MINISTERSTVO FINANCIÍ SLOVENSKEJ REPUBLIKY

MINISTERSTVO PRÁCE, SOCIÁLNYCH VECÍ A RODINY SLOVENSKEJ REPUBLIKY

Spending review of labour market policies and social policies

Preliminary report

May 2017

This project is supported by the European Social Fund

Operačný program Efektívna verejná správa

Európska únia
Európsky sociálny fond

Authors

Value for Money Division
Štefan Kišš
Peter Hronček
Juraj Mach
Eduard Nežinský
Tomáš Sivák
Soňa Slobodníková
Miroslav Štefánik

Institute for Financial Policy
Peter Harvan
Slavomír Hidas

MLSAF SR
Juraj Cenker
Marek Plavčan

Preliminary report review public expenditures of labour market policies and social policies was created in cooperation Ministry of Finance SR and Ministry of Labour, Social Affairs and Family SR.

Acknowledgement

For valuable comments and suggestions during preparation of the report, we thank to our colleagues from Ministry of Labour, Social Affairs and Family SR, Martin Kahanec (CELSI), Michal Páleník (Employment Institute), Radovan Ďurana (INESS) a Lucia Šrámková, Rastislav Gábik, Dušan Paur, Ján Remeta, Tomáš Rizman, Roman Vasiľ a Branislav Žúdