia in comparison with the applicable figures in the OECD and EU. It seems that disability benefit expenditures are completely in line with the international trends. From a financial perspective, the situation in this field is much better in Slovakia than for other pensions and social benefits. For example, in 1998 Slovakia spent 3.4 percent of GDP less on cash old-age benefits than the EU average and 0.6 percent of GDP less the OECD average.

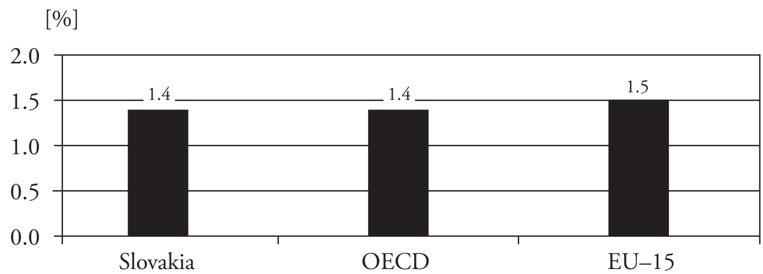
Table 5.2.1
Received premiums and expenditures of accident and occupational disease insurance,* as percent of GDP, 1995–2000

Indicator	1995	1996	1997	1998	1999	2000
Received premiums	0.098	0.099	0.105	0.103	0.090	0.088
Expenditures	0.018	0.019	0.042	0.047	0.047	0.044

Note: * Operated by a private company.

Source: Statistical Office of the Slovak Republic.

Figure 5.2.3
Expenditure on disability cash benefits in Slovakia compared to average OECD and EU levels, as percent of GDP, 1998



Source: OECD (SOCX); own calculations.

5.3. Trends in the Scope, Extent, and Depth of Coverage

Nearly all residents of Slovakia are covered by the statutory pension system, which includes disability and partial disability pension insurance. Anyone who is insured by this scheme (and it is obligatory for employees, self-employed individuals, and persons cooperating with them) is also insured for disability. Generally, those persons who are not under a compulsory pension insurance contract or who do not pay contributions voluntarily are not entitled to regular disability pensions. However, there are exceptions: those individuals, for example, who were disabled from a young age, become entitled to disability pension benefits after reaching the legally stipulated age, even though they never entered the labor market and thus never contributed to the pension scheme.

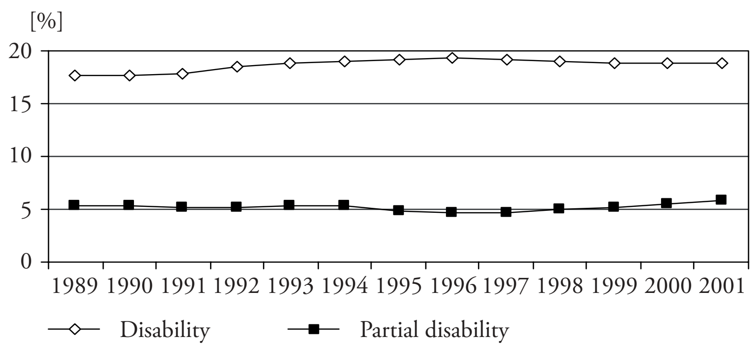
Unlike disability insurance, compulsory employment injury and occupational disease insurance is limited to employees. Self-employed persons and their cooperating partners cannot be insured within this scheme (see Appendix A.5.a) and no similar compulsory scheme is available for them.

Figure 5.3.1 shows the proportion of disability and partial disability pension recipients among all pension beneficiaries. The ratio of disability pension beneficiaries to all pension beneficiaries increased from 17.6 percent in 1989 to 18.5 percent in 1992, and then peaked at 19.3 percent in 1996. The ratio continued at this level until 1999, when it decreased to 18.8 percent and remained the same until 2001. The proportion of partial disability pension recipients shows a similar trend; this ratio in 1989 was 5.4 percent and dropped below 5 percent only between 1995 and 1997. In 2001, partial disability pension recipients comprised 5.8 percent of all pension beneficiaries.

Remarkably, these two groups of disability pension recipients represented almost one-fourth of all beneficiaries during the entire monitored period. The ratio increased from 23 percent in 1989 to 24.4 percent in 1994, and after small decrease during the mid-1990s, it peaked at 24.6 percent in 2001.

Figure 5.3.1

Disability pension beneficiaries, as percent of all pension beneficiaries, 1989–2001



Source: Social Insurance Agency of the Slovak Republic; own calculations.

Figure 5.3.2 compares newly allowed disability pension cases with terminated ones. It is clear that there was a significant inflow of new partial disability pensioners at the beginning of the 1990s. There are two related explanations for this development: employers tried to avoid dismissing their employees; and the conditions for eligibility to receive partial disability pensions were quite weak, so many dismissed employees had the option of choosing partial disability pension status instead of being unemployed.

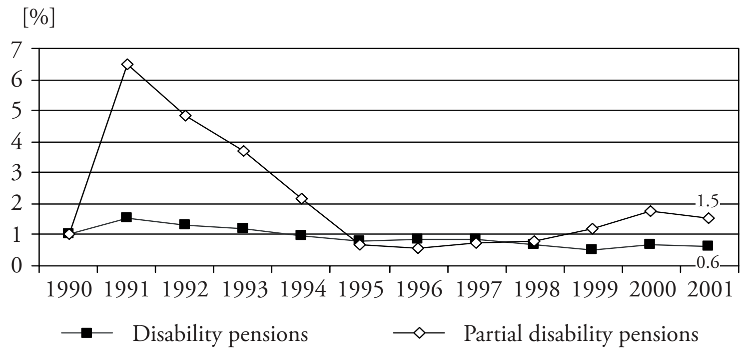
Thus, the ratio of newly allowed partial disability pensions to terminated ones increased sharply from one percent in 1990 to 6.5 percent in 1991. This high level of inflow of partial disability pensioners continued until 1994. The second period of economic transformation (1995–1998) was characterized by steady GDP growth and a moderately decreasing unemployment rate (see Section 1.2 in Chapter 1), so the pressures on partial disability applications also eased. Consequently, the outflow from the partially disabled caseload surpassed the inflow for these four years. After 1999, during the third phase of the macroeconomic transformation, there were again more newly allowed partial disability applications than terminated cases: the ratio reached 1.5 percent by the end of the monitored period in 2001.

Besides the obvious connections with the unemployment rate, the increase in partial disability pensions is also related to the poor health conditions and the unsafe work conditions in the heavy industrial and mining sectors under the state socialist regime.

Figure 5.3.2 also shows the ratio over time of newly awarded full disability pensions to terminated ones. The trends are very different here: the ratio increased only moderately from one percent in 1990 to 1.6 percent in 1991, but after that it slowly declined. Between 1995 and 2001, the number of newly allowed cases remained below the number of terminated cases each year.

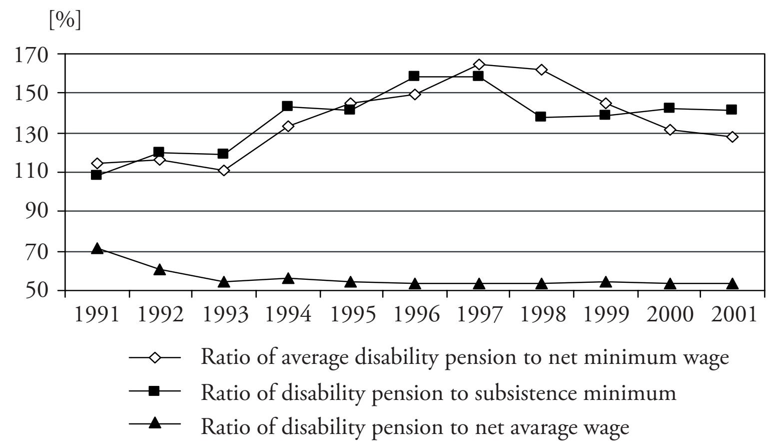
Figure 5.3.3 compares the average disability pension with the net minimum wage, the net average wage and the subsistence minimum. Expressed in proportion to the net average wage, the average disability pension amounted to 71.8 percent in 1991, the highest level during the whole monitored period. By 1993, the disability pension decreased to 54.4 percent of the average wage and after that it did not change markedly. In 2001 the average disability pension was 54 percent of the net average wage.

Figure 5.3.2
Ratio of newly allowed to terminated disability pensions, 1990–2001



Source: Social Insurance Agency of the Slovak Republic; own calculations.

Figure 5.3.3
Ratio of the average disability pension to net minimum wage, net average wage, and subsistence minimum, as of 31 December, 1991–2001



Source: Social Insurance Agency of the Slovak Republic; own calculations.

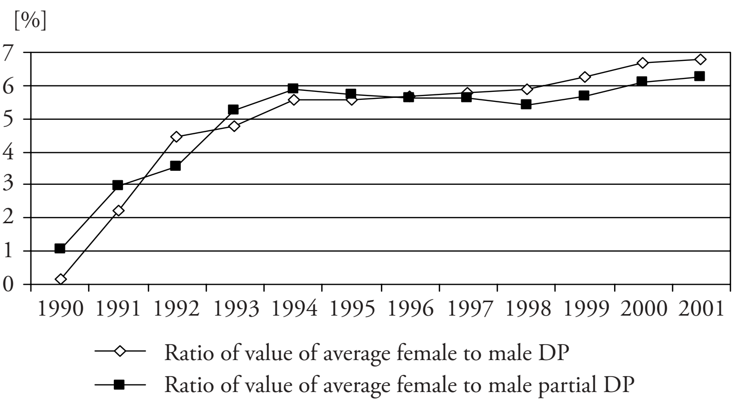
In comparison to the net minimum wage, the average disability pension increased from 114.9 percent in 1991, to 133.6 percent in 1994. During the next three years, it increased again, and in 1997, it reached its peak at 164.3 percent. By 2001, however, it decreased again to 128.3 percent.

One can observe a similar trend in relation to the subsistence minimum. In 1991, a gradual increase started, which lasted until 1996, when the average disability pension was 158.3 percent of the subsistence minimum. During the second part of the decade a slow decline followed, and the ratio reached 140.9 percent in 2001.

The patterns observed above were influenced by the changes in the legally stated levels of the minimum wage and the subsistence minimum. A lack of clear valorization rules allowed Parliament to make a political decision in determining the extent of the pension adjustment (for more details, see Chapter 4 and Appendix A.4.a).

Figure 5.3.4 shows how the values of full and partial disability pensions changed from a gender perspective. It seems that the tendencies were quite similar for both types of disability pensions. In 1990, the value of the average full disability pension for women was 70.3 percent of that for men, while the partial disability pension was 72.1 percent. The full disability pension

Figure 5.3.4
Gender differences in the value of disability pensions (DP), 1990–2001



Source: Social Insurance Agency; own calculations.

increased sharply to 81.1 percent in 1994 and reached 83.6 percent in 2001. The partial disability pension gradually increased to 82.9 percent by the end of the monitored period. The reason for closing this gender gap was the legal ceiling on benefits: while the value of men's pensions could not keep pace with increases in their wages, the value of women's pensions did not reach the maximum level.

Table 5.3.1 presents indicators of occupational injury and work accidents. Fortunately, the number of accidents decreased: while in 1990, there were still 2.2 serious accidents at work per 100 employees, their number decreased to 1.3 in 1998 and to one accident per hundred employees in 2001. The number of fatal accidents decreased from 225 in 1990 to 100 in 2001. This positive development is mainly a result of the decreasing number of hazardous jobs, especially in the heavy industry and mining companies, which were the main victims of economic restructuring. We can also see in Table 5.3.1 that the proportion of employees working in dangerous conditions decreased from 8.75 percent in 1991 to 6.16 percent in 2001.

Table 5.3.1
Accidents at work, 1990–2001

Indicator	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Number of accidents at work per 100 employees	2.2	2.0	1.9	1.7	1.4	1.4	1.5	1.4	1.3	1.3	1.1	1.0
Percentage of employees working under dangerous conditions	n.a.	8.75	8.52	8.75	8.24	7.62	7.37	6.83	6.48	6.10	5.64	6.16
Number of fatal accidents at work	225	173	149	123	124	140	151	117	132	115	88	100

Source: Statistical Office of the Slovak Republic.

5.4. Issues and Problems

Disability benefits, as part of the pension system, may be provided either on the insurance or social assistance principle. Social assistance benefits usually cover those who have never paid contributions to the pension security scheme. Nevertheless, all people who are recognized as disabled and have been paying contribution are eligible for a pension in Slovakia, according to the conditions stated by the law (see Appendix A.5.a).

This liberal policy has made the statutory pension scheme too costly to be financed only by contributions of economically active persons. If we compare the number of contribution-paying active persons and the number of disability pension recipients, it is clear that if the trend continued, an increase in contribution would be unavoidable. However, considering that the contribution rates in Slovakia are still much higher than the average in the EU member states as well as in the OECD countries,[1] any further increase may only lead to a lower willingness to pay contributions, or to a reduction of benefit amounts. In the near future, the government should decide how to provide social security to all inhabitants without hindering the economic development of the country with high contribution burdens on the economically active actors. However, it seems that it will be very difficult to find a viable solution.

Concerning the system of social assistance benefits, it is clear that the majority of recipients were disabled persons who could also be eligible for a range of social services, compensatory benefits, and personal assistance allowances. As the comparisons with other groups receiving benefits (e.g. the unemployed, families with children, or persons in material or social destitution) show, the majority of disabled persons received significantly higher amounts, creating an environment inequality.[2] This situation was created by the legal maximum on unemployment benefits and the relatively low minimum wage and subsistence minimum, compared to the disability pensions. Moreover, the income of disabled persons further increased due to targeted social assistance and compensatory benefits, to which a large number of them were entitled.

The social assistance benefits provided to disabled persons were means-tested. But the maximum household income for eligibility was set so high that almost every pensioner became eligible for social assistance and compensatory benefits. For example, in order to receive the personal assistance contribution, the income of a severely handicapped person could not be higher than three times the subsistence minimum—which in 2001 was 11,370 SKK per

[1] OECD. 2002. Measures to Encourage Work and Job Search. OECD Economic Surveys: Slovak Republic. June 2002. Paris: OECD. p.96.

[2] See Figures 5.1.2, 5.1.3, and 5.3.2, as well as Chapter 11 of the present report.

month—while the average disability pension was only about 5,000 SKK per month. The amount of the subsidy for personal assistance service may reach 34,200 SKK per month, depending on the type and range of needed help.

In the current system of generous cash and in-kind benefits, as well as loose eligibility standards, disabled persons are not encouraged to seek jobs, but rather to rely on state support. For example, one of the largest enterprises in the capital of Slovakia installed access equipment for disabled workers, organized special transportation to the workplace, and offered one of the highest average wages in Slovakia, yet it was unable to hire as many disabled workers as job positions they had created. However, compared to their income from disability pensions and social assistance benefits, their wages would be lower; and after accepting the job, they would lose eligibility to the majority of the more profitable compensatory benefits.

During the state socialist regime, the main tool to deal with the special needs of disabled people was to provide a cash payment to them, and not to find ways to engage them in finding jobs. The case of hazard pay is very similar. Previously, hazard pay was a simple solution to compensate workers for the bad working environment. Paying higher salary to workers was cheaper than making investments in better technologies and providing better protection of the health of workers. During the transformation, the workers themselves were also not encouraged to change their way of thinking. Both workers and employers saw and still see hazard pay as a way of boosting current income. There were cases, even during the 1990s, in which workers deliberately avoided observing health and safety rules at the workplaces because they would have lost the extra money they received as a hazard pay.

Unfortunately, there is very little reliable data on occupational injuries and diseases. Until 2001, the scheme providing this insurance was managed by a commercial company. This company failed to carry out its activities with the desirable transparency. Thus, in 2001, the Social Insurance Agency took it over. The SIA has started to explore the situation in order to find the best way of financing insurance and assessing eligibility. New legislation will impose different contribution rates on employers depending on the level of hazardous conditions at the workplaces. The SIA also has to develop a better way to collect and provide statistical data in this field, and to encourage prevention, as well as providing benefits.

Chapter 6
Survivors' Benefits

6.1. Cash and In-Kind Benefits

Cash benefits are provided to the survivors of deceased persons from the basic statutory pension scheme. These benefits are the widow's pension, widower's pension, and orphan's pension (see Appendix A.6.a). The benefit amounts are calculated on the basis of the old-age or disability pension of the deceased person.

Survivors are also eligible for a one-time funeral allowance (see Appendix A.6.a), which is financed from the state budget as a social support.

6.2. Trends in the Public Expenditure on Survivors' Benefits

Figure 6.2.1 shows survivors' pension expenditures as a percent of GDP between 1990 and 2001. Expenditures are divided into the categories of widow's pensions paid in pre-retirement age and in retirement age, widower's pensions, and orphan's pensions. In 1990, the expenditure on all cash survivors' benefits was 1.06 percent of GDP. In 1992, expenditures peaked at 1.26 percent of GDP. It is difficult to identify the exact reason for the sudden increase. It might have been due to an increase in the nominal value of survivors' benefits, as the old-age and disability pensions from which survivors' pensions were calculated were adjusted to a sharp increase in wages that was driven by high inflation. However, the increase could also be due to the changing way that GDP growth was measured.

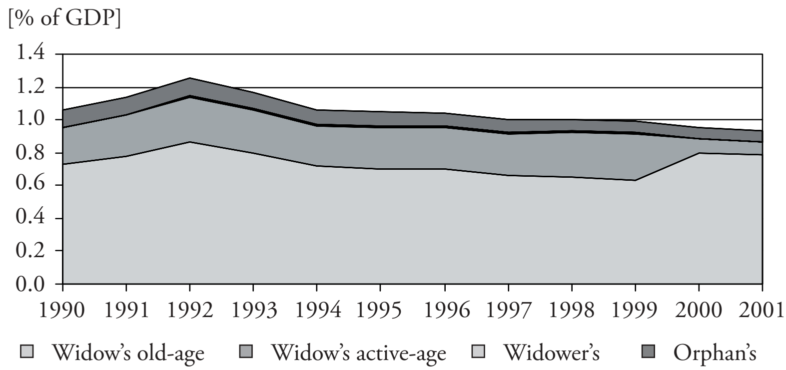
After 1993, survivors' benefit expenditures showed a decreasing trend. From 1994, when expenditures reached 1.06 percent of GDP, they declined to 1.0 percent in 1997 and remained more or less the same until another drop to 0.96

percent in 2000 and 0.94 percent in 2001. This tendency is similar to that for all other pensions: GDP tended to grow faster than social benefit expenditures.

In 2000, expenditure on widows' active-age pensions decreased to less than one-third of its previous level. This was not a real change, however, but the result of a shift in the methodology used in measurement. Until 2000, the data provided on widows' pension expenditures of pre-retirement age were only estimated as the average of all widows' pensions. After 2000, widow's active-age pensions were calculated exactly, and as it turned out, expenditures for those of pre-retirement age were remarkably lower than previously estimated. We can see the result in Figure 6.2.1. Under the ESPROSS 1996 methodology, expenditure on pensions for widows of retirement age is included in the rubric of the old-age benefit expenditures. However, according to the OECD methodology, all survivors' benefit expenditures must be calculated together, as we can see in Figure 6.2.2.

At the beginning of the 1990s, expenditures on widow's pensions were equal to 0.95 percent of the GDP, and then slowly increased to 1.14 percent in 1992. This was followed by a steady decline to 0.96 percent in 1994, 0.91 percent in 1997, and 0.88 percent in 2001. For most of the 1990s, expenditures on widow's active-age pensions (widow's pensions paid to women of

Figure 6.2.1
Expenditure on survivors' cash benefits, as percent of GDP, 1990–2001



Source: Social Insurance Agency; Statistical Office of the Slovak Republic; own calculations.

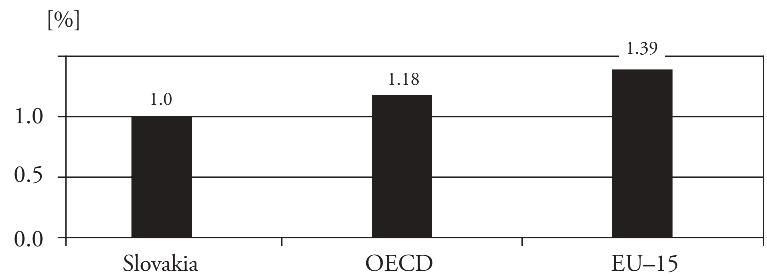
pre-retirement age) remained nearly at the same level. In 2000, due to the changes just described in measurement methodology, expenditure on widows' pensions for the economically active dropped to 0.08 percent of the GDP; the value was the same for 2001.

Expenditure on widows' old-age pensions was 0.72 percent of GDP in 1990 and 0.86 percent in 1992. From 1993 to 1999, the expenditure decreased from 0.8 percent to 0.63 percent. After 2000, following the change of calculating widow's pensions, the figure increased again, reaching 0.8 percent in 2000 and 0.78 in 2001.

Expenditure on widowers' pensions, however, remained the same between 1992 and 2001, at 0.01 percent of GDP. This benefit was provided for the first time in 1992. The big difference between the expenditure on widows' and widowers' pensions could be explained by the simple fact that there were more widows than widowers (see Figure 6.3.1 below). But, this is not the only explanation. An equally important reason is that the widower's pension was paid to every eligible widower as a small lump sum. It was the same for everyone, with no link to the pension amount received by the widower's deceased wife.

The expenditure on the orphan's pension began to increase in the mid-1990s, and by 1995, reached 0.08 percent of GDP. In 2001, this expenditure represented only 0.07 percent of GDP. The main reason for this is the decreasing number of orphans (see Figure 6.3.1).

Figure 6.2.2
Expenditure on survivors' cash benefits in Slovakia, compared to OECD and EU levels, as percent of GDP, 1998



Source: OECD (SOCX); own calculations following the OECD methodology, without reference to age.

Figure 6.2.2 shows the expenditure on survivors' benefits in Slovakia compared to the averages of the OECD and the EU in 1998. In comparison, the Slovak Republic spent less on survivors' benefits than other countries: in 1998, the Slovak figure was 1 percent of the GDP as opposed to 1.18 percent in the OECD and 1.39 percent in the EU member states. This is partly explained by Slovakia's younger population. Using the OECD methodology, the expenditure on survivors' cash benefits was calculated without regard to the age of the recipient.

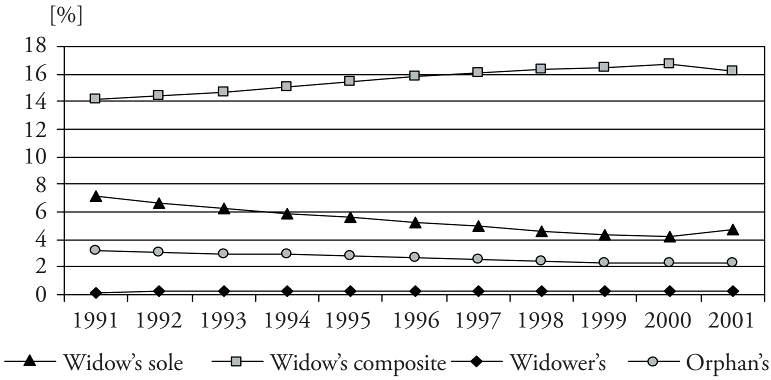
6.3. Trends in the Scope, Extent, and Depth of Coverage

Widows' and widowers' pensions were paid to survivors of a deceased spouse, if the spouse was entitled to a pension of any type. The widow's pension was 60 percent of the deceased husband's. The widower's pension, however, was a lump sum in the same amount for every entitled man. Dependent children were entitled to orphans' pensions without any further qualifying conditions (see Appendix A.6.a). The orphan's pension was 30 percent of the deceased parent's benefit, if the child was an orphan of one parent, and two times 30 percent, if an orphan of both parents (see Appendix A.6.a).

Figure 6.3.1 shows that during the entire surveyed period, survivors' benefits represented more than one-quarter of all pensions. This ratio was 28.7 percent in 1991 and 28.3 percent in 2001. If we look at the different groups of survivors, we can see that their ratios did not change significantly. The only exception was a slight increase in the number of the widow's composite pension recipients, and a decrease in the number of the widow's sole pension recipients.

The number of widow's composite pension recipients—that is, women who received a widow's pension together with an old-age or disability pension in their own right—gradually increased in the monitored period (see Table 6.3.1). The increasing number of women eligible for an old-age pension in their own right is simple proof of how extensively women were employed during the state socialist regime. But, if we look at the even larger number of women who receive composite pensions, we can see that in many families both spouses had to work in order to increase the low level of household incomes.

Figure 6.3.1
Number of survivors' pension recipients,
as percent of all pensioners, 1991–2001



Source: Social Insurance Agency of the Slovak Republic; own calculations.

The number of widowers' pension recipients, as a percent of all pensioners, was nearly constant during the entire period. Reflecting the very slight decrease in the total number of survivors, orphan's pensions decreased from 3.6 percent of all pensioners in 1991 to 2.8 percent in 2001. This can be linked to the decreasing number of children, and thus orphans, which was described in Chapter 1.

Figure 6.3.2 shows that the ratio of average widow's pension to the net average wage was much higher at the beginning of the 1990s (57.5 percent in 1991) than it was in 2001 (39.5 percent). This is part of a larger trend, in which social expenditures generally lost ground compared to wages. Moreover, under the legal conditions for providing widows' composite pensions, the widow, if economically active, was eligible for only half of her pension after the first year. The widow of retirement age also received her own old-age pension; during the monitored period, such women were eligible for both pensions, however, only up to a maximum stated by law (the upper ceiling for all types of pensions, including composite pensions, was 8,282 SKK in 2001). See Chapter 4 and Appendix A.6.a.

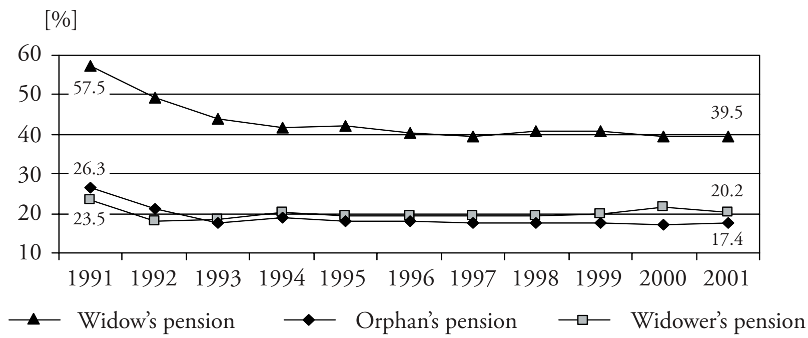
During the 1990s, the average orphan's and widower's pensions in comparison to the net average wage decreased by 8.9 percent and 3.3 percent, respectively. In the first two years of this period, the reduction was caused by the same factors as in the case of all pension benefits: the inflation-driven increase in wages (see Figure 6.3.2).

As Figure 6.3.3 shows, only the widow's composite and sole pensions exceeded the subsistence minimum (SM) during the entire period. The dramatic changes shown here were caused by the statutory increases in the subsistence minimum, which more or less follows the cost of living.

As Figure 6.3.4 reveals, the widow's composite pension is the highest average amount among all types of survivors' pensions. Its ratio to the average old-age pension increased from 98.8 percent in 1989 to 110 percent in 2001. The income from the average widow's composite pension even surpassed the average male old-age pension: while the former was 85.7 percent of the latter in 1989, the ratio reached 100.3 percent by in 2001.

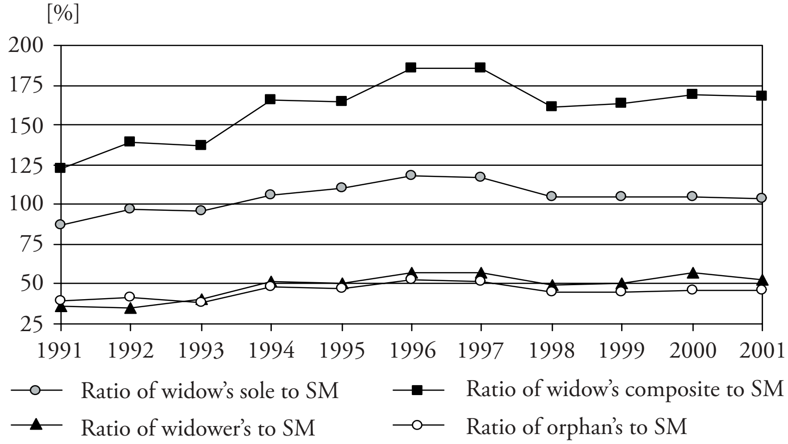
The ratio of the average widow's sole pension to the average male old-age pension and to the average total old-age pension also increased, but not so dramatically as the widow's composite pension. During the most of the surveyed period, the average widow's sole pension remained slightly above 60 percent of the average male old-age pension. This ratio is in line with the law, under which a wife is eligible for 60 percent of the pension her deceased husband was receiving or could have received.

Figure 6.3.2
Ratio of survivors' pensions to the average net wage, 1991–2001



Source: Social Insurance Agency of the Slovak Republic; own calculations.

Figure 6.3.3
Ratio of survivors' pensions to the subsistence minimum (SM), 1991–2001



Source: Social Insurance Agency of the Slovak Republic; own calculations.

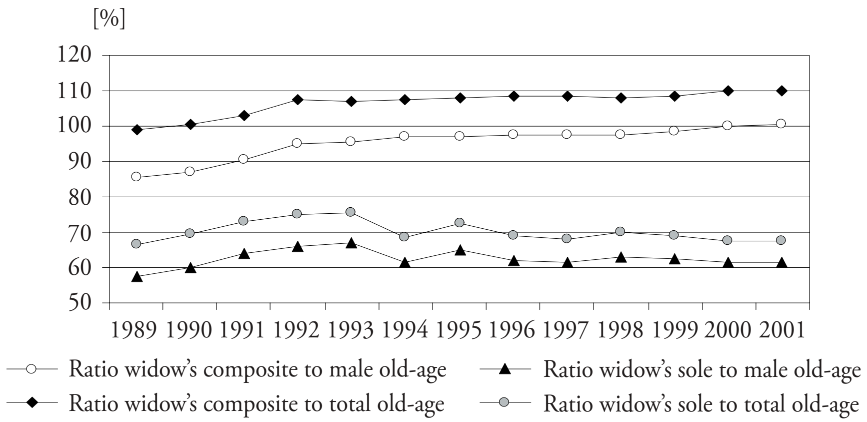
All in all, it is clear from the data above that in 2001 widows who received a composite pension were in the best position among all pensioners, including men who received their old-age pension.

If we compare the four ratios presented in Figure 6.3.4, we can see an upward trend during first four to five years. This was mostly caused by a high level of inflation during the first years of the transformation. Thus, Figure 6.3.4 represents only nominal pension values. By contrast, the real value of the old-age pension was still about 80 percent of its 1989 value (see Chapter 4).

Every survivor of a deceased spouse, child or parent is eligible for a funeral allowance (see Appendix A.6.a). As this state allowance is financed directly from the state budget, its level is dependent on annual appropriations. Figure 6.3.5 shows that in 1991, the funeral allowance was 61.4 percent of the subsistence minimum. After the government made changes in both, their ratio dropped to 55.8 percent in 2001.

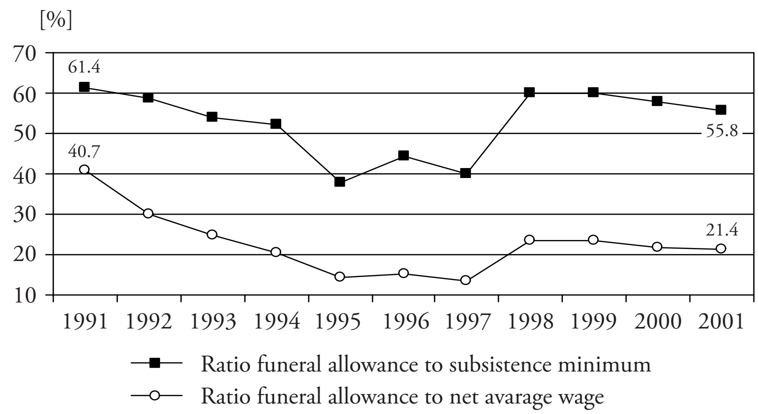
In 1991, the funeral allowance was 40.7 percent of the net average wage. But after a decrease during the 1990s, this figure dropped to only 21.4 percent by 2001. Thus, we can observe a severe overall decrease in the value of the funeral allowance during two-thirds of the monitored decade, which is the result of the government's reluctance to link it to the ever-increasing cost of living.

Figure 6.3.4
Ratio of widows' pensions to old-age pensions, 1991–2001



Source: Social Insurance Agency of the Slovak Republic; Statistical Office of the Slovak Republic; own calculations.

Figure 6.3.5
Ratio of funeral allowance to the subsistence minimum and the average wage, 1989–2001



Source: Social Insurance Agency of the Slovak Republic; own calculations.

6.4. Issues and Problems

The main problem with survivors' pensions stems from the very low level of wages, which provides an assessment base for the calculation of basic pensions (old-age and disability). As survivors' pensions are calculated as part of the deceased person's basic pension, they cannot be high, either. Moreover, as explained previously, social insurance benefits generally lost ground in relation to wages over the period examined, causing them to be even less adequate in relation to basic needs. A good example is the composite pension income of widows. The widow's composite pension can reflect household pension eligibility and is on average the highest amount any pensioner receives. Yet, the amount of the composite pension of a widow whose household had low income is hardly enough to make ends meet.

During state socialism, as everyone had the obligation to work, everyone became eligible to receive an old-age or disability pension. Only a small number of women failed to qualify for their own old-age pension. The conditions for eligibility for the widow's pension secure them an income comparable to the pension amount that those women receive who participated in the labour market during the whole length of their active life. This is especially true because of the ceiling on pension benefits, which limits the variation in pension amounts (see Chapter 4).

Compared to some other countries, the conditions for eligibility to receive widow's pensions are relatively generous and allow nearly every widowed woman to receive a widow's pension. As a result, there is a high number of women who are eligible for both their own old-age pension and a widow's pension. Due to this parallel provision of pension benefits, the majority of retired women receives an income that is comparable to a man's pension, and compared to some other groups of the population living on social benefits this income is relatively high.

In any case, the financial condition of the pension security system will not allow such generosity for too long. In the near future, the society will confront the task of making pension scheme sustainable and will have to look for the ways to make it less expensive, perhaps even by cutting some benefits.

Chapter 7
Sickness Insurance

In the Slovak Republic, the basic laws governing short-term benefits were enacted in the mid-1950s.[1] The aim of developing "sickness insurance" was to cover the majority of employees in the case of a short-term lost of income. Although this scheme was called "insurance," it was financed through the state budget through general taxation. When social security was removed from the state budget in 1993, a true insurance-type sickness scheme was created. Since then, sickness insurance has been financed from contributions paid by employers, employees, and self-employed individuals (see Chapter 3.2). Sickness insurance for self-employed people, the number of whom grew rapidly after the collapse of the state socialist regime, was incorporated into the scheme in 1989. As economic conditions and the social environment changed over the course of the 1990s, the legal instruments for providing sickness insurance also had to change, which led to numerous amendments of the relevant laws.

7.1. Benefits

In 2001, the sickness insurance system provided benefits to compensate for short-term losses of income due to sickness, pregnancy, and childbirth. Benefits were as follows:

- sickness benefit;
- benefit for care for a family member;
- income maintenance in the event of pregnancy and childbirth;
- pregnancy and maternity leave benefit; and
- spa treatment.

[1] Namely, *Act No. 54/1956 (Coll. of Laws) on Sickness Insurance of Employees* (Act on the Sickness Insurance of Employees).

For a description of the particular benefits and the conditions of eligibility for them, see Appendix A.7.a. and A.10.a.

Statutory sickness insurance is obligatory for nearly all employees and self-employed individuals. There are only a few exemptions specified by law: short-term contracts, for example, and income earned by the self-employed below a minimum threshold. As for employees, both they and their employers must pay contributions to a special account of the Social Insurance Agency. As the only provider of statutory sickness insurance, the SIA transfers a benefit to a worker's employer when he or she is out of work due to sickness.[2] Thus, from the employees' perspective, the employers collect the sickness insurance contributions and pay the benefits.

Sickness insurance for the self-employed and for persons cooperating with them is provided directly by the Social Insurance Agency (see Chapter 3.2 for more details). During the first three years following the introduction of the sickness insurance scheme for self-employed individuals (1990–1992), this group was permitted to determine its own base for paying contributions. When the SIA was established in 1993, the insurance conditions for self-employed individuals were made roughly the same as for employees, except that the base for the self-employed was set at only half of their yearly income, subject to a minimum.[3] Longitudinal data shows that since 1993, the earnings reported by self-employed persons and on which they pay contributions barely surpassed the stipulated minimum. This brought about another major change in the sickness insurance system for the self-employed: starting in 2001, self-employed individuals earning less than the legally stated minimum were able to opt to be insured on a voluntary basis. Moreover, as of 2001, it was no longer mandatory to insure persons cooperating with self-employed individuals.

[2] Under *Act No. 274/1994 (Coll. of Laws) on the Social Insurance Agency*, sickness insurance is mandatory for all economically active persons.

[3] *Act No. 274/1994 (Coll. of Laws) on the Social Insurance Agency* sets the minimum value of the assessment base for sickness insurance at 4,000 SKK per month for all who were obligatorily covered (employees, employers, and the self-employed).

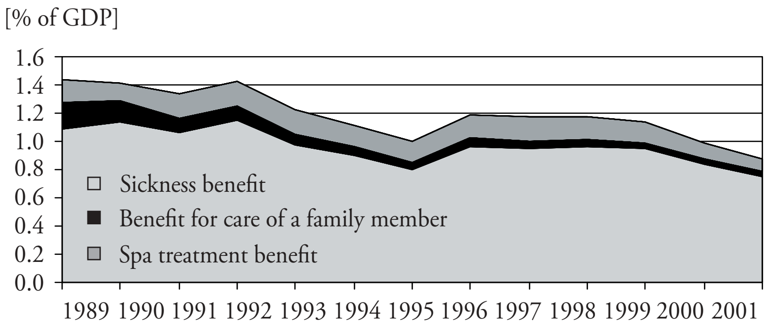
7.2. Trends in Public Expenditure on Sickness Benefits

Expenditure on sickness insurance represents only a very small part of the total expenditure on social protection. Figure 7.2.1 shows sickness insurance expenditures as a percent of GDP. Although nearly all economically active persons were covered, the amount of collected contributions surpassed the expenditure on benefits paid (see Chapter 3.2 for more details). In absolute terms, expenditure on sickness insurance benefits increased during the monitored period. However, as GDP grew more quickly, the share of expenditure on sickness insurance in GDP decreased.

Figure 7.2.1 shows that sickness benefit expenditures decreased from 1.43 percent of GDP in 1989 to 0.87 percent in 2001. As mentioned, this proportional decrease is partly due to the faster growth of the GDP (see Chapter 1). Another reason was the official ceiling on benefits, which was set very low and was changed from time to time by administrative measures, without any connection to the increase in wages from which contributions are withheld.

Figure 7.2.1 also shows that expenditure on sickness insurance consisted overwhelmingly of benefits paid to persons on sick leave. Expenditure on benefits for the care of a family member decreased the most among all types

Figure 7.2.1
Expenditure on sickness insurance benefits, as percent of GDP, 1989–2001



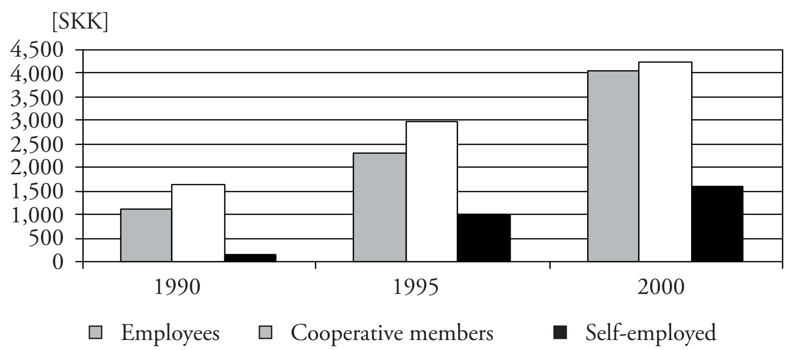
Source: Social Insurance Agency of the Slovak Republic; own calculations.

of benefits, from 0.18 percent of GDP in 1989 to 0.03 percent in 2001. One explanation for this remarkable decrease is that during the 1990s, the number of children whose parents were eligible to receive this benefit also declined. Expenditures on the spa treatment benefit also show a general decreasing trend during the analyzed period: from 0.16 percent of GDP in 1989 to 0.09 percent in 2001. This was due to cuts in state funding for this benefit.

Figure 7.2.2 contains data expressed in Slovak Korunas. Although sickness benefits decreased as a percent of GDP (see Figure 7.2.1), in absolute terms, the expenditure per sick person increased significantly. Members of agricultural cooperatives and farmers received, on average, the highest benefits, while the self-employed received the lowest. However, while average expenditure on a sick employee increased “only” 2.7 times, expenditures on sick self-employed persons increased 16 times. In 2000, the average annual expenditure per sick self-employed person was about 39 percent of that for an employee and 38 percent of that of a farmer.

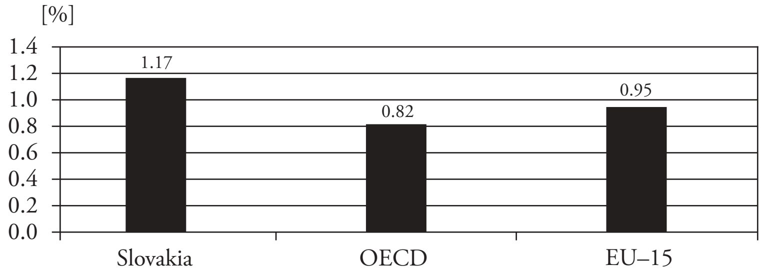
Figure 7.2.3 shows expenditures on cash sickness benefits in Slovakia compared with OECD and EU countries. In 1998, Slovakia spent 0.19 percent more of its GDP on sickness benefits per person than did OECD countries on average, and about 0.06 percent more than EU member states on average. One can only assume that such high expenditure in Slovakia could be

Figure 7.2.2
Average annual expenditure per sickness beneficiary, 1990–2000



Source: Statistical Office of the Slovak Republic.

Figure 7.2.3
Expenditure on cash sickness benefits in Slovakia, as compared with OECD and EU levels, 1998



Source: OECD (SOCX).

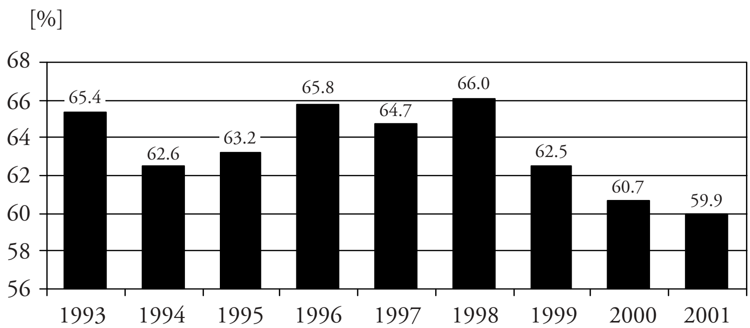
the result of an overly generous system that provided relatively high benefits, especially for employees and self-employed persons with low earnings. Another reason might be the comparably long span of the average sickness leave, which in Slovakia was 26 working days in 2001 (see Figure 7.3.6).

7.3. Trends in the Scope, Extent, and Depth of Coverage

Almost all citizens of productive age are covered by sickness insurance. Under the relevant legislation, every employee is insured, as well as the majority of the self-employed and their cooperating persons. Even students in higher education (between the ages of 18 and 26) are part of the compulsory insurance system, as the state pays contributions on their behalf. As of 2001, self-employed people with a very low declared income, as well as the persons cooperating with them, have been excluded from compulsory coverage and can be insured on a voluntary basis.

Figure 7.3.1 shows that the scope of coverage significantly decreased from 65.4 percent in 1993 to 59.9 percent in 2001. This decline occured even though the total number of people of productive age increased in Slovakia. An explanation for this is that, although the population from the baby boom of the 1970s entered their productive age, the majority did not join the labour

Figure 7.3.1
Sickness beneficiaries as a proportion of the population of productive age, 1993–2001



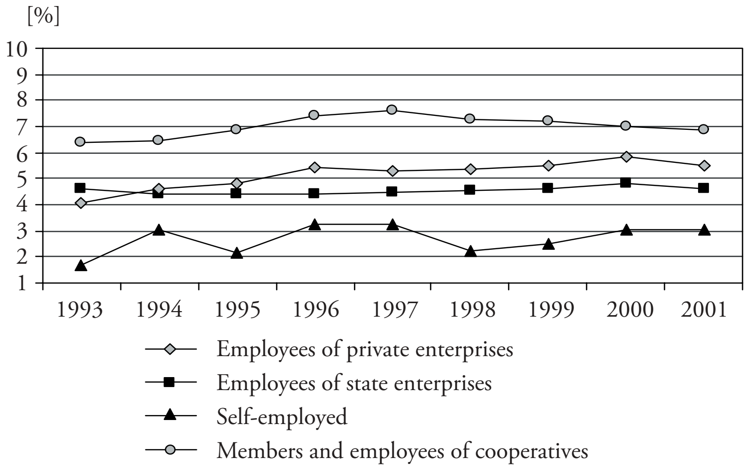
Source: Statistical Office of the Slovak Republic; own calculations.

market, or at least not officially. In other words, while the absolute number of people covered by sickness insurance did not decrease, a large proportion of young people also did not become part of the sickness insurance system. Among those not insured were persons in long-term unemployment and those (e.g. self-employed individuals and their cooperating persons) choosing not to be insured.

Figure 7.3.2 shows that employees of state-owned companies spent 4.6 percent of their work-time on paid sickness leave in 2001. Employees of private enterprises spent 5.5 percent, up from 4 percent in 1993. Self-employed persons were on sickness leave the shortest time on average: 3.1 percent of their annual work-time in 2001. Members and employees of agricultural cooperatives and farmers, on the other hand, were out of work for the longest time: in 2001, they spent 6.9 percent of their official working time on paid sickness leave.

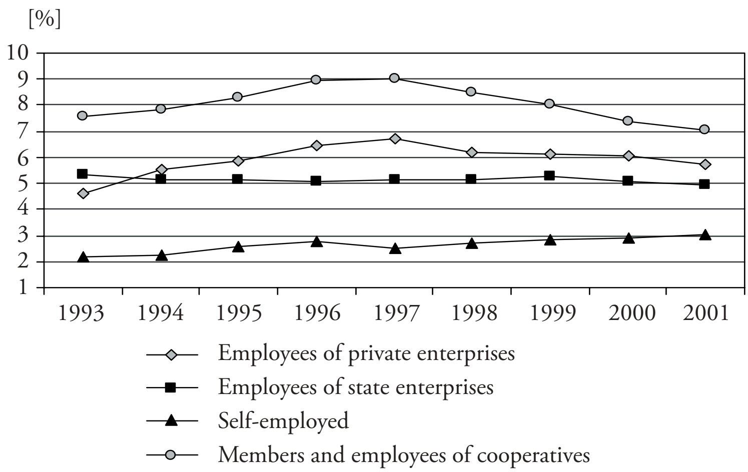
Figure 7.3.3 shows these trends from a gender perspective. In general, one can say that women spent more time on sickness leave than men. In particular, women employees in state-owned enterprises spent 5.4 percent of their annual work-time on sickness leave in 1993, and 4.9 percent of it in 2001. Women working in private enterprises had a rate of sickness leave of 4.6 percent in

Figure 7.3.2
Total days of sick leave as a percentage of total work days annually, 1993–2001



Source: Statistical Office of the Slovak Republic.

Figure 7.3.3
Total days of sick leave as a percentage of total work days annually for the active female population, 1993–2001



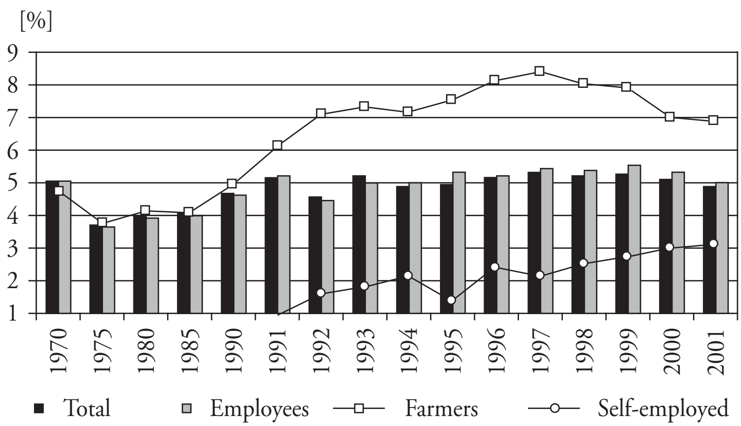
Source: Statistical Office of the Slovak Republic; own calculations.

1993, 6.7 percent in 1997, and 5.7 percent in 2001. Self-employed women, however, did not spend more days on sickness leave than did men, and in certain years they actually spent less. In this group, the ratio of short-term incapacity to work to the annual working time was only 2.2 percent in 1993, remained relatively stable during the whole period, and reached about three percent in 2001. And like their male counterparts, women agricultural workers spent the highest portion of their annual working time on sickness leave. The sickness leave rate among this group was 7.6 percent in 1993, about 9 percent in 1997, and 7 percent in 2001.

Figure 7.3.4 presents sickness leave rates from a longitudinal perspective. It shows that the average rates decreased significantly in the first half of the 1970s, and then remained relatively stable for the next 15 years. Then, we can observe a remarkable increase, from 4 percent in 1989 to 5.2 percent in 1991. The rate fluctuated during the remainder of the decade and registered 4.9 percent in 2001.

For farmers, changes were more dramatic than those for employees—especially after the fall of the state socialist regime. During the 1990s, the

Figure 7.3.4
Average percentage of sickness leave compared to the annual work-time, 1970–2001



Source: Statistical Office of the Slovak Republic.

rate of use of these benefits increased continuously, from 6.1 percent in 1991 to 8.4 percent, the highest level, in 1997. We can assume that this was partially caused by the seasonal character of their employment. As they were left without income for some part of the year, farmers could benefit from the sickness insurance system and preferred to stay on sick leave instead of seeking employment contracts or registering for unemployment insurance.

As real legal self-employment status existed in Czechoslovakia only after 1990, we can follow the sickness leave rate of this group only after that. Figure 7.3.4 shows an increase in the percent of work time spent on sick leave from 0.5 to 3 percent among this group during 1992–2001.[4] However, their average length of paid sickness leave is still just three-fifths that of employees.

Figure 7.3.5 shows the average daily sickness benefit as a ratio of the average daily net wage.[5] In order to make sense of the changes over time, one has to consider the ceiling on the benefit.[6] This ceiling always depended on political and administrative decisions, and was rarely adjusted to keep up with the average wage or the cost of living. The average sickness benefit amounted to 32.9 percent of the average net wage in 1993 and 31.8 percent in 2001. The special benefit for care of a family member amounted to 12.3 percent of the average net wage in 1993 and 11.2 percent in 2001.

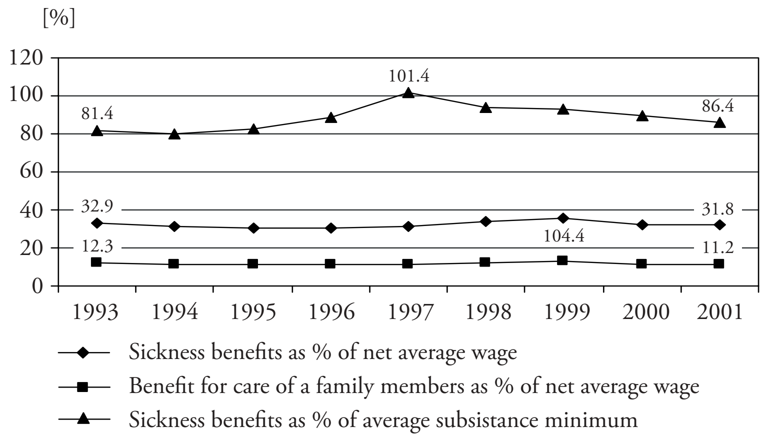
The average sickness benefit fared better if compared to the average subsistence minimum. It represented generally 80–100 percent of this minimum. However, this also meant that individuals on sickness leave had to make ends

[4] Well before 1990, *Civil Code No. 40/1964 (Coll. of Laws)* section § 489a made provision for a private person to render services to other persons or socialist organisations. However, there were only a few persons who did so. As the self-employed grew in numbers after 1989, this regulation quickly became inadequate. It was replaced with *Act No. 105/1990 (Coll. of Laws) On Private (Small) Business Activities of Citizens*. Today, self-employment as well as small business is regulated by *Act No. 455/1991 (Coll. of Laws) On Small-scale Trading.*

[5] Sickness insurance benefits are calculated from net average daily wage of the covered person and no tax or contribution is paid from it.

[6] The calculation of the sickness benefit amount and the applicable ceilings are discussed in Appendix A.7.a.

Figure 7.3.5
Average sickness benefits paid per case, as percent of the net average wage and subsistence minimum, 1993–2001



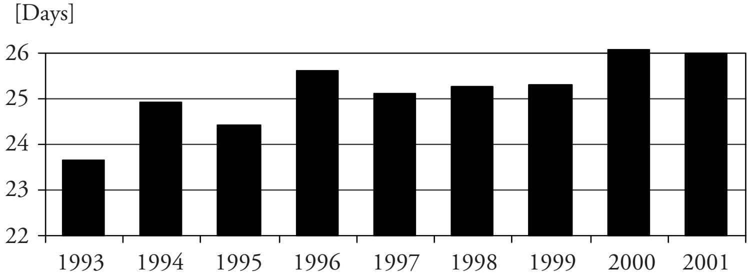
Source: Social Insurance Agency of the Slovak Republic; Statistical Office of the Slovak Republic; own calculations.

meet from an average income below the poverty level.[7] This is all the more curious since every year the Social Insurance Agency collected much more revenues from contributions on sickness insurance than it allocated to the payment of benefits, so it could have actually spent more on them. During the monitored period, nearly one-fourth of the collected contributions were not spent on paying benefits. Rather, what was saved was allocated to cover the payment of pension benefits (see Chapter 3.2).

Figure 7.3.6 shows that the average length of sickness leave gradually increased during the monitored period. The average sickness leave was 23.6 days in 1993, 25.5 days in 1996, and 26 days in 2001. In the case of occupational injury, sickness leave lasted even longer, for 40 workdays, in 2001.

[7] As discussed elsewhere, the subsistence minimum is taken in this study as a measure of poverty, since no official poverty level has ever been calculated in the Slovak Republic.

Figure 7.3.6
Average duration of sickness leave (days per sickness case), 1993–2001



Source: Statistical Office of the Slovak Republic.

As was already mentioned, the sickness insurance system could be easily abused by certain groups of workers. For those with low earnings, it seems reasonable to stay on sickness leave and receive up to 70–90 percent of what they would have earned otherwise.

7.4. Issues and Problems

The Act on the Sickness Insurance of Employees, which came into force in 1956, quickly became outdated in the economic and social conditions of the 1990s. Unlike neighboring post-communist countries, Slovakia has not changed its sickness benefit formula. As shown in Table 3.2.3 the average contributions paid by employees and self-employed persons diverged significantly during the monitored period, but there is no difference between short-term benefits paid to employees and to the self-employed. The reason can be found in the way sickness benefits are calculated: their amounts are limited by an upper ceiling. Thus, even though benefits were calculated as 70 and 90 percent of daily net wage, the ceiling means that the average benefit reached only slightly more than 30 percent of the net average wage (as we could see in the Figure 7.3.5. above). Thus, for those with low income, it was very profitable to receive sickness benefits. On the other hand, those with higher incomes received less than one-third of their net daily wage.

As previously described, self-employed persons with income below a threshold ceased to be obligated to be insured in sickness and pension insurance systems. This measure was adopted under the pressure of one group of self-employed which also had jobs as employees and did not want to pay additional contributions from their self-employment income. On the other hand, there was another group of self-employed which very much wanted these benefits because they represent a high return on contributions. Under a 1999 law, self-employed and their cooperating persons have discretion to participate or not. One would assume that under such conditions, the system is left with most of its liabilities and few of its assets.

Despite all this, it is remarkable that the sickness insurance system collected nearly 25 percent more through contributions than it paid to beneficiaries between 1995 and 2001 (see Figure 3.2.1 in Chapter 3). The main "culprit" responsible for this was the low daily ceiling on all paid sickness leave benefits. It would be desirable to find a way to make the sickness insurance system more just and acceptable for all insured people.

Chapter 8
Health Insurance

8.1 Transformation of the Health Care System

Under the *Constitution of the Slovak Republic*, every resident is entitled to necessary health care under conditions stipulated by law. To ensure this right, all residents are required by law to participate in health insurance. Since 1989, the government has been trying to replace the paternalistic health care system it inherited from state socialism with a social insurance based system with incentives for rational use of health care and prevention. However, until 2001, the pre-existing system of comprehensive, free health care services remained largely unchanged. It has resisted change in spite of major revisions in the organizational structure, management, and financing of health care.

During the state socialist regime, the state financed and managed the provision of all health care, and all health facilities were national. The system provided universal, comprehensive, free services for everyone, covering all primary care, hospital treatment, medical aids,[1] medications, dental care, and a range of other services. Outpatient and inpatient services were integrated in hospitals with polyclinics. Although the system theoretically provided universal coverage, in reality the resources allocated to it within the state budget were always insufficient to meet all needs or to provide services of good quality to all citizens on an even-handed basis. Although the Czechoslovak state allocated 5 percent of its budget to the health sector, the state monopoly in that sector developed an inflexible and ineffective decision-making process, in which the center made decisions paternalistically, without consulting citizens.

[1] Medical aids include, for example, hearing aids, eye glasses, artificial limbs and other prosthetic devices, orthopaedic braces and supports, orthopaedic footwear, surgical belts, trusses and supports, neck braces, medical massage equipment and health lamps, and powered and non-powered wheelchairs.

Health care reform began in 1990 with the government adoption of a position paper entitled, "Reform of Structure, Management and Financing of Health Care."[2] This paper established the following goals:

- to eliminate the state monopoly in health care provision;
- to establish an economic relationship between providers of health care and the citizens they serve (i.e., to require co-payments for some services);
- to provide everyone with a free choice of health care provider;
- to promote a positive and proactive attitude on the part of citizens towards their own health;
- to provide multiple sources of financing for health care;
- to improve curative and preventive care;
- to raise the social status of health professionals through the introduction of a reward system based on performance;
- to ensure high morale and accountability of health professionals;
- to privatize and decentralize health care; and, above all,
- to introduce a national insurance system.

Implementing these goals turned out to be extremely difficult. The effort was thwarted by many barriers and caused considerable hardship for many people, especially those with low incomes.

The reform of the health care delivery system and administration started in 1991 with the abolition of the complicated structure of regional and district offices that had regulated health care services (regional and district offices of the National Institute of Health). In their place, the government created about 3,000 new autonomous health care facilities, financed from the state budget. A legislative amendment created the possibility for private health care facilities as well. In 1994, all pharmacies were privatized (excluding hospital pharmacies). By the end of 1996, all primary health care had been privatized and, by 1997, the same was true of almost all spa facilities. Significant progress was made

[2] Reinhard Busse and Wendy Wisbaum, eds. 2000 *Health Care Systems in Transition, Slovakia, 2000*. Copenhagen: European Observatory on Health Care Systems, WHO Regional Office for Europe. p.59.

in the following years on the privatization of outpatient specialty services. However, the privatization of hospitals and polyclinics did not progress at all.

The reform of health care financing began much later than that of services, after the separation of the Czech and Slovak federal states. In 1993, state budget financing of health care was replaced by a compulsory health insurance system. The new insurance system was operated by an insurance company, the National Insurance Company (hereinafter, “NIC”), which was authorized by statute.[3] Initially, the NIC financed health insurance, sickness insurance, and pensions.

Another initiative aimed at reducing the range of free services and benefits. This turned out to be the least successful project: in 2001, virtually all services and benefits were still provided without any direct charge, notwithstanding the fact that they were financed by health insurance companies. Only a few therapeutic treatments were removed from this benefit package, all of which were for adults. Children still enjoyed completely free access to health care services and benefits.

The most important transformation related to medications: more and more categories of drugs ceased to be subsidized. By 2001, many medications were only partly reimbursed by health insurance, and vitamins, minerals, nutritional additives, and other health enhancing drugs had to be fully paid for by the customer.

In 1995, the monopoly status of the National Insurance Company was terminated, making it possible for multiple health insurance providers to operate. However, it quickly became clear that the problems of financing the health insurance system were not resolved by this change. Successive governments were unable to reduce the range of free services and benefits and, as a consequence, the new health insurance companies were unable to make ends meet. As the demand for, and cost of, health care services escalated, there was no commensurate increase in financial resources. Thus, the majority of health care providers and pharmacies were unable to pay their bills and incurred major debts.

In 2000, the European Observatory on Health Care Systems concluded: “Today, after almost ten years of reforms, the health system has not reached all its envisioned goals. It has struggled due to frequent changes and an overall

[3] See Chapter 3.

lack of financial resources."[4] Unfortunately, these characterizations persisted until the end of 2001.

8.2 Benefits and Services

A wide range of benefits continues to be provided by the health insurance system, including primary outpatient care, specialized outpatient care, hospital care, state health institutes (formerly by the so-called hygiene stations), medical aids, and spa treatments. In addition, basic drugs, mostly generic, are covered fully by health insurance. As noted previously, some medications are partially reimbursed (especially non-generic) and some others (additives, vitamins, and non-lifesaving medications) are paid for out-of-pocket by the patient.

As the 1990s progressed, people were required to pay more and more for their health care. This was achieved indirectly through increasing contributions, as well as directly through increased prices for drugs and some medical treatments. According to the government, the entire health care system is still severely under-financed and there is an urgent need to restrict the range of covered benefits and services.

8.3 Structure and Financing of the Health Care Delivery System

The reforms of the 1990s divided the health care system into two parts, each financed differently. The first, *primary health care*, was separated from the second, *secondary health care*, and reimbursed from the compulsory health insurance scheme (that is, by new health insurance companies, hereinafter "HICs"). Secondary health care, by contrast, was financed by budgetary organizations owned and operated by the state. In 1998, there was a network of 37 such organizations, known as state health institutes. These were created by transforming the previous hygiene centers.

[4] Busse and Wisbaum, as previously cited, p.5.

In Slovakia, *primary health care* includes all first-contact ambulatory care, both preventive and curative, and even home visits, though these are still not very common. In 1998, there were 6,341 primary health care doctors, just 1.34 percent more than in 1990. The number of general practitioners for adults decreased by 203 and those for children by 46, while the number of dentists increased by 320. As noted earlier, primary health care was privatized relatively quickly; and the process turned out to be substantially easier than privatizing secondary health care services (mostly hospitals). This ease was due to the fact that physicians were permitted to rent the same rooms and equipment which they had used prior to the reform. Thus, in the eyes of the public, almost everything stayed the same. By the end of 1998, 93.9 percent of primary health care providers were private.

Secondary health care includes a wide range of specialist services provided on both an inpatient and outpatient basis. It is delivered in hospitals, special therapeutic institutes, natural curative spas, and other institutions. In 1994, there were 84 hospitals, 23 specialized institutes, and one maternity home in the Slovak Republic. Despite clear financial problems in the health care system, the number of highly specialized hospitals increased, compared to the situation before 1989. Because of persistent financing problems, oversupply, and a badly structured network of the facilities, government efforts at reform proved ineffective and the provision of hospital care continues to be problem ridden.[5]

It is telling that, while the number of primary health care physicians was practically stagnant, the number of specialists working in secondary health care increased by 12.3 percent from 1990 to 1998. Approximately 44 percent of them were privately employed, and 56 percent were employed by the state health facilities.

In 1995, a law came into effect that opened up the market to competition, allowing for multiple health insurance companies (HICs).[6] A part of the National Insurance Company (NIC), the Health Insurance Fund was transformed into the General Health Insurance Company (GHIC), and very quickly, many other health insurance companies appeared on the market.

[5] Busse and Wisbaum, as previously cited, p.42.

[6] See Chapter 3.

At the beginning, ten health insurance companies administered compulsory health insurance contracts; by 1996, their numbers had risen to twelve. Over the course of the following years, however, some of them went bankrupt. As financing became more strained and regulations became progressively stricter, only five of them survived.

The contribution rate for health insurance was set at 13.7 percent of the employee's wage when the NIC was created in 1993.[7] Yet despite this substantial rate, within only two years, the NIC went into debt (see Table 3.4.4). The state was responsible for securing the necessary financing for HICs to meet the needs of the insured population, and the state also subsidized health care providers (especially hospitals) directly. However, the state consistently failed to contribute to the extent that was required by law; and this left the GHIC and other HICs without funds to cover the expenses of all health care providers and pharmacies. As a result, the providers and pharmacies could not pay to their suppliers, such as drugs producers, and water and electricity suppliers. As one account puts it:

> Debts exist along a chain. First, the health insurance companies have not yet received all contributions to which they are entitled. Second, HICs have not yet fully compensated the providers. Third, the providers owe money to suppliers of goods and services.[8]

This situation fuelled a series of insolvencies in the health care industry, totaling 3 billion SKK in 1996, and rising to 13 billion SKK in 1999.

The health insurance contributions of certain groups of persons who have no earnings are paid by the National Labour Office (NLO) or the state, as described in Chapter 3. Specifically, the NLO pays on behalf of unemployed people receiving unemployment benefits; and the state pays on behalf of children, the elderly, person with disabilities, parents on maternity and parental leave, young men in military service, persons taking care of their disabled relatives, and others. These contributions, set in the State Budget Act each year, have fallen far short of the amounts collected from other contribution payers. Thus, those HICs that

[7] See Chapter 3, section 3.4.

[8] Busse and Wisbaum, as previously cited, p.54.

insure elderly and disabled people, the unemployed, children and other non-economically active persons are in a disadvantageous position.

This problem falls disproportionately on the GHIC because it administers insurance for all those covered by the state who do not opt for membership in another HIC. Thus, to balance the GHIC budget, the state passed legislation redistributing income from other insurance companies. Under this arrangement, 60 percent of contributions collected by all HICs were accumulated by the GHIC and then redistributed among all HICs according to the number of persons insured by each and their economic status. This form of redistribution resulted in many problems, and in 1999 a new mechanism was introduced under which all health insurance contributions were collected in one special account and redistributed to HICs according to the age and gender of their clients. Problems continued to persist, however, as this mechanism still impeded competition among the HICs and failed to reward those HICs that used their resources frugally and effectively.

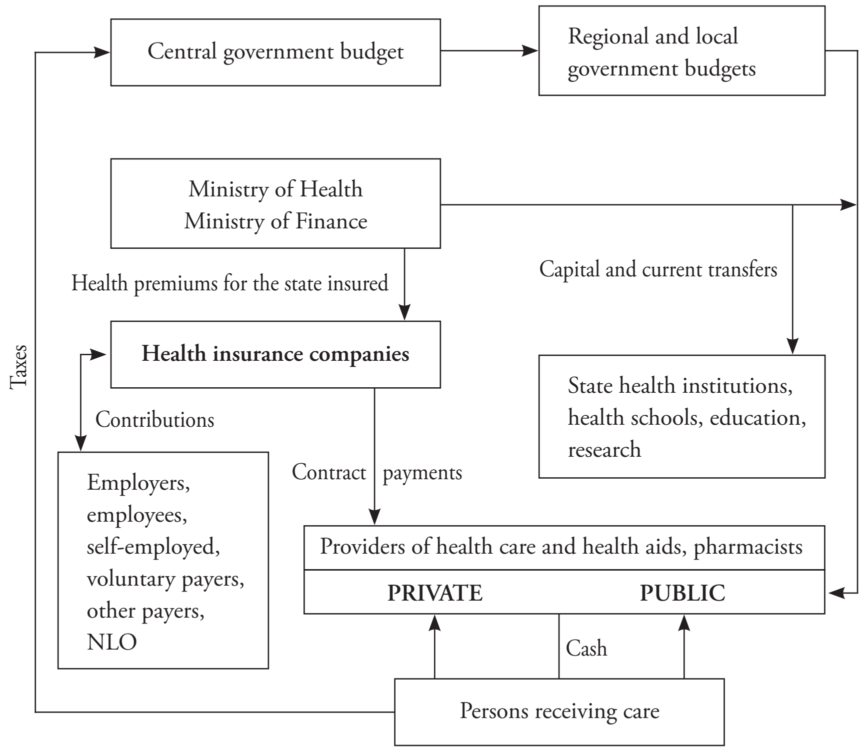
Added to this, continuing government price setting for particular health services and treatments prevented companies providing higher quality treatment from charging higher prices for them.

8.3.1 Flow of Funds in the Health Care System

Health insurance contributions are paid by employees and their employers, the self-employed and their cooperating persons, voluntary payers, and the state and the NLO. Figure 8.3.1. shows the flow of funds from these contributors through the health care system in 2001. The arrangement depicted is much as it was in previous years, since health care was separated from the state budget in 1993–1994.[9]

[9] Under *Act No. 7/1993 (Coll. of Laws) on Creating the National Insurance Company and on Financing Health Insurance, Sickness Insurance, and Pension Insurance* and *Act No. 273/1994 (Coll. of Laws) on Health Insurance, Health Insurance Financing, and Establishing the General Health Insurance Company, and on Establishing Sector, Branch, Enterprise, and Civil Health Insurance Companies*, the health care scheme began to be financed mostly by contributions directed to the newly created health insurance companies.

Figure 8.3.1.
Health care financing in 2001, flow of revenues



As can be seen, funding is channeled through the HICs, which receive revenues from the various contribution payers. These companies then use the revenues to cover the expenses of state-owned hospitals and polyclinics as well as those of the majority of private providers and doctors. Through the state budget, the government also supports a health care system by making capital investments and financing a massive system of so-called "budgetary organizations," including public health institutes (e.g. former hygiene centers), state institutions (e.g. research), education centers (e.g. hospitals where university and other school students are taught), and medical libraries. In 1998, for example, the state's contribution to the health sector (excluding contributions on behalf of economically inactive persons) was 11.4 billion

SKK. That same year, state contributions to HICs on behalf of economically inactive persons totaled 10.6 billion SKK, which was 26.6 percent of all revenues collected by HICs (see Chapter 3, Table 3.4.2). This share remained steady over the next few years and, as of 2001, stood at 27.2 percent.

The government's main goal in pursuing health care reform was to diversify the sources of financing for services. However, the repeated postponement of reform has forced the system to rely exclusively on public sources: compulsory insurance contributions and the state budget. Other possible sources, such as supplementary health insurance, and in particular occupational insurance, had not been introduced as of the end of 2001.

8.3.2 Expenditures by insurance companies

As of 2001, HICs together accounted for about 60 percent of all health care expenditures. They paid only for those services and products authorized in the Act on Therapeutic Order.[10] Both state and private providers had the same rights to receive payments from the HICs. The relationship between HICs and independent providers of health care was contractual.

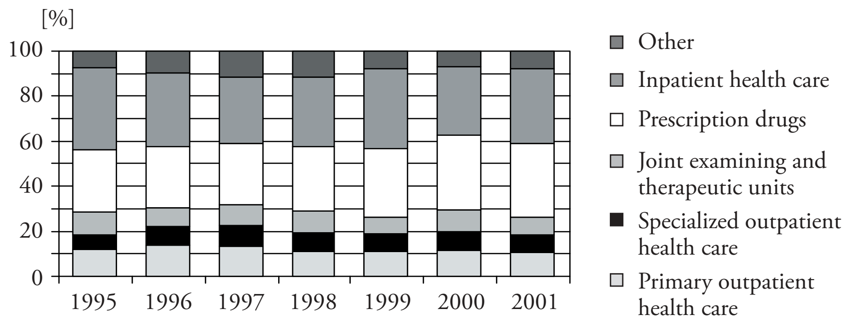
There are no data on revenues and expenditures of particular HICs, a gap which prevents us from providing a full and transparent picture of health care financing. The Statistical Office of the Slovak Republic provides only aggregate data for the GHIC and other HICs (see Figure 8.3.2.).

Total HIC expenditures rose by nearly 50 percent over six years, from 35.3 billion SKK in 1995 to 47.7 billion SKK in 2001.[11] However, the composition of expenditure remained quite stable. The two largest items throughout the period were prescription drugs and inpatient care, which together accounted

[10] *Act No. 98/1995 (Coll. of Laws) on the Therapeutic Order*, as subsequently amended, governs the provision of health care and medical aids and its financing through health insurance, as well as through co-payments or full direct payments. The Act categorizes registered drugs and medical aids and regulates their prices. Amendments are required to change these rules.

[11] See Chapter 3.

Figure 8.3.2.
Structure of Expenditures by Health Insurance Companies (HICs), 1995–2001



Source: Statistical Office of the Slovak Republic

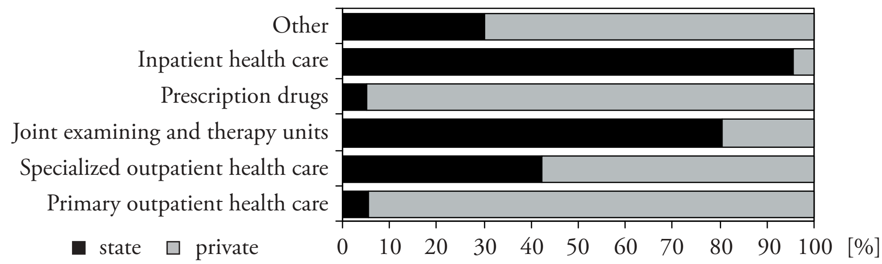
for more than 60 percent of all expenditures. Primary outpatient health care increased slightly, from 11.9 percent of all expenditures in 1995 to more than 13 percent during the next two years. After 1997, it started to decline and reached 10.8 percent in 2001. Expenditures on specialized outpatient health care increased from 6.6 percent in 1995 to 7.8 percent in 2001. Spending on joint examination and therapeutic units declined as a share of the total from 10.1 percent in 1995 to only 7.5 percent in 2001.[12]

Spending on prescription drugs shows the most remarkable change. Every year there was a slight increase: the 27.9 percent share in 1995 grew to 33.2 percent in 2001. At this time, prescription drugs represented the same one-third share of total spending as inpatient health care. This rise was driven by price hikes in the medication market, but also by the appearance of new, more expensive products of multinational companies and by the privatization of pharmacies.

Expenditure on inpatient care shows a different tendency: while in 1995 its share in total spending was 36 percent, in 2001, it was only 33 percent.

[12] This category includes, for example, laboratory investigations, histology, cytology, and X-ray diagnostics.

Figure 8.3.3.
Health Insurance Companies' (HICs) payments to state and private health facilities, 2001



Note: "Other" includes medical aids, ambulance services, etc.

Source: Statistical Office of the Slovak Republic

The main change that occurred during the transition period, that is, privatization of a major segment of the health care industry, is clearly reflected in HIC spending. In 2001, 94.6 percent of spending on primary outpatient health care was directed to the private sphere. In terms of medications, a full 95 percent of all drug expenditures were based on prescriptions by private providers. On the other hand, the great bulk of spending on examinations and therapeutic care (80.6 percent) as well as inpatient health care (95.7 percent) was directed to state health facilities, as privatization in this area was only under preparation.

8.3.3 Health Care Expenditure as a Proportion of GDP

After the 1998 election, the government announced its future health care policy in a position paper entitled, "Steps in Transforming the Health Sector for 1999–2002." This paper identified the government's main policy goal for the health care system during this period as increasing available revenues. This priority was justified on the grounds of Slovakia's decline in health care spending as a percentage of GDP since 1996 (see Table 8.3.2). This decline, the document stated stated, did not resemble the spending pattern of any EU member state.

Tracing health care expenditures year by year is problematic, since the methodology for recording expenditures changed in 1994. Only since 1995 are there comparable data.[13] This requires dividing health care expenditure during the 1990s into two tables.

Table 8.3.1.
Trends in health care expenditure, 1990–1994

Indicator	1990*	1991*	1992*	1993	1994
Total expenditure (billion SKK)	13.5	17.5	19.1	17.8	21.6
As a percent of GDP	5.4	5.9	6.4	5.3	5.7
Public share of total expenditure (%)	100.0	100.0	100.0	100.0	100.0

Note: * Until 1992 in CSK (Czechoslovak Koruna).

Source: Ministry of Health of the Slovak Republic for 1990–1994.

As Table 8.3.1. shows, health care expenditures between 1990 and 1994 exceeded six percent of the GDP only in 1992. There was a significant decrease (1.1. percent) in 1993, which was the first year of Slovak independence. While the figures in this table are not fully comparable with those in Table 8.3.2. due to the methodology change, the tables still provide some basis for tracing changes in the allocation of resources to health care over time.

After 1995, total expenditures increased continuously and in 2000 were nearly 70 percent higher than the 1995 level. However, in relation to GDP, they rose from 5.9 percent of GDP in 1995 to 7.2 percent in 1996, followed by slow fall to 6.3 percent in 2000.

The lion's share of expenditure on health care throughout the period was covered by HICs: in 2000, this amounted to 60.4 percent. The government's contribution has been declining: it fell from 33.8 percent in 1995 to 26.3 percent in 2000. Local governments' contribution was surprisingly low and fell throughout the period, from 0.5 to 0.3 percent of total expenditures. This

[13] In fact, it seems that total health care expenditures were under-reported in most countries of Central and Eastern Europe prior to 1996. See Busse and Wisbaum, as previously cited.

Table 8.3.2.
Expenditures on health, consolidated calculation, 1995–2000[14]

Indicator	1995	1996	1997	1998	1999	2000
Total expenditures (million SKK)	*33,771*	*44,807*	*50,245*	*52,490*	*54,417*	*57,077*
• Percent of which by						
• Health insurance companies[1]	57.9	57.8	58.6	60.8	59.5	60.4
• Central government[2]	33.8	32.6	29.9	28.1	27.1	26.3
• Local governments	0.5	0.4	0.4	0.3	0.3	0.3
• Private cash payments of individuals	5.2	5.5	6.9	7.1	9.2	9.6
• Other expenditures	2.7	3.7	4.2	3.6	3.9	3.5
Public expenditures on health (million SKK)	*31,868*	*42,037*	*46,055*	*48,106*	*48,661*	*51,807*
• Public expenditures as percent of total expenditures	94.4	93.8	91.7	91.6	89.4	90.8
• Public expenditures per inhabitants (SKK)	5,942	7,823	8,555	8,924	9,019	9,593
Public expenditures as percent of GDP	*5.6*	*6.7*	*6.5*	*6.2*	*5.8*	*5.7*
Total expenditures as percent of GDP	*5.9*	*7.2*	*7.1*	*6.8*	*6.5*	*6.3*

Note: [1] Debts of health insurance companies are not included.
[2] State budget transfers of contribution revenues are indicated under the rubric of central government expenditures.

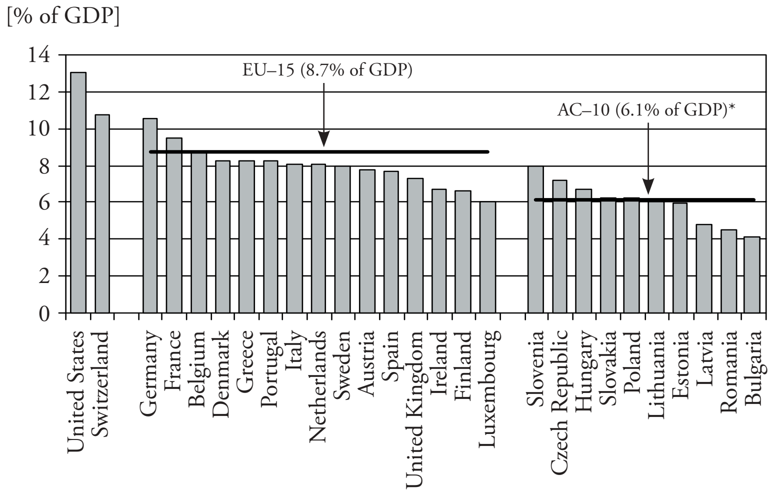
Source: Statistical Office of the Slovak Republic

happened despite the strong role they were supposed to play in managing local health care providers. Cash payments by individuals to private providers increased from 5.2 percent of total expenses in 1995 to 9.6 percent in 2000. We can expect that health care reform will cause this to rise further.

As can be seen in Figure 8.3.4, total health care expenditure as a percent of GDP differs significantly among OECD countries. In 2000, the US led the group at 13 percent of GDP, while all EU member states spent significantly

[14] The National Statistical Office data used in this analysis differs from some other major sources. For a discussion of these differences, see the Addendum to this chapter.

Figure 8.3.4.
Total health expenditure in OECD countries, as percent of GDP, 2000



Note: * AC-10—EU Accession Countries.

Source: Presentation by Maria M. Hofmarcher at the 23rd CEIES Seminar, Social Protection Statistics, entitled "Is underestimating health care expenditure over-estimating fiscal compliance with Maastricht? The case of Austria," Lisbon, 3 October 2003, OECD Health Data 2002, available at http://forum.europe.eu.int/Pubic/irc/dsis/ceies/library.

less. The EU average was 8.7 percent, and the member state with the highest expenditure was Germany (10.6%), followed by France (9.5%), and Belgium (8.7%). Only these three countries exceeded the EU average. The last four countries—the United Kingdom (7.3%), Ireland (6.7%), Finland (6.6%), and Luxembourg (6%)—spent markedly less than the highest among accession countries.

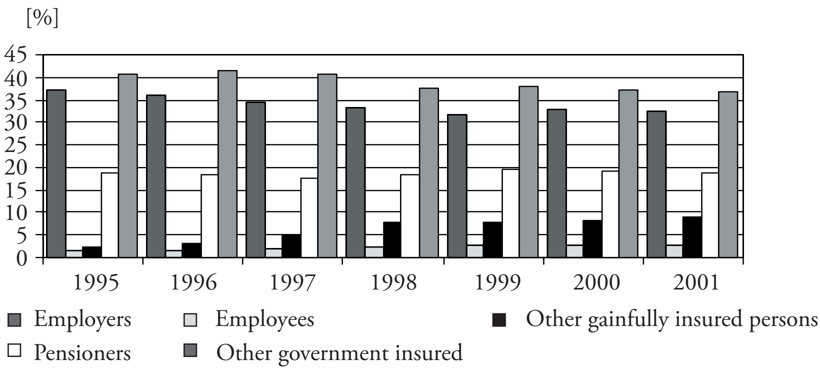
Among this second group, the average expenditure on the health care was 6.1 percent of GDP in 2000. Exceeding this and even reaching the rate of many EU members, Slovenia devoted 8 percent of its GDP to health care. Lower than Slovenia, but still above the average for the accession countries, were the Czech Republic (7.2%), Hungary (6.7%), Slovakia (6.3%) and Poland

(6.2%). The low spenders were Latvia (4.8% of GDP), Romania (4.5%) and Bulgaria (4.1%). It is interesting to note that the Slovak Republic had higher *public* expenditures on health care than Luxembourg or Baltic countries.

8.4 Trends in the Scope, Extent, and Depth of Coverage

Figure 8.4.1 shows changes in the various categories of insured persons from 1995 to 2001. As can be seen, the largest group was those on whose behalf the state paid contributions because they were not economically active (mostly children and pensioners, but also including several other groups, as previously described). In 1995, this group comprised 59.2 percent of all insured persons, and by 2001, its share had decreased to 55.7 percent. The ratio of pensioners was rather stable: it increased from 18.6 percent in 1995 to 19.4 percent in 1999 and then decreased again to 18.9 percent in 2001. Economically active persons, such as employees, self-employed, and other gainfully insured contributors together stood at 39.2 percent in 1995 and 41.4 percent in 2001.

Figure 8.4.1.
Structure of insured persons in health insurance companies (HICs), 1995–2001



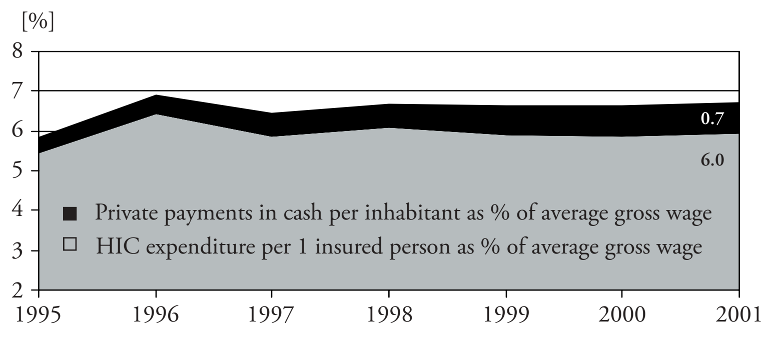
Source: Statistical Office of the Slovak Republic; own calculations.

However, the share of employees among all insured persons decreased from 37 percent in 1995 to 32.4 percent in 2001 even though the total number of insured persons increased. The share of other gainfully insured persons (which includes self-employed, non-residents, and voluntary insured) increased during the surveyed period from 2.2 percent in 1995 to 9 percent in 2001. The NLO paid contributions on behalf of 2.8 percent of all health care insured persons in 2001, while in 1995 it was 1.6 percent.

Figure 8.4.2 shows that as economic restructuring proceeded in Slovakia, the population had to make more and more out-of-pocket payments to private health care providers. In addition to the reasons for this trend already noted, another factor was the proliferation of new services which were not fully medical in nature (e.g., plastic surgery or aesthetic dental corrections). People generally welcomed these new and improved services, even though they had to pay for them.

In 1995, HICs provided an amount equivalent to 5.5 percent of the average gross monthly wage to finance the health care of each insured person. In 1996, this increased to 6.4 percent, then fell to slightly below 6.0 percent in 1997, after which it remained stable. Individuals' out-of-pocket expenditures on drugs and medical treatments increased from 0.4 percent of the average

Figure 8.4.2.
Average monthly expenditures per capita, as a percent of the average gross wage, 1995–2001



Source: Statistical Office of the Slovak Republic; own calculations.

gross wage in 1995 to 0.6 percent in 1997 and 0.7 percent in 1999, where they held steady until 2001.

As has been shown, the financing of the Slovak health care system is based heavily on the principle of solidarity, meaning equal access to health care for all. This involves cross subsidies between the young and old, the healthy and sick, and the rich and poor. It even includes cross subsidies among insurance companies since, as described earlier, contribution revenues are redistributed among HICs depending on the economic profile of their insured persons, their age structure, and other factors.[15]

Table 8.4.1 reveals this high degree of solidarity. While HICs spent an average of about 5,000 SKK per young person (between age 10 and 25) in 2002, they spent an average of 22,000–23,000 SKK per elderly insured person (those between 65 to 79 years of age). For men, the lowest average payment was for the 20–24 age group (4,113 SKK, or 30.4% of the average gross nominal monthly wage); the highest was for men 75–79 years old (24,146 SKK, or 1.8 times the average gross nominal monthly wage). For women, the lowest average payment was for those 20–24 years of age (5,911 SKK per month) and the highest, for those 70–74 (23,037 SKK).

Figure 8.4.3 shows how Slovakia compares to the EU member states and accession countries in 2002 in terms of physicians per inhabitant. Clearly, the country is on the high end of the continuum. In 1999, there were 356 physicians per 100,000 persons in the Slovak Republic, which was double that in the United Kingdom, the country with the lowest ratio. However, Slovakia still had less than two-thirds the ratio in Italy, the highest country, although it is clearly an outlier.

Table 8.4.2 shows the total number of pharmacies, physicians and beds according to the ownership of the health care institutions in 2001. As can be seen, the great majority of the country's 1,033 pharmacies were privatized before 2001; more than 93 percent were non-state. Of the 18,982 physician posts in health facilities at the end of 2001, more than 45 percent were

[15] Vojtech Stanek. 2001. Social Solidarity and the Health Care. In *Tertiary Age, The Journal of the Pensioners' Association of Slovakia*. No. 1. Bratislava: Pensioners' Association of the Slovak Republic. pp.3–5.

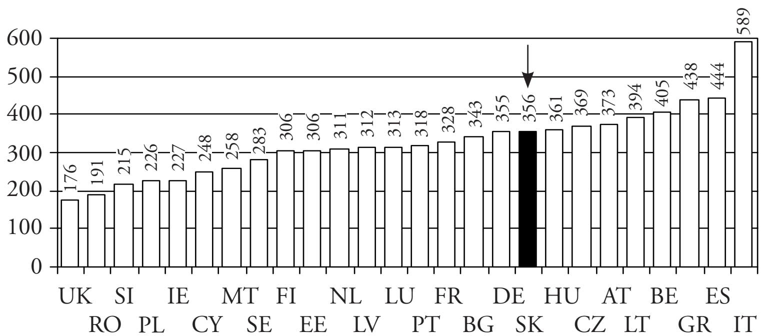
Table 8.4.1.
Average annual HIC expenditure on the health care according to age group and gender, 2002

Age group	Average annual expenditure per insured (SKK)		
	Total	Males	Females
Total	**9,559**	**8,542**	**10,525**
0–4	6,855	7,446	6,234
5–9	5,126	5,485	4,749
10–14	5,134	5,169	5,097
15–19	4,983	4,507	5,480
20–24	4,993	4,113	5,911
25–29	5,546	4,298	6,850
30–34	5,778	4,701	6,888
35–39	6,432	5,400	7,486
40–44	7,599	6,687	8,528
45–49	9, 980	8,791	11,160
50–54	12,894	11,752	13,985
55–59	15,845	15,672	15,995
60–64	18,504	18,143	18,793
65–69	22,086	22,003	22,145
70–74	23,352	23,837	23,037
75–79	23,167	24,146	22,612
80+	18,032	18,488	17,806

Source: Statistical Office of the Slovak Republic.

private. However, 97.7 percent of physician posts in hospitals were for public institutions. Turning to beds, 77.8 percent of the total was in state facilities, only 22.2 percent in private ones. Moreover, only 1.6 percent of hospital beds were in non-state hospitals.

Figure 8.4.3.
Number of physicians per 100,000 inhabitants in the EU member states and accession countries, 1999



Source: EUROSTAT—New Cronos.

Table 8.4.2.
Pharmacies, physician posts and beds in health facilities, 2001

Indicator	Total	By organizations (in %)	
		State	Non-state
Pharmacies	1,033	6.9	93.1
Physician posts in health establishments (in total)	18,982	54.7	45.3
Of which: Hospitals	8,828	97.7	2.3
Natural curative spas	202	13.9	86.1
Beds in health facilities (in total)	54,759	77.8	22.2
Of which: Hospitals	35,211	98.4	1.6

Source: Ministry of Health of the Slovak Republic.

8.5 Issues and Problems

Like all other branches of social security, the health care system has undergone dramatic changes since 1989. The most radical reforms related to financing, but these were not adequate to ensure the needed level of revenues to health care providers and pharmacies. In some cases, the result was a delay in payment transfers, while in others only partial reimbursement was provided. This created a vicious circle of indebtedness: every segment of the health care system owed some other segment. In June 1999, for example, health care facilities had debts of 9.9 billion SKK, while HICs owed them approximately 6.4 billion SKK. The financing shortfall to health care providers and pharmacists was directly felt by their customers and patients.

Table 8.5.1 shows the sharp increase that occurred in the liabilities of HICs over the period examined. These rose from 3,140 million SKK in 1995, to 17,984 million SKK in 2001. However, their receivables increased even more sharply, from 1,265 million SKK in 1995 to 26,026 million SKK in 2001.

Table 8.5.1.
Liabilities and receivables of HICs, in million SKK, 1995–2001

Indicator	1995	1996	1997	1998	1999	2000	2001
Liabilities	3,140	3,154	8,382	11,605	13,285	15,945	17,984
Receivables	1,265	2,763	6,777	12,961	16,305	20,183	26,026

Source: Ministry of Finance of the Slovak Republic

The failure of the HICs to finance all services provided by hospitals discouraged them from extending their services or providing high quality care. At the same time, hospitals and other providers had mounting debts to suppliers. These two forces put them in an uncomfortable situation. The same situation applied to pharmacies: without sufficient revenues from HICs, they fell into arrears in paying drugs producers. Many pharmacies tottered on the edge of bankruptcy as the supplies on their shelves dwindled. Both health care providers and pharmacies dealt with the problem by reducing their services and by organizing protest actions. From time to time, doctors and other medical staff participated in full or partial strikes. During 1996–2001, a number of pharmacies closed their doors.

It is known well in Slovakia that, in addition to formal hospital reimbursement, informal payments still exist throughout the health care sphere. While these payments are significant, it is extremely difficult to estimate their magnitude.

Under these circumstances, the Roma population experienced particular hardship.[16] Surveys carried out across Central and Eastern as well as Western European countries have consistently found the health status of the Roma population to be worse than that of the majority. One of the most recent surveys in Slovakia revealed a remarkably higher occurrence of health risk factors such as syndrome X (insulin resistance), obesity, hypertension, and other problems among the Roma population.[17] These risk factors affect both life expectancy and quality, and the health care system's weaknesses are a major barrier to addressing them.

Clearly, the transformation of the health care system is unfinished in Slovakia. In assessing this state of affairs, we can only add our voices to those who urge that every effort be made to accelerate the process. As shown on the preceding pages, the main priorities for government action are:

- to lead by example in paying contributions in a timely manner and at a level commensurate with other payers;
- to improve the collection of contributions from other payers;
- to diversify the sources of financing for health care;
- to modernize the Act on the Therapeutic Order;
- to allocate resources to particular branches of health care in a manner that forces economies in use and discourages misuse or excessive use of health care services; and
- to encourage greater individual responsibility through institution of co-payments for some services.

In addition, there is great need for public education on the economics of health care, so as to encourage the development of a consensus on the next steps in the reform process.

[16] It is estimated that the Roma constitute 7 percent of the Slovak population. See Chapter 1, section 1.1, Demographic Developments.

[17] Emil Ginter, *et al. Výskum výživy a životného štýlu troch etnických skupín SR.* (*Survey of the Nutrition and the Lifestyle of the Three Ethnic Groups in the Slovak Republic).* This project was financed through the National Program of the Health Support, Bratislava, from January 2001 to December 2003, in mimeo, 2003.

Addendum

Data Sources on Health Expenditures

This table contains official data provided by the Statistical Office of the Slovak Republic, which follows the SO methodology. Some international sources (OECD, WHO)—which follow different methodologies—show lower levels of health care public and total expenditure (measured as percentage of GDP) in Slovakia after 1996 (see OECD Health Data 2004, at www.oecd.org, and WHO estimates of the national health accounts for Slovakia, at http://www.who.int/nha/country/svk/en/). On the other hand, WHO Regional Office for Europe presents the data (based on official Slovak sources) showing similar levels of expenditure as presented here (see: European Observatory on Health Care Systems, Health Care Systems in Transition, Slovakia 2000, http://www.euro.who.int/document/e69819.pdf, Table 3, p.27). The latter publication confirms also that:

> "One problem with the expenditure data is that they are calculated according to different methodologies. It seems that total health care expenditures were under-reported in national sources before 1996. In the literature, most likely only resources allocated and spent through the health insurance system created a basis for calculating the share of the health care expenditures from GDP. These sources report that the health expenditures accounted for 6.58% of GDP in 1996, 6.21% in 1997 and 6.0% in 1998. This is probably also the case for the data before 1996, taken from this literature for Table 3. WHO Regional Office for Europe 'Health for all' database reports values which are about 1% higher for this period. Since 1998, yet another methodology is being used to calculate health care expenditure by the Ministry of Finance which has resulted in an apparent drop in expenditure between 1997 and 1998."

To our knowledge, data provided by sources like OECD Health Data does not cover: administrative costs of health insurance companies, liabilities of health care facilities paid from the state budget, investment expenditure, spa care costs and expenditure health research—which are all included above starting from 1996.

Data on health care benefits in-kind, calculated according to ESSPROS methodology (shown here in Appendix B, Table B.1.3) exclude expenditure on administration, research, and private health expenditure. These data are thus not comparable with the data presented above, however they follow the same trend: an upward jump between 1995 and 1996 and a steady decline afterwards. Desaggregation presented in the Table B.1.3 reveals that most of the increase between 1995 and 1996 (suggested to result from the change in methodology by WHO document quoted above) are concentrated in expenditure on direct provision of out-patient care. This gives a lead to further necessary research into explaining existing inconsistencies in health care expenditure time series data and differences in the estimates of levels of health expenditure in Slovakia coming from different sources.

Chapter 9
Unemployment Benefits and Active Labour Market Policies

9.1. Introduction

Employment is one of the key focal points of social policy in the Slovak Republic, as the rate of unemployment increased from nearly zero to 20 percent in only one decade. The high unemployment rate is a direct result of the transformation of the economy and, in particular, the government's privatization efforts. The combined effects of eliminating workplaces, low investments in the economy, and limited new job creation has resulted in a high level of joblessness throughout the country. Unemployment has had profoundly damaging consequences for many families, especially in those regions where large industrial plants once employed entire families. Although all the governments during the surveyed period declared the reducing of the high unemployment rate as one of their highest priorities, so far their efforts have been unsuccessful. At the end of surveyed period, the unemployment rate continued to increase.

During the state socialist regime, the Czechoslovak government followed a policy of full employment, as according to communist ideology, every active age citizen was obligated to work. While full employment was never achieved in reality, still the number of unemployed persons was quite limited. Thus, unemployment policies were not formulated in this period and there were no unemployment benefits. The dramatic increase of unemployment at the beginning of the 1990s necessitated the establishment of a whole new branch of social security: new policies, programs, and institutions were formed to protect the unemployed and to provide various employment and retraining services.

The Unemployment Fund was created in 1993 and, in 1996, transformed into the National Labour Office (hereinafter, "NLO"). The NLO is responsible for passive and active labour market policies, such as unemployment insurance, counseling to job seekers, retraining programs, and employment improvement measures. The legal basis for these programs is *Act No. 387/1996 (Coll. of Laws) on Employment*, as amended by later legislation (hereinafter, "Employment Act").[1]

The unemployment insurance system collects contributions paid by employers, employees, the self-employed, and other persons covered under mandatory insurance coverage, and pays benefits to qualified individuals. Unfortunately, the unemployment insurance system was introduced without the necessary by-laws for its operation. Thus, in the absence of specific and clear eligibility criteria for registering the unemployed, anyone could have himself or herself registered as such. This led to a situation where many people who had never been employed before (such as housewives, students, seasonal workers, and others) could claim the official status of being unemployed. Once registered this way, they were entitled to receive unemployment benefits and, moreover, to be insured by the state through the social security and health insurance systems.

Active labour market policies were developed to help the unemployed to find suitable occupations as well to support employers create new jobs. In fact, the number of vacancies has always lagged far behind the number of registered unemployed and the creation of new workplaces has proven to be highly insufficient. The Employment Act authorizes the following active labour market policies and programs:

- retraining;
- support for job creation;
- support for regional and local authorities in creating public work/jobs;
- support for employment of specific target groups;
- support for job maintenance projects;

[1] For more on active and passive labour market policies and related legislation, see Appendix A.9.a. and Chapter 3.3. on the National Labour Office.

- support for employment revitalization projects;
- support for employment of people with reduced ability to work;
- measures and programs for providing counseling for those seeking jobs; and
- support for protected workshops and protected workplaces.[2]

The Employment Act also defines certain, more disadvantaged groups among the unemployed. Due to their increased difficulty in finding jobs, they may participate in special programs. These target groups are:

- juveniles at the end of their vocational education;
- recent secondary school and university graduates;
- persons over 50 years of age;
- unemployed persons registered for more than one year ("long-term unemployed"); and
- persons with reduced ability to work.

9.2. Trends in Public Expenditure on Unemployment-Related Programs

Trends in expenditure on passive and active labour market policies diverge. In the middle of the 1990s, only about one-third of the revenues collected was spent on passive labour market policies (unemployment benefits and transfers to compulsory social insurance), while expenditures on active labour market programs were much more generous. With the rapidly increasing unemployment rate, however, subsidies for new job creation were cut radically (see Figure 9.2.1).

In comparison with other kinds of social protection expenditures, those related to unemployment were less costly (as percent of GDP). This was partly because of the strict entitlement conditions for unemployment benefits, the short duration of benefits, and the low benefit amounts (compared to previous wages). The maximum unemployment benefit in 2001 was less than 50 percent of the average national wage (see Appendix A.9.a). Statistical data concerning

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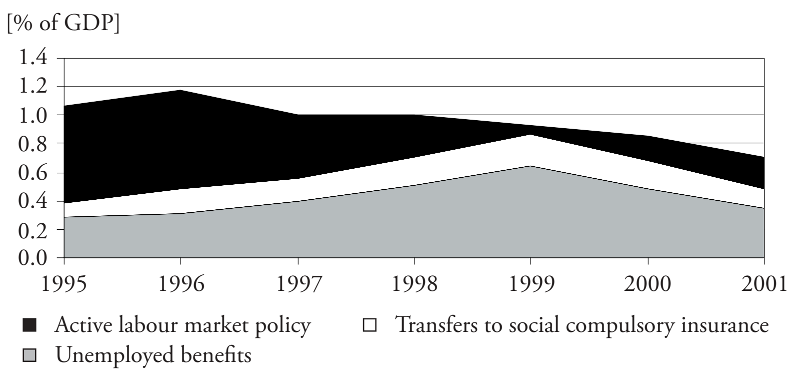
2 For a detailed description of these programs, see Appendix A.9.a.

expenditure on various labour market policies has been available only since 1995 (see Figure 9.2.1). State subsidies on active labour market measures are not included in the annual reports of the NLO (see Table 9.2.1).

Figure 9.2.1 shows trends in the expenditure of the National Labour Office on various active and passive labour market policies between 1995 and 2001 (the chart does not show the special earmarked subsidies of the state). Expressed as percentage of GDP, the highest portion was devoted to such employment policies in 1996, when this figure stood at 1.17 percent. Subsequently, expenditure on labour market programs decreased gradually, from 1.07 percent of GDP in 1997 to 0.72 percent in 2001.

Expenditure on passive labour market policy measures, which include unemployment benefits and social security contributions paid on behalf of the unemployed, was 0.38 percent of GDP in 1995, out of which 0.1 percent were transfers to compulsory social insurance. Total expenditures on passive labour market policies increased sharply after 1995. The major reason was rapid growth in the number of people who were laid off and applied for benefits. After a peak in 1999, expenditures on passive labour market policies started to decrease, mostly because of new legal restrictions on eligibility.

Figure 9.2.1
NLO expenditure on active and passive labour market policies, as percent of GDP, 1995–2001



Source: National Labour Office; Statistical Office of the Slovak Republic; own calculations.

As can be seen in Figure 9.2.1, active labour market programs consumed enormous amounts of revenues between 1995 and 1998. They did not, however, have a positive impact on the unemployment rate, which remained around 15 percent during these years. The inefficient use of resources was observed by Peter Magvasi, the Chairman of the Board of Directors of the NLO and Minister of Labour, Social Affairs, and Family, in his remarks in the 2001 Annual Report of the National Labour Office. According to Magvasi:

> …[t]he objective in 2002 is to make more funds available for the financing of active employment policies. It would not be wise to spend such funds as thoughtlessly as they were spent between 1995 and 1997.[3]

In 1999, expenditure on active labour market policies decreased sharply to 0.05 percent of GDP. In this year, benefit expenditures were highest. This indicates that policymakers saw a greater need to finance passive labor market policies, such as paying unemployment benefits, than to support active labor market programs. Nevertheless, during 2000–2001, one can see a moderate increase in expenditures on active labour market policies.

Even though expenditures on all types of labour market policies decreased from 1995 to 2001 as a percent of GDP, the absolute numbers in Slovak Korunas actually increased. This is because GDP grew in these years by 73.9 percent, while labour market policy expenditures increased only by 40.3 percent.

Table 9.2.1 shows how expenditures on active labour market policies increased during 1999–2001. While support for job creation fluctuated wildly from year to year, overall expenditure increased very significantly. This was due to special earmarked state subsidies for public work jobs for the long-term unemployed.

Financial support of job creation was provided as grants to employers and the self-employed. They did not have to repay the grants even if they were unable to maintain all newly created jobs or self-employment activities during

[3] National Labour Office. 2002. *Annual Report of the National Labour Office.* Bratislava: Directorate-General of the NLO. p.4.

the whole period for which these subsidies were provided. Expenditures on targeted active labour market measures decreased from 1999 to 2000 by almost 100 million SKK, as shown in Table 9.2.1. In 2001, we can see a sharp increase on all types of job-creation subsidies, probably because of tightened eligibility criteria for unemployment benefits, which left more funds for other programs. In any case, due to a new earmarked subsidy from the state budget for creation of public work jobs, total spending increased considerably in 2000 and 2001. This special government measure to finance active labour market policies was prompted by the sharply increasing unemployment, especially the long-term unemployment rate (see Figure 9.3.1).

Table 9.2.1
Expenditure on active labour market policies, paid by the state, the National Labour Office, and other organizations, in thousand SKK, 1999–2001

Indicator	1999	2000	2001
Support for job creation			
1. by employers	56,790	17,874	65,434
2. for self-employed	26,985	7.184	157,175
3. for graduates and juveniles	4,252	466	1,595
4. for public work jobs	105,332	72,149	122,709
5. for special groups	5,152	571	1,697
6. other*		1,251	4,252
Total expenditure on targeted active labour market measures	**198,511**	**99,495**	**352,844**
Sum total with earmarked subsidies**	**474,032**	**1,570,444**	**2,234,923**
From which: subsidies from the state budget		**1,201,391**	**1,444,584**

Note: * "Other" refers primarily to loans for job creation.

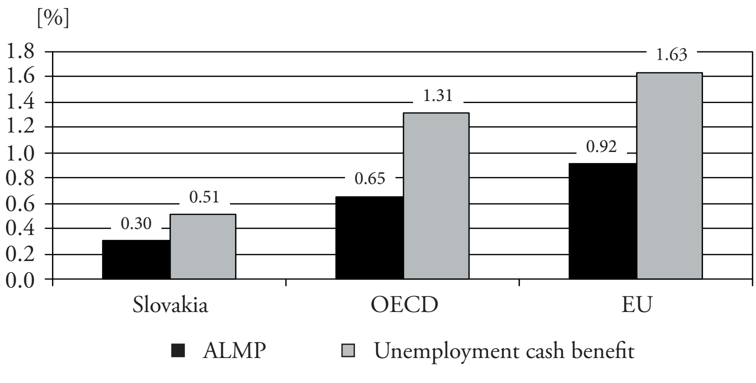
** This sum total also includes specific earmarked subsidies paid directly from the state budget, which are therefore not included in the National Labour Office budget. Due to incomplete disclosure and fragmented data, there may be some overlap in the figures.

Source: National Labour Office, Annual Reports for 1999, 2000, and 2001, published by the Directorate-General of the National Labour Office, Bratislava.

Figure 9.2.2 shows that in 1998, in comparison with the EU and OECD member states, the Slovak expenditure on active and passive labour market policies was a remarkably low percent of GDP. Although the unemployment rate in Slovakia was much higher than in these countries, only 0.51 percent of GDP was spent on unemployment cash benefits, while in the EU member states the average figure was 1.63 percent, the OECD rate was somewhat lower but still more than twice that of Slovakia.

In general, unemployment benefits in the Slovak Republic are much lower and paid for a shorter period of time than in the EU and OECD countries. The lower level of active labour market policy expenditure in Slovakia may be explained by the fact that it was financed only from the unemployment insurance contributions without subsidies from the state budget until 1999. Prior to this, expenditure on active labour market policies was less than half of that in the OECD countries and less than one-third of that in the EU community.

Figure 9.2.2
Expenditure on active labour market policies and unemployment cash benefits in Slovakia, compared to EU (pre-2004) and OECD averages, as percent of GDP, 1998



Note: ALMP: Active Labor Market Policy expenditures.

Source: Statistical Office of the Slovak Republic; OECD; own calculations.

9.3. Trends in the Scope, Extent, and Depth of Coverage

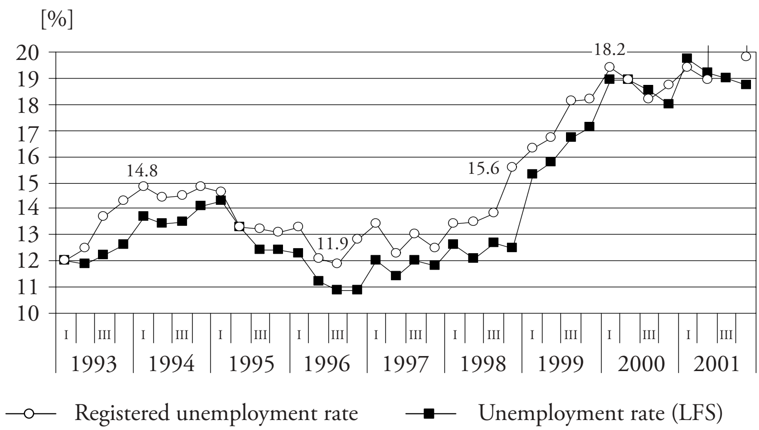
In 2001, nearly every economically active person was compulsory covered by the unemployment insurance system. Only the self-employed and their cooperating persons were covered on a voluntary basis. Of the total productive age population, 64 percent was covered by unemployment insurance (see Figure 3.3.4 in Chapter 3).

Concurrent with political transition, the unemployment rate increased immediately and rapidly. While at the end of 1990 it was only 1.5 percent, it jumped to 11.8 percent by the end of 1991. These figures are estimates, as data on both household unemployment and registered unemployment have been available only since 1992.

Figure 9.3.1 compares quarterly unemployment data for 1993–2001 produced by the Labour Force Surveys (LFS) of the households and the registered unemployment data recorded by the National Labour Office.[4] It shows that in the fourth quarter of 1993, the registered unemployment rate surpassed 14 percent. Short periods of governmental crises, destabilizing interim elections, and right-wing economic measures brought about a further increase of the unemployment rate in 1994. During the second phase of economic transformation (1995–1998), the economic situation, including the labour market, stabilized. As the process of economic restructuring slowed, the registered unemployment rate decreased to 12–13 percent for a period of four years. The third phase of economic development started after parliamentary elections at the end of 1998. The new right-wing government introduced austerity measures that resulted in another dramatic increase in unemployment. In 1998, the average unemployment rate was 15.6 percent, and it jumped to 18.2 percent the next year. As the disequilibrium on the labour market continued, the unemployment rate reached almost 20 percent. In 2001, Slovakia had the highest rate of unemployment among all

[4] The difference between the two is a result of the different problem focus and methodology used. The Labour Force Survey is an official household survey, collecting data from the households, while the data on registered unemployment comes from the National Labour Office.

Figure 9.3.1
Unemployment rates according to Labour Force Surveys and registered unemployment rate, quarterly data, 1993–2001



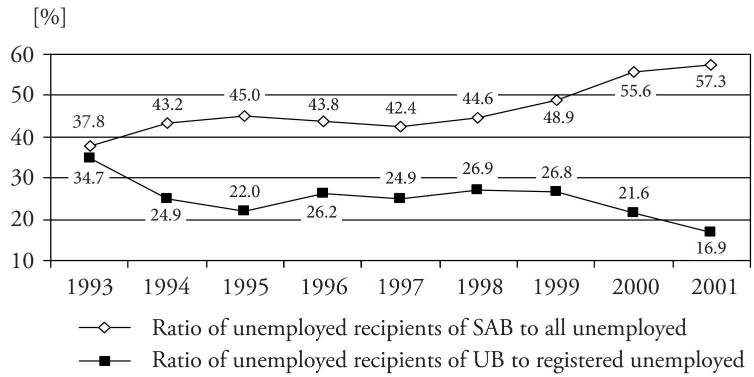
Note: The registered unemployment rate is the ratio (in percent) of registered unemployed persons to the total number of economically active persons (the number of workers in sole or main employment + the number of women on maternity and additional maternity leave + the number of registered unemployed persons).

Source: National Labour Office; Statistical Office of the Slovak Republic; own calculations.

EU candidate countries—19.8 percent. In this year, the inflow to the pool of unemployed stopped, and even a small outflow could be observed at the end of 2001, but mostly as a result of stricter conditions for registration and eligibility for benefits.

The number of unemployed receiving unemployment benefits is one measure of the extent of coverage by the scheme. This is shown in Figure 9.3.2. During last three years, the ratio of unemployed eligible for benefits decreased by 10 percentage points, from 26.9 percent in 1998 to 16.9 percent in 2001. Meanwhile, the number of those eligible to receive social assistance increased, and their ratio to all registered unemployed grew by some 9.5 percent from 1999 to 2001. During the entire period, the average number

Figure 9.3.2
Relation between the average number of registered unemployed and recipients of unemployment (UB) and social assistance benefits (SAB), 1993–2001

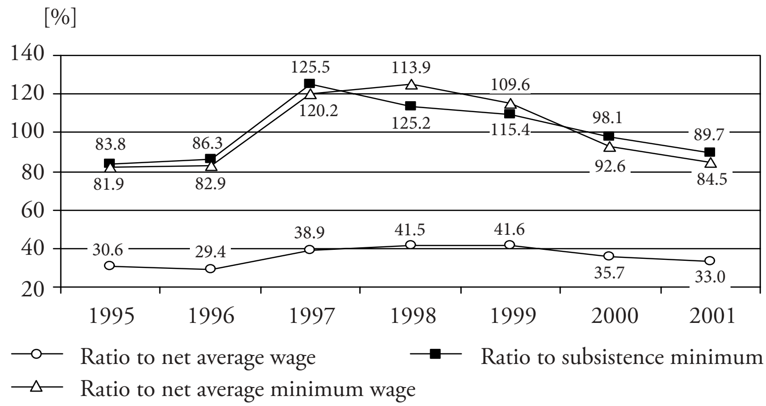


Source: National Labour Office; own calculations.

of registered unemployed receiving social assistance benefits was higher than the number of recipients of unemployment benefits (see Figure 9.3.2). The decline in one group and growth of the other is a result of the increasingly acute phenomenon of long-term unemployment. Those unemployed who lose entitlement to unemployment benefits (after six or nine months of receiving them) usually become eligible for social assistance benefits.

Figure 9.3.3 compares the average unemployment benefit with the average wage, the average net minimum wage, and the subsistence minimum. The ratio of the unemployment benefit to the average net minimum wage and to the subsistence minimum decreased between 1997 and 2001. This was because the ceiling on the unemployment benefit was not linked either to wage growth or to the cost of living, but was set rather arbitrarily. By contrast, the average net minimum wage and the subsistence minimum were linked to both indicators, and thus their real value was maintained. Compared to the average net monthly wage, the average unemployment benefit increased from 29.4 percent in 1996 to 41.6 percent in 1999 and then decreased to 33 percent in 2001.

Figure 9.3.3
Average value of unemployment benefit, 1995–2001



Source: National Labour Office; own calculations.

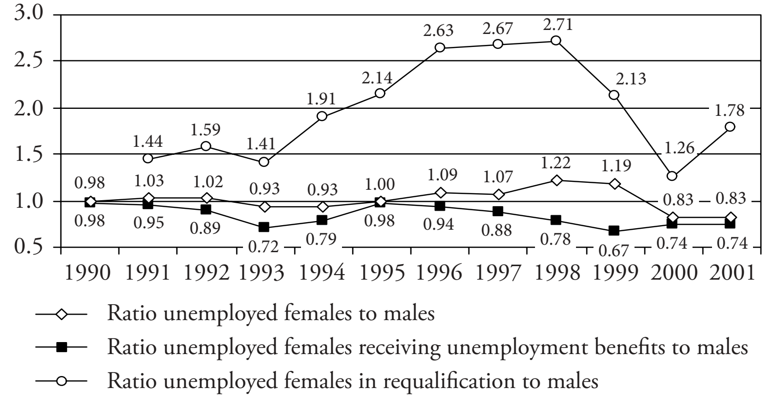
Figure 9.3.4 looks at unemployment from a gender perspective. It shows that in 1990, there were 0.98 unemployed women to one unemployed man, and in 2001, this ratio was slightly lower, 0.83. Only during the period between 1995 and 1999 can one observe a reverse trend. The ratio of women receiving unemployment benefits decreased from 0.98 in 1990 to 0.74 percent in 2001. However, the ratio of women attending retraining programs was significantly higher. Between 1996 and 1998, nearly three times as many women attended retraining programs as men.

Figure 9.3.5 shows that the annual inflow of unemployment benefit recipients consistently increased between 1994 and 1999. In 2000, there was a small drop, which may have been the result of the government's efforts to support the creation of public work jobs for the long-term unemployed. Then in 2001, the increase resumed.

There was a dramatic increase in the average number of unemployed after the 1998 parliamentary elections. The austerity measures of the new government included increasing the cost of energy (such as electricity, oil, gas, etc.), which affected not only household consumers, but also various industries. The ensuing increase in production costs forced firms in less profitable sectors of the economy to cut the number of their employees.

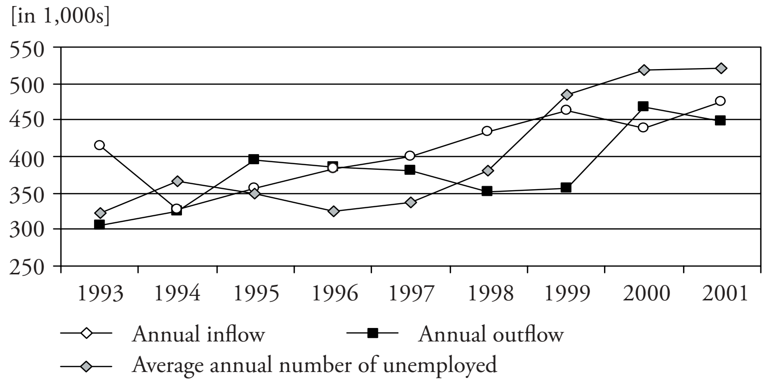
All in all, while 325,000 people were registered as unemployed in Slovakia in 1993, their number reached 530,000 in 2001.

Figure 9.3.4
Registered unemployment indicators by gender, 1990–2001



Source: National Labour Office; own calculations.

Figure 9.3.5
Number of persons registered as unemployed in the Slovak Republic, 1993–2001



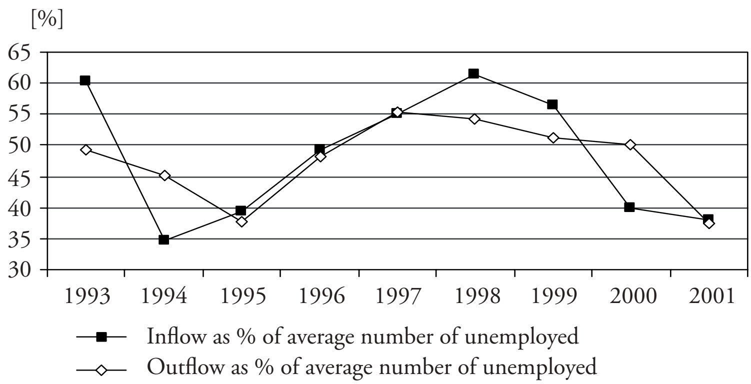
Source: National Labour Office.

Compared to the unemployment rate presented in Figure 9.3.1, the inflow and outflow of persons receiving unemployment benefits (Figure 9.3.6) looks different, as not every unemployed person is eligible and benefits are provided only for a limited period. While the number of unemployed persons increased from 1993 to 1994, the inflow of new unemployment recipients decreased from 60.3 percent of the unemployed to 34.7 percent during the same period. However, after 1994, the inflow of beneficiaries increased until 1998.

The outflow of beneficiaries also increased, and as a result, the net caseload was relatively stable during 1994–1998. After 1998, however, new unemployment benefit recipients declined, due to the austerity measures of the new government: following parliamentary elections, the new government focused on strengthening conditions for eligibility to receive unemployment benefits. Comparing Figure 9.3.5 to Figure 9.3.6, one can see that despite the drop in the inflow of unemployment recipients, the total number increased during 1998–2001.

Considering the very high number of unemployed persons (about 530,000 in 2001), the percent of those attended retraining and professional rehabilitation programs is strikingly low. Their inflow has decreased significantly since 1999,

Figure 9.3.6
Percent of unemployed persons receiving unemployment benefits, 1993–2001



Source: National Labour Office.

when the number of unemployed started to increase rapidly (see Figure 9.3.7). There was a fortunate reversal in 2001, when inflow reached 4.6 percent, This was still far lower than in 1997, when the inflow was 7.4 percent of all registered unemployed.

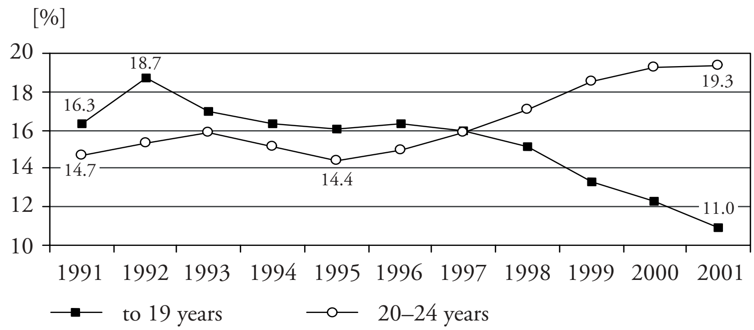
Figure 9.3.8 shows that nearly 20 percent of young people (below age 25) are unemployed. However, the situation is different for those 19 and younger, compared to those who are 20 to 24 years old. The number of unemployed within the group of youngsters up to the age of 19 decreased, because the length of obligatory school attendance increased during the late 1990s. In contrast, the number of unemployed between 20 and 24 years of age increased during 1999–2001, because there were not enough new jobs for the large age cohort born in 1970s. Even though young people are the group most targeted by the NLO among all unemployed, the efforts have not been successful.

Certain groups are at a particular risk of long-term unemployment: young people entering the labour market, women returning to the labour market after taking care of children, persons with low skills, and physically disabled persons. Persons with lower levels of education are also more prone to becoming unemployed: in 2000, 59.9 percent among all unemployed had only

Figure 9.3.7
Registered unemployed persons in retraining and professional rehabilitation programs, 1993–2000

Source: National Labour Office.

Figure 9.3.8
Unemployment among the youth: Representation of the young among all unemployed, 1991–2001



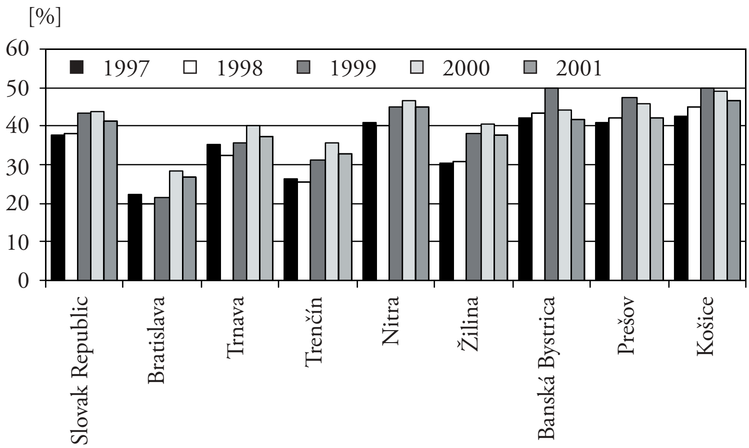
Source: National Labour Office.

elementary level education or attended vocational schools without obtaining a certified skill.

Figure 9.3.9 shows the development of long-term unemployment for the country as a whole as well as for its regions during 1997–2001. Long-term unemployment, expressed here as percentage of the total unemployment, was extremely high throughout this period. Particular regions, however, show great variation. The Bratislava region (around the capital of Slovakia) had the best situation: long-term unemployment here was 22.4 percent in 1997, dropped to 19.7 percent in 1998, and increased to 26.8 percent in 2001. The region of Trenčín (in Northwestern Slovakia) had the second lowest rate, starting with 26.4 percent in 1997 and reaching 32.9 percent in 2001. The Eastern Slovakian region of Košice suffered the worst long-term unemployment: the rate started with 42.6 percent in 1997, peaked at 49.9 percent in 1999, and decreased to 46.8 percent in 2001. Three other regions (Banská Bystrica, Prešov, and Nitra) also had a long-term unemployment rate of more than 40 percent during each of the monitored years.

Act No. 100/1988 (Coll. of Laws) on Social Security calls for special attention to those social groups that are severely disadvantaged by long-term unemployment and that have chronic difficulties with social adaptation.

Figure 9.3.9
Long-term unemployment by regions in Slovakia, as percent of total unemployment, at 31 December of each year, 1997–2001



Source: National Labour Office.

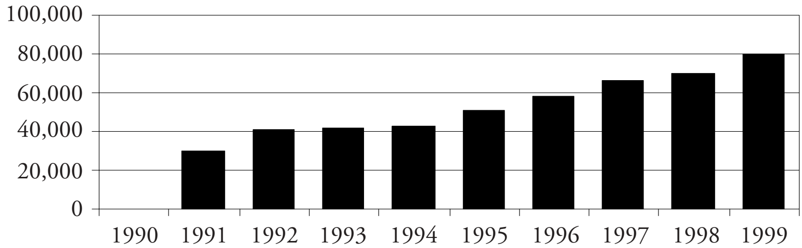
In these two categories, the average length of registration at the regional employment offices is 2.5 years. In both groups, the Roma minority is over-represented.[5]

The Roma population is especially affected by the numerous weaknesses in the Slovak labour market. As Figure 9.3.10 shows, the number of unemployed Roma increased from virtually zero in 1990 to 30,000 in the next year, and reached 40,500 in 1992. After a temporary lull, the number reached 50,500 in 1995, 70,000 in 1998, and 80,000 in 1999. This latter figure represented 16.4 percent of all unemployed in the Slovak Republic.[6]

[5] Eva Rievajová. 2000. Dlohodobá nezamestnanosť a možnosti jej riešienia (Long-term Unemployment and the Scope of Its Solution). *Práca a sociálna politika*. No. 4. Bratislava: Research Institute of Labour and Social Affairs and the Ministry of Labour, Social Affairs, and Family of the Slovak Republic.

[6] Eneke Hanzelová. 2000. Aktuálneé otázky postavenia rómov na trhu práce v SR (Urgent Issues Concerning the Position of the Roma Population on the Labour Market

Figure 9.3.10
Unemployment among the Roma population, 1990–1999



Source: Eneke Hanzelová. 2000. Aktuálneé otázky postavenia rómov na trhu práce v SR (Urgent Issues Concerning the Position of the Roma Population on the Labour Market in the Slovak Republic). *Práca a sociálna politika*. No.3. Bratislava: Research Institute of Labour and Social Affairs and the Ministry of Labour, Social Affairs, and Family of the Slovak Republic.

Figure 9.3.11 puts the Slovak unemployment situation in an international perspective, comparing it with EU member and candidate countries. As the data from the second quarter of 2000 show, Slovakia recorded the worst unemployment figure at 19.1 percent. In comparison with the EU average of 8.2 percent, the unemployment rate in Slovakia was 2.3 times higher. Among the other accession countries, Bulgaria and Poland also had very high unemployment rates at 16.2 percent and 16.3 percent, respectively. On the other hand, Cyprus (4.9%), Hungary (6.6%), and Slovenia (6.9%) managed to keep their unemployment level below the EU average.

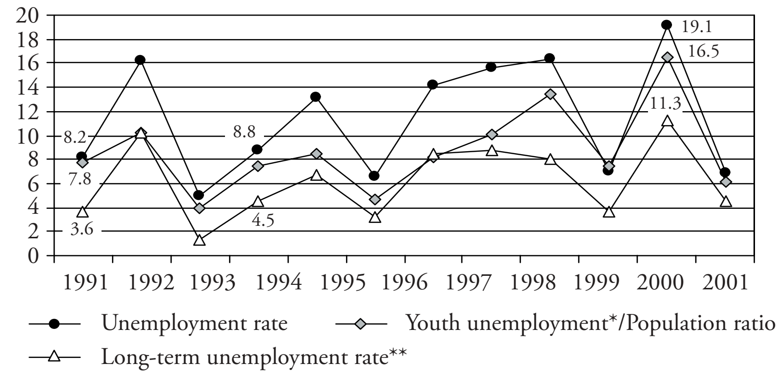
Long-term unemployment was worse in Slovakia than in the EU member and candidate countries. The 11.3 percent figure in the Slovak Republic in

in the Slovak Republic). *Práca a sociálna politika*. No. 3. Bratislava: Research Institute of Labour and Social Affairs and the Ministry of Labour, Social Affairs, and Family of the Slovak Republic. This research was conducted within the Research Institute of Labour and Social Affairs and surveyed registered unemployment in targeted regions of the Slovak Republic, with a special focus on the participation of the Roma population in the labour market.

2000 was 3.1 times higher than the 3.6 percent average in EU countries. Among the other accession countries, again Bulgaria (10.2%) and Poland (8.0%) followed Slovakia, together with Latvia (8.8%) and Lithuania (8.4%). In terms of their long-term unemployment rates, Cyprus and Hungary performed better than the EU average, with 1.3 percent and 3.2 percent, respectively. Romania with 3.6 percent and Slovenia with 4.5 percent also had relatively favourable long-term unemployment figures.

The youth unemployment rate (those between 15 and 24 years) was again the highest in Slovakia, at 16.5 percent, which is 2.1 times higher than the EU average of 7.8 percent. Considering that the age group of 15–24 years represented 17 percent of the total Slovak population in 2000, the situation was particularly dire. Poland again had a high youth unemployment rate, at 13.4 percent, while in the other accession countries these rates were not much different from the EU average, ranging between 4 and 10 percent. All in all, Slovakia fared the worst on all three indicators in 2000.

Figure 9.3.11
Unemployment indicators, comparison between the EU member and candidate countries, second quarter of 2000



Note: * Ratio of the unemployed to the whole cohort in the age group of 15 to 24.

** Long-term unemployment means unemployed status for twelve or more months.

Source: EUROSTAT; Labour Force Surveys.

9.4 Issues and Problems

Unemployment affected nearly every Slovak family or household during the 1990s. The overall living standard decreased, as there was at least one unemployed member in a large proportion of the families, posing not only material but also psychological distress. High unemployment also led to a decrease in tax revenues and a reduction of insurance contributions necessary for paying various social security benefits. As passive and active labour market measures were paid from collected unemployment insurance contributions, these were also squeezed. To create new jobs, the government tried to attract foreign investment. Here, the right-wing coalition government of the 1998–2002 parliamentary cycle was the most successful. However, these efforts failed to create new jobs in sufficient numbers, and the unemployment rate only continued to increase.

Recognizing the work disincentive of receiving unemployment benefits, the government decided to set the level of statutory benefits very low in comparison to the wages subject to unemployment contributions. However, the low and nearly flat-rate unemployment benefit structure had an adverse effect as well: the employers and employees sought to avoid unemployment insurance contributions. This added to the existing incentives for informal employment.

One of the biggest roadblocks to creating new jobs was the lack of resources. As the number of unemployed increased, especially after 1998, the revenues of the NLO also decreased while the expenditure on unemployment benefits and social assistance benefits skyrocketed. This seems to be a reason why neither the NLO nor the state budget could provide enough funds to finance public work jobs. With the decreasing revenues from the NLO, municipalities could not create new jobs and the rate of long-term unemployed again increased. It is important to find a way to finance job creation by municipalities and non-profit organizations for those persons who are unwilling to seek work actively in the private sector.

Certain politicians and experts are of the opinion that unemployment could be reduced more effectively by spending public funds on job creation rather than unemployment benefits. Others, however, point out that those who had paid contributions should not suffer a loss of income protection after losing a job. There are also views that supporting job creation might be a waste of public funds, especially since contracted employers are not obligated to maintain the jobs for a longer period of time.

As in a number of other accession countries, Slovakia had a very high unemployment rate among the Roma minority, which reached 61.8 percent in 2001.[7] A 1991 government plan for the Roma population stated that the principle of equal citizenship should be applied in the social, cultural, educational, and economic fields toward the Roma.[8] However, this resulted in the elimination of affirmative action measures that the Roma minority could enjoy in the social sphere and on the labour market during state socialism. The new regime argued that the 40 years of paternalism towards the Roma forced them to assimilate with the majority population and to integrate artificially into the labour market. Therefore, the new social policy should emphasize the principle of responsibility for oneself and for one's family, and this should be the basis of increasing the living standards of the whole population. However, most of the grave difficulties the Roma face when trying to enter the labour market remained: they still have a low level of education and professional skills. All these factors make the social exclusion of the Roma population even deeper. For more on the social problems the Roma minority faces, see Chapter 11 on poverty alleviation.

[7] Andrey Ivanov, ed. 2002. *Avoiding the Dependency Trap. The Roma in Central and Eastern Europe*. Bratislava: United Nations Develoment Programme. pp.2, 41.

[8] Zásady vládnej politiky k Rómom, na roky 1991–1996 (Principles of the Government Policy towards the Roma Population for the Years 1991–1996). Prijaté uznesením vlády Slovenskej republiky č. 1991 (Government Resolution No. 153/1991).

Chapter 10
Family and Children's Benefits

10.1. Benefits and Services

The state provides social support to families with dependent children in various forms: through cash benefits, tax reductions, or provisions in-kind, such as education and childcare facilities. State social benefits have two objectives. First, they aim to ensure that the living standard of families with children will not fall below a minimum level. Second, they help families to cope with specific events and conditions in life which might significantly decrease the family income, such as the birth and care of a child. By providing social benefits, the state recognizes its responsibility to support families with children and those who plan to have children. Promoting reproduction among the population and alleviating poverty among children are both high social welfare priorities of the state.

The financing of different family and children's allowances varies, depending on the history of the particular benefit and its rationale. Certain benefits provided as income maintenance or replacement (due to childbirth, maternity leave, or being a single parent) are paid from sickness insurance. However, the majority of allowances (for example, all parental allowances, children's allowances, and foster care allowances) are paid from the state budget, based on the notion that all citizens should help to support families with children. There are also some allowances that are financed by local governments or municipalities (for example, attendance service to mothers of triplets or quadruplets, etc. or two sets of twins born within two years).

Cash benefits can be paid as single payments to address a one-time problem, or as recurring allowances when the condition recognized by the state persists. Some benefits are means-tested (see Appendix A.10.a.).

Social support for families and children consists of the following provisions:

Recurring cash benefits:

- maternity allowances: income maintenance in the event of pregnancy and childbirth and maternity leave benefit (non means-tested);
- single parent's allowance (non means-tested);
- parental allowances: parental leave allowance (means-tested), subsistence contribution for the family of a member of the armed forces (means-tested), housing contribution for a member of the armed forces (means-tested, this benefit was withdrawn in 2000, but once the eligibility is recognized, it is paid until the conditions of eligibility change);
- children's allowance (means-tested) and additional children's allowance (this allowance was repealed in 1998, but once recognized, benefits are paid until the recipient is no longer eligible);
- benefits to parents of triplets (or more children born at once) or to parents of two sets of twins born within two years (non means-tested, paid once a year); and
- foster care allowances: periodic foster care allowances for the child (non means-tested) and remuneration for the foster parent (also non means-tested).

Single cash payments:

- childbirth payment (non means-tested); and
- foster care allowance for children (non means-tested).

Benefits in-kind:

- attendance service can be provided to children, to the mother of triplets (or more children born at once), or to the mother of two sets of twins born within two years (non means-tested; the municipal authority decides on eligibility);
- foster care facilities; and
- children's homes.

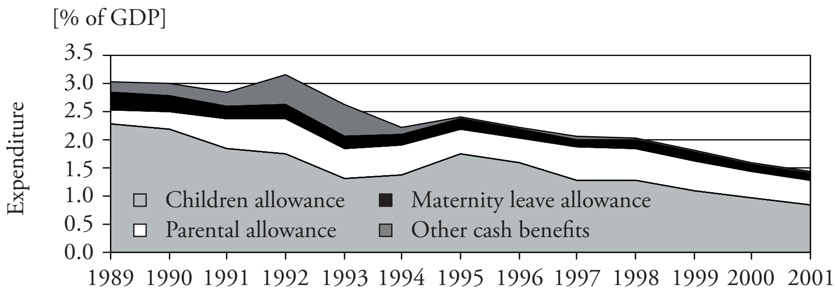
10.2. Trends in Public Expenditure on Cash Benefits for Families and Children

Nearly all family and children's allowances just described were provided during the state socialist regime. After 1989, such benefits were adjusted for inflation to some extent. Responding to increasing expenditure on family cash benefits, the Meciar government in the early 1990s decided to means test some of these. Thus, for example, a 1994 law means tested the child allowance.

Even though expenditure on these benefits increased in real terms during the 1990s, its ratio within the GDP declined (see Figure 10.2.1). In 1989, expenditure on family and children's allowances in total was 3 percent of GDP. In 1992, it peaked at 3.1 percent, but since 1993, a downward trend can be observed, which continued to 1.4 percent of GDP in 2001. As we can see from Figure 10.2.1, the adjustment of family and children's allowances did little to offset the general decline this type of social expenditure.

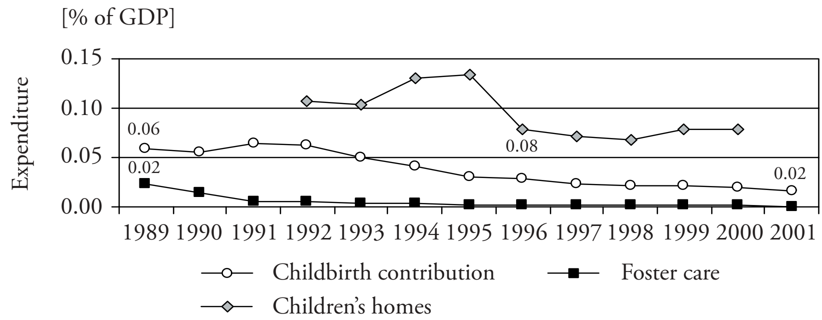
Figure 10.2.2 shows a decline in expenditure on three types of children's benefits as a percent of GDP. Expenditure on childbirth contributions decreased significantly from 0.06 percent of GDP in 1989 to 0.02 percent in 2001. This benefit is paid as a lump-sum, and its value is stated by law. During

Figure 10.2.1
Expenditure on family and children's allowances, as percent of GDP, 1989–2001



Source: Ministry of Labour, Social Affairs, and Family of the Slovak Republic; own calculations.

Figure 10.2.2
Expenditure on childbirth contributions, foster care, and children's homes, as percent of GDP, 1989–2001



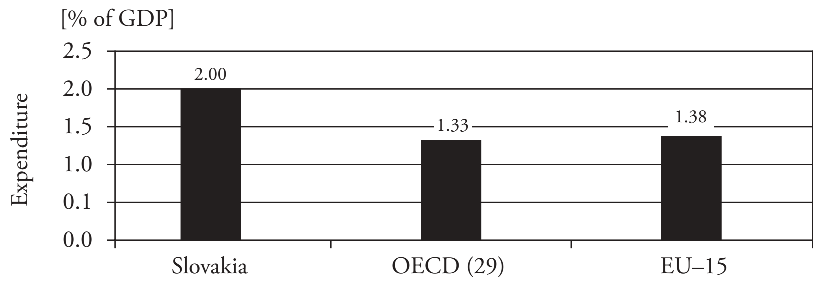
Source: Ministry of Labour, Social Affairs, and Family of the Slovak Republic; own calculations.

the period under review, there was no political will to adjust the benefit to inflation. Expenditure on foster care decreased from 0.02 percent of GDP in 1989 to virtually zero in 2001. Expenditure on children's homes increased for a brief period in 1995 and 1996 from the previous 0.11 percent of GDP in 1993 to 0.13 percent, but it started to decrease after that. By 2001, it had reached 0.08 percent of GDP. However, the overall expenditure on these three benefits was only 1.4 percent of GDP in 2001. Thus, they were a very small part of overall social protection expenditure.

Figure 10.2.3 shows that expenditure on family cash benefits (calculated according to the OECD methodology and as a percent of GDP) is much higher in Slovakia than that in EU and the OECD member states on average. The most likely explanation for this is that the Slovak population is much younger than the EU average (see Chapter 1, Figures 1.1.6 and 1.1.7).

Figure 10.2.4 shows expenditures on family cash benefits for persons aged 0 to 19 years among the various European Union countries, as well as Slovakia and Slovenia in the year 2000, expressed in PPS (Purchasing Power Standards, calculated in EUR), in accordance with the ESSPROS 1996 methodology. In comparison with the EU average (1,361 EUR PPS), Luxembourg has an exceptionally high expenditure with 4,687 EUR PPS. Spain and Portugal are

Figure 10.2.3
Expenditure on family cash benefits, compared with average levels in EU and OECD countries, 1998

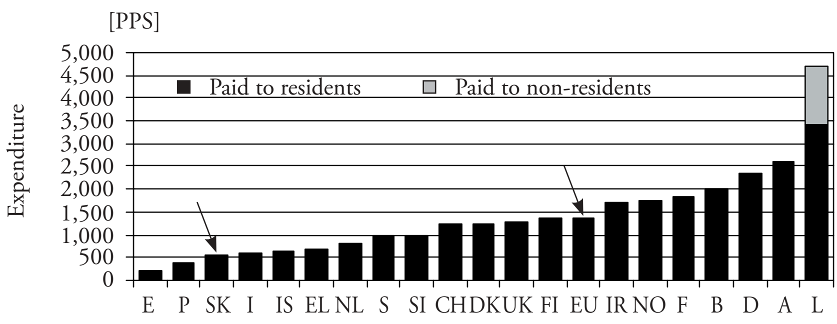


Source: OECD (SOCX), own calculations.

at the other extreme, with 200 EUR PPS and 450 Euro PPS, respectively. The situation in Slovakia resembles that of a number of neighboring European countries, with its 550 EUR PPS expenditure in 2000.

Figure 10.2.5 shows expenditure on cash and in-kind family benefits as percent of GDP (calculated according to the ESSPROS 1996 methodology) in several European Union member states and in Slovakia in 2000. The

Figure 10.2.4
Expenditure on cash family benefits, in PPS per person, aged 0–19 years, 2000

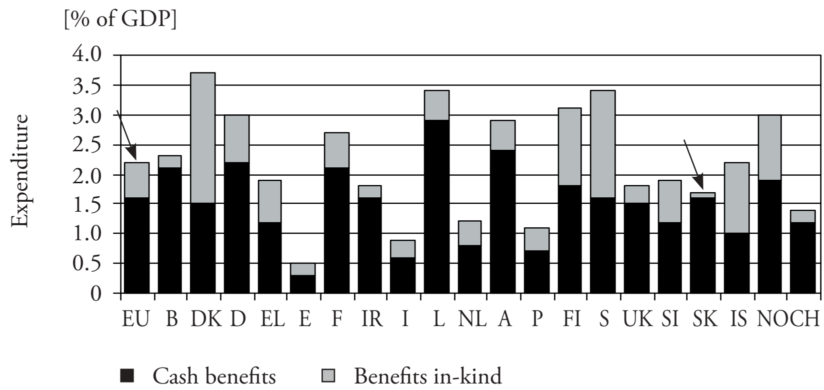


Source: EUROSTAT–ESSPROS.

differences between these European countries are significant. There are two countries where less than 1 percent of GDP is spent on family benefits (Spain with 0.5 and Italy with 0.9), while there are two more where only a little more than 1 percent is spent (Portugal, with 1.1%; the Netherlands, with 1.2%). Slovakia belongs to another group of countries where approximately 2 percent of GDP is spent on family benefits. The figure is 1.7 percent in Slovakia, 1.8 in the United Kingdom and Ireland, and 1.9 percent in Slovenia and Greece. The third group of countries comprises those that spent at least 3 percent of their GDP on family benefits in 2000, such as Denmark (3.7%), Germany (3.0%), Luxembourg (3.4%), Finland (3.1%), Sweden (3.4%), and Norway (3.0%).

The average EU expenditure on family benefits (both cash and in-kind) was 2.2 percent of GDP, higher than in Slovakia. In the EU countries, 1.6 percent of GDP was spent on average on cash benefits, with Belgium at 2.1 percent, Denmark at 2.2 percent, France at 2.1 percent, Luxembourg at 2.9 percent and Austria at 2.4 percent. Slovakia spent 1.6 percent of its GDP on cash family benefits and only 0.1 percent of GDP on benefits in-kind, which was the lowest amount among all these countries.

Figure 10.2.5
Expenditure on family benefits, as percent of GDP, 2000



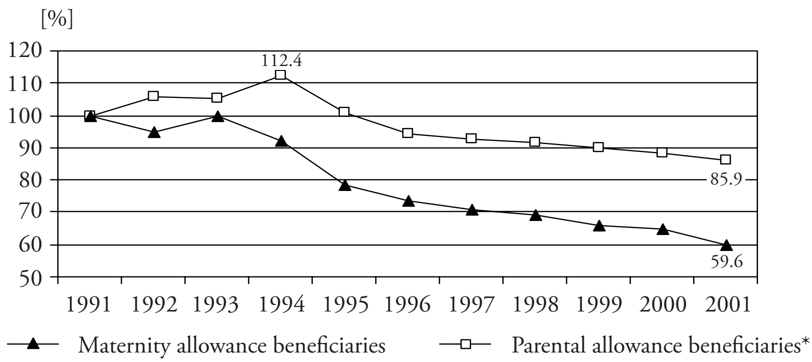
Source: EUROSTAT–ESSPROS.

10.3. Trends in the Scope, Extent, and Depth of Coverage

Eligibility for some family and children's allowances is restricted (i.e., those that are means-tested), while others are more broadly available, and based on citizenship. Although single parents are covered like two-parent families with children, they have a few advantages: single mothers, for example, may receive maternal leave allowance longer than mothers with a father at home, and single fathers also have the right to maternity leave (see Appendix A.10.a.1.2). Benefits paid from the social insurance system, such as maternity leave, are limited only to insured women. However, every eligible parent may receive the parental allowance financed from the state budget. The real value of benefits is limited by the economic situation and the government's fiscal constraints, but because of the generally low level of earnings, these benefits still boost family income significantly, especially for families with many children.

As the fertility rate decreased dramatically during the 1990s, there was also a decrease in the number of families with children (see Figure 10.3.1). The number of those receiving the maternity leave allowance decreased remarkably

Figure 10.3.1
Number of family allowance beneficiaries, 1991=100%, 1991–2001



Note: * The Act on Parental Leave Allowance came into effect in 1990.

Source: Ministry of Labour, Social Affairs, and Family of the Slovak Republic; own calculations.

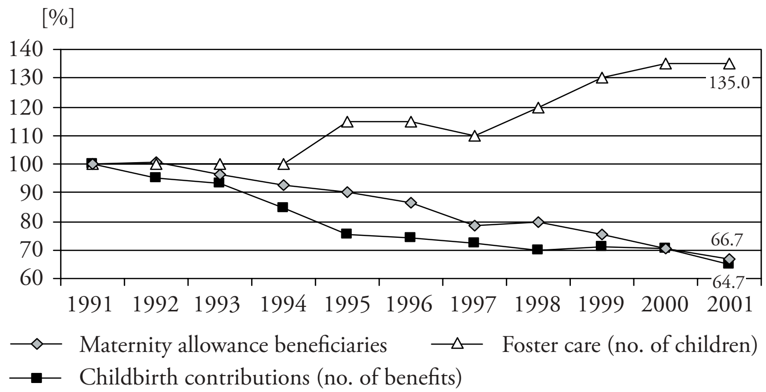
from 1995, at which point they were only 78.4 percent of the 1991 base. By 2001, the ratio had declined to just 59.6 percent. This sharp decline was also fueled by the fact that maternity leave is an insurance benefit, available only to contribution payers (see Appendix A.10.a).

The parental allowance, which is paid from the state budget, has no such eligibility restrictions. Yet, expenditures for this benefit dropped as well: after a temporary increase from the 100 percent base in 1991 to 112.4 percent in 1994, a steady decline can be observed.

Figure 10.3.2 shows similar trends in the number of children's allowance and childbirth payment recipients. The number of those receiving children's allowances decreased immediately after the means-testing of eligibility in 1993 and further restrictions were imposed in 1994. Thus, coverage shrank significantly, due to both the declining number of children and the tightening of eligibility requirements. The number of beneficiaries decreased to 66.7 percent of the 1991 level by 2001.

The number of beneficiaries of childbirth payments was at first influenced, of course, by the dramatic drop in the number of children born and also by the

Figure 10.3.2
Children's allowances, foster care allowances, and childbirth payment beneficiaries, 1991=100%, 1991–2001

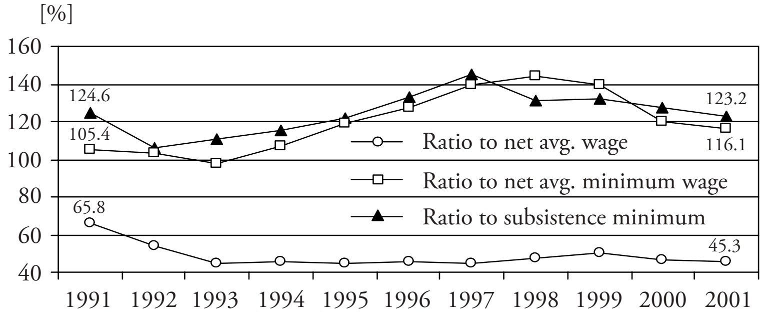


Source: Ministry of Labour, Social Affairs, and Family of the Slovak Republic; own calculations.

increasing age of women giving birth to their first child. Only the number of foster care recipients has shown a different trend: on the 100 percent baseline of 1991, it reached 135 percent in 2001. From these figures, we can assume that in 2001 there were more orphans and/or abandoned children than in 1991. These children were not brought up in children's homes, but in foster care families or establishments. (See Figure 10.3.6, which shows that there are fewer and fewer children in children's homes.)

The following three tables compare the value of the family and children's allowances provided by the state to the minimum wage, average wage, and/or subsistence minimum. Figure 10.3.3 shows that the value of average maternity leave allowance, as portion of the net average wage, decreased from 65.8 percent in 1991 to 45.3 percent in 2001. Since this is a sickness insurance benefit that replaces the previous wage of the mother, the ratio may seem surprisingly low. The reason for this is a ceiling on the daily assessment base. The benefit is calculated as 90 percent of the former net daily wage, but no more than 350 SKK per day. As this ceiling is stated by law, it can only be changed by legislative action.

Figure 10.3.3
Maternity leave allowance as percent of the net average and minimum monthly wage, as well as of the subsistence minimum, 1991–2001



Source: Ministry of Labour, Social Affairs, and Family of the Slovak Republic; own calculations.

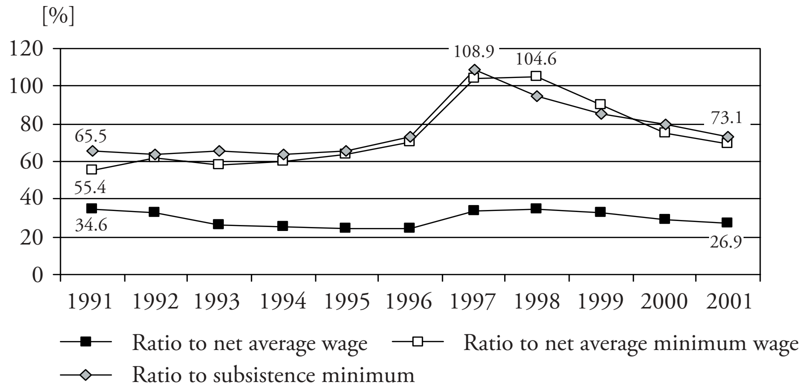
The ratio of maternity allowance to the average net minimum wage exceeded 100 percent during the entire period (from 105.4 percent in 1991, it increased to 116.1 percent in 2001), except in 1993, when it dropped to 97.3 percent. Its ratio to the subsistence minimum fluctuated in the range of 120–145 percent.

Figure 10.3.4 suggests that there was a political influence on the value of parental leave allowance. Its ratio to the subsistence minimum increased abruptly in 1997. One may assume that this was because parliamentary elections were held the following year, in 1998. The shape of the bell curve reinforces this assumption: before and after 1997–1998, the ratio remained stable at around 70 percent, reaching 73.1 percent in 2001.

The ratio of parental allowance to the average net minimum wage shows a similar development: it increased from 69.9 percent in 1996 to 104.6 percent in 1998. After that, it fell to 68.9 percent in 2001. Only in comparison with the average net wage do we see a decline at the end of the period—together, by 7.7 percent.

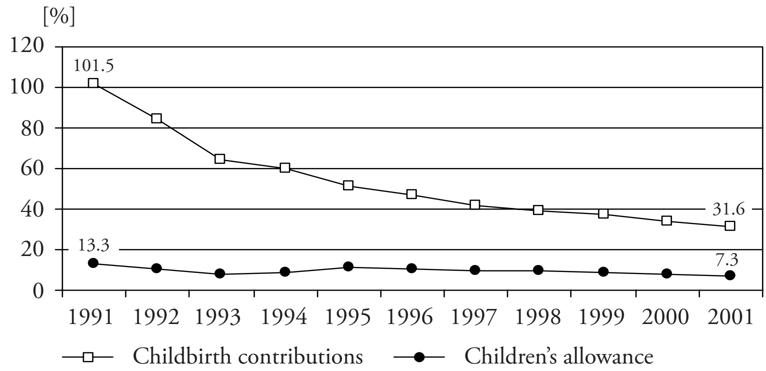
Figure 10.3.5 shows that the ratio of the children's allowance to net average wage declined during the 1990s and lost 6 percent of its nominal value, as

Figure 10.3.4
Parental leave allowance as percent of the net average and minimum monthly wage, as well as of the subsistence minimum, 1991–2001



Source: Ministry of Labour, Social Affairs, and Family of the Slovak Republic; own calculations.

Figure 10.3.5
Children's allowance and childbirth payment as percent of the net average wage, 1991–2001



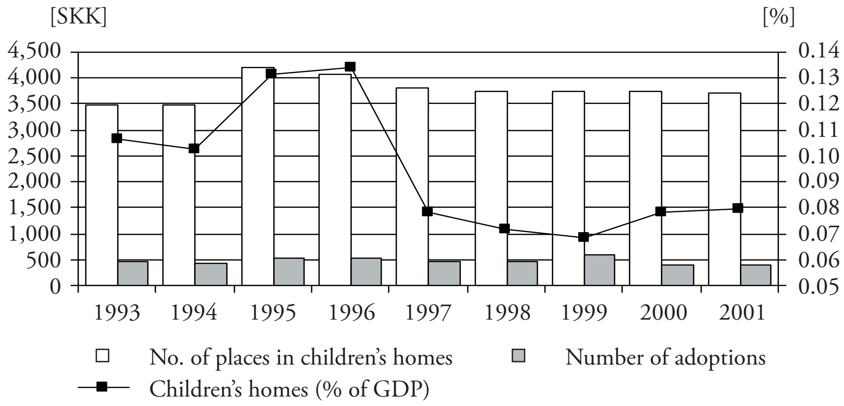
Source: Ministry of Labour, Social Affairs, and Family of the Slovak Republic; own calculations.

this state benefit was not adjusted to inflation regularly. The decline was even more dramatic in the case of the childbirth contribution: its nominal value compared to the net average wage decreased by about 69.9 percent during the ten monitored years, even though in nominal terms the amount of the benefit increased.

It is interesting that, although the number of places in children's homes was quite stable during the surveyed period, the expenditure on them as percent of GDP decreased by half (from 0.14 to 0.07 percent) and then made a slight rebound in 2001. This decrease in spending compared with the constant number of places shows growing unused capacity in children's homes since, as was explained earlier, more and more children were placed with foster families. Figure 10.3.6 also shows a low rate of adoption in the Slovak Republic. This is partly because legal procedures for adoption are very demanding of future parents.

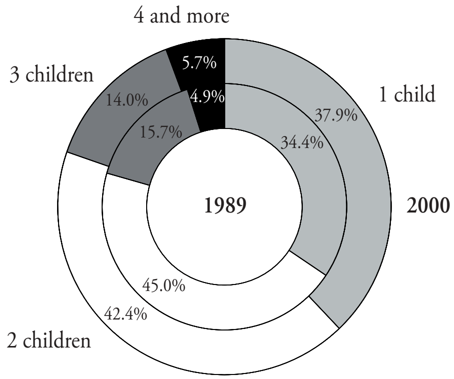
Figure 10.3.7 shows that among the families that received child allowances in 2000, 42.2 percent had two children and 5.7 percent had four or more children. During the last 10 years, the composition of families by number

Figure 10.3.6
Places in children's homes and expenditure on them, as percent of GDP, 1993–2001



Source: Statistical Office of the Slovak Republic.

Figure 10.3.7
Families receiving the children's allowance, distribution by the number of children, 1989 and 2000



Source: Ministry of Labour, Social Affairs, and Family of the Slovak Republic; own calculations.

of children did not change significantly. However, the number of recipients decreased among families with two and three children, and increased among families with one child and among those with four or more children. This reflects the fact that many young families prefer to have only one child and that many couples decide to have the first and second child later in their lives, after building their professional careers (see also Chapter 1).

As Table 10.3.1 shows, the population of the Slovak Republic is relatively young. The percentages of people in various age categories are quite similar to other accession countries. But, in comparison with the average of the 15 EU member states, the population of Slovakia is significantly younger.

Table 10.3.1
Population structure by age group, as percentage of total population, as of 1 January 2001

Indicator: Age groups	Slovak Republic	Czech Republic	AC* interval	EU-15	EU interval
0–19	27.4	22.9	22.6–30.8	22.9	20.9–30.1
20–59	57.0	58.7	53.4–58.7	55.4	53.7–57.5
60–79	13.6	16.0	13.1–18.9	18.0	12.5–20.1
80+	1.9	2.4	1.9–2.7	3.7	2.6–5.1

Note: * Accession countries: Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovak Republic, Slovenia.

Source: EUROSTAT.

10.4. Issues and Problems

In a landmark work on social welfare policy for children, Keith Pringle stated:

> Despite what I have said about the gross imperfections of social policy under communism, it may well be that a number of commentators (such as Deacon 1992) have perhaps underrated its achievements in some East European countries. For instance, there is no doubt that welfare supports for families with children in countries such as Hungary, the GDR, Czechoslovakia and Poland pre-1989 were, by many standards

> including some West European ones, quite impressive (Cornia 1991). As Cornia notes, such measures as universal family allowances, childcare grants, maternal allowances, provision in-kindergartens and services in-kind based at the workplace should not be dismissed. Similarly, Ferge (1991, 1993) notes that these supports had their roots in those longer-standing welfare traditions discussed above and were not purely the products of relatively short-term communist economic necessity.[1]

These statements aptly describe the general picture that emerges from this chapter.

The preceding sections trace an evolution whereby children's allowances changed dramatically from the universal payments provided under socialism to win popular support. In 1993, the government reduced the allowances across the board, and started to provide them more selectively, but still every family remained entitled to them. In 1994, the new *Act No. 193/1994 (Coll. of Laws) on Children Allowances and the Additional Child Allowance* entered into force, introducing the principle of means-testing for children allowances. Making a variety of social benefits means-tested became a trend after this first step.

Under this legislation, children's allowances are calculated yearly on the basis of household income in the previous year, the number of children, and their ages (see Appendix A.10.a). Following the principle of means-testing, those households earning more receive relatively less or nothing at all, and

[1] Keith Pringle. 1998. *Children and Social Welfare in Europe*. Buckingham and Philadelphia: Open University Press. p.110. The references cited in Pringle are: B. Deacon. 1992. Social Welfare Developments in Eastern Europe and the Future for Socialist Welfare. In: *Changing Social Work and Welfare*. eds. P. Carter, T. Jeffs. and M.K. Smith. Buckingham: Open University Press; G.A. Cornelia. 1991. Economic Reforms and Child Welfare: in Pursuit of Adequate Safety Nets for Children. In: *Children and the Transition to Market Economy*. eds. G.A. Cornia and S. Sipos. Aldershot: Avebury; Zsuzsa Ferge. 1991. Social Security Systems in the New Democracies of Central and Eastern Europe: Past Legacies and Possible Futures. In: Cornia and Sipos, as previously cited; and Zsuzsa Ferge. 1993. Social Change in Eastern Europe: The Prospects for Children and Families in Hungary. In: *Surviving Childhood Adversity*. eds. H. Ferguson, R. Gilligan, and R. Torode. Dublin: Social Studies Press.

those earning less receive more. Two groups of households are entitled to receive the children's allowance: families with incomes less than 1.37 times of the subsistence minimum (SM), and families with more than 1.37 times but less than 2.1 times the SM. If family income exceeds 2.1 times the SM, that family is not entitled to receive this allowance at all. These rules have resulted in a major problem. If the family income exceeds the threshold only by one Slovak Koruna, that family is entitled to a much lower children's allowance.

This glitch in the benefit formula is a source of great dissatisfaction for many families. A family with income over 2.1 times of the subsistence minimum still has to pay higher taxes and its expenses related to their children are no less. On the other hand, the relatively high amount of the children's allowance discourages parents from accepting any job that would pay them less than the average wage, as it would mean an overall decrease in family income. The negative effect on incentives to take up a job is strongest among heads of families with many children, because combining social assistance and children's allowances brings much higher income for a large family than a relatively well paid job.

This issue was even discussed by the OECD in its evaluation of the Slovak Republic: "Indeed, families with two or more children that have no income receive cash benefits (which are not taxed) exceeding the average production worker's net wage in 2001."[2] Even though the real value of the children's allowance decreased during the 1990s, it is still high enough compared to the average wage on the national level to discourage parents from seeking poorly paid jobs. [3]

[2] OECD. 2002. *The Labour Market: Addressing High Unemployment and Developing Human Capital*. OECD Economic Surveys: Slovak Republic. June 2002. Paris: OECD. p.92.

[3] As Figure 10.3.5 shows, the value of children's allowances decreased by 6 percentage points compared to the average wage between 1991 and 2001.

Chapter 11
Poverty Alleviation and Social Assistance

11.1. Introduction

The Slovak Republic enacted a social assistance law relatively late in the transition period, in 1998. Prior to this, the legal basis for social assistance was a series of regulations promulgated in the late 1980s and 1990s.[1] These regulations specified the eligibility conditions for state aid (usually cash payments) to the so-called “socially dependent” population, that is, families whose income was inadequate to meet their basic living needs.

In 1998, Parliament enacted *Act No. 195/1998 (Coll. of Laws) on Social Assistance*, later amended (hereinafter, “Social Assistance Act”). This act states that the purpose of social assistance is to secure basic living conditions for people in need in their own natural environments; to prevent obstruction to their mental, physical, and social development; and to integrate them into society. (For conditions of eligibility, see Appendix A.11.a.) This act differentiates between permanent and temporary cash social assistance. Permanent benefits are provided to persons in material destitution: that is, to those who are not able to secure basic living conditions for themselves. During the period under examination, these benefits were calculated in two different ways, depending on whether the person was in material destitution due to:

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[1] Regulation No. 378/1991, which was replaced by regulation No. 234/1993. Prior to 1991, the regulations were scattered in three separate sections adopted in 1998 and 1990. In general, all these regulations stipulated who was eligible for social assistance (usually a cash benefit), the minimum income which should be provided for every individual and household, and some other conditions for receiving support.

a) *objective reasons* (e.g., disability, pensioner, registered unemployed and unable to find work); or
b) *subjective reasons* (e.g., unregistered unemployed, all long-term unemployed).

In addition, those whose income from economic activity did not reach 120 percent of the subsistence minimum could receive a social assistance payment as a wage supplement. Permanent cash social assistance also included a housing benefit provided to those whose income fell below a threshold stated by law.[2]

Temporary cash social assistance benefits included:
a) interest-free social loans; and
b) single social assistance payments, both of which were provided to cover unexpected expenses in the household; and
c) a targeted cash benefit, provided to persons with a disability that prevented them from overcoming their material destitution.

The Social Assistance Act also authorizes in-kind benefits provided as social services to those who need them to secure basic living conditions. These include:
a) communal catering (one hot meal per day); and
b) specialized care provided in social services establishments (shelters, personal hygiene centers, and laundries, mostly for homeless persons).[3]

11.2. Trends in Public Expenditure on Social Assistance

In the Slovak Republic, the overwhelming portion of social assistance expenditures in the period examined consisted of cash benefits, rather than for services. Available statistics indicate that cash benefits comprised 100 percent of all

[2] This benefit is provided pursuant to *Act No. 300/1999 (Coll. of Laws) on Housing Contribution*, and not the Social Assistance Act, and is provided independently of the social assistance benefits, although the condition for eligibility is the same: insufficient income.

[3] See Appendix A.11.a.

social assistance spending in 1990 and 99 percent in 2000. In-kind social services appear truly insignificant.

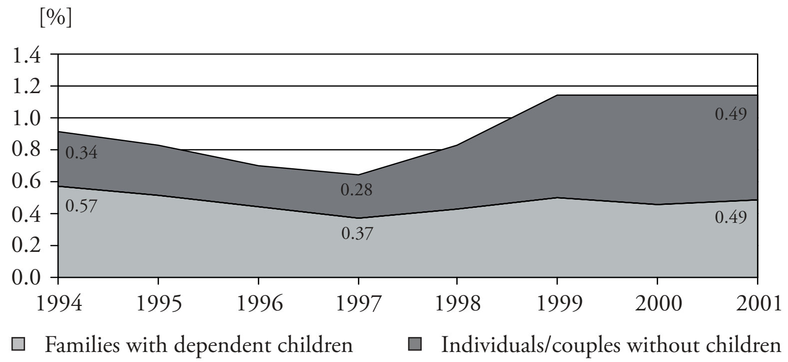
However, upon closer examination, spending was not quite so skewed toward cash. During state socialism, there had been, for example, certain elderly people who lived in seniors' homes not only because of their age, but also because of their poverty. Furthermore, some families received free housing because they were too poor to pay rent, but could not be evicted. There were also a few people of productive age (especially young people from villages employed by large state-owned enterprises) who lived in workers' homes or dormitories, even though they did not do any work or worked only intermittently. Thus, in-kind benefits for those in need were present but hidden during state socialism. After 1990, these social services started to be separated from the employment to which they had been attached. This process was very slow, however, and it took years before explicit systems of in-kind benefits for poor people materialized. As already mentioned, the special act that regulates the provision of both cash and in-kind benefits was passed by Parliament in 1998, a full nine years after the beginning of transition from state socialism.

Figure 11.2.1 shows that expenditures on social assistance due to material destitution, expressed as percentage of GDP, increased from 0.91 percent in 1994 to 1.15 percent in 2001. There was a drop in the mid-1990s, however, followed by an increase. The lowest point was 1997, at 0.65 percent of GDP. After that, spending reached 0.83 percent of GDP in 1998 and 1.14 percent in 1999. During 2000–2001, expenditures leveled out.

Looking at these trends in relation to family status, social assistance expenditure for families with dependent children decreased from 0.57 percent of GDP in 1994 to 0.37 percent in 1997, and then increased slightly to 0.49 in 1999, where it held steady until 2001. Expenditure for individuals and couples without children varied more dramatically: starting at 0.34 percent of GDP in 1994, it bottomed out at 0.26 percent in 1996, and then rose to 66 percent for 1999–2001.

Expressed in absolute numbers, expenditure for families with children nearly doubled, increasing from 2,759 million SKK in 1994 to 4,819 million SKK in 2001. For individuals and couples without children, it increased nearly four-fold, from 1,664 million SKK to 6,546 million SKK.

Figure 11.2.1
Expenditure on social assistance benefits due to material destitution, as a percent of GDP, 1994–2001



Source: Ministry of Labour, Social Affairs and Family of the Slovak Republic.

It is noteworthy that material destitution among individuals and couples *without* children is much higher in Slovakia than that among families with children. This phenomenon can be partly explained by the existence of family benefits for the latter group.

The *housing benefit* was introduced by *Act No. 300/1999 (Coll. of Laws) on Housing Contribution* (hereinafter, "Housing Contribution Act," see Appendix A.11.a). It requires that claimants for social assistance apply for a housing contribution (benefit) *before* their social assistance benefit is computed. This rule serves as a screening mechanism to reduce the number of social assistance recipients. As a result, expenditures on housing benefits rose rapidly, even though the benefit itself was only 30 percent of the subsistence minimum and only 11 percent of the net average wage, as we can see in Table 11.2.1. As a percent of GDP, housing benefit expenditure did not appear very high, but considering that only one benefit, paid at a rather low amount, accounted 0.0721 percent of GDP in 2001, this spending is not without importance.

In comparison with OECD and EU member states, Slovakia spent very little on housing benefits for the poor, as Figure 11.2.2 illustrates. One of the reasons is the low level of the benefit, which did not cover actual housing expenses (rent).

Table 11.2.1
Housing benefit, 2000–2001

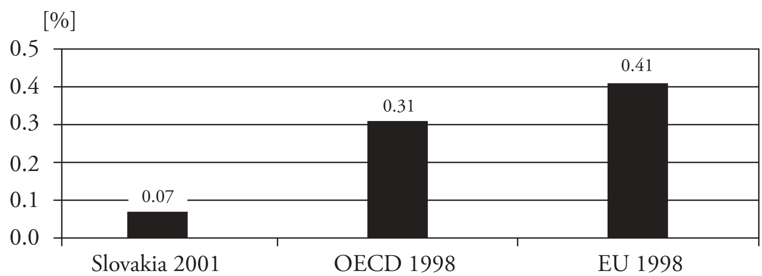
	2000	2001	2001/2000
Housing benefit			
• expenditure as percent of GDP	0.0626	0.0721	115.1
• as percent of average net wage	11.54	11.03	95.6
• as percent of subsistence minimum	31.72	29.98	94.5

Source: Ministry of Labour, Social Affairs and Family of the Slovak Republic; own calculation.

In contrast with housing benefit expenditure, expenditure on cash social assistance (Figure 11.2.3 below) was much higher in Slovakia as a portion of GDP than in OECD and EU countries: it was more than double the level of the EU and nearly double that of the OECD.

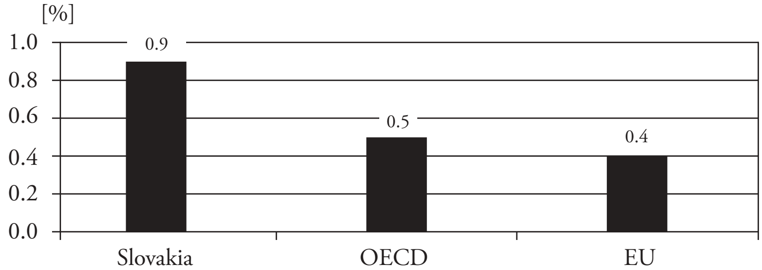
If we add the housing benefit (which was still not incorporated into the Slovak social assistance benefit system in 1998) and again compare Slovakia with the EU and OECD, the aggregate expenditure becomes roughly the same across all three. However, this comparison misses an important point: the number

Figure 11.2.2
Housing benefit expenditure in Slovakia, compared with OECD and EU countries, as a percent of GDP, 1998 and 2001



Source: OECD (SOCX), Ministry of Labour, Social Affairs, and Family of the Slovak Republic.

Figure 11.2.3
Social exclusion cash benefits, as percent of GDP, 1998



Source: OECD (SOCX), Ministry of Labour, Social Affairs, and Family of the Slovak Republic.

of people served. Looking at the number of socially dependent persons, not only the share of the GDP spent on benefits, we can see that poverty and social exclusion in Slovakia represented a much deeper crisis than in EU member states. While the rate of persons at risk of poverty averaged 15 percent in EU member states in 2001, available data for the Slovak Republic indicates that its rate was more than a third higher, at approximately 21 percent.[4]

11.3. Trends in the Scope, Extent, and Depth of Coverage

Throughout the 1990s, many groups were eligible for social assistance benefits of various kinds. The range of targeted groups was so wide it created a heavy burden on the state budget and posed the threat of unsustainable costs in future years. Moreover, these benefits left recipients without financial motivation

[4] Ian Dennis and Anne-Catherine Guio. 2004. Monetary Poverty in New Member States and Candidate Countries. *Statistics in Focus.* No. 12/2004. Luxembourg: EUROSTAT. p.2. This comparison is considered provisional as discussions are ongoing within the Slovak Institute of Statistics concerning the quality of the Slovak data.

to improve their own living circumstances by seeking new income sources. Recognition of both these problems led to some changes in social assistance policy in 2000 and 2001, such as providing benefit reductions and stricter eligibility conditions, as will be described later.

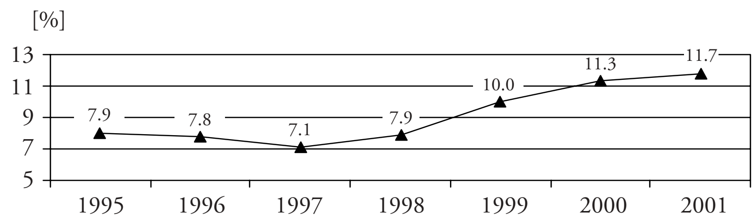
Under the decision of a competent authority (usually local officials), social assistance benefits were provided for:

- those with low income or no income at all (permanent or temporary cash benefits);
- families and children (e.g., children's homes, homes for single parents);
- disabled and retired persons (senior's homes, attendance services facilities, canteens for pensioners, etc.); and
- drug addicts, or individuals with drug-related problems.[5]

Figure 11.3.1 shows that, as the 1990s progressed, more and more people fell into material destitution: while 7.9 percent of the total population fell into this category in 1995, by 2001, the share was 11.7 percent.

The primary reason for this spread of poverty was unemployment, especially long-term unemployment. For those unemployed for more than 12 months (see Chapter 9), there were no more unemployment benefits. Moreover, in 2000,

Figure 11.3.1
Ratio of persons in material destitution, as percent of the total population, 1995–2001



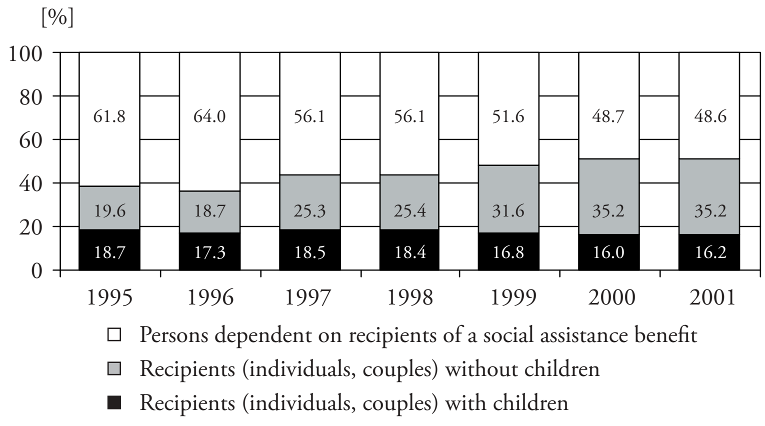
Source: Ministry of Labour, Social Affairs, and Family of the Slovak Republic; own calculations.

[5] For rules of eligibility, see Appendix A.11.a.

the amount of permanent cash social assistance for the long-term unemployed was reduced drastically, from the subsistence minimum to half that amount.

Figure 11.3.2 breaks down the total group of social assistance recipients into three categories: recipients with no dependents, those with dependents, and dependents (indirect beneficiaries).[6] A clear trend can be observed: there was a lower portion of indirect beneficiaries and a growing portion of recipients without dependents. This trend is consistent with the data presented in Figure 11.2.1, which shows that, towards the end of the 1990s, expenditures on social assistance for recipients without children increased faster than for recipients with children. Together these statistics point to growing poverty among single people and childless couples. One part of the explanation for this, as noted earlier, is that family and children's benefits improve household income over the subsistence minimum level, while the social assistance for childless households is always below that level.[7]

Figure 11.3.2
Distribution of persons in material destitution, 1995–2001



Source: Ministry of Labour, Social Affairs, and Family of the Slovak Republic; own calculations.

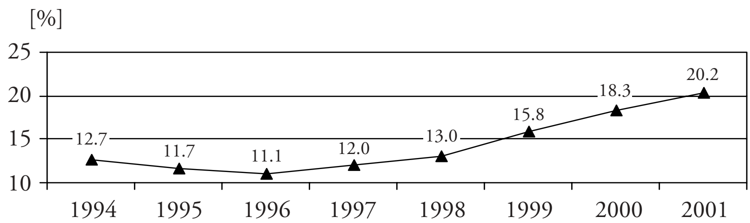
[6] The classification is done in this way since only one person per household may receive benefits.

[7] For more on family and children's allowances, see Chapter 10.

This picture is also consistent with findings from a 2002 OECD survey, entitled *Measures to Encourage Work and Job Search*.[8] It showed that in 2001, all surveyed Slovak families receiving social support (parental and child allowances, mostly paid from the state budget) had income in excess of the subsistence minimum, regardless of whether they worked or relied entirely on social assistance.[9] In other words, through various combinations of work, allowances, and assistance, Slovak families with children were able to maintain themselves above the subsistence minimum level.

Figure 11.3.3 shows that an increasing number of families receiving *children's allowances* also received social assistance. The ratio of families receiving social assistance to all recipients of children allowances increased by 8.2 percentage points between 1997 and 2001, reaching 20.2 percent. Since social assistance was restricted to families with income below the subsistence minimum (before receiving social assistance), we can say that poverty among families has also been on the rise, though the increase is not as great as among persons without

Figure 11.3.3
Ratio of families with dependent children receiving social assistance to all families receiving children's allowances, 1994–2001



Source: Ministry of Labour, Social Affairs, and Family of the Slovak Republic; own calculations.

[8] OECD. 2002. III. *The Labour Market: Addressing High Unemployment and Developing Human Capital. Measures to Encourage Work and Job Search.* OECD Economic Surveys: Slovak Republic. June 2002.

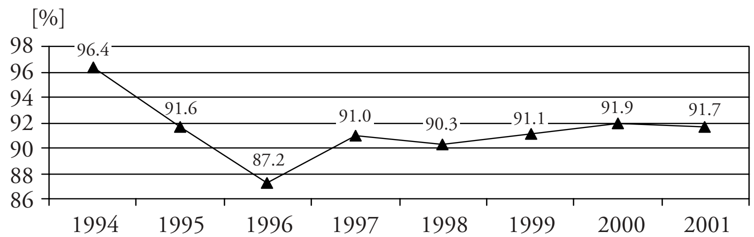
[9] OECD, as previously cited, Figure 25, "Net earnings and social welfare," p.93.

children, as indicated by the previous figure.[10] This trend occurred even though amendments to the Social Assistance Act adopted in 2000 lowered the subsistence minimum.

Figure 11.3.4 shows that among all social assistance recipients, the proportion of *unemployed persons* remained quite high, starting at 96.4 percent in 1993, decreasing to 87.2 percent in 1996, and stabilizing at around 91 percent after that. This reflects the tight restrictions on eligibility for unemployment benefits in the Slovak Republic, where the number of unemployed persons who could not receive such benefits characteristically had been high. With no other options, these individuals turned to social assistance.

Furthermore, as shown in Figure 11.3.5, the ratio of the subsistence minimum to the net average minimum wage was also very high.[11] In 1998 and 1999, the subsistence minimum was set by law even higher than the net minimum wage. This provided a strong financial disincentive for the

Figure 11.3.4
Ratio of unemployed people receiving social assistance to all social assistance recipients, 1994–2001



Source: Ministry of Labour, Social Affairs, and Family of the Slovak Republic; own calculations.

[10] For the exact conditions for entitlement to children's allowances, see Appendix A.10.a.

[11] As the minimum wage changes frequently in Slovakia, the net average minimum wage is the average of various amounts stipulated by law in the course of a year.

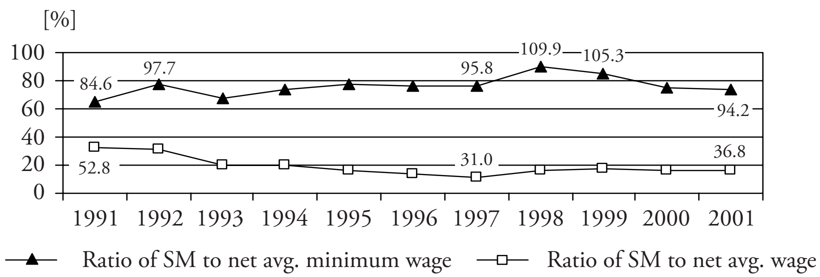
unemployed to look for jobs or to accept any job that did not pay significantly above the minimum wage.

The ratio of the subsistence minimum to the net average wage decreased from 52.8 percent in 1991 to 36.8 percent in 2001, as also shown in Figure 11.3.5. This meant that average wage increased not only in absolute terms, but also in comparison to social assistance benefits.

As explained previously, the Social Assistance Act of 1998 originally divided social assistance claimants into three groups. The first consisted of beneficiaries in material destitution for *objective reasons*; their benefits were set at 100 percent of the subsistence minimum. The second group comprised of benefit claimants who were in material destitution for *subjective reasons*; they received 50 percent of the subsistence minimum. The third group consisted of those whose income from economic activity did not reach the level of subsistence minimum; they received benefits to increase their total income to 120 percent of the subsistence minimum.

Enacted at the beginning of the year, the 1998 Social Assistance Act was set to take effect on 1 July. However, during the spring, a right wing political party won the parliamentary elections. The newly formed Parliament decided to postpone the effective date of the act, because the new government viewed it as too generous to various groups of beneficiaries and too burdensome on

Figure 11.3.5
Ratio of subsistence minimum to net average minimum wage and net average wage, 1991–2001



Source: Ministry of Labour, Social Affairs, and Family of the Slovak Republic; own calculations.

the state budget. The act finally took effect on 23 December 1998, but its provisions did not survive long. It was in this third phase of the economic transformation (after 1998) that the government decided to cut social benefits expenditures.

The new government, led by Mikuláš Dzurinda, amended the Social Assistance Act several times. In 2000, one amendment decoupled social assistance benefits from the subsistence minimum, so that increases in the latter no longer resulted in automatic benefit increases. Another amendment barred the long-term unemployed (those persons who had been without work for more than 24 months) from claiming benefits based on material destitution for objective reasons; thus, they could receive only 50 percent of the subsistence minimum.

In 2001, another amendment stated that the social assistance benefits for claimants in material destitution for objective reasons would be provided as a monthly lump-sum amount, no longer calculated as a function of the subsistence minimum. This meant that benefits would no longer increase automatically with the subsistence minimum. The same amendment also abolished the special benefit for the third group, low-paid employees, which had boosted their income up to 120 percent of the subsistence minimum.

Data on the number of social assistance recipients is available only from 1999. This is presented in Table 11.3.1. It shows a progressive increase in the number of people who claimed to be in material destitution for subjective reasons. The great bulk of these were long-term unemployed who were unable and/or unwilling to find a job. In 2000, the sudden increase in their numbers was caused by the amendment mentioned above restricting them to this less generous social assistance benefit.

However, many people who are officially unemployed and receiving social assistance, mostly for subjective reasons, participate in the shadow economy. That is, they work in an unofficial job from which they receive remuneration in cash. Though there are no solid figures on this type of work, its reality is widely recognized in the Slovak Republic.

Table 11.3.1 shows that in 1999, 64.8 percent of beneficiaries were classified as in material destitution for objective reasons. They thus received a benefit equal to 100 percent of the subsistence minimum. Seven percent were eligible because their earnings fell below the subsistence minimum. They received a

Table 11.3.1
Ratio of social assistance benefit recipients, distributed according to the category of need, 1999–2001

Year	Category of need		
	In material destitution for subjective reasons (%)	In material destitution for objective reasons (%)	Working poor (subsidized up to 120 percent of subsistence minimum)
1999	27.9	64.8	7.0
2000	46.6	37.9	15.4
2001	50.3	49.6	—

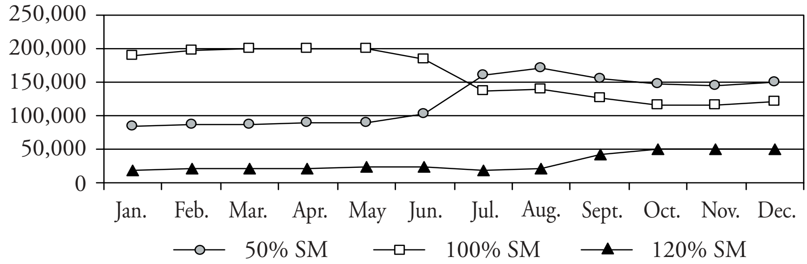
Source: Silvia Valná. 2003. Fungovanie systému sociálnej pomoci a pracovná motivácia (Operation of the Social Assistance System and Motivation to Work). In *Sociálna pomoc a motivácia k práci*. Bratislava: Research Institute of Labour, Social Affairs and Family. p.22.

benefit that brought their total income up to 120 percent of the subsistence minimum. In 2000, the number of recipients granted benefits for objective reasons decreased, mostly because the amendment described previously barred them from this status. These individuals then moved *en masse* to the group with lower social assistance benefits. One can also see that, between 1999 and 2000, the ratio of working poor more than doubled, increasing from 7.0 to 15.4 percent. Despite the apparent growing need, this form of assistance was eliminated in 2001 by the above-mentioned amendment to the Social Assistance Act.

Figure 11.3.6 provides further evidence that the long-term unemployed population simply moved from the 100 percent group to the 50 percent group after the 2000 amendment. It also shows a jump in the fourth quarter of 2000 in the number of those receiving 120 percent of the subsistence minimum. This may be attributable to the increasing value of the subsistence minimum in relation to the lowest (minimum) wages, which were rather stagnant. Consequently, a large number of employees with wages below 120 percent of the subsistence minimum became eligible for this benefit.

These trends show that the Slovak Republic was not very successful in safeguarding the social rights embodied in the European Social Charter, especially the right to fair remuneration. The working poor are indeed a large

Figure 11.3.6
Number of social assistance recipients, month by month, 2000



Source: Ministry of Labour, Social Affairs, and Family of the Slovak Republic; own calculations.

group in Slovakia. By 2000, more than 15 percent of employees (50,000 people) earned less than 120 percent of the subsistence minimum.[12]

Still, it is obvious from these figures that poverty is most often a consequence of unemployment: those households in which the breadwinner is unemployed experience significantly higher rates of poverty. In post-socialist Central Europe, the sudden loss of employment could affect both husband and wife as bread-winners; both were typically employed under state socialism. It can only be expected that in a country which suffers from a very high unemployment rate, poverty is also widespread.

11.4. Poverty and the Roma Population

Under state socialism, the main direction of the government's ethnic policy towards the Roma population was that of assimilation. The Roma were required

[12] Article 4 of the revised European Social Charter on "The right to fair remuneration" states that "With a view to ensuring the effective exercise of the right to fair remuneration, the Parties undertake: (1) to recognize the right of workers to a remuneration such as will give them and their families a decent standard of living; […]" See the European Social Charter (revised) at http://conventions.coe.int/treaty/en/Treaties/Html/163.htm. The Slovak Republic ratified the revised European Social Charter in 1998.

to settle in one place, to attend school, and to participate in the labour market. Improved housing, jobs that paid relatively well, and a variety of state social benefits improved their economic situation considerably. However, even these strong affirmative policies by the socialist state were unable to change the status of this ethnic group as the poorest and least integrated segment of the society.[13] This was especially the case in the eastern regions of the Slovak Republic. After 1989, the philosophy of social policy changed and started to emphasize the principle of individual responsibility. This affected all ethnic minorities, but had the greatest impact on the Roma.[14]

It is estimated that the Roma population numbers nearly half a million in the Slovak Republic, even though the 2002 census counted only 87,000. Table 11.4.1 shows the estimated number of the Roma population in five Central and Eastern European countries. According to this source, the share of the Roma in the total population is the highest in Romania, with 11.2 percent (1.8–2.5 million people), then in Bulgaria and Slovakia with 9.8 and 9.7 percent (0.7–0.8 million and 0.5 million people) respectively. In Hungary, about 6 percent of the population is Roma, while in the Czech Republic, the figure is about 3 percent.

Figure 11.4.1 shows the socio-economic status of the Roma population in these five countries, based on data from standardized interviews conducted at the homes of respondents. The figure makes it clear that this ethnic group was the least economically active in Slovakia: while in the Czech Republic, 36.2 percent of the Roma were employed, in Slovakia, the rate was only 11.1 percent. It is thus not surprising that the dependency of the Roma minority on welfare payments and other transfers was the highest in the Slovak Republic: 79.7 percent of the Roma in Slovakia relied on various social security benefits,

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[13] Under the state socialist regime, egalitarian state policies even provided special social benefits for people with low levels of adaptability, whatever their ethnic affiliation.

[14] This shift is reflected in Government Resolution No. 153/1991, which called for applying the principle of citizenship towards Roma in the social, cultural, educational, and economical spheres. Government of Slovakia *Zásady vládnej politiky k Rómom, prijaté uznesením vlády SR č. 153/1991, na roky 1991–1996 (Principles of the Government Policy towards the Roma Population for the Years 1991–1996).* Government Resolution No. 153/ 1991.

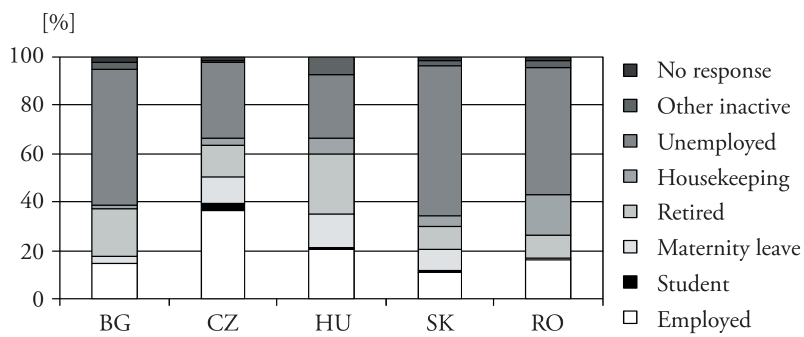
Table 11.4.1
Estimated number of the Roma population in five countries, 1994

Country	Minimum	Maximum	Percentage
Bulgaria	700,000	800,000	9.8
Czech Republic	250,000	300,000	2.9
Hungary	550,000	600,000	6.0
Romania	1,800,000	2,500,000	11.2
Slovak Republic	480,000	520,000	9.7

Source: Jean-Pierre Liégeois. 1994. *Roma, Gypsies, Travellers*. Strasbourg: Council of Europe Publications. p.34; own calculations.

while 78.7 percent of this ethnic group did so in Bulgaria. At the other end of the scale, 55.2 percent did so in the Czech Republic. It is also interesting that while 24.7 percent of the Roma were retired in Hungary, in Slovakia the figure was only 9.1 percent. Considering the data from all five countries, it is clear that the Roma minority is among the most vulnerable social groups in each of

Figure 11.4.1
Socio-economic status of the Roma population, 2001



Source: Andrey Ivanov, ed. 2002. *Avoiding the Dependency Trap. The Roma in Central and Eastern Europe*. Bratislava: United Nations Development Programme. p.95.

these societies: an average of only 19.54 percent of the Roma is employed and not dependent on benefits and transfers.

Nevertheless, as the available data indicate, the situation of the Roma in Slovakia is especially difficult.[15] The main source of income is social assistance benefits for 30 percent of Roma, unemployment benefits for 20 percent, and children allowances for 13 percent. The unemployment rate, which is already the highest in Slovakia among the post-socialist countries, is even higher among the Roma minority, standing at about 65 percent (for more, see Chapter 9, Figure 9.3.10). The employment situation is further worsened by the very low level of education and lack of skills among the Roma, as well as by their concentration in the regions with the lowest standard of living and the highest unemployment rate.[16]

It is estimated that about one-third of the Roma population lives in segregated settlements that show signs of deep poverty. There are Roma colonies near villages and small cities, especially in the Eastern part of Slovakia, where Roma families live mostly in dilapidated housing. The number of housing units in Roma colonies increased significantly during the 1990s: from 1,973 in 1988 to 14,334 in 1997. The number of Roma families living in these colonies also grew by 20,242 in this same period, while the number of Roma families living in shacks increased from 2,543 in 1989 to 4,606 families in 1997. All in all, Roma persons living in colonies increased from 14,988 people in 1988 to 123,034 persons in 1997.[17]

In 1999, the Dzurinda government adopted a new strategy to solve the problems of the Roma national minority, together with a set of measures to

[15] That about 80 percent of the Roma in Slovakia have to rely on state support is confirmed in Andrey Ivanov. ed. 2002 *Avoiding the Dependency Trap. The Roma in Central and Eastern Europe*. Bratislava: United Nations Development Programme. pp.2, 41, and 42.

[16] For more, see Ana Revenga, *et al.* 2001. *Slovak Republic: Living Standards, Employment, and Labour Market Study*. World Bank Report No.22351–SK. Washington, DC: World Bank. p.xxviii, as well as Chapter 9, especially Figure 9.3.10 and Section 9.4.

[17] Luboš Vagac and Lucia Haulikova. 2003. *Study on the Social Protection Systems in the 13 Applicant Countries, Country Report on the Slovak Republic*. Brussels: European Commission, Employment and Social Affairs Directorate-General. p.112.

be implemented.[18] The strategy, based on civil and human rights principles, emphasized education and training, employment, housing, and health. Some of the priorities, however, were not funded adequately. Other measures were successfully implemented, such as the introduction of the so-called zero grade classes for Roma pupils in elementary schools and the training of social workers to provide assistance in areas with high concentrations of Roma.

Both the majority population and the Roma minority see it very important to involve the Roma themselves in decision making and in the implementation of policies.

11.5. Issues and Problems

Macroeconomic performance is the major determinant of material well-being in society and therefore directly influences the number of those who have to rely on the social protection system. After exploiting all other sources of income from economic activities as well as from insurance benefits and still not receiving sufficient income, households in material destitution may receive social assistance benefits under the provisions stated by the Social Assistance Act. Social assistance benefits are provided to those without any income or with insufficient income to secure basic living conditions. The Social Assistance Act, however, does not prescribe an automatic right to social assistance benefits: only competent state officials (usually at local level) have the authority to decide who would be entitled to a benefit and, more concretely, which benefit. One may say that social assistance benefits have a discretionary character, which may have resulted in unequal treatment of socially dependent citizens.

During the period under examination, the state resources available for paying benefits were rather limited, and the competent officials in the regional

[18] Government of Slovakia *Stratégia vlády Slovenskej republiky na riešenie problémov rómskej národnostnej menšiny a súbor opatrení na jej realizáciu—I. Etapa* (*Strategy of the Government of the Slovak Republic for the Solution of the Problems of the Roma National Minority and the Set of Measures for Its Implementation Stage I*). (Government Resolution No. 821/1999. http://www.government.gov.sk/INFOSERVIS/DOKUMENTY/ROMSTRAT/en_romstrategia.shtml.

and local state administration had the authority to decide who could receive a particular benefit, service, grant, or loan and who could not. This discretion is one of the most controversial aspects of the entire social security system.

Figure 11.3.1 above shows that the ratio of those in material destitution to the total population increased significantly during the second half of the 1990s. The sharpest increases occurred between 1998 and 2000, when this group expanded from 7.9 to 11.3 percent of the population. This was mainly due to the persistently high unemployment rate, which caused an increase in the number of long-term unemployed whose eligibility for unemployment benefits expired and who thus became dependent on social assistance. At the end of the period under examination, 90–92 percent of social assistance recipients were unemployed people, and predominantly long-term unemployed. (Certainly, the elimination of social assistance for the working poor contributed to this phenomenon as well.) Looking at this same phenomenon another way, about one-half of the total number of unemployed were recipients of social assistance (44.6 percent in 1998 and 56.5 percent in 2002).[19]

From these figures, it is evident that during the economic transition, the most pressing social problem was unemployment, which caused material distress in many families. And of course, as the unemployment rate increased, the livelihood of more and more individuals and families depended on social benefits. This has necessitated a more efficient targeting of social expenditure on those most in need of support.

There have been, however, certain problems with the efficiency of targeting. For targeting to be effective, those most in need have to be identified. However, there is a lack of information on the number of individuals and families living below any given level of income in Slovakia; in addition, there was and still is no definition of need, except the subsistence minimum determined by *Act No. 125/1998 (Coll. of Laws) on the Subsistence Minimum and on the Determination of Sums for State Social Benefits Purposes*. The problem with this law is that the minimum is not based on an actual measurement of the costs of living for different households in different regions. On the contrary, the contents of

[19] See Silvia Valná. 2003. Fungovanie systému sociálnej pomoci a pracovná motivácia. In: *Sociálna pomoc a motivácia k práci*. Bratislava: Research Institute of Labour, Social Affairs, and Family. pp.15–16.

the "consumer basket" that it relies on do not reflect real expenditures under realistic conditions, nor do they reflect prices differences among regions. As a result, social assistance in some regions is not adequate to cover basic needs, while in others it provides some households with a higher standard of living than they could obtain from employment.[20]

A second targeting problem is caused by low wages.[21] A job that pays very low wages is not an attractive option for an unemployed person, as it generally means losing the right to social assistance and in some cases to children's allowances and other means-tested benefits from the state.[22] In many cases the combination of social assistance and family allowances or other social benefits contributes more to the household budget than the salary that could be earned through employment. Moreover, as Figure 11.3.5 demonstrates, the subsistence minimum has been set quite near the net minimum wage; in 1998 and 1999 it actually was even higher. For many people living in poverty who would like to become independent of state support in principle, this has been a major disincentive to accepting work. Although the gap between the minimum wage and the subsistence minimum started to widen after 1999, unskilled work is still not attractive financially.

Determining the amount of housing benefits is as problematic as determining the amount of social assistance: here, too, the "consumer basket" that is used frequently diverges from actual conditions. The monthly housing benefit authorized by the Housing Contribution Act is insufficient to cover rent in most cases. Moreover, a family with an income equal to the subsistence minimum is not eligible, even though the subsistence minimum is generally not adequate to cover living expenses and rent.

Of course, it is unrealistic to expect that social assistance would be adequate to cover all household expenses including housing, especially for families

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[20] This occurred because benefits were not set in relation to local living costs, nor did they consider home ownership.

[21] In 2001, the average gross wage for a Slovak employee was 12,365 SKK; and 68.4 percent of all registered employees earned no more than 13,000 SKK. See Statistical Office of the Slovak Republic. 2002. *The Structure of Employees' Wages in the Slovak Republic in 2001*. Bratislava: Štatistický úrad Slovenskej Republiky. pp.9, 74–75.

[22] In 2001, the majority of family benefits were means-tested.

living in rented flats in large cities. Nevertheless, it seems that certain people abuse the system by earning unreported income in the shadow economy while still claiming social assistance benefits on the basis of their official income. The government needs to clamp down on such practices in order to reduce possibilities for abusing the system.

The extremely high unemployment ratio, and especially the extent of long-term unemployment, together with low wages and relatively generous benefits, creates a dependency trap, and ultimately in a poverty trap. In the Slovak Republic, more than 11 percent of the population lives in material destitution (see Figure 11.3.1), and even more are at risk of poverty. Among this stratum of disenfranchised people, the most vulnerable group is that of the Roma ethnic minority. A majority of observers agree that "[d]espite the lack of unambiguous evidence, it is generally acknowledged that poverty in Slovakia includes a marked ethnic aspect."[23]

[23] Luboš Vagac and Lucia Haulikova, as previously cited. p.113.

Chapter 12
Summing Up and Looking Ahead

Most Slovak citizens are directly involved with the social protection system for five or more decades of their lives as contributors or beneficiaries. Yet, in spite of the enormous presence and influence of this system, few people understand its basic purposes, how it operates, or the extent to which it is achieving its goals. This study has sought to cast light on these questions by portraying the actual impact of the system as reflected in national program data and statistics. It has also outlined the legal basis for various branches of social protection and highlighted the main issues and problems that exist today with respect to each of them.

The analysis showed that the social protection system in the Slovak Republic has two distinct but related goals: on the one hand, to provide employees with insurance against contingencies that result in lost wages and, on the other, to alleviate poverty among the population. It also showed that historically, the system developed primarily to address the first goal—that is, to protect workers from the risk of lost wages due to sickness, disability, old age, or temporary unemployment. Under state socialism, the system was reshaped to provide higher levels of redistribution toward workers with lower incomes. Thus, both system goals—wage replacement and poverty alleviation—were addressed simultaneously. Since 1989, reforms have aimed to distinguish these goals and to address them through separate programs. As a result of this ongoing trend, we can expect that social insurance will be more closely related to each employee's own past contributions in the future, emphasizing the income replacement function of the system, while social assistance programs will provide benefits based on need.

Unfortunately, the reforms of the pension, sickness, and unemployment insurance systems, as well as government efforts to restructure the health care system, were stalled after the initial efforts to transform the institutional framework and to create legal-public entities for financing particular types of insurance. As shown, there was a long period of relative inaction during which many problems were recognized and new ones emerged, but there was little or no reform legislation. By contrast, efforts to create new programs to address poverty (social assistance) and to compensate for extra living costs experienced by particular groups (the disabled, families with children) were more vital and sustained. This was due in large part to the severe economic conditions of the 1990s, in particular to the rise of unemployment from zero to 20 percent.

Across the various benefits analyzed, it is possible to discern two broad trends. The first is a shift from redistribution within the population (from higher to lower income workers) to a mechanism more akin to a "savings bank." This new approach will require people to save during periods when they are employed for those times when they need extra income, such as unemployment or old age. This trend can be observed in the establishment of the supplemental pension system, as well as in very recent efforts to privatize part of the public pension scheme. A second and closely related trend is privatization of certain benefits and administrative functions. This can be seen in both pensions and health care. While there are strong pressures today in the Slovak Republic to privatize social protection, there is also substantial evidence of the need for a continuing role for the state, not only in overseeing private providers but also in direct provision of benefits. The success of the current reform efforts hinges heavily on the government's recognition of this.

A second pattern discernable in the preceding chapters is the superficial flux of the social protection system. It seems that new issues arise each year while others retreat into the background, yet the underlying problems and structures generally remain the same. When the government proposes new reforms, these are invariably found to have complex and unanticipated impacts. Not only do they shift the balance between the system's dual goals of income replacement and poverty alleviation, but also they alter incentives/disincentives to engage in economic activity, change employer business costs, and affect the state's fiscal position. As a result, they create potential winners and losers, and those who stand to lose normally resist the change. Thus, numerous complex issues arise when major reforms are contemplated. We hope this study has portrayed a rich sense of this.

Amidst all this complexity, it is still possible to discern some broad trends in social protection spending. Below, we draw from the preceding chapters to highlight what we see as the most important of these. In addition, where relevant, we describe changes that were adopted in the period immediately following the completion of this study (end of 2003 and beginning of 2004) that turned out to be a sort of watershed for reform in the past 1989 period. Though statistical data are not yet available on the impact of these reforms, it is nonetheless important to take note of them, since they can be expected to change the patterns observed in this study significantly in years to come.

Chapter 1, "Demographic, Economic, and Social Developments," showed that, during the first decade of economic transformation, the most important macro-economic developments were massive privatization and the sharp rise of the unemployment rate. On the positive side, the Gross Domestic Product started to increase quickly in the middle of the 1990s. The inflation rate, which rose sharply at the beginning of decade (reaching more than 60 percent), eventually moderated at around 10 percent and, in 2002, reached a low of 3.5 percent.

In contrast to the demographic position of many Western European countries, Slovakia will see considerably more people entering the labour market during the next decade, and the ageing of the Slovak population should be less dramatic than in neighbouring countries. Future Slovak governments, however, will have to face the challenge of another demographic trend: that of the increasing proportion of ethnic groups, particularly the Roma. This could become a pressing social protection issue, even though the principles of equal treatment and non-discrimination are stipulated in Slovak legislation.

Chapter 2, "The Social Protection System," showed that while Slovakia experienced some volatility in social expenditures during the 1990s, spending stabilized at a rather moderate level by regional standards, around 20 percent of GDP. It also showed that social spending in Slovakia (as measured in PPS per capita) is only a third of that in many industrialized countries. Combined with the country's relatively favourable demographic situation, these facts stand in sharp contradiction to claims made by some that social spending in Slovakia is out of control or unsustainable.

Chapter 3, "Social Insurance Companies," traced the bold steps taken by the Mečiar Government in 1993 and 1994 to establish new institutions for delivering social protection in both the public and private spheres—the Social Insurance Agency, the National Labour Office, and numerous public and private health insurance companies. It showed that these institutions encountered a range of difficulties resulting from the transition in general and the novelty of the new legislative measures that affected them in particular. None of the health insurance providers was able to avoid fiscal deficits. The pension security fund managed by the Social Insurance Agency fell deep into debt in only a few years of operation.

Several factors contributed to this situation: a lack of relevant experience on the part of the management; the volatile economy; flaws in the legislation that authorized the establishment of these institutions and regulated their activities; and inconsistencies in the rules for collecting contributions and allocating them to the various funds. As it is clear from the financial statistics provided, disincentives to pay contributions on the part of workers and employers, coupled with a weak political will on the part of the state to meet its statutory obligations to pay contributions, severely strained the financing of the social protection system.

The early experiences with the supplementary pension insurance scheme, created pursuant to 1996 legislation, revealed a limited willingness on the part of employees and other individuals to pay extra contributions for supplementing their pension benefits. This is mainly attributable to their small disposable incomes, as well as to a lack of public confidence in private funds generally and to inadequacies in legislation and regulations to ensure sound management of the voluntary pension scheme.

Shortly after the completion of this study, major reforms were adopted affecting the organization of both the SIA and the National Labour Office. Namely, a key part of the NLO's previous mandate—collection contributions and paying unemployment benefits—was shifted to the Social Insurance Agency.[1] The outcome of this reorganization warrants close monitoring.

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[1] According to *Parliamentary Act No. 461/2003 (Coll. of Laws) on Social Insurance*, 1 January 2004. Other NLO responsibilities, such as providing support for employers for job creation and registering the unemployed, were shifted to specially created state offices at the regional level entitled "Offices for Employment Services, Family, and Social Issues."

Chapter 4, "Old-Age Benefits," showed that although several proposals were made to reform the pension security system during the period under examination, none of them gained approval. Thus, the Slovak Republic was one of the last Central and Eastern European countries to initiate pension restructuring. Although every government coalition during the 1990s took steps towards passing a pension reform, they always quickly realized that pensioners make up one-third of the electorate and the majority of them would strongly oppose any restrictive reform, especially an increase of the retirement age.

As a result, a law adopted under the state socialist regime was still in effect when this study was completed, and it was increasingly out of step with its environment. Over the years, the system had evolved so far in the direction of a redistributive mechanism that it provided nearly flat-rate benefits. Benefits for low-income workers represented an enormous return on their contributions, while middle and especially high-income workers received on average much less than they contributed. The latter groups faced strong financial disincentives to make pension contributions.

Nominal expenditure on old-age pension benefits increased sharply in the years examined—by 347.8 percent during 1989–2001. This trend was fuelled by high inflation, an increasing number of pensioners, and their longer time spent on the pension rolls. However, nominal spending was quite different from the real value of old-age benefits, which in 2000 amounted to only 78.6 percent of the 1989 value.[2]

After a long period of inaction, the Slovak government finally made major changes in the pension system at the close of 2003. The reform process started with the issuance of a concept paper by the new Dzurinda government after the 2002 elections. Entitled "Concept for Pension Security Reform in the Slovak Republic," it was prepared by the Ministry of Labour, Social Affairs, and

[2] Unfortunately, the consumption basket was changed in 2000, and the real value of benefits has not been recalculated. That is why we can only compare of the real value of benefits in 2000 to their real value in 1989. Further, because there is a single pension contribution rate of 28 percent funds the pension scheme (old-age, disability, survivors'), it is not possible to compare old-age expenditures with revenues earmarked for this function.

Family, discussed at the Council of Economic and Social Agreement, and then approved by the Government and, subsequently, by the Parliament as well. This proposal called for relating public pension benefits much more closely to each individual worker's own previous earnings and contributions, as well as for establishing a new mandatory individual savings system, to be financed by diverting a portion of the existing contribution rate to new privately-managed individual savings accounts.

On 30 October 2003, Parliament adopted *Act No. 461/2003 (Coll. of Laws) on Social Insurance*, which introduced the above-mentioned changes in the public pension benefit formula, to go into effect on 1 January 2004. Under the new formula, a person earning the national average wage would receive a benefit of about 50 percent of his or her per-retirement earnings with 40 years of work. Workers with wages lower than this would see a decrease in their pensions relative to prior law. This change will affect new retirees only. To avoid a sudden negative impact on these individuals relative to those who retired just before them, the act provided that pensions below a certain value would be adjusted upwards during the three years after it takes effect. Similarly, a sudden (and costly) increase in old-age pensions for those with earnings higher than the national average before retirement was also mitigated by transition rules. These transition rules were intended to avoid a sudden disequilibrium between pension revenues and expenditures.

The new Social Insurance Act also increased the retirement age.[3] Although the retirement age for both men and women is one of the lowest in Europe and the issue of extending it remained one of the most sensitive issues in Slovak society, eventually a decision was made on a significant change: a gradual increase to age 62 for males and females. This will be achieved by increasing the retirement age by nine months every year from the previous levels for both men and women (under prior law, women had different ages depending on the number of children raised), until it reaches the new legal level for everyone.

[3] Although the first Dzurinda government (1998–2002) had already enacted a law that increased the retirement age, it was to have come into force only after the 2002 parliamentary elections. However, the new Dzurinda government then decided to prepare a new proposal for reforming the pension system and delayed this increase.

Early in 2004, Parliament adopted government proposals for mandatory privatization of part of the public pensions system, to become effective on 1 January 2005. This major change was approved as *Act No. 43/2004 (Coll. Of Laws) on Old-age Pension Savings*. The act required that all new entrants to the work force participate in the privatized system. For each of them, 9 percent of the 28 pension contribution rate will be diverted to an individual savings account managed by a private savings fund. This diversion will create an enormous "hole" in the financing of the public pension system, equal to nearly a third of its income over the next several decades. To help cover this loss, the government proposed that 65 billion SKK from privatization of the Slovak state gas-works enterprise[4] be saved in the Slovak National Bank. It also established a new Reserve Solidarity Fund in the SIA, which will receive 4.75 percent of the contributions collected from every contributor. This fund will not only cover the loss of revenues to the first pillar but also protect second pillar members against any loss resulting from the reform. The government made no public projections of the adequacy of these sources to compensate for the revenue losses to the pension system.[5]

The reform also established a special Slovak office for regulating the new private savings funds. It provided various quantitative limits on how workers' savings can be invested; for example, a minimum of 30 percent of all investments must be placed in Slovak government instruments. Some limits were also placed on administrative costs, such as advertising to attract new members.

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[4] This is also provided in *Act No. 461/2003 (Coll. of Laws) on Social Insurance*.

[5] The experience of Poland with a similar reform provides strong evidence that they will not be sufficient. In Poland, 7.2 percent of the pension contribution rate was redirected to private funds. This diversion is projected to result in a loss to the public pension system equal to 100 percent of GDP over the next 50 years. Privatization revenues were earmarked to cover this loss in Poland as in the Slovak Republic. However, projections show that these revenues will cover only one twelfth of the transitional financing costs. Of the remainder, two-thirds will be offset by pension benefit cuts; and one fourth will be covered by increased government borrowing. See Agnieszka Chlon. 2002. The Polish Pension Reform of 1999. In: *Pension Reform in Central and Eastern Europe*, Volume 1, *Restructuring with Privatization: Case Studies of Hungary and Poland*. ed. Elaine Fultz. Budapest: ILO. p. 172, Chart 21.

Pension reforms are controversial issues all over the world, and Slovakia is not an exception. The new Social Insurance Act is proof that the Slovak government is committed to a stronger reliance on the individual savings principle and to a substantial element of private management of social security.

Chapter 5, "Disability and Employment Injury Benefit," revealed two major problems with the current social protection system for persons with disabilities, one of which was addressed by recent legislation and the second of which continues to require attention. As described, the eligibility conditions for obtaining disability pensions were very weak, and the pension amounts were overly generous. Disability pensions were calculated the same way as the old-age pensions but without any requirement for having paid past contributions. Thus, disability pensions might be paid even to persons who have never entered the labour market. This generosity partly explains the substantial increase that occurred in the number of disabled pensioners between 1989 and 2001: 19.1 percent for those entitled to full disability benefits, and 19.4 percent for those with partial disabilities.

The Social Insurance Act of 2003 took an important step in addressing this problem by requiring that all disabled pensioners be re-examined and that their benefits be recalculated under and new and less generous set of rules. These rules relate benefits more closely to each worker's extent of disability and previous earnings. This process was to begin as of 1 January 2004.

The second problem was brought about by *Act No. 195/1998 (Coll. of Laws) on Social Assistance*. This action standardized the method of determining the degree of health impairment for social assistance recipients, thus applying similar eligibility rules to those with a range of different impairments. This was a step in the direction of greater fairness. At the same time, however, this Act introduced many new types of compensatory benefits that were based on the degree of a person's impairment. These benefits serve an important social purpose—i.e., to support the reintegration of person with disabilities into society and the labour market—yet their level and range make many persons with disabilities better off than other persons living on social benefits or, in many cases, earning wages. This situation creates moral hazard, inducing certain people with disabilities who might be able to support themselves to file for benefits rather than to look for a suitable job.

This situation must be addressed by additional reforms in the future, both to encourage persons with disabilities to reach their full potential and to prevent rising pension expenditures from placing an unsustainable burden on the Slovak pension security system, and thus on the economy.

Chapter 6, "Survivors' Benefits," showed that a far greater number of widows than widowers receive survivors' pensions in the Slovak Republic. This is not only because women tend to outlive men, but also because widowers' pensions, introduced only recently, had stricter standards of eligibility than for widows. Thus, there was considerable gender inequality in the area of social protection. In addition, it was shown that an increasing number of widows were receiving both their own pension and a survivor's benefit; and the amount of their combined pensions was, on average, higher than that of the average old-age pension. While the Social Insurance Act of 2003 did not alter the basic eligibility rules or structure of benefits for widows, it did extend benefits to widowers on an identical basis to widows, thus eliminating the previous gender discrimination.

Chapter 7, "Sickness Insurance," showed that expenditures on this benefit are high in the Slovak Republic. In 1998, the average per capita expenditure exceeded that in both the European Union and the OECD. One of the main reasons for this was the high level of benefits, which equalled 70 percent of a worker's average daily wage for the first three days of sickness and 90 percent thereafter. The length of the average annual sickness leave in 2001 was 26 days, which made the scheme extremely expensive. There was also a high level of redistribution within the system, which created disincentives to work among lower income workers. Further inequities resulted from the unequal contributions and benefits for different categories of contributors.

While these issues remained unaddressed throughout the period examined by this study, subsequent legislation has finally confronted them. The Social Insurance Act of 2003 provided that, for the first three days, the sickness benefit will be 25 percent of the average daily wage, reverting to 55 percent only on the fourth day. (However, the amount of employee benefits can be modified in collective agreements with the employer.) In addition, under *Act No. 462/2003 (Coll. Of Laws) on Compensation of Lost Income Due to Temporary Inability to Work*, employers will be liable for the first 10 days of payment of sickness benefits. This provides a financial incentive for them to monitor their employees and make sure the system is not abused.

Chapter 8, "Health Insurance" showed that one of the main unaddressed issues in this field is the portion of costs which should be borne collectively through insurance versus individually by citizens. In a society that had become accustomed to collective health care, there is still strong public support for covering all costs through insurance. This is unfortunately not realistic in the present economic situation, nor does it provide the necessary incentives for rational use of health care resources.

As shown, the conversion of the pre-transition health care system to social insurance was done in a way that resulted in debts for all parties involved. During the period covered by this study, the state was obligated to guarantee the financial solvency of the new private health insurance companies, and the General Health Insurance Company was obligated to cover the needs of all insured members of bankrupt health insurance companies. The liabilities, both current and potential, were so large that they raised questions about the viability of this arrangement. While privatization of primary health care was successful, the privatization of secondary health care (hospitals and related establishments) proved to be extremely difficult and much remains to be done.

After the 2002 elections, the new government made many significant changes to the health care system. These were based on the neo-liberal approach of restructuring the health care system to be more responsive to forces of supply and demand. The new government shifted significant costs to health care consumers, making them responsible for paying for much more of the costs of their own treatment and medications. It also accelerated the process of privatizing health care establishments. In an unusual step, the Health Ministry created a special company, called VERITEL (Creditor), which receives funds from the state budget in order to "buy" the receivables (debts) of health care providers and pharmacies. This will effectively provide a new start for health care financing under the market principles of the new government, separating old debts from the new financial accounts of health care providers and pharmacies.

So far, these changes have met with resistance and scepticism on the part of the general public and health care providers alike. Much more in the way of consultation, public education, and social dialogue will be required to develop a social consensus on health care reform and to enlist the cooperation of all parties in making it work.

Chapter 9, "Unemployment Benefits and Active Labour Market Policies," showed that unemployment is a critical and so far intractable problem in the Slovak economy. The unemployment rate increased from the official level of zero in 1989 to 12–14 percent in the early 1990s, where it hovered for most of the decade. By 2001, it had risen to 20 percent, among the highest rates in Europe. This was mainly as a result of radical economic restructuring undertaken by the first Dzurinda government (1998–2002). At the turn of the century, the unemployed comprised a large portion of the Slovak Republic, totalling 520,000 persons.

The unemployment insurance system established in 1993 financed both active and passive labour market policies. The active measures included substantial subsidies for new job creation, especially by small businesses. However, expenditures on unemployment cash benefits and active labour market policies, while significant, were much lower than the averages observed in the EU and OECD countries. In 1998, Slovakia spent only 0.51 percent of its GDP on unemployment cash benefits, while OECD countries spent an average of 1.31 percent and EU countries, 1.63 percent. This difference can only be explained by the very low level of Slovak unemployment benefits, which in 2001 reached on average only 33 percent of the net average wage. It is ironic that, even at this low level, these benefits still come under attack by politicians and economists who suggest that they discourage economic activity.

A second reason for Slovakia's relatively low expenditures was the contraction of retraining programs in recent years. This spending was cut back substantially during the 1990s. Given the high rate of unemployment during the period examined, it is clear that the earlier large expenditure on active labour market programs was ineffective and that solutions to unemployment will have to be found outside the social protection system.

The Social Insurance Act of 2003 stipulated major changes in the unemployment benefits. The maximum period during which a worker can receive benefits was reduced from nine months to six months. In addition, the benefit formula was altered to increase benefits. Under the new formula, a person will receive a benefit of 50 percent of his or her assessment base, which is the person's wage up to a ceiling of three times the average wage. To avoid a sudden (and costly) increase in expenditure on unemployment benefits, the act provided a three-year transition rule. In 2004, benefits will be 20 percent and, in 2005, 35 percent of the new assessment base. Finally, as described previously, part of the National Labour Office was incorporated into the Social Insurance Agency as of 1 January 2004.

Chapter 10, "Family and Children's Benefits and Allowances," showed that the state socialist regime provided generous subsidies for children and families. In 1989, expenditure on this category of benefits represented about 3 percent of GDP. However, due to the decreasing fertility rate in the 1990s, the number of family and children benefit recipients declined significantly. For example, total spending on children's allowances decreased by 64.5 percent between 1989 and 2001. The tightening of eligibility criteria also contributed to this drop, as after 1993, children's allowances were means-tested. The parental leave allowance, created in 1991, was used by fewer and fewer workers as the 1990s advanced. However, expenditure on this benefit, expressed as a percentage of GDP, doubled between 1991 and 2001, mainly because of a political decision in 1997 to increase benefit levels significantly.

Overall spending on family and children's allowances stood at about half its 1989 level in 2001—that is, 1.5 percent of GDP. However, in comparison with the OECD and the EU member states (for which we have data from 1998), the Slovak Republic still spent a higher portion of GDP on these benefits.

In 2003, the means-testing of children's allowances was discontinued, so that the same amount was paid for every child regardless of the income of the family. As a result, families with higher incomes are to receive larger benefits. In addition, the childbirth benefit, a one-time payment to families at the birth of a child, was increased as a part of the state's pronatalist policy.

In early 2004, a tax bonus was introduced under which those parents who pay taxes can reduce their liability by 400 crowns.[6] In the wake of this action, the government repealed additional children's benefits paid to families with incomes below a certain level.

Chapter 11, "Poverty Alleviation and Social Assistance," presented a limited analysis of poverty-related benefits in the Slovak Republic, as there is still no official poverty line against which to measure those in poverty or the adequacy of efforts to assist them. However, even without precise measurements, it is clear

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6 *Act No. 595/2003 (Coll. Of Laws) on Income Taxes.*

that the high level of unemployment has pushed more and more Slovak people into material destitution. This is reflected by social assistance expenditures on those in material destitution, which increased from 0.94 percent of GDP in 1994 to 1.15 percent in 2001. In that year, the number of persons in material destitution reached the highest level, 11.7 percent of the population. This growth of poverty is a deeply troubling trend.

During the 1990s, changes in the social assistance depended heavily on whether the right-wing or left-wing political parties were in power. It was also influenced by the size of the state budget deficit, and the failure of governments to adjust benefits regularly for inflation due to budget constraints created great hardship among recipients. The most serious problem occurred in 2001 when, due to budgetary constraints, social assistance benefits to persons in material destitution were frozen. In 2002, benefit levels dropped below the subsistence minimum. After parliamentary elections held that year, a right-wing government took power. Following its recommendation, Parliament approved yet another reduction in social assistance in relation to the legal subsistence minimum. This process of decreasing social assistance benefits culminated in a new *Act No. 599/2003 (Coll. of Laws) on the Aid (or Assistance) for Those in Material Distress*, which decreased all social assistance benefits to less than one-half of those provided before the 2002 elections.

Once the government ceases to respect the social minimum, its meaning and usefulness become questionable. In order to fight poverty and social exclusion among the population efficiently, it is necessary first to establish an official standard of poverty and objective criteria for maintaining the value and purchasing power of social assistance benefits. This, of course, can only be done when the government has the political will to respect these conditions.

* * *

In sum, 2003 and 2004 were watershed years in which major changes were made in the social protection system after a long period of relative inaction. Whether the policy directions that were taken were wise ones can only be evaluated with the passage of time and the development of new social protection statistics, which will develop further the account presented here.

Appendix A

Description of Social Protection Legislation (as of 2001)

Introduction

This description of social protection legislation outlines the eligibility conditions for different kinds of benefits, allowances, and contributions as of 2001. It may help readers to consider similar benefits offered in other contexts, as the names of benefits tend to differ from country to country. It should also be useful in considering the development of social protection legislation in the Slovak Republic in light of broader changes since the early 1990s.

The *Constitution of the Slovak Republic*, Article 39, (as published in the *Collection of Laws, No. 135/2001*), establishes the right of all citizens to adequate material security in the event of old age, disability, or loss of a family breadwinner. It also establishes that everyone who is in material destitution has the right to such protection, which is necessary for securing basic living conditions. The conditions of eligibility are to be stated by law. Further, Article 40 establishes the right of all citizens to health protection. It stipulates that, through participation in health insurance, each citizen will obtain the right to health care free of charge under conditions stated by law.

Social protection laws in the Slovak Republic are based on these two Constitutional rights. The following pages describe the relevant social protection legal acts and the accompanying regulations. Acts and regulations which formed the social protection system in 2001 are discussed, including a description of eligibility conditions, institutions, benefits, and entitlements. On a few occasions, they also mention statutes that were in effect prior to 2001, but have since been repealed.

The rapid pace of legal change in the Slovak Republic does not allow us to provide description of legislation valid for all years. However, the following pages will reveal the broad outlines of the social protection system during the 1990s, since the majority of laws and regulations existed throughout the entire period.

3a. Compulsory and Voluntary Social Insurance Companies

Until the end of 1992, all contributions collected from firms and employees, as well as from the self-employed and other contributors, were included in the state budget. All social protection benefits were also paid from the state budget, but without any direct relation between the amount of contributions collected and the level of expenditure on benefits. The first public legal company for financing social protection outside the state budget was established by *Act No. 7/1993 (Coll. of Laws) on Creating the National Insurance Company and on Financing Health Insurance, Sickness Insurance, and Pension Insurance*, as subsequently amended. The pension insurance, sickness insurance, and health insurance schemes were established pursuant to this act. Three specific funds were then established within the NIC by two separate acts: *Act No. 8/1993, (Coll. of Laws) on the Sickness Insurance Fund and the Pension Security Fund*; and *Act No. 9/1993, (Coll. of Laws) on Health Insurance and the Management of the Health Insurance Fund.*

Because many problems developed with the common collection of contributions for all three funds within the NIC, in 1995 the NIC was divided into two insurance companies. The Social Insurance Agency took over sickness insurance and pension insurance, and the General Health Insurance Company assumed responsibility for public health insurance.

3a.1. Social Insurance Agency

Social Insurance Agency and Its Self-governing Bodies

Act No. 274/1994 (Coll. of Laws) on the Social Insurance Agency established the Social Insurance Agency (hereinafter, "SIA") as a special public legal institution providing obligatory sickness insurance and pension insurance for the entire Slovak population (a later exception was provided for members of the police and other armed forces, who have had their own social security schemes since 1998). The SIA began to operate in 1995. It is run by a self-governing Administrative Board. This supreme board of the SIA consists of 21 members appointed by Parliament after nomination by the government and its social partners—the Trade Union Confederation of the Slovak Republic several other NGOs, and the Association of Employers' Unions and Federations. The number of representatives of each of these groups is proportional to their size. All Administrative Board members serve five-year terms. The President and two Vice-Presidents are elected by representatives of all social partners in the board, but during the entire period examined in this report, only the Minister of Labour, Social Affairs, and Family has been board President.

The main competencies of the Administrative Board are to:

- approve the SIA annual budget proposal and financial statement and submit these to Parliament for approval;
- approve the SIA's annual report and internal regulations;
- elect and remove members of the Supervisory Board,
- authorize loans from a fund which is in surplus to the another one which is in debt; and
- handle other matters related to sickness insurance and pension insurance.

The Supervisory Board of the SIA is its controlling body and consists of nine members elected, and responsible to the Administrative Board.

The SIA carries out its work through executive bodies, consisting of a network of thirty-eight regional offices managed by the SIA headquarters, situated in Bratislava. The Administrative Board elects, and may also remove, the director of the SIA, who is the sole statutory executive of the SIA and is thus ultimately responsible for all its activities. The term of the director is six years.

The SIA collects sickness and pension contributions and pays pensions and a small number of sickness benefits (because the latter are mostly paid through employers). The sickness benefits administered by SIA include those for employees in small businesses, the self-employed and their cooperating persons, persons on sickness leave, maternity, and parental leave without an employment contract, or social assistance recipients. Pension benefits are paid only by the SIA, directly to eligible persons. The state provides general oversight of the SIA and its activities through the Ministry of Labour, Social Affairs, and Family and the Ministry of Finance. In the event of insolvency of the SIA, the state is required by law to provide a loan of 100 percent of the debt in order to pay benefits.

Contributions Rates and Bases

In 2001, the insurance rate on the sickness insurance and the assessment base of particular groups of contributors were:

- employees: 1.4 percent of the gross wage;
- employers: 3.4 percent of the total payroll (assessment bases of all an employer's employees);
- the self-employed: 4.8 percent of half of the taxable income from the previous year;[1]
- cooperating persons of the self-employed: 4.8 percent of the self-declared assessment base;
- the National Labour Office: 4.8 percent of the monthly assessment base of 2,700 SKK per insured; and
- the state: 4.8 percent from the monthly assessment base of 2,400 SKK per insured person.

For pension insurance, the rates and assessment bases were:

- employees: 6.4 percent of the gross wage;
- employers: 21.6 percent of the total payroll (assessment bases of all an employer's employees);

[1] The taxable income of self-employed persons was calculated under *Act No. 366/ 1999 (Coll. of Laws) on Income Taxes*.

- the self-employed: 28 percent of half of the taxable income from previous year;
- cooperating persons of the self-employed: 28 percent of the self-declared assess-ment base;
- obligatorily insured persons working abroad: 28 percent of the self-declared assessment base;
- voluntarily insure: 28 percent of the self-declared assessment base;
- the National Labour Office: 28 percent of the monthly assessment base of 2,700 SKK per insured; and
- the state: 28 percent of the monthly assessment base of 2,400 SKK per insured person.

In practice, the state's obligations to pay contributions are changed in year in the State Budget Act.

For all obligatorily insured persons, there are upper and lower limits on the assessment base: a minimum level of 4,000 SKK per month and an upper ceiling of 32,000 SKK per month.

To encourage employers to hire persons with disabilities, the law provides for a reduction in their social insurance contributions. An employer whose work force consists of at least 25 percent disabled persons or who employs at least one disabled person with severe health impairment pays on their behalf an amount equal to just 1.1 percent of their wages for sickness insurance and 5.3 percent for pension insurance.

The state pays sickness contributions on behalf of high school and university students and unemployed persons not receiving unemployment benefits. For pension insurance, the state contributes on behalf of university students, parents taking care of their young children (one parent per child) up to age 6, or up to18 years of age if the child is disabled, persons on obligatory military or similar service, and disability pensioners.

Social Insurance Funds

Pursuant to *Act No. 274/1994 (Coll. of Laws)*, the SIA created four funds:

- *Basic Sickness Insurance Fund* receives contributions on sickness insurance, incomes from interest on deposits, penalties, voluntary gifts, and other revenues stipulated by law. Sickness benefits are paid from this fund.

- *Basic Pension Security Fund* receives pension contributions, incomes from interest on deposits, penalties, voluntary gifts and other revenues stipulated by law. Pension benefits are paid from this fund.
- *Administrative Fund* receives 3.5 percent of all collected sickness and pension contributions. All SIA administrative expenses are covered by this fund.
- *Reserve Fund* receives 0.5 percent of sickness and pension contributions. This fund covers unexpected SIA expenses and debts for particular funds.

Occupational Injury and Diseases Insurance

Act No. 242/2001 (Coll. of Laws) amended the Social Insurance Agency Act to transfer responsibility for providing occupational injury and disease insurance from the privatized Slovak Insurance Company to the Social Insurance Agency. This change went into effect on 1 April 2002.

Under the *Labour Code (Act No. 311/2002, Coll. of Laws),* the employer must compensate employees for any damage or loss caused by occupational injury and diseases. The employer is required to meet this obligation by paying contributions to the SIA, which in turn compensates employees.

Occupational injury insurance is financed from a new fund created from the balance of the now defunct Slovak Insurance Company, as well as from premiums paid by employers. A small part of these premiums is also allocated to the new Reserve Fund and the Administrative Fund.

Employers will be required to calculate their employment injury and disease contributions according to a list of rates which is based on the main type of activity of the enterprise. The assessment base on which the contributions are calculated is the entire payroll of the enterprise.

If the SIA falls into debt because of a deficit in occupational injury insurance, the state budget must by law supply the balance between contribution revenues and the actual benefit expenses.

3a.2. National Labour Office

National Labour Office and Self-governing Bodies

Act No. 10/1993 (Coll. of Laws) on the Employment Fund and on Amending and Complementing Certain Other Laws established the first unemployment benefit scheme in the Slovak Republic. Three years later, this act was repealed by *Act No. 387/1996 (Coll. of Laws) on Employment* (hereinafter, "Employment Act"). Under this statute, the (preexisting) Employment Fund and the Administration of Employment Services were merged into a new institution, the National Labour Office (hereinafter "NLO"). The NLO provides not only unemployment insurance but also public employment services for those who are required to work.

The NLO is headed by a tripartite Board of Directors and Supervisory Board. Members of both bodies serve four-year terms. The Board of Directors, the supreme self-governing body of the NLO, has 15 members who are appointed by Parliament based on nominations by representative organizations of employees, employers, and the government. An important exception is that, under the Employment Act, the Minister of Labour, Social Affairs, and Family is automatically the President of the Board. The Board is empowered to take decisions on fundamental issues related to active and passive labour market policy as well as on the management of the NLO. In particular, it must approve the draft of the NLO budget and annual report, which it then submits to Parliament.

The Supervisory Board is the controlling body of the NLO, composed of nine members, also nominated by the representative bodies of employees, employers, and the government, and appointed by Parliament. It oversees the operation of the NLO, reviews its annual budget, etc.

Following its authorizing legislation, the NLO has established a network of regional and communal structures. This network consists of 87 regional labour offices (RLOs) with their own self-governing bodies created by social partners in a particular region. RLOs maintain registers of unemployed as well as job vacancies. They provide practical advice to job seekers, offering training and retraining activities. The governing committees of the RLOs have decision-making power in providing financial support to employers and self-employed persons for creation of new jobs, in particular for the long-term unemployed. Other key NLO functions are to oversee working conditions, control employers' adherence to labour legislation, and combat illegal work.

Unemployment Insurance Contributions

The NLO collects unemployment contributions and pays unemployment benefits. In 2001, an employer paid 2.75 percent for unemployment insurance, plus 0.25 percent into the Guarantee Fund maintained exclusively by employer contributions. The employer's assessment base was the entire payroll of the enterprise. Employees paid 1 percent of their assessment base for unemployment insurance. Their assessment base was their gross wage before taxation. Self-employed persons paid 3 percent of the assessment base, which in their case was half of their taxable income from the previous calendar year. If a self-employed person made unemployment contributions on earnings from other economic activities, for example, from a wage, then he/she was obligated to pay contributions on self-employment income only if it exceeded 3,000 SKK per month. This amount was also the minimum assessment base for unemployment insurance. If a contributor was partially disabled, the assessment base could not be lower than 2,250 SKK per month; for a fully disabled person, the base could not be lower than 1,500 SKK. The maximum assessment base for employees, the self-employed and their cooperating persons, and voluntarily insured persons was 24,000 SKK per month (in 2001).

Unemployment Funds

Pursuant to *Act No. 387/1996 (Coll. of Laws) on Employment,* the NLO created three funds:

- The *Basic Fund*, which receives unemployment insurance contributions, interest on deposits, penalties, voluntary gifts, subsidies from the state budget for creating public service jobs, retraining, and creating new jobs in the private sector, as well as income from other sources. The Basic Fund pays unemployment benefits and finances active labour market policy measures and insurance contributions on health, sickness, and pension insurance on behalf of registered unemployed.

- The *Administrative Fund*, which receives a maximum of 16 percent of all income of the Basic Fund, as well as other income sources stipulated by law. This fund finances all executive activities of the NLO and all its offices at the regional level.
- The *Reserve Fund*, which is required to maintain a reserve adequate to pay at least three months of unemployment benefits to the qualified population. This fund is supposed to serve as a reserve to cover any debt in the Basic Fund.

In addition, the *Guarantee Fund* was established by an amendment to the *Employment Act No. 292/1999 (Coll. of Laws)*. The Guarantee Fund is financed by employers' contributions, equal to 0.25 percent from payroll—except for those employers whose work force consists of at least 25 percent disabled persons, who then pay only 0.1 percent of payroll. The Guarantee Fund was established to protect the rights of employees to financial compensation in the event of an employer's insolvency.

3a.3. Health Insurance

After the separation of the health insurance scheme from the National Insurance Company (see section 3a above), a new institution for providing health insurance was created by *Act No. 273/1994 (Coll. of Laws) on Health Insurance, Health Insurance Financing, and Establishing the General Health Insurance Company, and on Establishing Sector, Branch, Enterprise and Civil Health Insurance Companies* (hereinafter, "Health Insurance Act"). Health insurance in Slovakia is based on the principle of solidarity and is organized on a not-for-profit basis with competition envisioned among multiple providers. The legal basis is the same for all health insurance companies, whether publicly or privately managed. They also share a common function, which is to provide health protection for the population by collecting insurance contributions and using them to pay providers.

The General Health Insurance Company (hereinafter "GHIC") provides health insurance for persons who do not insure themselves with a private health insurance company. Its membership also includes disproportionate numbers of the elderly, children, persons with disabilities, and other disadvantaged groups, on behalf of whom the state pays health insurance contributions. The state secures the solvency of the GHIC by its commitment to cover 100 percent of its debt.

The GHIC is overseen by two tripartite self-governing bodies:

The *Administrative Board*, the supreme body of the GHIC, has decision-making powers on all important matters. It consists of five representatives of insured persons who are nominated by representative organizations of employees and other relevant groups and associations of citizens, five representatives of employers nominated by their representative organizations, and five representatives nominated by the government. All members of the Administrative Board are appointed by Parliament.

The *Supervisory Board* oversees the GHIC to ensure that it adheres to the applicable laws and regulations. It is composed of five members who are experts in the financing and provision of health care. Like the members of the Administrative Board, they are appointed by Parliament based on nominations by trade unions, insured persons, employers, and the government.

The term of office for members of both self-governing bodies is four years.

In order to fulfill its legal mandate, the GHIC has established the following funds:

- The *Basic Fund* receives contributions, interest on deposits, investment earnings on shares, penalty payments, voluntary gifts, subsidies from the state budget, and payments for health care by other organizations and patients. The Basic Fund uses these revenues to pay health care providers and pharmacies. In addition, the Basic Fund receives contributions from all other Health Insurance Companies (HICs) and reallocates these contributions based on the membership composition of the HICs, according to a formula stipulated by law.
- The *Reserve Fund* receives 0.5 percent of collected insurance contributions, 0.5 percent of contributions paid by the state and the NLO, and 0.5 percent of all interest earned on deposits. It uses these sums to cover unexpected health expenditures or revenue shortfalls.
- The *Special Purpose Fund* receives 2 percent of all contributions, as well as 2 percent of interest earned on deposits, gifts, and state subsidies. This

fund can be used for covering unusual and expensive health treatments, as well as higher expenditures on the health care of special groups and individuals, as approved by the Administrative Board.

- The *Administrative Fund* receives 4 percent of all contributions and other incomes. This fund is used to cover the administrative costs of health insurance companies.

As the government established the GHIC, it also established three other publicly managed health insurance companies: The Health Insurance Company of the Ministry of Internal Affairs (*Act No. 276/1993, Coll. of Laws*); the Military Health Insurance Company (*Act No. 92/1994, Coll. of Laws*); and the Railway Health Insurance Company (*Act No. 201/1994, Coll. of Laws*). In 1997, all three of these were merged into one General Health Insurance Company.

In addition, there are many other statutory health insurance companies, covering particular sectors, branches, or enterprises. The charters of these organizations set out their organizational structures, mandates, and activities.

3a.4. Voluntary Pension Scheme

Act No. 123/1996 (Coll. of Laws) on Supplementary Pension Insurance for Employees, as subsequently amended (hereinafter, "Supplementary Pension Insurance Act"), authorizes the creation of supplemental pension schemes for employees, persons with disabilities, and survivors. As of the end of 2000, only private sector employees were eligible to participate.

Private pension funds may be established by a single employer or employers' organization, by a trade union or several trade union organizations, or by these organizations together. The permanent seat of a pension fund must be located within the territory of the Slovak Republic. Pension providers must be licensed by the government. Only those organizations established under *Act No. 123/1996 (Coll. of Laws)* may provide supplemental pension coverage.

Within the framework of the Supplementary Pension Insurance Act, supplementary old-age insurance has been extended through collective bargaining concluded by representatives of employees and employers at the enterprise level. An employer signs a contract with a licensed private pension fund, under which its employees are eligible to sign employees' contracts with that same fund to ensure themselves a supplementary pension. Both an employer and employees may make contributions, as stipulated in the contract, to an employee's account.

After an employee signs a contract, the waiting period for participation may not exceed three months. Insurance conditions, types of benefits, conditions for claiming a benefit, benefit calculation, an allocation of investment yields among fund members' accounts, among other items, are stipulated in the contract.

The amount of an employer's contributions is determined by the collective agreement or, if there is not one, by other agreements concluded between employer and employee. The employee, on the other hand, is free to contribute any amount. Contributions to a supplementary insurance scheme are tax deductible without a ceiling for employees, while employers' contributions are deductible up to 3 percent of payroll. In Slovakia, supplementary pension insurance is of the defined contribution (DC) type, meaning that there is no benefit promise in the law, the collective agreement, or the contract. Rather, the amount of a pension depends on the total amount of contributions paid to the account, investment yields, period of savings, and the age of the employee.

Under current legislation (2001), an employer is obliged to pay contributions to a supplementary insurance fund for employees who have worked in hazardous conditions. The rate is stated in the collective agreement but must be at least 2 percent of a worker's wage.

Supplementary pension schemes must provide the following benefits:

- additional old-age pension;
- special pensions provided for employees working in hazardous conditions;
- lump-sum compensation; and
- severance pay.

The following benefits are optional:

- long-service pension;
- additional disability pension; and
- survivor's pension.

To qualify for an *additional old-age pension,* a worker must achieve the age stated by the benefit plan, which can be no lower than 50 years of age, as well as the minimum contribution period, which cannot exceed five years.

To qualify for an *additional disability pension*, a worker must satisfy all the conditions for claiming a statutory disability pension.

A survivor is eligible for a *survivor's pension* if the deceased insured met eligibility conditions for claiming a supplementary benefit.

To quality for *lump-sum compensation*, a worker must met the conditions for receiving an *additional pension* and also satisfy one of the criteria in the Supplementary Pension Insurance Act for paying this benefit as a lump sum rather than as a periodic payment.

Severance pay is paid to an insured person who does not satisfy the conditions for receiving a supplementary pension, usually because of a short period of insurance. The amount of severence pay is the total of employee's own contributions, minus administrative expenses, plus the resulting investment yields. The employer's contributions and the resulting investment yields become the property of the pension fund.

Under a provident fund, the insured member is required, at the commencement of membership, to nominate an individual or legal entity who will receive the balance from the account in the event of the insured member's death.

Under the Supplementary Pension Insurance Act, all supplementary pension funds must establish self-governing bodies, including an Administrative Board and the Supervisory Board. These must consist of equal numbers of employers, employees, and benefits claimants' representatives elected by employers, as well as employees and beneficiaries of the supplementary pension fund.

During the first two years of the operation of a fund, the level of its administration expenses is not regulated by law but by the Administrative Board. During the next three years, the Supplementary Pension Insurance Act provides that administrative expenses cannot exceed 6 percent of the revenues, asset yields, and income from penalties imposed on delayed contributions. After five years of operation, these expenses cannot exceed 3 percent.

Supplementary pension funds must also create a reserve fund, which can be used to cover unexpected variances in benefits payments and thus protects the rights of fund members. The amount of the reserve fund is 2.5 percent of the yearly economic profit of the fund.

Supervision of supplementary pension funds is provided by the Ministry of Labour, Social Affairs, and Family and by the Ministry of Finance.

In 2001, an amendment to the Supplementary Pension Insurance Act extended the right of participation to public officials, but without contributions by their employers, because state institutions did not receive any revenues with which to contribute. The new law also allowed the self-employed and all other citizens to join a supplementary pension scheme and insure themselves. Another amendment to the tax law enacted in the same year (2001) limited employees' tax-free contributions to 3 percent of their wage. Self-employed and other participants can deduct 3 percent from their taxable assessment base.

4a. Old-age

4a.1. Pension Insurance

The statutory old-age pension scheme is authorized and regulated by *Act No. 100/1988 (Coll. of Laws) on the Social Security* (hereinafter, "Social Security Act"), to which there were 46 amendments in 2001. This act also deals with other social security schemes, such as disability and survivor's pensions, as well as some social assistance and other benefits. The Social Security Act is implemented by a major regulation, *By-law No. 149/1988 (Coll. of Laws) on Implementing the Social Security Act.* The organizational structure of social security is stipulated in *Act No. 543/1990 (Coll. of Laws) on the State Administration of Social Security*, with 14 amendments. Some relevant clauses and amendments are also included in *Act No. 274/1994 (Coll. of Laws) on the Social Insurance Agency*.

These legal acts also regulate the conditions of entitlement to basic statutory old-age pension benefits, as well as the way in which benefits are calculated and paid. By law, the old-age pension scheme is mandatory, and covers all employees as well as the self-employed and their cooperating persons, and other groups of stipulated persons. In addition, certain persons can participate in the statutory old-age pension scheme on a voluntary basis. (For more information, see Chapter 3 and section 3a of this section.)

The basic statutory pension scheme also covered members of special state services, such as the professional Military Service, Police, Railway Police, Custom Service, Penitentiary Service, State Intelligence Service, and National Security Office before special pension schemes were introduced in the late 1990s. However, armed services personnel who were granted pensions before the special schemes were created continue to receive pensions from the statutory pension scheme even though current armed forces members do not contribute to it. Historically, all the above-mentioned special state armed services personnel enjoyed legally stated privileges not available to the majority of the population. In the late 1990s, competent ministries prepared new legislation on the social security of members of the armed forces; this was enacted into law. These acts are: *Act No. 114/1998 (Coll. of Laws) on Social Security of* Soldiers (subsequently amended); and *Act No. 73/1998 (Coll. of Laws) on the State Service of Members of the Police Force, the Slovak Intelligence Service, the Force of Prison and Justice Guard of the Slovak Republic and the Railway Police* (subsequently amended). This report does not provide data on the social protection of professional military service personnel and members of the state armed forces, as such data is not publicly accessible. Thus, further descriptions of related special legislation are also not provided.

The following groups are mandatorily insured: employees who are eligible to receive sickness insurance (with some exceptions), employers with at least one employee, the self-employed, those whose income after tax deductions for a particular year reaches a specified threshold, those on behalf of whom the state pays contributions, and the registered unemployed on behalf of whom the NLO pays contributions.

The pension scheme also provides credits for legally specified periods (e.g., for maternity or parental leave, for military service, or for disability), counted as years of employment. The state pays contributions to the pension scheme for these credited periods. As the state's contributions on behalf of periods spent outside of the labour market has characteristically been very low, these credits are mostly financed through cross-subsidies from other statutory contributors.

Within the statutory pension scheme, there are advantages for special groups of labourers working in dangerous conditions, as well as for some other groups of employees (e.g. miners, drivers, pilots, and ballet dancers) that are financed by minimal contributions and are thus disadvantaged. Support for these groups makes the scheme very expensive. For many years, there was no political will or means to change contribution disparities; politically powerful groups hindered changes which could have created more equal conditions for all pension contributors.

The basic eligibility conditions for qualifying for the old-age pension are stated in the Social Security Act. Under state socialism, all occupations were divided into three groups or categories, which were subject to different requirements for claiming an old-age pension (see below). These categories were relevant until the end of 2003. For all three groups, a minimum 25 years of employment or in service had to be fulfilled in order for an individual to be entitled to an old-age pension.

Category 3: Comprises of the vast majority of workplaces. The retirement age is: 60 years for men; and from 53 to 57 years for women. The retirement age for women depends upon the number of children raised: 57 years of for women without children, 56 years for women with one child, 55 years with two children, 54 years with three or four children, and 53 years with five or more children. For this group, the replacement rate is 50 percent of the countable average monthly earnings. For every year of employment over the minimum 25 years, the pension increases by 1 percent. Conditions for calculating old-age pensions for self-employed and persons who cooperate with the self-employed are same as for employees in this category.

Category 2: Includes legally stated occupations with dangerous working conditions. For this group, pensions require 20 years of employment in jobs of this category. Retirement ages are the same as those stated for the third category (above), and the replacement rate is 55 percent of the countable average monthly earnings. For every year of employment over 20 years, the pension is boosted by 1.5 percent.

Category 1: Includes hazardous jobs, and particularly mining. Pensions can be claimed after 10 or 15 or 20 years of employment in specified working places in the first category. The retirement age is 55 or 58 years of age, depending on the working place; the replacement rate is 60 percent of the countable average monthly earnings. For every year of employment over 20 years, the pension is boosted by 2 percent.

For all these categories, every year of employment over the retirement age during which a pension was not claimed results in a benefit increase of 6 percent (as of 2001). However, the maximum amount of the old-age pension is limited by a ceiling, which varies according to the job category. There are four ceilings for old-age pensions, and these ceilings increase every year, depending on the adjustment of newly granted pensions. Two upper limits pertain to the first category, and depend on the particular job: at present, the highest ceiling is 8,282 SKK per month; the next highest is 7,286 SKK. For the second category, the ceiling is currently 6,566 SKK. The maximum amount of benefits for those in the third category is 6,389 SKK per month.

The above-stated ceilings are disregarded if old-age pensions are adjusted for employment after reaching the retirement age. However, the highest ceiling, 8,282 SKK, cannot be crossed in any case. From this, it is clear that the majority of contributors within the pension scheme subsidize benefits for those whose working places belong to the first or second occupational categories.

The rules for paying contributions are the same for all employers and employees, but entitlements to old-age pensions differ by job category, as just described. In spite of the fact that all preferences based on working categories within the basic pension scheme were abolished through the Act on Income Tax in 1992, they continue to apply for those who joined the pension scheme prior to this date. Hence, they will continue to influence the scheme for the next 20 years as well. Moreover, since 1993, the National Assembly of the Slovak Republic prolonged the validity of the job categories in the pension scheme every year until 1999. Given this delay, the allowance of claims to old-age pensions under conditions from working categories will continue until 2023.

The assessment base (in legal terminology, the "reduced average wage") from which the old-age pension for all three categories of jobs is calculated as follows: The reduced average wage for the old-age pension is determined from an average monthly income taken from the best five years of earnings (up to 10,000 SKK) during a ten-year period of employment before claiming a pension. Up to 2,500 SKK, the whole sum is counted; from 2,501 to 6,000 SKK, one-third is counted; and from 6,001 to 10,000 SKK, just one-tenth. This means that the total amount of an assessment base or "reduced average wage" for calculating a pension can be no more than 4,047 SKK. This method of calculating the reduced average wage was developed in 1988; since then, it has not been modified, even though the average wage has increased fourfold. This outdated approach makes it necessary to adjust not only all pensions in payment, but also all newly calculated pensions. The following section, "Adjustment of Pensions," describes the proceudure that was introduced in 1991, after high inflation caused a sharp increase of nominal wages.

Under the Social Security Act, other types of pensions are also provided to the elderly. These include:

- pension for recognized years of work;
- proportional old-age pension;
- social pension;
- wife's pension; and
- early retirement pension.

The *pension for recognized years of work* is provided to employees whose working conditions are recognized as especially demanding. This group of jobs includes pilots, other aircraft crew (excluding stewards or stewardesses), heads of aviation operations, and artists, such as opera singers and actors, orchestra conductors, professional musicians, ballet dancers, and so forth. Eligibility conditions are relatively loose for these groups. There is no stated retirement age, and required years in service depend on the type of profession. This requirement varies from 20 years for ballet dancers and artists, to 25 for pilots, and to 30 for conductors of orchestras and musicians. The replacement rate is 50 percent of the countable average monthly earnings, taken from the best five years during ten years before the worker became entitled to the pension. For years of service over the legally stated minimum, only pilots and heads of aviation operations are eligible for pension adjustments—by 3 percent per every year up to 75 percent of a claimant's average monthly income. A person receiving a pension for recognized years of work is allowed to work and receive a full pension, but benefits decrease as the total amount exceeds the amount of assessment base for the pension calculation.

The *proportional old-age pension* refers to a reduced pension granted to an individual who has worked less than the number of years required by law for a regular old-age pension. To be eligible, an individual must have worked at least 10 years and have attained at least 65 years of age. Women may also opt for an alternative of 20 years of work and a retirement age of 60 years. A professional soldier is eligible for a proportional old-age pension if he or she has been employed at least 10 years and has reached 60 years of age. Years in army service are not counted for the above-mentioned requirement if the soldier can claim an old-age or disability pension. The value of the proportional pension is 2 percent of the countable average monthly earnings for each year of employment. The ceiling and floor for the proportional old-age pension are the same as for the regular old-age pension.

The *social pension* is a means-tested benefit payable to an individual without subsistence income when he or she has reached 65 years of age or when disabled. The amount of the social pension can reach the subsistence minimum level, which, in 2001, was 2,790 SKK for a single adult. Depending on other incomes of a pensioner, the value of the social pension can be reduced, so that his or her total income does not exceed the subsistence minimum. If a spouse is dependent on a pensioner, the social pension is calculated as a subsistence minimum for the couple, and can reach 6,440 SKK. When the legally stated subsistence minimum is increased, the social pension is adjusted.

Wiwes' pensions are granted only to married women who are not eligible for any other pension and whose husbands are eligible for old-age pensions, disability pensions, partial disability pensions, pensions for recognized years of work or survivors' pensions. A woman cannot be employed, and must have reached 65 years of age or be disabled. She is entitled to this pension only while married. The amount of this pension is 570 SKK (after the last adjustment in July 1997).

Until 2001, *early retirement* pensions were provided pursuant to the amended *Government Regulation No. 118/1988 (Coll. of Laws) on the Provision of Exceptional Pensions*. An early retirement pension could be claimed by an employee no more than two years before reaching regular retirement age, if he or she was dismissed from work because his or her workplace ceases to exist. Another requirement for eligibility was registration at the employment office as unemployed. This government regulation was repealed in January 2001.

Adjustment of Pensions

In 1991, *Act No. 46/1991 (Coll. of Laws) on the Improvement of Pensions* (subsequently amended) came into power. It introduced a system of regular adjustment of pensions into the statutory pension scheme. This act links pensions to increases in the average wage and to the rising cost of living. Whenever the cost of living increases by at least 10 percent or the average wage by 5 percent, or when both coefficients increase, pensions must be adjusted. This may be by a lump sum, percentage points, or both. As the exact amount of the increase is not stated in the act, every adjustment must be passed in a separate act by Parliament. In reality, the level of adjustment depends fully on the amount of money collected by the SIA and on the decision of policymakers. Since 1991, 10 acts on the adjustment of pensions in payment have been passed (*Nos. 116/1992, 97/1993, 38/1994, 195/1994, 135/1995, 376/1996, 357/1997, 132/1998, 233/2000* and *385/2001, Coll. of Laws*). With each of these, the method by which all pensions were calculation changed, as previous increases were added to newly calculated pensions for each particular year. For example, pursuing *Act No. 385/2001 (Coll. of Laws) on Increasing Pensions in 2001 and on Adjustment of Pensions Recognized in 2002*, old-age pensions, disability pensions, partial disability pensions, pensions for recognized years of work, and widow's and orphan's pensions awarded before 1 January 2002 are adjusted by 7 percent, due to the increase in wages. Pensions awarded from 1 January till 31 December 2002 are calculated according to the legal formula (described above) and then adjusted by 103.5 percent plus a lump sum. This sum varies according to the pension type:

- for old age, disability, recognized years of work: 1,240 SKK;
- for widows, 744 SKK;
- for partial disability or orphans, 620 SKK;
- for one side orphan's pension 372 SKK; and
- widowers' monthly lump-sum, from 1,977 SKK to 2,116 SKK.

Concurrent Pension Entitlements (*The Cumulative Principle*)

The *cumulative principle* stipulates that, when required conditions for two or more pensions from the same statutory pension scheme are fulfilled (e.g., old age, disability, partial disability), excluding survivors' pensions, only one is paid—and usually the highest. If a claimant is eligible for two (or more) pension benefits of the same value, he or she must choose one. After a claimant's right to one pension is recognized, his/her right to receive other pensions is terminated. By law, it is not possible to accumulate entitlements to multiple pension benefits concurrently, with one exception: only survivors' pensions can be cumulatively paid.

Old-age pensioners are also barred from receiving pensions while employed, with one exception: if a pensioner concludes a fixed-term working contract for one calendar year, he or she can concurrently receive an old-age pension.

4a.1.1. Other Old-age Benefits

Sole Source of Income

Under current law,—*Act No. 100/1988 (Coll. of Laws) on Social Security*—if a pension for old age, disability, a widow/widower, or one-side orphan is the sole source of income for a pensioner, and if it falls below 1.1 times the statutory subsistence minimum (currently, 4,169 SKK per individual, or 7,084 SKK per couple per month), then it is increased to the above-mentioned minimum subsistence level. The increment between such a low pension and statutory level of sole source of income is a means-tested benefit, and is financed from the state budget. Other incomes of a pensioner and his or her household members, as well as the ability to work, are also taken into account when determining eligibility for a sole source of income benefit. If the pensions of both members of a married couple do not reach the subsistence minimum, then only the male's pension is increased as the sole source of income.

Social Assistance Benefits to Pensioners

A social loan, under the Social Assistance Act, may be provided as a social assistance benefit to a claimant who may also be an old-age pensioner or in a state of material destitution (for reasons stated in the Social Assistance Act). Money can be lent by a municipality to a recipient without interest for purchasing basic household equipment or repairs.

4a.1.2. In-kind Benefits

Under the amended *Act No. 195/1998 (Coll. of Laws) on Social Assistance* (hereinafter, "Social Assistance Act"), elderly pensioners are also entitled to several benefits in-kind, as their age and health status often prevent them from meeting their basic living needs or performing household chores.

Social assistance benefits provided to pensioners are divided into two groups: attendance services and care provided in social service establishments.

Attendance services are provided to persons with health ailments who require the assistance of another individual to maintain a minimal standard of living. They are provided at the home of the entitled person. Under the new social assistance concept, these services are preferred over, and provided before, institutional social services. A qualified professional from a health institution must recommend an individual receive such services before they can be provided.

Care provided in social services establishments can be provided to an individual who requires intensive supervision and services. Municipalities and other relevant authorities can establish social services facilities for old-age pensioners, which include:

- senior homes; and
- facilities (rest homes) where attendance services are provided.

Municipalities alone can also establish:

- boarding homes for pensioners;
- seniors' clubs;
- canteens for pensioners;
- personal hygiene centers; and
- laundries.

Social services in establishments are provided on yearly, weekly, or daily bases. Temporary care for a specified period can also be provided. In these establishments, it is not possible to provide services to persons who need health care in a hospital or in other health care establishments. In all establishments for the elderly, boarding, accommodation, maintenance, and other care services, such as counseling, leisure, rehabilitation or cultural activities, are provided. The prices for all of the above-mentioned social services are set in regulations issued by the Ministry of Labour and Social Affairs. Additionally, "pocket money" should be withheld from residents' pensions. As fees at social services establishments are much higher than pensioners can cover by their pensions, the majority of expenses are covered by the state budget. An unequal situation among pensioners is thus created: those residing in social services establishments receive far more support from the state (from pension schemes and social services, financed from general taxes) than those who care for themselves.

Senior homes provide social care to pensioners living in material destitution, who are in dire need of attention, and who are recipients of old-age pensions. Eligible individuals tend to suffer from health ailments and require assistance; family members must be unable to provide or pay for personal attendance care.

Facilities (rest homes) where attendance services are provided offer care for persons whose health status is so adverse that they must depend on help from others to carry out basic functions.

Boarding homes for pensioners offer care to persons who lack accommodation, but who receive old-age pensions, are older than 60 years of age, and whose health status is such that they do not require continuous care.

Seniors' clubs offer a social environment for the elderly, typically involving sport and cultural activities and leisure.

Canteens for pensioners provide common boarding for old-age pensioners who are not able to prepare their own meals.

Personal hygiene centers and *laundries* provide basic needs and care for the socially maladjusted/elderly.

5a. Disability, Partial Disability and Employment Injury and Occupational Diseases

5a.1. Disability and Partial Disability Cash Benefits

Disability and partial disability pensions are provided pursuant to *Act 100/1988 (Coll. of Laws) on Social Security,* as amended, as well as *Act No. 274/1994 (Coll. of Laws) on the Social Insurance Agency,* also amended, which both deal with old-age pensions and some other benefits.

5a.1.1. Disability Pensions

By law, a disability pension is payable to a person who has become disabled and who fulfills legally stated conditions, such as: working for a required number of years; failing to meet conditions for claiming the old-age pension; or becoming disabled due to a work-related accident. *Disability* refers to a long-term, adverse health condition. A disabled person is one who is absolutely incapable of performing work with any regularity, or who is able to perform work only under exceptional conditions (e.g. blind people). Assessment of the health status of the claimant is provided regularly, except for some adverse health conditions stipulated by law.

The number of years of work that is required by law to be eligible for a disability pension depends on age. For those below the age of 20, it is less than one year; from 20 to 22 years of age—one year; from age 22 to 24—two years, from age 24 to 26—three years; from age 26 to 28—four years; and for those over 28 years old, it is five years, determined from the last 10 years prior to the occurrence of invalidity. However, because students 18 years of age and over are insured by the state, unemployed individuals receiving unemployment benefits are insured by the NLO, and until 1989 all citizens were legally obliged to work, almost every person fulfils the conditions for receiving a disability pension. Other parts of the disability pension formula are the same as those used to determine old-age pensions (see Chapter 4a, this study), including provision for the adjustment of newly awarded disability pensions. For the calculation of a disability pension, an individual's employment record is taken into account, along with the years remaining until retirement (the theoretical working period). If a disabled person's theoretical working period does not reach 25 years of employment, the disability pension is calculated as 2 percent of the average monthly wage for every year of his/her theoretical period. There are also some exceptional cases when an individual is eligible for a disability pension, such as when he or she has obtained the required employment record after becoming disabled. Also, a person who becomes disabled prior to starting work is eligible for a disability pension after reaching the age of 18 years. Persons entitled to disability pensions are not legally barred from seeking or engaging in work. Furthermore, if a claimant has been working for at least five years, his or her disability pension can be recalculated.

5a.1.2. Partial Disability Pension

Eligibility criteria for a partial disability pension are: a partially disabling impairment, required years of employment, or partial invalidity as a result of occupational injury (with no previous work requirement). An individual is partially disabled if he/she can perform an activity at half the level of a healthy person at the same workplace. Required years of employment are the same as those for a full disability pension; the value of a partial disability pension is half the full disability pension. After fulfilling the above-mentioned conditions, a person is entitled to a partial disability pension for 12 months. The assessment of the health status of the claimant is performed every twelve months and, if the health status of person has not improved, entitlement to partial disability pension continues. The entitlement can also be renewed and there are some exceptional medical diagnoses which are not assessed at all. Additionally, the income of a claimant must have decreased to at least one-third of the level prior to the date of disablement. This condition is deemed to be automatically fulfilled if the present income does not exceed the legal minimum wage.

5a.1.3. Concurrence of Pension Entitlements (the cumulative principle)

When a person is eligible for two or more statutory pension benefits (e.g. disability, old-age), the same rules apply as described in section 4a above.

5a.2. Employment Injury and Occupational Diseases

According to *Act No. 242/2001 (Coll. of Laws), Amendment to the Social Insurance Agency Act*, since 1 January 2002, the management of occupational injury and disease insurance has been transferred from the privatized Slovak Insurance Company to the Social Insurance Agency, the agency providing statutory social insurance (see also section 3a.1).

Under the above-mentioned legislation, every employer with at least one employee must contribute to insurance which covers employers' responsibilities for damage to a worker's health which might occur at or in relation to work. This insurance does not apply to the self-employed or to their collaborators or partners. Insurance against occupational accidents and illnesses is financed through revenues paid by employers and based on their total payroll; employees do not contribute. If the employer does not pay contributions for any reason, the employee's right to receive benefits is not affected. All compensation and benefits provided under the employment injury and occupational disease insurance scheme are paid by the Social Insurance Agency on behalf of responsible employers.

Benefits and eligibility criteria are described in the Labour Code. Employees who have suffered occupational injuries or who have contracted an occupational disease have the right to receive compensation from their employer to the extent that the employer is responsible for the damages. An employee has the right to be compensated for:

- loss of earnings;
- suffering and difficulties with social reintegration;
- efficient spending for medical treatment (paid to health care provider); and
- material damages.

Compensation for loss of earnings is a benefit that equals the balance between the worker's average earnings in the period before the injury or illness and his or her insurance benefits (sickness benefit or disability pension) provided thereafter. Compensation for loss of earnings is also granted to an employee if his/her new wage is lower than the previous one (on average). The right to receive the above-stated compensation continues for 12 months. Subsequently, the compensation is limited to a lump sum, which an employee can receive as a total of the pension benefit, wage, and compensation for loss of earning. However, the lump sum was not properly adjusted during the 1990s; now, it is so low that almost no one is entitled to it. Compensation for loss of earnings is granted up to 65 years of age.

If an employee died as a result of an occupational accident or disease, the employer must pay:

- necessary funeral expenses (after deduction of the state funeral allowances);

- a special survivors' benefit (only if the dependent person is not entitled to a survivors' pension, in which event the benefit cannot exceed the level of compensation for loss of income to which the deceased would have been eligible); and
- a lump sum to survivors for material damages (a surviving spouse is entitled 15,000 SKK; a child, to 24,000 SKK).

Compensation for suffering and difficulties with social reintegration is regulated by special legal act and it is paid as a lump sum by the state.

Precautionary Role of the State, the Trade Unions, and Workers Representatives

The main state office which controls and regulates all workplaces is the Inspectorate of Work. Alongside this state office, trade unions or workers' representatives have a number of authorities and an important stake in health protection and safety issues at workplaces. Under the Labour Code and other related legislation, as well as according to the collective agreements, the trade unions or workers representatives can contest unnecessarily dangerous work or working environments. They can inspect workplaces to assess hazardous conditions, investigate incidents, call and participate in official inspections, attend and/or provide health and safety trainings during working hours, and consult the management regarding health and safety (including environmental) matters. All trade unions and workers representatives providing health and safety controlling activities are paid for by state budget through the Trade Unions Confederation of the Slovak Republic, and particularly through the Trade Unions Federations.

5a.3. Social Assistance Benefits Provided to the Disabled

According to *Act No. 195/1998 (Coll. of Laws) on Social* Assistance, as amended, persons with disabilities are entitled to a wide range of social assistance benefits provided in cash or in-kind. All social assistance benefits are financed from the state budget or from the budgets of municipal authorities. The benefits provided include Social Services Benefits; Compensatory Social Services;

Compensatory Financial Contributions; and Financial Contributions for Personal Assistance.

A. Social Services Benefits include:

- attendance services;
- communal catering;
- transportation service;
- care provided in social service establishments; and
- social loans.

Attendance services are provided to persons with long-term health impairments who require assistance with basic activities of daily living. A relevant authority of a health institution must recommend an individual in order for specific attendance services to be provided.

Communal catering is organized primarily for severely handicapped persons who cannot prepare their own meals. Catering may be organized in public dining halls for pensioners or in other social services institutions.

Transportation services may be provided for the disabled who are recognized by a competent authority as eligible for individual vehicle transport, because they are unable to use public or mass transportation.

Care provided in social services establishments is offered to persons who require intensive care. Social services establishments are facilities of municipalities and other relevant authorities, such as social services homes, protected housing facilities, and rehabilitation centers. In these facilities, full board and lodging, as well as counseling, work therapy, leisure, rehabilitation and other services, are provided. Care in a social service establishment cannot be provided to recipients whose state of health requires hospitalization. Municipalities alone can also establish social services facilities where services are provided for persons with long-term ailments or disabilities: canteens for pensioners, personal hygiene centers, and laundries.

Social loans might be provided to claimants for social assistance benefits who are in a state of material destitution (for reasons stated by the Social Assistance Act). A municipality can lend money to a recipient without requiring him or her to pay interest; these loans are granted for basic household needs, including repairs.

B. Compensatory Social Services, Compensatory Financial Contributions, and Financial Contribution for Personal Assistance are targeted cash benefits provided under the Social Assistance Act only to persons with severe health impairments. These benefits are intended to overcome destitution, or to mitigate or eliminate it, as well as to address the consequences of a person's impairment or disability. They are intended to remove barriers that prevent severely handicapped persons from functioning or participating in society. Under the Social Assistance Act, a disabled person is assessed on an individual basis, according to his or her own needs.

When eligibility for compensatory financial contributions is determined, the collective income of a disabled person and household members is taken into account, as a condition both for granting a benefit and for calculating its amount. A claimant's personal characteristics and habits, family environment, and ability to integrate into society are also considered as part of the eligibility determination process. Forms of compensation are:

a) *compensatory social services,* which include transportation services, attendance services, and care provided in social services establishments; and
b) *compensatory financial contributions (cash benefits),* which may be provided as financial contributions for the purchase or repair of special equipment; the purchase of a motor vehicle; transportation expenses; modifying an apartment, family house or garage; compensating for increased expenses; or special care (described in detail below).

Contributions for the purchase or repair of special equipment. Special equipment includes acoustic aids, amplification devices, visual aids for persons with visual impairments, and trained dogs. Such contributions can be granted to claimants to cover the cost of the aid; this cost cannot exceed 260,000 SKK. If an individual requires multiple special aids, the contribution may be provided for each separately. Contributions for buying the same kind of equipment can be provided every three years. Contribution for the repairing of special equipment can be provided if the total price of all repairs does not exceed 50 percent of the price of the equipment itself.

Contributions for the purchase of a motor vehicle can be granted to a disabled person who needs individual transportation and who does not receive care in a social services establishment. This contribution is provided only until the claimant reaches 65 years of age. The maximum amount of contribution for purchasing a car is 200,000 SKK. A new application can be submitted every seven years.

Contributions to cover transportation expenses are provided to individuals who have not been receiving assistance for the purchase of a car and who require assistance with transportation. Substantiated transportation expenses cannot exceed 2,500 SKK per month.

Contributions provided for modifying an apartment, family house, or garage can be provided to make a dwelling habitable for a disabled individual. The maximum amount granted for modifying a flat or a house is 250,000 SKK; for modifying a garage, it is 50,000 SKK.

Contributions for compensating for increased expenses may be provided to mitigate the financial burden of necessary aids and equipment. For example, this contribution can be provided to compensate for high expenses of a special diet, personal hygiene, house cleaning, or special clothes, shoes, furniture, or other necessary items. Compensation can also be granted for medical aids, the maintenance of a motor vehicle, or for the care of a trained dog. The compensatory contribution varies according to the kind of aid or equipment and is calculated as a percentage of the subsistence minimum.

Attendance allowance can be provided to an individual who takes care of a severely handicapped person, if the handicapped person does not receive a contribution for a personal assistant. This allowance cannot be provided if a disabled person is placed in a social services establishment. The attendance allowance is 1.65 times the sum of the subsistence minimum (currently 6,260 SKK per month) for caring for one disabled person; if caring for two, the allowance is 2.25 times the subsistence minimum (8,530 SKK). If a disabled person receives services at a social services facility or any educational institution for at least four hours daily, the attendance allowance is reduced to 1.35 times the sum of the subsistence minimum if caring for one person, and to 1.95 if carrying for two persons.

C. Personal Assistance Financial Contributions can be provided to severely handicapped persons who require personal assistance to meet basic needs, or perform household chores, or for education, economic activity, or participating in public life. Allowances are means tested, and can be provided to severely handicapped persons who are from 6 to 65 years of age. The maximum amount of personal assistance is 20 hours per day; one person can provide up to 10 hours daily. The contribution per hour of personal assistance is 1.5 percent of the subsistence minimum, which currently is 57 SKK. If the monthly income of disabled person is higher than three times the subsistence minimum, then the amount paid for the personal assistance is determined by the difference between the income of the disabled person and the amount of the contribution. If the value of the property and savings of the disabled person is higher than 800,000 SKK, the contribution is not paid. If personal assistance is provided by a family member or legal guardian, this contribution cannot be provided.

6a. Survivors' Benefits

The pension scheme provides three cash survivors' benefits: the widow's pension, widower's pension, and orphan's pension. The funeral allowance is a benefit in-kind.

6a.1. Survivors' Cash Benefits

Cash survivors' benefits are paid as insurance, are not means-tested, and are regulated by *Act No. 100/1988 (Coll. of Laws) on Social Security*, as subsequently amended.

Widow's Pension

A widow has the right to this pension if her deceased husband fulfilled entitlement conditions for, or if he was receiving at the time of death, an old-age pension, disability pension, or pension for recognized years of work. She is also eligible for a pension if her husband died as a result of a work-related injury, accident, or occupational disease. An eligible widow has the right to this pension during the first year after her husband's death without any conditions. Thereafter, she is entitled to the pension if she:

- is disabled;
- is caring for at least one dependent child;
- has raised at least three children;
- has reached 45 years of age and raised two children,
- has reached 50 years of age; or
- has reached at least 40 years of age, her spouse's death was work-related, and he was in the first category of employment or in military service.

Entitlement can be renewed if a widow fulfils any of the above-mentioned conditions within two years after the right to the pension terminated.

A widow's pension is 60 percent of the old-age or other pension to which the husband was entitled at the time of his death. If the husband was eligible for two pensions, the widow's pension is calculated from the higher. By law, the minimum widow's pension is 450 SKK monthly; it cannot exceed the amount of the deceased person's pension. If the widow is employed and does not have dependent children, she receives only a reduced pension after the first year. The pension is not reduced, however, if she receives the old-age pension or if she has reached 65 years of age.

A divorced or separated woman is also eligible if her spouse was liable to pay alimony to her. However, the pension cannot exceed the alimony amount. If a divorcee or widow who was separated from her husband at the time of his death is entitled to a pension, the aggregate sum of all pensions cannot exceed the amount of the deceased husband's pension. The widow's pension ceases in case of remarriage.

Widower's Pension

Only since 1991 have widowers been granted the right to a survivor's pension. If a widower cares for at least one dependent child, he is eligible for this pension. However, it is not linked to that of the deceased spouse. A widower's pension is granted as a lump sum; in 2001, it was 2,116 SKK per month. The pension ceases upon remarriage.

Orphan's Pension

Following the death of one or both parents or of a legal guardian, every dependent child has the right to an orphan's pension. Dependency in this case is defined as a child in compulsory education (until 16–17 years of age), preparing for employment, or who is disabled (until 25 years of age). There are no other eligibility requirements. A child with a single remaining parent is entitled to 30 percent of the old-age, disability, or recognized years of work pensions; for a child with no parents, the orphan's benefit is 50 percent. If the deceased parent was eligible for two pensions, the orphan's pension is calculated from the higher. By law, the minimum pension for orphans with one remain-ing parent is 400 SKK per month; for children with no parents, it is 600 SKK.

Adjustment of Survivor's Pensions

Survivor's pension benefits are adjusted under *Act No. 46/1991 (Coll. of Laws) on Improvement of Pensions* (subsequently amended), to reflect increases in the cost of living and the average wage. (A more detailed discussion is provided in section 4a.) Under *Act No. 385/2001 (Coll. of Laws) on Increasing Pensions in 2001 and on Adjustment of Pensions Recognized in 2002*, widow's and orphan's pensions granted before 1 January 2002 are increased by 7 percent of the monthly pension amount. From 1 January till 31 December 2002, pensions were adjusted by 103.5 percent and by a lump-sum:

- for a widow's pension, by 744 SKK;
- for a child without parents or a legal guardian, by 620 SKK; and
- for single-parent or single-guardian child, by 372 SKK.

In addition, the widower's monthly pension has been increased from 1,977 SKK to 2,116 SKK.

Concurrence of Pension Entitlements (*The Cumulative Principle*)

If the eligibility requirements for a survivor's pension and for other statutory pensions such as old age or disability are met, the one with the highest value is paid in full, along with half the amount of the other(s). If a survivor's pension is equal to the other pension(s), a claimant can choose one, which is then paid in full. The most common case of eligibility for two pensions is entitlement to a widow's and to an old-age pensions (based on a woman's own employment record). In such cases, the old-age pension is paid to the widow in full, plus half of her widow's pension. However, due to the legally stated ceiling of the aggregated sum of all paid pensions, very often a widow receives only a small part of her widow's pension—up to the ceiling. Sometimes, she receives nothing, except the empty right to the widow's pension. For 2001, the maximum amount of all paid pensions could not exceed 8,282 SKK per month. If one survivor's pension reaches the maximum amount, the other pensions are not paid.

6a.2. Survivor's Benefits In-kind

Funeral Allowance

Under *Act No. 238/1998 (Coll. of Laws) on Funeral Allowance,* as amended, subsidies for funeral expenses are provided from the state budget as a state social benefit. Survivors, or other persons who organized the burial of deceased person, are eligible for the funeral allowance. The value of the funeral allowance is 0.7 times the sum stated by *Act No. 125/1998 (Coll. of Laws)*, from which state social benefits are calculated, which means 2,100 SKK (2001). The claimant as well the deceased person must be (or have been) residents of the Slovak Republic. The provision of the funeral allowance is within the competencies of local authorities of the state administration.

7a. Sickness Insurance

Statutory sickness insurance for employees is provided pursuant to *Act No. 54/1956 (Coll. of Laws) on Sickness Insurance of Employees*, as subsequently amended. Statutory sickness insurance for the self-employed, and for persons cooperating with the self-employed, is authorized by *Act No. 100/1988 (Coll. of Laws) on Social Security* (subsequently amended). The sickness insurance scheme operates under *Act No. 274/1994 (Coll. of Laws) on the Social Insurance Agency* (as subsequently amended). Sickness insurance benefits include: sickness benefits; benefits for the care of a family member; spa treatment, as a benefit in-kind provided by sickness insurance; income maintenance in the event of pregnancy and childbirth; and maternity leave benefits. (Descriptions of the last two are included in section 10a.1.1, among benefits provided to families and children.)

Sickness Insurance for Employees

Sickness benefits. From the first day of a new worker's employment, his or her employer is obligated to provide sickness insurance. An employee is eligible for sickness benefit if he or she is temporarily incapable of working because of sickness, injury, or occupational disease, and if he or she loses income as a result of this missed work. Sickness benefits are awarded from the first day of the period during which an employee is unable to work, until the end of this period or until a specific status (e.g., terminal) of the disability is recognized. Sickness benefits are not granted for longer than 52 weeks per one continuous illness. However, within one year, all previous periods of sickness are considered. The provision of a sickness benefit may be prolonged, if there is a reason to expect that the employee will ultimately return to work, but this extension is limited to a maximum of one year. The amount of a sickness benefit is calculated as 70 percent of the net daily income for the first three days, and 90 percent from the fourth day onwards. However, the maximum daily assessment base for calculating a benefit, as stated by law, is 350 SKK per day. After the termination of employment, the employee has the right to a 42 day protective period during which, if falling ill, he/she is entitled to sickness benefits while unable to work.

Benefits for the care of a family member. To receive this benefit, any male or female employee is eligible, who is unable to work and who has lost his or her income, as a result of: caring for an ill child under the age of 10 years; caring for a child under the age of 10 for another specified reason; or providing necessary care for an ill family member. The claimant and the individual receiving care must be members of the same household. Benefits are calculated and provided like sickness benefits; benefits for care, however, are paid only for a maximum seven days per incident. For a single parent who cares for a school-age child (up to 16 or 17 years), benefits are paid for up to 13 days, if necessary.

Spa treatment. Benefits can also be provided in-kind within the insurance scheme. Entitlement to spa treatment (for employees and their family members) as an in-kind benefit necessitates a medical doctor's recommendation. All expenses are covered by the Social Insurance Agency, which receives money for covering these expenses from the state budget (see Chapter 3).

*Sickness Insurance of the Self-employed and Persons Cooperating with the Self-employed (*hereinafter, "Self-employed"*)*

The self-employed are entitled to sickness benefits and spa treatments. Typically, benefits for caring for a family member are not granted. Under the Social Security Act, all self-employed with an income after taxation above 100,000 SKK per year are obliged to be insured. Since 2001, this sum is adjusted every year by 10 percent. Conditions for eligibility to benefits are the same as for employees, and are described above. In the case of temporary inability to work, the daily allowance is calculated per calendar day. For the first three days, it is 70 percent, and from the fourth day, it is 90 percent, calculated from the average, daily income. The amount is not to exceed 250 SKK per day. A self-employed individual can receive sickness benefits if he or she has been entitled to insurance for least 270 days during the two years prior to the illness. After terminating economic activity and the insurance period, self-employed persons also have the right to a 42-day protective period, during which, if falling ill, they are entitled to sickness benefits while unable to work. (For more, see section 3a.1.)

8a. Health Insurance

The right of every citizen to free-of-charge health care, based on health insurance, is stated in Article 40 of the *Constitution of the Slovak Republic*. Under state socialism, health care expenditures were financed from the state budget and health care was provided free of charge. Health insurance was introduced into the Slovak health care system in 1993 by *Act No. 7/1993 (Coll. of Laws) on Establishing National Insurance Company and on Financing Health Insurance, Sickness Insurance, and Pension Insurance* (subsequently amended) and by *Act No. 9/1993 (Coll. of Laws) on Health Insurance and on* *the Management of the Health Insurance Fund.* Both have been repealed and replaced by *Act No. 273/1994 (Coll. of Laws) on Health Insurance, Health Insurance Financing, and Establishing the General Health Insurance Company, and on Establishing of the Sector, Branch, Enterprise, and Civil Health Insurance Companies,* subsequently amended. All three legal acts stipulate the rules on establishing a health insurance company, the conditions for insuring citizens and legal entities, contribution and assessment bases, and all other related rules. For more on health insurance, see section 3a.3.

The rights and obligations of health care providers, the rights and obligations of patients, and other general conditions for the provision of health care, as well as the issue of licenses for non-state health care providers, are regulated by the amended *Act No. 277/1994 (Coll. of Laws) on Health Care.* This act does not stipulate the reporting of obligations of non-state care providers, and because of this, pertinent information on health care resources is not available.

After the creation of an insurance scheme, it has been necessary for the Slovak health system to develop rules for reimbursing medical treatment, drugs, and other health care provisions. *Act No. 98/1995 (Coll. of Laws) on the Therapeutic Order* (subsequently amended) states the conditions under which health care provision and drugs can be covered fully by insurance companies, or co-paid by patients. Almost all health care provisions are listed in this act; only a few treatments are excluded. Essential health care services, aids, and drugs are covered fully by health insurance. Some drugs are partially reimbursed, and some of are paid for out of pocket by citizens. However, from year to year, since the transformation of health care financing began, citizens have been responsible for a larger portion of the costs for drugs, as well as for some medical treatments. The Lists of Health Services, Drugs, and Medical Aids, and the Indication List for Spa Care, are included within the Act on Therapeutic Order. Under these lists, a comprehensive range of benefits is covered, especially related to medical treatment, rehabilitation services, orthopedic equipment and others. Only a few treatments are excluded from coverage, such as acupuncture, sterilization, abortion, cosmetic surgery, experimental treatment, and psychoanalysis, but only in cases when they are deemed unnecessary.

9a. Unemployment

9a.1. Benefits

Employment policy in the Slovak Republic is based on *Act No. 387/1996 (Coll. of Laws) on Employment* (hereinafter, "Employment Act"), as amended. The Employment Act regulates passive as well as active labour market policies, the creation and competencies of the National Labour Office, and two types of regional labour offices.

9a.1.1. Cash Unemployment Benefits

Unemployment benefits are earnings-related with an upper limit, and are determined by the number of years of employment. For an unemployed person with an employment record of up to 15 years, the statutory unemployment benefit may be paid for six months; for an individual whose employment record exceeds 15 years, the duration is up to nine months. The monthly benefit is 50 percent of the assessment base for the first three or six months (depending on the length of receiving unemployment benefit). For the next three months, the benefit amount declines to 45 percent of the assessment base. The assessment base is the person's monthly wage, which should be at least the statutory minimum wage. The amount of the unemployment benefit for the self-employed and their cooperating persons is calculated from the assessment base for paying unemployment insurance contributions (for more, see section 3a.2). To be eligible for an unemployment benefit, contributions to unemployment insurance should be paid for at least 24 full calendar months during the three-year period prior to being registered as unemployed.

The amount of an unemployment benefit is limited to a maximum of 1.5 times the subsistence minimum for an adult (5,685 SKK per month). To be eligible for an unemployment benefit, an individual must be registered with the RLO in his or her jurisdiction of permanent residence. A registered applicant should not be employed, or perform independent or collaborative economic activities in Slovakia or abroad. He or she should not be a partner in a limited liability company, a member of a cooperative, or perform personal assistance (see section 5a.3). The unemployed individual should cooperate with the RLO regarding employment or retraining. The RLO specifies the dates when the job applicant is required to visit it in order to seek re-employment. A registered, unemployed individual is obliged to inform the RLO in writing within three calendar days (at the latest) of every change to his or her record in the Unemployment Registry. If the job seeker does not fulfill these duties, he or she should be removed from the Registry.

In addition to the unemployment benefit, the relevant RLO also provides pension insurance and health insurance contributions. However, after the termination of eligibility for unemployment benefits, unemployed individuals are not eligible for unemployment benefits; and they must apply for social assistance benefits, which are much lower and means-tested. In establishing eligibility for social assistance benefits, the income of all household members is taken into account. After that, health insurance contributions on behalf of job seekers are paid by the state; but pension insurance can be paid only by the unemployed themselves.

9a.1.2. Other Policy Measures against Unemployment

Measures that are designed to facilitate the re-employment of individuals (active labour market policy measures) have been developed with the aim to decrease the overall unemployment rate and to create opportunities for the long-term unemployed. As job placement is the primary function or service of the NLO, provided through RLOs, significant attention is paid to finding suitable work for special groups of job seekers. Under the Employment Act, the special groups requiring particular attention include:

- juveniles at the end of their vocational preparation;
- secondary school and university graduates;
- persons over 50 years of age;
- individuals registered as unemployed for more than one year ("long-term unemployed"); and
- persons with a reduced ability to work.

An RLO provides practical advice to job-seeking persons, and offers training and retraining services. For the self-employed, RLOs offer contributions to support the creation of new working places and for employing job seekers. This active labour market policy, described below, encompasses support for: retraining; job creation; employing specific target groups; job maintenance; maintaining an active labour force; creating projects for revitalizing employment; and employing people with a reduced ability to work (e.g., due to disability). As well, this includes: other measures for improving situations in the labour market, especially measures and programs for providing counseling for those seeking for jobs; and contributions for establishing and providing protected workshops and protected workplaces.

Retraining

Retraining, as an active labour market policy program, combines work experience with some training measures. It is defined as preparation that allows a registered unemployed person to maintain, increase, extend, or change his or her recent qualifications, to adapt his or her qualifications to the requirements of a suitable and vacant working place, or to keep a current job. Retraining activities are provided by local employers, voluntary bodies, local schools, commercial training organizations, and other similar organizations. The costs for retraining a registered unemployed person are fully covered by the relevant RLO, and include board, accommodation, travel expenses, and so on. The RLO may contribute up to 50 percent of the total costs for the retraining of an employee, whom the employer has greed to employ at least for 12 months. Under the same conditions, employees of particular employers can be retrained to avoid collective redundancies. The RLO also provides practical advice for job-seeking persons, and offers training and retraining activities.

Support for Job Creation

Regional labour offices may pay a subsidy to a registered unemployed person or any other individual who is commencing employment and will be maintaining this economic activity for at least two years. The subsidy can reach a maximum of 200,000 SKK.

If the employer establishes a specific job for at least two years and employs a registered unemployed individual, he or she may also receive support for job creation. A new job can be also part-time work. The relevant RLO covers the wage, social and health insurance contribution, board, accommodation, and travel expenses associated with employing a particular individual for 12 months.

Pursuant to an agreement with the RLO, a job created by an employer for a school graduate or for a teenager can be supported by contributions to the wage, social insurance, travel, board, and accommodation expenses for 12 months.

If agreed to in advance with the RLO, an public-works job can be created by an employer for hiring a registered, unemployed person for a maximum of 12 months. The RLO covers the wage, social insurance contribution, board, accommodation, and travel expenses upon agreement.

The program of public-works jobs for long-term unemployed serves as a new, active labour market policy instrument. Public-works jobs can be created by town and municipal authorities and their facilities, public bodies, foundations, non-profit organizations, interest groups, health care and social services facilities, charity organizations, schools, churches, and the Slovak Red Cross. The purpose is to increase the number of available vacant jobs for the registered, long-term unemployed who require professional retraining, or whose social assistance benefits have been reduced by half (after two years of unemployment) under the new legislation. These public-works jobs are financed from the state budget through RLOs. State contributions cover: the wage of the employee (maximum 1.3 times the subsistence minimum, or 5,050 SKK per month); health, social security, and unemployment insurance; and accommodation, travel expenses, and board. The long-term unemployed thus participate in the maintenance and improvement of public property, such as parks and roads.

Support for the Employment of Specific Target Groups

Employers who have created jobs for persons who are long-term unemployed, over 50 years of age, no longer receiving parental leave benefits, or will be fired as a result of the restructuring of enterprises are eligible to receive certain contributions from an RLO. These include contributions to wages, social insurance, and expenses for work-related accommodation, board, and traveling over the course of 12 months.

Support for Job Maintenance

An RLO can contribute to the payroll of an employer if, as a result of restructuring or the transition to a new production program, it is not possible to keep all employees. Such contributions cannot exceed six months. In addition, an RLO can support an employer's new production program by granting a loan with interest for providing wages and social insurance.

Support for business employment projects

An RLO maintains funds for supporting business projects focused on improving employment in a particular region, and especially in areas with a high unemployment rate. Due to limited funds for the active labour market policy, only a handful of projects have been supported in recent years.

Support for employing persons with a decreased ability to work (e.g., due to disability) and contributions for establishing and providing protected workshops and workplaces.

For disabled persons, RLOs cover retraining costs. These include expenses for establishing suitable retraining courses, as well as all expenses encountered for other job seekers. Under the Employment Act, the RLO may give contributions to legal or natural persons who organize "protected workshops and protected workplaces." At least 25 percent of the participants must be persons with disabilities. Also, workplaces in which people with a reduced ability to perform work are enrolled in training or job preparation programs may be supported by an RLO. An RLO can also cover an employer's overhead costs, if the employer applies in writing for such a contribution within the legally stated time. For establishing a sheltered workshop, a contribution can cover all expenses up to 250,000 SKK per job for severely disabled persons, or up to 200,000 SKK for other persons with disabilities.

10a. Family and Children's Benefits

10a.1. Benefits and Services

The majority of family and children's benefits are paid by the state, while some are paid by the social insurance scheme. These benefits are authorized by different acts, depending on the circumstances of a family or individual, and can be distributed in cash or as an in-kind benefit. The general eligibility requirement for family and children's allowances is the existence of a "dependent child" in a family or household. A child can also be eligible for some benefits. Under *Act No. 193/1994 (Coll. of Laws) on Children Allowances and the Additional Child Allowance* and *Act No. 100/1988 (Coll. of Laws) on Social Security*, the term "dependent child" refers to every child from birth until the end of compulsory education (16 to 17 years of age), or individuals up to 25 years of age who are enrolled in full-time education or preparing for work. A child who has finished compulsory education, and who is neither employed nor entitled to an unemployment benefit, is also considered dependent until he or she has reached 18 years of age.

In 2001, the majority of family and childcare's benefits were calculated pursuant to *Act No. 125/1998 (Coll. of Laws) on the Subsistence Minimum and the Determination of Sums for State Social Benefits Purposes* (subsequently amended). Subsistence minimum sums were to be adjusted at least once yearly, depending on the cost of living. However, increases in the cost of living have not yet been taken into account regarding these sums for state social benefits purposes, which have remained at the same value as in 1998. As a result, the level of most state social benefits has not changed.

10a.1/A Subsistence Minimum per Month in 2001:

- First adult in a household: 3,790 SKK.
- Second adult in a household: 2,650 SKK.
- Dependent child: 1,720 SKK.

10a.1/B Sums for State Social Benefits Purposes per Month in 2001:

- First adult in a household: 3,000 SKK.
- Second adult in a household: 2,100 SKK.
- Child up to 6 years of age: 1,350 SKK.
- Child between 6 and 15 years of age: 1,660 SKK.
- Child above 15 years of age: 1,770 SKK.

To determine state social benefit amounts, multiples of the above-stated amounts are used.

10a.1.1. Maternity Allowances

According to state legislation, a woman should be protected during her pregnancy and after the delivery of her child: her health and economic security are ensured by the social protection scheme. During pregnancy and maternity, a woman is eligible to receive two cash benefits under *Act No. 54/1956 (Coll. of Laws) on Sickness Insurance of Employees* (subsequently amended). These benefits pertain to income maintenance in the event of childbirth and to the maternity leave allowance. Neither allowance is means-tested; both are paid by the SIA from a sickness insurance fund (section 3a). However, eligibility for the cash benefits described below relies on the sickness insurance period, which should not be less than 270 insured days during the two years prior to childbirth.

Income Maintenance in the Event of Pregnancy and Childbirth

Income maintenance is a benefit intended to compensate a protected woman for the loss of earnings due to a change in her workplace in connection with her pregnancy and/or childbirth. If a woman's occupation is deemed dangerous, the employer should assist her to find more appropriate work. If a woman's wage at her new position is lower than at her previous position, she is eligible for income maintenance. The amount of the benefit is the difference between her new net wage and the net wage received at a her previous position. There is, however, a ceiling, as the benefit cannot cross 90 percent of the net wage (up to 350 SKK) per working day.

Maternity Leave Allowance

A married woman is entitled to a maternity leave allowance for a maximum of 28 weeks. Four to six weeks of leave should fall before childbirth, and the remainder (22–24 weeks) after. During maternity leave, the benefit is calculated as 90 percent of the threshold, which is the net daily wage (up to 350 SKK). According to the Labour Code, a woman is entitled to return to the same position she occupied prior to maternity leave.

10a.1.2. Single Parent's Allowances

Under *Act on 54/1954 (Coll. of Laws) on Sickness Insurance of Employees* (subsequently amended), a single mother, divorced woman, or widow is eligible for maternity leave and for a maternity leave allowance for nine weeks longer than a married women. The amount of the allowance and other entitlement conditions are the same as for married women, as described above. In addition, a man who is single, a widower, or divorced can receive a parental leave allowance (similar to the maternity leave allowance) from the sickness insurance scheme, if he cares for a dependent child. The allowance is provided under the same conditions as for a mother, but only for a maximum of 22 weeks, and only until the child reaches eight months of age.

10a.1.3. Parental Allowances

All parental allowances are financed from the state budget and are provided to individuals who care for a child, or to children themselves if they are in a legally recognized situation. To be entitled to these allowances, beneficiaries—parents as well as children—must be permanent residents of the Slovak Republic.

Parental Leave Allowance

According to *Act No 382/1990 (Coll. of Laws) on Parental Allowance* (subsequently amended) an individual is entitled to this state social benefit if he or she cares for a child who is younger than three years of age, or younger than seven years if recognized as suffering from a long-term, severe health impairment which necessitates special treatment. The need for full daily care by an eligible parent (including foster care) is a requirement as well. The allowance rate is 0.913 times the specified sum.[2] At the end of 2001, the value of parental allowance was 3,460 SKK.

Subsistence Contribution for Soldier's Family Members

Under *Act No. 236/1998 (Coll. of Laws) on Subsistence Contribution* (subsequently amended), this state social allowance is paid to a family member or to others who are dependent on an individual in obligatory national military service, in a substitute national service with the Slovak Armed Forces, or in civilian service (hereinafter, "soldier"). The soldier must be a household's breadwinner, and not receiving any wage, salary, or remuneration while in service. The level of subsistence contributions are:

- for a soldier's child: half a specified sum, dependent on age.[3] For a child up to six years of age, the sum is 680 SKK per month; from 6 to 15 years of age, 830 SKK; for those older than 15 years, 890 SKK.
- for a soldier's spouse or other dependent person: half a specified sum,[4] which is 1050 SKK per month.

*Housing Contributions for Soldiers (*repealed in 2000*)*

Contributions were previously provided under *Act No. 100/1988 (Coll. Of Laws) on Social Security* to soldiers to rent a flat. The contribution was meant to cover the full amount of rent, but not more than 400 SKK per month. This has been replaced by a more general housing contribution, initiated on 1 January 2000. Benefits recognized before the end of 2000 are to be provided until the termination of eligibility to them.

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[2] The sum of a subsistence minimum applicable to the first adult natural person, determined by *Act No. 125/1998 (Coll. of Laws) on the Subsistence Minimum and the Determination of Sums for State Social Benefits Purposes* (amended), which is 3,790 SKK.

[3] The sum for purposes of the state social benefits, stated in *Act No. 125/1998 (Coll. of Laws) on the Subsistence Minimum and the Determination of Sums for State Social Benefits Purposes* (amended). See section 10a.1/B.

[4] See note 3, above.

10a.1.4. Children's Allowances and the Additional Child Allowance

In accordance with *Act No. 193/1994 (Coll. of Laws) on Children Allowances and the Additional Child Allowance,* as amended, children's allowances and the additional child allowance were paid to parents with dependent children who fulfilled statutory conditions. These allowances were state social benefits, financed from the state budget; they were means-tested and provided only to permanent residents of the Slovak Republic.

Children's Allowances

Eligibility requirements state that for a person to qualify for this allowance, he or she must care for a dependent child, and the income of all jointly assessed persons should not exceed a legally stated sum. The age of the child and the attendance in education or preparation for future work limit eligibility. If a qualified person's income and the income of all jointly assessed persons (members of a household), does not exceed 1.37 times the subsistence minimum,[5] the allowance value is 0.5 times a specific sum.[6] If the household income is between 1.37 and 2.1 times the subsistence minimum,[7] the allowance is 0.35 times the specific sum.[8] For example: in 2001, a family with two children (ages 6 and 10) and a monthly income of 13,536 SKK would receive 680 SKK and 830 SKK in children's allowance per month. A similar family, with a monthly income between 13,536 SKK to 20,748 SKK, would receive 480 SKK and 590 SKK in allowances.

*Additional Child Allowance (*repealed in 1998*)*

Parents caring for a dependent child who suffered from a long-term, severe health impairment, and who required particularly demanding or special care,

[5] The jointly assessed sums of a subsistence minimum for all members of a household are determined by *Act No. 125/1998 (Coll. of Laws) on the Subsistence Minimum and the Determination of Sums for State Social Benefits Purposes* (amended). See section 10a.1/A.

[6] See note 3 above.

[7] See note 5 above.

[8] See note 3 above.

were previously entitled to receive additional child allowances as a supplement to the regular children allowance. For those who met the eligibility conditions, the additional child allowance was 600 SKK per month for a child requiring special care, and 1,000 SKK per month for a child requiring extremely demanding special care. The additional child allowance was replaced by measures provided under *Act No. 195/1998 (Coll. of Laws) on Social Assistance,* as amended, which applies to disabled persons of all ages (section 5a). A recognized benefit is provided until its expiration.

10a.1.5. Childbirth Contributions, Contributions to Parents of Triplets (or more children born simultaneously) or to Parents of Two Set of Twins, Born within Two Years

Under *Act No. 235/1998 (Coll. of Laws) on Childbirth Contribution, Contribution to Parents of Three or More Children Born Simultaneously or to Parents of Multiple-child Births, Repeated Within Two Years* (subsequently amended), two types of benefits are paid to new parents. These contributions are state social benefits, financed from the state budget. They are non means-tested, and are available to all parents, regardless of income.

Childbirth Contribution

These contributions are granted at the birth of a child and are paid as a single benefit to every family. Through this benefit, the state contributes to expenses incurred while caring for every new child. Birth mothers are eligible for this contribution. A father can also claim this benefit if a child's mother has died, if she is not eligible for the benefit (e.g., because she cannot exercise her rights), or if a child of less than one year of age has been committed to substitute parental care by decision of a competent authority. The childbirth contribution is calculated as 2.3 times a specified sum,[9] the amount of which was 3,110 SKK in 2001. In case of triplets (or more children born simultaneously), the contribution is increased by one-half the above-stated sum for each child (see below).

[9] See note 3 above.

Contributions to Parents of Triplets (or more children born simultaneously), or to parents of two sets of twins, born within two years

These special contributions are paid to parents who have three or more children, born simultaneously, or for multiple childbirths within two years. They are granted to parents once a year for each child. Parents or legal guardians (substitute parents) are eligible. Additional eligibility requirements include that there must be at least three children in a family below 15 years of age, requiring full-time care. The value of a parent's contribution is determined in accordance with specific sums: for one child, this is 1.6 times a specific sum, which depends on a child's age.[10] In 2001, for a child up to six years of age, the contribution was 2,160 SKK; for a child from 6 to 15 years of age, 2,660 SKK; and for a child over 15 years, 2,840 SKK.

10a.1.6. Attendance Service (*benefit in-kind*)

Article 15 of *Act No. 195/1998 (Coll. of Laws) on Social Assistance,* as amended, authorizes social services for families and children who are socially and/or materially destitute or dependent on the help of others (individuals, institutions) because of their age, health status, or for another specific reason. Attendance services are available for those who require assistance with activities of basic living and household chores and are provided in the flat or house of the recipient. Attendance services are not means-tested. Services may be provided to a child of compulsory education age, if daily proper care cannot be provided by parents or by a legal guardian.

A woman who has given birth to triplets (or more children simultaneously), or who has delivered two sets of twins within a two-year period, is entitled to attendance services until her children reach three years of age. The cost of the services provided may be covered by the municipality, but the municipality may also decide that expenses will be covered by the recipient. (The advantage in this case is that the municipality must organize this service for the recipient.)

[10] See note 3 above.

10a.1.7. Foster Care

Foster care allowances and facilities are regulated by *Act No. 265/1998 (Coll. of Laws) on Foster Care and Allowances for Foster Care,* as amended. Persons caring for a child who has lost one or both parents are able to receive payments from the state as legal guardians. Foster care also substitutes parental care, if parents are deemed negligent or unable to provide adequate care. Foster parents should fulfill statutory conditions to be eligible to raise a child. Children in foster care are also eligible to single or to repeatedly provided contributions financed from the state budget. Foster care cash and in-kind benefits (described below) include: single foster care allowances; periodic foster care allowances; foster care remuneration; and foster care facilities (benefit in-kind).

The *single foster care allowance* is paid to a child, at the beginning and end of foster care. It is a single benefit, intended to cover the material needs of the child at the time of child's commitment to foster parent care. These needs include clothing, furniture, and other items necessary for the child, especially for keeping the child in school. In the case of the termination of foster care, a child of legal age is eligible for this allowance as a lump sum for covering expenses associated with leaving foster care. In 2001, the amount of the single foster care allowance was calculated according to specified sums.[11] The foster care benefit was four times the sum for a dependent child. A child up to six years of age could receive 5,400 SKK per month; from 6 to 15 years, 6,640 SKK; and over 15 years, 7,080 SKK.

The *periodic foster care allowance* covers the needs of a child during foster care. A dependent child committed to foster care is entitled to this allowance. Specifically, a child receiving an orphan's pension or child support payment set by an order of the court is entitled to a monthly foster care allowance, the amount of which is equal to the difference between the foster care allowance and the value of the orphan's pension or child support payment. In 2001, the value of the periodic foster care allowance was 1.6 times the amount calculated

[11] See note 3 above.

according to specified sums.[12] The allowance for a child up to 6 years of age was 2,160 SKK; from 6 to 15, 2,660 SKK; and over 15 years, 2,840 SKK per month. Persons to whom this benefit is actually paid are the foster parents and, after the child reaches legal age, the child him- or herself.

Foster parent remuneration is paid periodically to foster parents until the termination of foster care. In 2001, the level of remuneration per child was 0.44 times the specified sum,[13] or 1,320 SKK per month. An individual providing foster care in a municipally funded foster care setting or institution (see below) was not eligible for this remuneration.

According to amended *Act No. 195/1998 (Coll. of Laws) on Social Assistance*, foster care may also be provided in designated *foster care facilities* (a benefit in-kind), which have been established by a municipality or a competent authority. In these facilities, foster parents who have been granted child custody by court order provide substitute family care to children who have at least four siblings. Care can be provided in a flat or house as the provider's full-time employment. The remuneration amount is set at 2.5 times a specified sum,[14] or 9,480 SKK per month. If the foster parent cares for more than four children, for each additional child the amount is increased by 0.6 times a specified sum[15] (that is, 2,270 SKK). If foster care is provided by a married couple, the amount is divided between the two individuals. In total, it cannot exceed 2.5 times the subsistence minimum. Finally, foster parents in a foster care facility financed by a municipality should pay 10 percent of the daily expenses of the facility to relevant funder. If foster care is provided in a foster parent's flat or house, the competent authority should offer a reimbursement of 50 percent for repairs (maximum, 40,000 SKK). A foster parent may also receive financial support for buying a car: up to 50 percent of the price, but no more than 200,000 SKK.

[12] See note 3 above.

[13] See note 3 above.

[14] See note 5 above.

[15] See note 5 above.

10a.1.8. Childcare Establishments (*benefit in-kind*)

Act No. 195/1998 (Coll. of Laws) on Social Assistance, as amended, stipulates the provision of social services to families and children if they are materially destitute, or are dependent on other persons or institutions.

Care Provided in Social Services Establishments

Care in social services establishments is provided to children and to their parents if it is impossible to alleviate material destitution through other types of social services. Social services facilities, established by municipalities and other relevant authorities for children and families, include (as described below): social services homes for children; children's homes; homes for single parents; attendance services stations; crisis centers; and re-socialization centers.

Social services homes for children provide social services for children in poor health, or who require assistance from others. These homes provide full room and board and necessary care, along with education and professional preparation, and cultural and recreational activities. Children may stay in these homes until finishing compulsory education, or until employment preparations end—up to 25 years of age. However, when necessary, certain individuals might be permitted to stay longer. Pocket money is also provided to children: from 6 to 15 years of age, they receive 10 percent of the subsistence minimum (170 SKK per month); those above 15 years receive 15 percent of the stated minimum (260 SKK). When a child leaves a social services home as an independent (no earlier than the age of 18), he or she is entitled to a one-time benefit for purchasing basic items, which amounts to five times the subsistence minimum for a dependent child (in 2001, 8,600 SKK).

In designated *children's homes,* social care can be provided to children from birth until a maximum 25 years of age. Children's homes provide full room and board, substitute parental care and education, along with health care and health training, counseling, and recreational and cultural activities. Children's homes provide care and education as professional substitute families in private homes or flats and serve to provide a "natural" family environment. Children are eligible also for one-time benefits, such as those stated above, when leaving a home.

Homes for single parents provide accommodation and counseling to single parents of a minor whose health, life, or upbringing is in danger due to the threat of domestic violence or for pregnant women in particularly adverse conditions (such as extreme poverty).

In *attendance services stations*, attendance services can be provided to children older than two years of age, and up to finishing compulsory education, if parents or substitute care providers are deemed temporarily unable to provide adequate care. Attendance services stations provide care which might include room and board, opportunities to participate in recreational or cultural activities, or assistance with homework.

In *crisis centers*, care is offered for minors with behavioural problems, incomplete education or vocational preparation, or whose upbringing has been particularly destitute or unhealthy. Treatment to prevent or mitigate social-pathological disorders, the provision of health and educational assistance and counseling, and opportunities for pursuing various interests or hobbies are available in crisis centers. Care is provided for the period needed to correct the situation of a minor, but no longer than three months. Crisis centers can also provide necessary care, such as room and board.

Re-socialization centers offer care for teenagers with drug addictions or drug-related problems, after the compulsory education age. The centers provide re-socialization and rehabilitation treatment, with a particular focus on overcoming drug dependency. Room and board, as well as medical treatment, counseling, occupational therapy and training, educational opportunities, and leisure activities are offered.

11a. Poverty Alleviation and Social Assistance

11a.1. Benefits

Article 39, paragraph 2, of the *Constitution of the Slovak Republic* states that any individual who is materially destitute has the right to receive assistance in order to secure a basic standard of living.

Act No. 243/1993 (Coll. of Laws) on Social Dependence, as amended, stipulated that social assistance be provided to individuals without income or with insufficient income. This act was repealed by *Act No. 195/1998 (Coll. of Laws) on Social Assistance* ("Social Assistance Act"). The latter is comprehensive, and reflects experience gleaned from countries with effective, efficient social assistance and social services systems.

Since 1999, social assistance benefits have been provided according to the new Social Assistance Act. Most cash social assistance benefits are calculated under *Act No. 125/1998 (Coll. of Laws) on the Subsistence Minimum and on the Determination of sums for state social benefits purposes,* as amended, as multiples of the subsistence minimum, but mostly as multiples of specially stated Sums for State Social Benefits Purposes, which are lower than sums of the subsistence minimum. Social assistance benefits are provided to persons in materially destitute living environments. Within the social assistance scheme, special preventative assistance is also provided with the intention to counter the occurrence or repetition of a temporary or permanent mental disorder, or a physical or social developmental problem. This assistance is also provided to individuals with behavioral problems, or whose upbringing has been particularly destitute or unhealthy. Children are granted institutional care by court order, typically because of illegal activity or because they were abused. Preventative social assistance is also provided to adult offenders, to individuals with drug-related problems, or to individuals in poor health.

A claimant is eligible for the full amount of a cash social assistance benefit if his or her income falls below the legally stated amount after applying for alimony and other social insurance benefits (e.g. sickness, pension, or unemployment benefits), or for state social benefits (e.g. children's allowance or parental leave allowances), to which an individual may be entitled simultaneously. There are three types of social assistance benefits (described below): permanent cash benefits; temporary cash benefits; and benefits in-kind (e.g. housing contributions).

11a.1.1. Permanent Cash Social Assistance Benefits and Housing Contributions

Permanent cash social assistance benefits are provided to individuals in material destitution. Material destitution means that the income of a claimant falls below the subsistence minimum, and he or she is unable to earn sufficient income despite all efforts—for instance, because of repeated unemployment, age, or adverse health status. There are two different types permanent cash social assistance benefits, which depend on whether an individual is in material destitution due to:

- *objective reasons* (e.g., disability, pensioner, registered unemployed and unable to find work); or
- *subjective reasons* (e.g., unregistered unemployed, all long-term unemployed).

Beginning in 2001, the income of a person deemed to be in *material destitution for objective reasons* was to be supplemented up to a sum of 3,490 SKK per month, for one adult. The income of a second member of a household was to be supplemented up to 2,440 SKK per month. For every dependent child, the monthly income was to be supplemented by 1,580 SKK. (Only the difference between the real income of family and legally stated sums was paid to a household.)

An eligible person might be in *material destitution for subjective reasons* if he or she has: failed to seek a job; not registered in, or refused to cooperate with, a regional labor office; terminated employment or other economic activity without justification; or been registered in the employment office as job seeker for over 24 months. In 2001, such individuals were entitled to an income supplement of up to 50 percent of the subsistence minimum,[16] or one-half of the sum provided to persons in material destitution for objective reasons.

If a parent failed to pay alimony to a child in material destitution, the state paid a social assistance benefit to compensate for the unpaid parent alimony. However, the parent was legally obligated to pay the whole amount of provided benefits back to the state.

[16] See note 5 above.

Permanent cash social assistance benefits may be provided as a benefit in-kind, if cash benefits are not spent appropriately—for the legally stated purpose—or distributed equally to all eligible persons (household members).

Beginning in 1999, social assistance benefits were provided to the working poor, that is, to employees with very low incomes. Such an employee was eligible for a benefit which brought his or her wage up to 120 percent of the subsistence minimum sum, calculated for all members of a household. This benefit was repealed by *Act No. 450/2000 (Coll. of Laws*)*,* which amended *Act No. 195/1998 (Coll. of Laws) on Social Assistance*, and entered into force on 1 January 2001.

Through numerous amendments to the Social Assistance Act, the above-mentioned *Act No. 450/2000 (Coll. of Laws)* changed social assistance benefits radically. It froze their values at the level provided in 2000, and thus decoupled them from the subsistence minimum. Because the subsistence minimum has been regularly adjusted to the rising cost of living, the previous linkage of social assistance to it also ensured that these benefits rose. The latest amendments eliminated this protection.

With the entrance into force of *Act No. 300/1999 (Coll. of Laws) on Housing Contribution* (hereinafter, "Housing Contribution Act") in 1999, housing contributions have been provided to persons whose incomes cannot cover minimum monthly housing expenses, as stated by law. Before applying for a permanent cash social assistance benefit (described above), each applicant should apply for a housing contribution. After receipt of the contribution, the permanent cash benefit is paid as the difference between the housing contribution and the permanent cash social assistance benefit.

The *housing contribution* is the benefit to which the vast majority of persons in circumstances of material or social need are entitled. The housing contribution is a state social benefit, through which the state contributes to the housing expenses of an entitled person. Individuals whose income, in combination with that of other household members, does not reach the level of the minimum monthly housing expenses stated by the Housing Contribution Act are eligible for this contribution. This includes tenants or apartment owners, or resident homeowners who are able to prove the disbursement of payments concerning home usage (maintenance, repairs, or real-estate taxes). The housing contribution can be provided for half of a calendar year (at which time the household must apply again). The income of jointly assessed persons (family members or other residents of a house or flat) is taken into account when evaluating entitlement to this contribution.

11a.1.2. Temporary Cash Social Assistance Benefits

The Social Assistance Act stipulates the provision of temporary cash social assistance benefits: interest-free social loans; and single social assistance payments.

An *interest-free social loan* may be provided to an individual who already receives a social assistance benefit and who suffers from material destitution for objective reasons (described above). The social loan may cover expenses for the maintenance, repair, or purchase of essential household equipment or utilities at the place of permanent residence. The loan is provided in cash, or directly to a service or equipment provider/dealer. A municipality may finance a social loan to a recipient based on a written contract, without interest.

For persons in material destitution for objective reasons, the *single social assistance payment* for covering extraordinary expenses may be provided. This can cover items for children's athletic, cultural, or interest activities, for health treatment, or for buying household equipment. This one-time benefit may be provided by a municipality.

11a.1.3. Benefits In-kind

According to the Social Assistance Act, social care services as benefits in-kind are provided in order to alleviate the material destitution of claimants. These benefits include (described below): communal catering; and care provided in specific social services establishments (shelters, personal hygiene centers, and laundries).

Communal catering can be provided to individuals in material destitution who have applied for a social assistance benefit. Communal catering is provided and financed by a municipality, in the form of one hot meal per day.

For destitute persons, a municipality may also provide social care and service establishments, such as *shelters, personal hygiene centers,* and *laundries*. These services are provided mostly for the homeless, but also for the elderly, disabled, and others. *Centers of personal hygiene* and *laundries* offer basic hygienic care and clothes washing facilities to persons requiring assistance or who are unable to adapt to society (often, the homeless). Only *shelters* are intended exclusively for persons without accommodation (the homeless), by providing room and board, as well as counseling.

Social services provided by non-governmental organizations

According to the Social Assistance Act, civic associations may also provide counseling, training, or some legal and social advisory activities. Competent authorities, usually the state, can provide financial support to civic associations for:

- social-legal services and social work;
- consulting;
- renovation and rehabilitation;
- special literature and resources for the disabled;
- summer camps for needy children;
- activities to prevent drug use and abuse;
- family therapy
- crisis centers for women;
- hotlines, especially for children;
- holiday activities; and/or
- leisure-time activities.

The state's contributions to civic associations can fill the gap between and organization's income and the resources it expends to provide the above-mentioned activities. Lump-sum grants can be provided to civic associations for beginning or extending social services, or for renewing or repairing facilities.

Appendix B

Receipts and Expenditure on Social Protection in the Slovak Republic

1995–2000 ESSPROS 1996 Data

Table B 1.1
Receipts on social protection by type and sector of origin

Indicator	1995	1996	1997	1998	1999	2000	1995	1996	1997	1998	1999	2000
TOTAL RECEIPTS (million SKK, % GDP)	112,899	130,984	141,447	153,375	163,595	180,492	19.8	20.9	20.0	19.8	19.6	19.9
Receipts by type			(% of total)						as % of GDP			
Social contributions	62.6	63.8	66.3	66.6	65.5	67.1	12.4	13.3	13.2	13.2	12.8	13.3
• Employers' social contributions	46.4	46.6	48.4	48.3	47.5	48.5	9.2	9.7	9.7	9.6	9.3	9.6
– Actual employers' social contributions	45.0	45.3	47.3	47.3	46.0	47.0	8.9	9.5	9.4	9.4	9.0	9.3
– Imputed employers' social contributions	1.5	1.3	1.0	1.0	1.5	1.5	0.3	0.3	0.2	0.2	0.3	0.3
• Social contributions by the protected persons	16.2	17.2	18.0	18.3	18.0	18.6	3.2	3.6	3.6	3.6	3.5	3.7
– Employees	13.6	14.5	15.0	15.1	14.8	15.1	2.7	3.0	3.0	3.0	2.9	3.0
– Self-employed persons	2.6	2.5	2.8	3.0	2.9	3.1	0.5	0.5	0.6	0.6	0.6	0.6
– Pensioners and other persons	0.0	0.2	0.2	0.3	0.3	0.4	0.0	0.0	0.0	0.1	0.1	0.1
General government contributions	33.2	31.2	28.0	28.7	29.5	27.0	6.6	6.5	5.6	5.7	5.8	5.4
– Earmarked taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
– General revenue	33.2	31.2	28.0	28.7	29.5	27.0	6.6	6.5	5.6	5.7	5.8	5.4
Other receipts	4.1	5.0	5.7	4.6	5.0	5.9	0.8	1.0	1.1	0.9	1.0	1.2
Receipts by sector of origin												
All resident institutional units	100.0	100.0	100.0	100.0	100.0	100.0	19.8	20.9	20.0	19.8	19.6	19.9
• Corporation	31.5	32.0	31.6	33.3	32.1	33.0	6.3	6.7	6.3	6.6	6.3	6.5
• General government	47.1	44.9	43.7	41.9	43.7	41.8	9.3	9.4	8.7	8.3	8.5	8.3
– Central government	44.1	42.2	38.8	39.1	40.2	39.2	8.7	8.8	7.8	7.7	7.9	7.8
– State and local government	1.4	1.3	1.5	1.4	1.4	1.2	0.3	0.3	0.3	0.3	0.3	0.2
– Social security funds	1.5	1.4	3.4	1.4	2.1	1.4	0.3	0.3	0.7	0.3	0.4	0.3
• Households	21.0	22.5	24.1	24.2	23.7	24.4	4.2	4.7	4.8	4.8	4.6	4.9
• Non-profit institutions serving households	0.4	0.6	0.6	0.6	0.5	0.8	0.1	0.1	0.1	0.1	0.1	0.2
Rest of the world	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Statistical Office of the Slovak Republic.

Table B 1.2
Social protection expenditure

Indicator	1995	1996	1997	1998	1999	2000	1995	1996	1997	1998	1999	2000
Social protection expenditure (million SKK, % GDP)	**107,683**	**126,288**	**142,320**	**158,023**	**170,665**	**181,476**	**18.9**	**20.2**	**20.1**	**20.4**	**20.4**	**20.0**
Of which :			% of total						as % of GDP			
Social benefits	**95.1**	**94.2**	**92.5**	**94.0**	**94.6**	**93.3**	**18.0**	**19.0**	**18.6**	**19.2**	**19.3**	**18.6**
• **Non Means-tested**	**80.3**	**81.6**	**81.8**	**82.3**	**82.2**	**80.9**	**15.2**	**16.4**	**16.4**	**16.8**	**16.8**	**16.1**
– Cash benefits	51.3	49.3	50.2	52.1	52.7	51.6	9.7	9.9	10.1	10.6	10.8	10.3
Periodic	50.1	48.2	48.8	50.3	50.4	50.4	9.5	9.7	9.8	10.3	10.3	10.1
Lump-sum	1.2	1.1	1.4	1.7	2.3	1.1	0.2	0.2	0.3	0.4	0.5	0.2
– Benefits in-kind	29.0	32.3	31.6	30.2	29.6	29.3	5.5	6.5	6.3	6.2	6.0	5.8
• **Means-tested**	**14.8**	**12.6**	**10.7**	**11.7**	**12.4**	**12.4**	**2.8**	**2.5**	**2.2**	**2.4**	**2.5**	**2.5**
– Cash benefits	14.8	12.6	10.7	11.7	12.4	12.1	2.8	2.5	2.2	2.4	2.5	2.4
Periodic	14.6	12.3	10.4	11.3	12.0	11.5	2.8	2.5	2.1	2.3	2.5	2.3
Lump-sum	0.2	0.3	0.4	0.4	0.4	0.6	0.0	0.1	0.1	0.1	0.1	0.1
– Benefits in-kind	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.1
Administration costs	**3.1**	**3.9**	**5.4**	**4.5**	**4.0**	**3.5**	**0.6**	**0.8**	**1.1**	**0.9**	**0.8**	**0.7**
Other expenditure	**1.8**	**1.9**	**2.1**	**1.5**	**1.3**	**3.2**	**0.3**	**0.4**	**0.4**	**0.3**	**0.3**	**0.6**

Source: Statistical Office of the Slovak Republic.

Table B 1.3
Social benefits for the function: sickness/health care

Indicator	1995	1996	1997	1998	1999	2000	1995	1996	1997	1998	1999	2000
Social benefits (million SKK, % GDP)	**32,532**	**43,345**	**47,421**	**52,411**	**53,933**	**55,697**	**5.7**	**6.9**	**6.7**	**6.8**	**6.5**	**6.1**
Of which :			% of total						as % of GDP			
Non Means-tested	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*5.7*	*6.9*	*6.7*	*6.8*	*6.5*	*6.1*
• **Cash benefits**	**17.3**	**16.7**	**17.4**	**20.0**	**18.7**	**17.1**	**1.0**	**1.2**	**1.2**	**1.4**	**1.2**	**1.1**
– Periodic	17.0	16.4	17.0	19.7	18.5	16.9	1.0	1.1	1.1	1.3	1.2	1.0
Paid sick leave	14.8	14.8	14.9	14.9	15.3	14.3	0.8	1.0	1.0	1.0	1.0	0.9
Other cash periodic benefits	2.2	1.7	2.1	4.8	3.1	2.5	0.1	0.1	0.1	0.3	0.2	0.2
– Lump-sum	0.4	0.3	0.3	0.3	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Other cash lump-sum benefits	0.4	0.3	0.3	0.3	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0
• **Benefits in kind**	**82.7**	**83.3**	**82.6**	**80.0**	**81.3**	**82.9**	**4.7**	**5.8**	**5.5**	**5.4**	**5.2**	**5.1**
– In-patient care	27.9	25.2	23.1	23.0	27.0	23.7	1.6	1.7	1.5	1.6	1.7	1.5
Direct provision	27.9	25.2	23.1	23.0	27.0	23.7	1.6	1.7	1.5	1.6	1.7	1.5
Reimbursement	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
– Out-patient care	49.3	50.8	51.7	48.5	48.0	54.2	2.8	3.5	3.5	3.3	3.1	3.3
Direct provision of pharmaceutical products	21.6	21.3	21.2	21.7	23.4	26.0	1.2	1.5	1.4	1.5	1.5	1.6
Other direct provision	27.7	29.6	30.5	26.8	24.6	28.2	1.6	2.0	2.0	1.8	1.6	1.7
Reimbursement of pharmaceutical products	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other reimbursement	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
– Other benefits in-kind	5.4	7.2	7.8	8.5	6.2	4.9	0.3	0.5	0.5	0.6	0.4	0.3
Means-tested	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
• Cash benefits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
• Benefits in-kind	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Statistical Office of the Slovak Republic.

Table B 1.4
Social benefits for the function: disability

Indicator	1995	1996	1997	1998	1999	2000	1995	1996	1997	1998	1999	2000
Social benefits (million SKK, % GDP)	**8,132**	**8,871**	**10,232**	**11,259**	**12,583**	**13,467**	1.4	1.4	1.4	1.5	1.5	1.5
Of which:			% of total						as % of GDP			
Non Means-tested	*92.8*	*91.5*	*91.3*	*90.3*	*87.6*	*84.8*	*1.3*	*1.3*	*1.3*	*1.3*	*1.3*	*1.3*
• **Cash benefits**	**81.8**	**80.8**	**78.5**	**79.0**	**76.2**	**70.5**	**1.2**	**1.1**	**1.1**	**1.1**	**1.1**	**1.0**
– Periodic	80.7	79.2	76.8	77.1	74.8	70.5	1.2	1.1	1.1	1.1	1.1	1.0
Disability pension	64.0	64.7	62.0	61.7	58.7	49.5	0.9	0.9	0.9	0.9	0.9	0.7
Early retirement benefit due to reduced capacity to work	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Care allowance	:	:	:	:	:	1.6	:	:	:	:	:	0.0
Economic integration of the handicapped	:	:	:	:	:	:	:	:	:	:	:	:
Other cash periodic benefits	16.8	14.5	14.8	15.4	16.1	19.5	0.2	0.2	0.2	0.2	0.2	0.3
– Lump-sum	1.0	1.6	1.7	1.9	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Care allowance	:	:	:	:	:	:	:	:	:	:	:	:
Economic integration of the handicapped	:	:	:	:	:	:	:	:	:	:	:	:
Other cash lump-sum benefits	1.0	1.6	1.7	1.9	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
• **Benefits in-kind**	**11.0**	**10.8**	**12.8**	**11.3**	**11.5**	**14.3**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**
– Accommodation	8.9	8.5	10.8	9.0	9.0	11.5	0.1	0.1	0.2	0.1	0.1	0.2
– Assistance in carrying out daily tasks	:	:	:	:	:	:	:	:	:	:	:	:
– Rehabilitation	:	:	:	:	:	:	:	:	:	:	:	:
– Other benefits in-kind	2.2	2.2	2.1	2.2	2.4	2.8	0.0	0.0	0.0	0.0	0.0	0.0
Means-tested	*7.2*	*8.5*	*8.7*	*9.7*	*12.4*	*15.2*	*0.1*	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*
• Cash benefits	7.2	8.5	8.7	9.7	12.4	15.2	0.1	0.1	0.1	0.1	0.2	0.2
• Benefits in-kind	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Statistical Office of the Slovak Republic.

Table B 1.5
Social benefits for the function: old age

Indicator	1995	1996	1997	1998	1999	2000	1995	1996	1997	1998	1999	2000
Social benefits (million SKK, % GDP)	36,731	40,791	45,505	50,663	55,317	63,310	6.5	6.5	6.4	6.5	6.6	7.0
Of which:			% of total						as % of GDP			
Non Means-tested	***98.5***	***98.5***	***98.9***	***98.8***	***98.8***	***99.0***	***6.4***	***6.4***	***6.4***	***6.5***	***6.5***	***6.9***
• **Cash benefits**	**92.2**	**92.6**	**92.3**	**92.6**	**91.9**	**93.7**	**6.0**	**6.0**	**5.9**	**6.1**	**6.1**	**6.5**
– Periodic	92.2	92.6	92.3	92.6	91.9	93.7	6.0	6.0	5.9	6.1	6.1	6.5
Old-age pension	89.2	89.4	89.2	89.9	89.3	91.6	5.8	5.8	5.7	5.9	5.9	6.4
Anticipated old-age pension	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Partial pension	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Care allowance	1.6	1.8	1.6	1.5	1.3	0.8	0.1	0.1	0.1	0.1	0.1	0.1
Other cash periodic benefits	1.4	1.5	1.5	1.3	1.3	1.3	0.1	0.1	0.1	0.1	0.1	0.1
– Lump-sum	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other cash lump-sum benefits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
• **Benefits in-kind**	**6.2**	**5.8**	**6.6**	**6.2**	**6.8**	**5.3**	**0.4**	**0.4**	**0.4**	**0.4**	**0.5**	**0.4**
– Accommodation	3.1	2.9	3.7	3.3	3.5	2.5	0.2	0.2	0.2	0.2	0.2	0.2
– Assistance in carrying out daily tasks	0.7	0.7	0.7	0.7	0.8	0.0	0.0	0.0	0.0	0.0	0.1	0.0
– Other benefits in-kind	2.4	2.2	2.2	2.2	2.5	2.8	0.2	0.1	0.1	0.1	0.2	0.2
Means-tested	***1.6***	***1.5***	***1.1***	***1.2***	***1.2***	***1.0***	***0.1***	***0.1***	***0.1***	***0.1***	***0.1***	***0.1***
• Cash benefits	1.6	1.5	1.1	1.2	1.2	1.0	0.1	0.1	0.1	0.1	0.1	0.1
• Benefits in-kind	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Statistical Office of the Slovak Republic.

Table B 1.6
Social benefits for the function: survivors

Indicator	1995	1996	1997	1998	1999	2000	1995	1996	1997	1998	1999	2000
Social benefits (million SKK, % GDP)	**2,050**	**2,281**	**2,537**	**2,881**	**3,197**	**1,638**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.2**
Of which:			% of total						as % of GDP			
Non Means-tested	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***	***0.4***	***0.4***	***0.4***	***0.4***	***0.4***	***0.2***
• **Cash benefits**	**97.6**	**97.8**	**96.1**	**96.4**	**96.6**	**93.2**	**0.4**	**0.4**	**0.3**	**0.4**	**0.4**	**0.2**
– Periodic	97.5	97.7	96.0	96.1	96.4	92.9	0.4	0.4	0.3	0.4	0.4	0.2
Survivors' pension	97.5	97.7	96.0	96.1	96.3	92.7	0.4	0.4	0.3	0.4	0.4	0.2
Other cash periodic benefits	0.0	0.0	0.0	0.0	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0
– Lump-sum	0.1	0.1	0.1	0.3	0.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Death grant	0.1	0.1	0.1	0.3	0.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Other cash lump-sum benefits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
• **Benefits in-kind**	**2.4**	**2.2**	**3.9**	**3.6**	**3.4**	**6.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
– Funeral expenses	2.4	2.2	3.9	3.6	3.4	6.8	0.0	0.0	0.0	0.0	0.0	0.0
– Other benefits in-kind	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Means-tested	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
• Cash benefits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
• Benefits in-kind	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Statistical Office of the Slovak Republic.

Table B 1.7
Social benefits for the function: family/children

Indicator	1995	1996	1997	1998	1999	2000	1995	1996	1997	1998	1999	2000
Social benefits (million SKK, % GDP)	**14,577**	**14,961**	**15,367**	**16,845**	**16,158**	**15,812**	**2.6**	**2.4**	**2.2**	**2.2**	**1.9**	**1.7**
Of which:			% of total						as % of GDP			
Non Means-tested	***31.4***	***33.3***	***40.7***	***40.3***	***43.1***	***45.1***	***0.8***	***0.8***	***0.9***	***0.9***	***0.8***	***0.8***
• **Cash benefits**	**25.2**	**26.6**	**35.2**	**34.9**	**37.0**	**37.3**	**0.6**	**0.6**	**0.8**	**0.8**	**0.7**	**0.7**
– Periodic	24.1	25.5	34.1	34.0	35.9	36.3	0.6	0.6	0.7	0.7	0.7	0.6
Income maintenance in the event of childbirth	6.2	6.5	6.8	6.9	7.7	8.0	0.2	0.2	0.1	0.2	0.1	0.1
Parental leave benefit	17.3	18.4	26.8	26.6	27.3	27.3	0.4	0.4	0.6	0.6	0.5	0.5
Family or child allowance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other cash periodic benefits	0.6	0.5	0.5	0.5	0.9	0.9	0.0	0.0	0.0	0.0	0.0	0.0
– Lump-sum	1.2	1.2	1.1	1.0	1.1	1.1	0.0	0.0	0.0	0.0	0.0	0.0
Birth grant	1.2	1.2	1.1	1.0	1.1	1.1	0.0	0.0	0.0	0.0	0.0	0.0
Parental leave benefit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other cash lump-sum benefits	:	:	:	:	:	:	:	:	:	:	:	:
• **Benefits in-kind**	**6.1**	**6.6**	**5.4**	**5.4**	**6.2**	**7.8**	**0.2**	**0.2**	**0.1**	**0.1**	**0.1**	**0.1**
– Child day care	:	:	:	:	:	:	:	:	:	:	:	:
– Accommodation	3.7	4.7	3.3	3.1	3.5	4.7	0.1	0.1	0.1	0.1	0.1	0.1
– Home help	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
– Other benefits in-kind	2.5	2.0	2.1	2.3	2.6	3.0	0.1	0.0	0.0	0.1	0.1	0.1
Means-tested	***68.6***	***66.7***	***59.3***	***59.7***	***56.9***	***54.9***	***1.8***	***1.6***	***1.3***	***1.3***	***1.1***	***1.0***
• Cash benefits	68.6	66.7	59.3	59.7	56.9	54.9	1.8	1.6	1.3	1.3	1.1	1.0
• Benefits in-kind	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Statistical Office of the Slovak Republic.

Table B 1.8
Social benefits for the function: unemployment

Indicator	1995	1996	1997	1998	1999	2000	1995	1996	1997	1998	1999	2000
Social benefits (million SKK, % GDP)	3,574	3,978	5,588	7,446	10,299	7,812	0.6	0.6	0.8	1.0	1.2	0.9
Of which:			% of total						as % of GDP			
Non Means-tested	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*0.6*	*0.6*	*0.8*	*1.0*	*1.2*	*0.9*
• **Cash benefits**	**41.9**	**42.6**	**52.1**	**64.7**	**81.3**	**57.6**	**0.6**	**0.6**	**0.8**	**0.9**	**1.2**	**0.9**
– Periodic	30.7	32.1	37.6	45.4	54.6	45.3	0.4	0.5	0.5	0.7	0.8	0.7
Full unemployment benefit	19.7	21.7	27.4	34.9	42.4	32.8	0.3	0.3	0.4	0.5	0.6	0.5
Partial unemployment benefit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Early retirement benefit for labour market reasons	11.0	10.4	10.2	10.5	12.2	12.5	0.2	0.1	0.1	0.2	0.2	0.2
Vocational training allowance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other cash periodic benefits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
– Lump-sum	11.3	10.5	14.5	19.3	26.7	12.3	0.2	0.1	0.2	0.3	0.4	0.2
Vocational training allowance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Redundancy compensation	11.3	10.5	14.5	19.3	26.7	12.3	0.2	0.1	0.2	0.3	0.4	0.2
Other cash lump-sum benefits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
• **Benefits in-kind**	**2.0**	**2.3**	**2.5**	**1.5**	**0.6**	**0.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
– Mobility and resettlement	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
– Vocational training	2.0	2.3	2.5	1.5	0.6	0.5	0.0	0.0	0.0	0.0	0.0	0.0
– Other benefits in-kind	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Means-tested	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
• Cash benefits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
• Benefits in-kind	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Statistical Office of the Slovak Republic.

Table B 1.9

Social benefits for the function: housing

Indicator	1995	1996	1997	1998	1999	2000	1995	1996	1997	1998	1999	2000
Social benefits (million SKK, % GDP)	1	1	1	1	1	569	0.0	0.0	0.0	0.0	0.0	0.1
Of which:	% of total						as % of GDP					
Means-tested	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.1*
• **Benefits in-kind**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.1**
– Rent benefit	100.0	100.0	100.0	100.0	100.0	100.0	0.0	0.0	0.0	0.0	0.0	0.1
Social Housing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other rent benefit	100.0	100.0	100.0	100.0	100.0	100.0	0.0	0.0	0.0	0.0	0.0	0.1
– Benefit to owner-occupiers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Statistical Office of the Slovak Republic.

Table B 1.10
Social benefits for the function: social exclusion, not else classified

Indicator	1995	1996	1997	1998	1999	2000	1995	1996	1997	1998	1999	2000
Social benefits (million SKK, % GDP)	4,787	4,739	4,981	7,001	10,024	10,936	0.8	0.8	0.7	0.9	1.2	1.2
Of which:			% of total						as % of GDP			
Non Means-tested	***0.0***	***3.6***	***4.4***	***3.6***	***2.8***	***3.3***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
• **Cash benefits**	**0.0**	**0.0**	**0.0**	**0.1**	**0.3**	**0.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
– Periodic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income support	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other cash periodic benefits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
– Lump-sum	0.0	0.0	0.0	0.1	0.3	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Other cash lump-sum benefits	0.0	0.0	0.0	0.1	0.3	0.6	0.0	0.0	0.0	0.0	0.0	0.0
• **Benefits in-kind**	**0.0**	**3.6**	**4.4**	**3.6**	**2.6**	**2.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
– Accommodation	:	:	:	0.4	0.4	0.7	:	:	:	0.0	0.0	0.0
– Rehabilitation of alcohol and drugs abusers	:	:	:	:	:	:	:	:	:	:	:	:
– Other benefits in-kind	:	3.6	4.4	3.1	2.2	1.9	:	0.0	0.0	0.0	0.0	0.0
Means-tested	***100.0***	***96.4***	***95.6***	***96.4***	***97.2***	***96.7***	***0.8***	***0.7***	***0.7***	***0.9***	***1.2***	***1.2***
• Cash benefits	100.0	96.4	95.6	96.4	97.2	96.7	0.8	0.7	0.7	0.9	1.2	1.2
• Benefits in-kind	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Statistical Office of the Slovak Republic.

Tables B.2.1
Expenditure on social benefits by functions in % of the GDP, 2000

Indicator	EU15	Belgium	Denmark	Germany	Greece	Spain	France	Ireland	Italy	Luxembourg	Netherlands	Austria	Portugal	Finland	Sweden	United Kingdom	Slovenia	Slovak Republic
All functions	26.2	25.3	28.0	28.5	25.5	19.6	28.3	13.4	24.3	20.2	25.7	27.9	20.2	24.4	31.7	25.8	25.9	18.6
Sickness/Health care	7.2	6.3	5.7	8.1	6.8	5.8	8.2	5.5	6.1	5.1	7.5	7.2	6.2	5.8	8.6	6.7	7.9	6.1
Invalidity	2.1	2.2	3.4	2.2	1.3	1.5	1.6	0.7	1.4	2.8	3.0	2.3	2.6	3.4	3.8	2.4	2.3	1.5
Old-age	10.9	8.5	10.7	11.6	11.8	8.3	10.8	2.6	12.8	7.5	9.5	10.7	7.7	7.8	11.7	11.2	11.2	7.0
Survivors'	1.3	2.6	0.0	0.5	0.8	0.8	1.7	0.8	2.6	0.6	1.4	2.8	1.5	1.0	0.7	1.1	0.5	0.2
Family/Children	2.1	2.3	3.7	3.0	1.9	0.5	2.7	1.7	0.9	3.4	1.2	3.0	1.1	3.1	3.4	1.8	2.4	1.7
Unemployment	1.7	3.0	3.0	2.4	1.6	2.4	1.9	1.3	0.4	0.7	1.3	1.3	0.8	2.5	2.1	0.8	1.1	0.9
Housing	0.6	:	0.7	0.2	0.8	0.2	0.9	0.4	0.0	0.1	0.4	0.1	0.0	0.4	0.7	1.5	:	0.1
Social exclusion n.e.c.*	0.4	0.4	1.0	0.5	0.6	0.1	0.4	0.3	0.0	0.2	1.4	0.5	0.3	0.5	0.8	0.3	0.4	1.2
Cash benefits																		
All functions	17.9	18.8	17.3	19.8	16.1	13.7	18.6	7.2	18.4	14.2	17.9	19.4	13.5	16.2	18.3	17.0	17.8	12.7
Sickness/Health care	1.1	1.2	0.9	1.6	0.8	1.0	0.7	0.6	0.7	0.6	2.3	1.0	0.4	1.2	2.4	0.8	1.1	1.1
Invalidity	1.7	1.3	2.3	1.6	1.1	1.4	1.2	0.6	1.4	2.1	2.8	2.0	2.5	2.6	2.3	2.2	2.1	1.3
Old-age	10.5	8.4	8.9	11.4	11.7	8.1	10.6	2.3	12.7	7.4	8.8	10.3	7.5	7.0	9.0	10.8	11.1	6.6

Survivors'	1.3	2.6	0.0	0.4	0.8	0.8	1.7	0.8	2.6	0.6	1.4	2.7	1.5	1.0	0.7	1.1	1.6	0.2
Family/Children	1.6	2.1	1.5	2.2	1.2	0.3	2.1	1.6	0.6	2.9	0.8	2.4	0.7	1.8	1.6	1.5	1.2	1.6
Unemployment	1.5	2.9	2.8	2.1	0.5	2.1	1.9	1.1	0.4	0.4	1.3	0.9	0.8	2.3	1.7	0.6	1.0	0.9
Housing	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
Social exclusion n.e.c.*	0.3	0.3	0.8	0.5	0.0	0.0	0.4	0.2	0.0	0.2	0.5	0.1	0.2	0.3	0.5	0.0	0.3	1.2
Benefits in-kind																		
All functions	8.3	6.5	10.7	8.6	9.4	5.9	9.7	6.2	5.9	6.0	7.8	8.5	6.6	8.3	13.4	8.9	8.1	5.9
Sickness/Health care	6.1	5.2	4.7	6.5	6.0	4.8	7.5	4.9	5.3	4.5	5.2	6.2	5.7	4.7	6.1	5.9	6.8	5.1
Invalidity	0.4	0.9	1.1	0.6	0.2	0.1	0.5	0.1	0.1	0.6	0.2	0.3	0.1	0.8	1.5	0.3	0.2	0.2
Old-age	0.4	0.1	1.7	0.2	0.1	0.2	0.2	0.3	0.1	0.0	0.7	0.5	0.3	0.8	2.7	0.4	0.1	0.4
Survivors'	0.0	0.0	0.0	0.0	0.0	0.0	0.0	:	:	0.0	:	0.0	0.0	0.0	:	0.0	0.0	0.0
Family/Children	0.6	0.2	2.2	0.8	0.7	0.2	0.6	0.2	0.3	0.5	0.4	0.5	0.4	1.3	1.8	0.3	0.7	0.1
Unemployment	:	0.1	0.1	0.3	1.0	0.3	0.0	0.2	:	0.3	:	0.4	0.0	0.2	0.3	0.2	0.1	0.0
Housing	0.6	:	0.7	0.2	0.8	0.2	0.9	0.4	0.0	0.1	0.4	0.1	0.0	0.4	0.7	1.5	:	0.1
Social exclusion n.e.c.*	0.2	0.0	0.3	0.1	0.6	0.1	0.0	0.1	0.0	:	0.9	0.4	0.1	0.2	0.3	0.3	0.1	0.0

Note: * n.e.c. = not else classified.
estimated data—EU15, Belgien.
provisional data—Germany, Greece, Spain, France, Italy, Netherland, Portugal, Finland, Sweden, United Kihgdom, Slovak Republic.

Source: New Cronos database, EUROSTAT.

Table B.2.2

Expenditure on social benefits by functions, aggregated benefits, and grouped schemes—in ECU per head, 2000

Functions	EU15	Belgium	Denmark	Germany	Greece	Spain	France	Ireland	Italy	Luxembourg	Netherlands	Austria	Portugal	Finland	Sweden	United Kingdom	Slovenia	Slovak Republic
Total expenditure	6,155	6,477	9,384	7,291	3,073	3,069	6,954	3,828	5,082	9,785	6,928	7,345	2,553	6,389	9,055	7,004	2,611	791
– Social benefits	5,909	6,128	9,120	7,030	2,977	2,989	6,607	3,651	4,898	9,417	6,496	7,124	2,267	6,193	8,880	6,736	2,543	737
• Administrative costs	199	238	264	245	94	68	275	172	141	232	346	136	94	195	175	2,023	56	28
• Iné výdavky	47	110	:	16	2	12	72	:	43	137	86	85	192	:	0,4	65	:	26
By functions:																		
• Sickness/Health care	1,616	1,538	1,841	1,992	790,5	883,3	1,920	1,503	1,222	2,375	1,904	1,852	693,9	1,475	2,404	1,742	780	243
• Invalidity	478	531	1,092	551	153	228	386	194	292	1,287	769	586	294,5	862	1,068	638	228	59
• Old-age	2,451	2,055	3,470	2,856	1,372	1,258	2,518	712	2,582	3,479	2,404	2,739	868,7	1,970	3,275	2,930	1,101	276
• Survivors'	289	628	:	113	99	127	392	216	523	287	350	703	164,8	247	196	281	50	7
• Family/Children	485	559	1,197	743	220	81	636	475	188	1,564	296	757	125,5	777	960	475	235	69
• Unemployment	374	730	961	594	183	364	456	353	83	309.1	333	335	86.1	646	575	213	108	34
• Housing	124	:	215	50	93	26	205	121	1	28	97	26	0.2	90	187	386	:	3
• Social exclusion n.e.c.*	93	87	340	131	67	22	94	79	7	88	344	126	33.4	127	214	70	42	48

Note: * n.e.c. = not else classified.
Estimated data—EU15, Belgien.
provisional data—Germany, Greece, Spain, France, Italy, Netherland, Portugal, Finland, Sweden, United Kihgdom, Slovak Republic.

Source: New Cronos database, EUROSTAT.

Table B 3.1
Dependency ratio

Major area, region, or country	Youth dependency ratio (percent)					Elderly dependency ratio (percent)					Total dependency ratio (percent)				
	1980	2000	2010	2030	2050	1980	2000	2010	2030	2050	1980	2000	2010	2030	2050
Europe	**33.9**	**25.8**	**22.2**	**23.1**	**24.8**	**18.9**	**21.7**	**23.6**	**36.6**	**47.5**	**52.7**	**47.5**	**45.8**	**59.7**	**72.3**
Eastern Europe	33.9	26.4	21.7	21.8	23.8	16.1	18.8	19.4	31.0	44.1	50.0	45.2	41.1	52.8	67.9
Northern Europe	33.2	28.6	25.0	27.4	27.4	22.7	23.9	25.5	38.2	42.7	55.8	52.5	50.5	65.5	70.1
Southern Europe	37.9	23.1	21.1	20.5	24.0	18.0	24.4	27.4	41.6	59.7	55.9	47.5	48.4	62.1	83.7
Western Europe	31.0	25.3	22.6	24.9	25.5	22.4	23.6	26.9	41.6	47.5	53.4	49.0	49.5	66.4	73.0
Albania	60.8	45.7	36.0	31.7	30.3	8.9	9.5	11.4	20.2	29.8	69.7	55.2	47.4	51.9	60.1
Belarus	34.5	27.6	22.3	22.5	23.5	16.2	20.1	19.7	30.6	41.8	50.7	47.7	42.0	53.1	65.3
Bosnia and Herzegovina	40.9	26.4	21.9	22.4	23.7	9.1	13.9	16.9	33.9	45.2	50.0	40.3	38.9	56.3	68.9
Bulgaria	33.5	23.9	19.2	18.3	21.7	18.0	23.4	24.1	33.7	52.0	51.5	47.4	43.4	52.0	73.7
Croatia	31.4	25.1	23.3	23.6	24.5	17.4	21.7	24.4	35.2	44.3	48.7	46.8	47.7	58.8	68.8
Czech Republic	37.2	23.7	18.7	18.1	21.9	21.1	19.5	21.9	37.7	60.6	58.3	43.3	40.7	55.8	82.5
Estonia	33.0	25.4	19.0	19.2	22.6	19.0	20.1	21.6	33.8	48.8	52.0	45.5	40.7	53.0	71.4
Hungary	33.9	24.9	20.8	20.5	23.0	20.8	21.5	23.0	31.8	48.2	54.7	46.4	43.8	52.3	71.2
Latvia	30.7	26.0	19.6	21.1	23.6	19.6	21.0	23.4	33.0	44.9	50.3	47.0	43.0	54.0	68.5
Lithuania	36.2	28.5	21.6	22.0	23.3	17.4	19.8	21.8	32.6	45.3	53.6	48.3	43.5	54.6	68.6
Poland	37.0	28.3	23.1	23.4	26.7	15.4	17.5	17.7	31.8	44.8	52.4	45.8	40.8	55.2	71.5

Table B 3.1 (*Continued*)
Dependency ratio

Major area, region, or country	Youth dependency ratio (percent)					Elderly dependency ratio (percent)					Total dependency ratio (per ent)				
	1980	2000	2010	2030	2050	1980	2000	2010	2030	2050	1980	2000	2010	2030	2050
Republic of Moldova	40.8	34.8	26.8	27.1	27.5	11.8	14.7	14.6	24.3	33.7	52.6	49.5	41.4	51.4	61.2
Romania	42.3	25.7	19.0	17.3	21.5	16.3	19.3	20.3	28.8	53.9	58.6	45.0	39.3	46.2	75.4
Russian Federation	31.8	26.2	22.1	22.4	23.6	15.0	18.1	18.1	30.4	41.2	46.8	44.2	40.2	52.8	64.8
Slovakia	41.2	28.6	22.5	21.8	23.3	16.4	16.5	17.0	29.6	46.0	57.6	45.0	39.5	51.4	69.3
Slovenia	35.8	22.7	19.2	19.1	22.8	17.4	19.7	23.0	39.3	57.5	53.2	42.4	42.2	58.4	80.4
FYR Macedonia	44.5	34.3	32.1	27.8	27.0	10.7	15.2	17.6	25.9	34.7	55.1	49.4	49.7	53.7	61.7
Ukraine	32.1	26.1	21.4	21.4	23.1	17.9	20.8	22.8	32.2	45.3	50.0	46.9	44.2	53.6	68.4
Yugoslavia	36.4	30.0	27.4	26.6	27.2	14.8	19.9	21.2	29.2	37.9	51.3	49.9	48.7	55.9	65.0

Note: Age groups: youth: below 16; elderly: above 64; related to group 16–64.

Source: ILO calculation based on World Population Project, 1998 Revision, UN, New York 1999.

Table B 3.2
Proportion of elderly in the total population

Major area, region, or country	Population over 60 (percent of total population)					Population over 65 (percent of total population)					Population over 80 (percent of total population)				
	1980	2000	2010	2030	2050	1980	2000	2010	2030	2050	1980	2000	2010	2030	2050
Europe	16.0	20.3	22.0	29.8	34.7	12.3	14.7	16.2	22.9	27.6	2.0	2.9	4.1	5.7	9.1
Eastern Europe	14.1	18.7	19.2	26.4	34.4	10.8	13.0	13.7	20.3	26.3	1.5	2.0	3.1	4.1	6.9
Northern Europe	19.5	20.6	23.4	29.8	31.5	14.5	15.6	16.9	23.1	25.1	2.7	4	4.7	6.6	9.2
Southern Europe	15.3	22.0	24.5	33.6	38.9	11.5	16.5	18.4	25.7	32.5	1.8	3.4	5.0	7.0	11.6
Western Europe	18.2	21.5	24.0	32.5	33.9	14.6	15.9	18.0	25.0	27.4	2.8	3.6	4.8	6.8	10.7
Albania	7.7	9.2	10.8	18.8	24.9	5.2	6.1	7.8	13.3	18.6	0.8	0.9	1.2	2.2	5.1
Belarus	13.7	19.2	18.6	26.0	33.5	10.7	13.6	13.9	20.0	25.3	1.9	2.0	3.2	3.9	6.9
Bosnia and Herzegovina	8.0	14.9	17.1	29.0	34.6	6.1	9.9	12.2	21.7	26.8	0.7	1.1	2.2	3.8	8.2
Bulgaria	15.7	21.3	23.6	29.2	38.4	11.9	15.9	16.8	22.2	29.9	1.6	2.2	3.6	5.3	7.6
Croatia	14.8	20.7	22.6	28.6	33.3	11.7	14.8	16.5	22.2	26.2	1.5	1.9	3.4	5.0	7.5
Czech Republic	16.8	18.1	22.9	30.9	40.9	13.4	13.6	15.6	24.2	33.2	1.9	2.2	3.6	6.8	9.5
Estonia	16.0	19.6	21.2	28.7	37.9	12.5	13.8	15.4	22.1	28.5	2.1	2.2	3.3	4.8	7.6
Hungary	17.2	19.8	22.1	27.5	35.4	13.4	14.7	16.0	20.9	28.2	2.1	2.5	3.7	5.1	7.2
Latvia	16.5	20.3	21.8	28.1	35.7	13.0	14.3	16.4	21.4	26.6	2.3	2.3	3.6	4.7	7.5
Lithuania	14.3	18.5	20.3	27.7	35.1	11.3	13.3	15.2	21.1	26.9	2.0	2.3	3.5	4.9	8.3

Table B 3.2 (*Continued*)
Proportion of elderly in the total population

Major area, region, or country	Population over 60 (percent of total population)					Population over 65 (percent of total population)					Population over 80 (percent of total population)				
	1980	2000	2010	2030	2050	1980	2000	2010	2030	2050	1980	2000	2010	2030	2050
Poland	13.2	16.4	18.3	26.0	33.4	10.1	12.0	12.6	20.5	26.1	1.5	1.9	3.0	4.5	6.8
Republic of Moldova	10.8	14.2	14.6	20.9	28.5	7.7	9.8	10.3	16.1	20.9	1.0	1.3	2.1	2.8	5.0
Romania	13.3	18.8	20.0	28.1	40.0	10.3	13.3	14.6	19.7	30.7	1.3	1.7	2.9	4.2	8.0
Russian Federation	13.5	18.5	18.2	25.8	33.4	10.2	12.5	12.9	19.9	25.0	1.4	1.9	3.0	3.7	6.6
Slovakia	13.4	15.4	17.5	25.6	34.7	10.4	11.4	12.2	19.5	27.2	1.5	1.8	2.8	4.1	7.0
Slovenia	14.2	19.1	22.2	32.3	39.4	11.4	13.8	16.2	24.8	31.9	1.6	2.2	3.6	5.6	9.9
FYR Macedonia	9.2	14.6	16.4	22.6	27.7	6.9	10.1	11.7	16.9	21.5	0.8	1.2	2.1	3.4	5.8
Ukraine	15.5	21.0	21.2	27.2	35.1	11.9	14.1	15.8	20.9	26.9	1.7	2.3	3.6	4.5	7.3
Yugoslavia	12.5	18.6	19.8	24.7	29.6	9.8	13.3	14.3	18.7	23.0	1.3	1.4	2.8	4.0	6.1

Source: ILO calculation based on World Population Project, 1998 Revision, UN, New York 1999.

Appendix C

Legal Basis for Social Protection: Laws, Bylaws, and Regulations

1. *The Constitution of the Slovak Republic, Article 39, (*as published in the *Collection of Laws, No. 135/2001).*
2. *Act No. 7/1993 (Coll. of Laws) on Creating the National Insurance Company and on Financing Health Insurance, Sickness Insurance, and Pension Insurance,* as subsequently amended, repealed.
3. *Act No. 8/1993, (Coll. of Laws) on the Sickness Insurance Fund and the Pension Security Fund,* repealed.
4. *Act No. 9/1993, (Coll. of Laws) on Health Insurance and the Management of the Health Insurance Fund,* repealed.
5. *Act No. 274/1994 (Coll. of Laws) on Social Insurance Agency, as amended by Act No. 242/2001 (Coll. of Laws)* and other acts.
6. *Act No. 366/1999 (Coll. of Laws) on Income Taxes,* as amended later.
7. *Labour Code (Act No. 311/2002, Coll. of Laws).*
8. *Act No. 10/1993 (Coll. of Laws) on Employment Fund and on Amending and Complementing Certain Other Laws,* repealed.

9. *Act No. 387/1996 (Coll. of Laws) on Employment, as amended by Act No. 292/1999 (Coll. of Laws) on establishing Guarantee Fund* and other acts.

10. *Act No. 273/1994 (Coll. of Laws) on Health Insurance, Health Insurance Financing, and Establishing the General Health Insurance Company, and on Establishing Sector, Branch, Enterprise and Civil Health Insurance Companies,* as amended later.

11. *Act No. 276/1993 (Coll. of Laws) on Health Insurance Company of the Ministry of Internal Affairs and on Financing Health Insurance,* as amended later, repealed.

12. *Act No. 92/1994 (Coll. of Laws) on Military Health Insurance Company,* as amended by *Act No. 374/1994 (Coll. of Laws),* repealed.

13. *Act No. 201/1994 (Coll. of Laws) on Health Insurance of Railway Employees and on Railway Health Insurance Company,* repealed.

14. *Act No. 280/1997 (Coll. of Laws) on Common Health Insurance Company,* as amended later.

15. *Act No. 123/1996 (Coll. of Laws) on Supplementary Pension Insurance for Employees,* as subsequently amended.

16. *Act No. 100/1988 (Coll. of Laws) on the Social Security* with 46 amendments.

17. *Decree No. 149/1988 (Coll. of Laws) of the Federal Ministry of Labour and Social Affairs on Implementing Act No. 100/1988 (Coll. of Laws) on Social Security.*

18. *Government Regulation No. 117/1988 (Coll. of Laws) on classification of jobs into I. and II. category of jobs for pension security reasons.*

19. *Government Regulation No. 118/1988 (Coll. of Laws) on the Provision of Exceptional Pensions,* repealed.

20. *By-law No. 290/1994 (Coll. of Laws) on Implementing some provisions of Act No. 100/1988 (Coll. of Laws) on Social Security.*

21. *Act No. 543/1990 (Coll. of Laws) on the State Administration of Social Security,* with 14 amendments.

22. *Act No. 114/1998 (Coll. of Laws) on Social Security of Soldiers,* subsequently amended.

23. *Act No. 73/1998 (Coll. of Laws) on the State Service of Members of the Police Force, the Slovak Intelligence Service, the Force of Prison and Justice Guard of the Slovak Republic and the Railway Police,* subsequently amended.

24. *Act No. 46/1991 (Coll. of Laws) on Improvement of Pensions,* subsequently amended.

25. *Since 1991, an act on the adjustment of pensions in payment and on adjustment of newly recognised pensions has been passed every year: Nos. 116/1992, 97/1993, 38/1994, 195/1994, 135/1995, 376/1996, 357/1997, 132/1998, 233/2000 (Coll. of Laws).*

26. *Act No. 385/2001 (Coll. of Laws) on Increasing Pensions in 2001 and on Adjustment of Pensions Recognized in 2002.*

27. *Act No. 306/2002 (Coll. of Laws) on Increasing Pensions in 2002, on Adjustment of Pensions Recognized in 2003 and on Complementing Certain Other Laws in the social security sphere,* amended by *Act No. 639/2002 (Coll. of Laws).*

28. *Act No. 222/2003 (Coll. of Laws) on Increasing Pensions in 2003.*

29. *Act No. 195/1998 (Coll. of Laws) on Social Assistance,* as amended by *Act No. 450/2000 (Coll. of Laws)* and other acts.

30. *Decree No. 161/1999 (Coll. of Laws) of the SR Ministry of Labour, Social Affairs and Family on Average Current Expenses and Revenues in the Provision of Individual Types of Social Service.*

31. *Act No. 238/1998 (Coll. of Laws) on Funeral Allowance,* as amended.

32. *Act No. 125/1998 (Coll. of Laws) on the Subsistence Minimum and the Determination of Sums for State Social Benefits Purposes,* subsequently amended.

33. *Act No. 54/1956 (Coll. of Laws) on Sickness Insurance of Employees,* as subsequently amended.

34. *Act No. 277/1994 (Coll. of Laws) on Health Care,* as subsequently amended.

35. *Act No. 98/1995 (Coll. of Laws) on the Therapeutic Order,* subsequently amended.

36. *Act No. 193/1994 (Coll. of Laws) on Children Allowances and the Additional Child Allowance,* as amended later.

37. *Act No 382/1990 (Coll. of Laws) on Parental Allowance,* subsequently amended.

38. *Act No. 236/1998 (Coll. of Laws) on Subsistence Contribution,* subsequently amended.

39. *Act No. 235/1998 (Coll. of Laws) on Childbirth Contribution, Contribution to Parents of Three or More Children Born Simultaneously or to Parents of Multiple-child Births, Repeated Within Two Years,* subsequently amended.

40. *Act No. 265/1998 (Coll. of Laws) on Foster Care and Allowances for Foster Care,* as amended.

41. *Act No. 243/1993 (Coll. of Laws) on Social Dependence,* as amended, repealed.

42. *Act No. 300/1999 (Coll. of Laws) on Housing Contribution,* as subsequently amended.

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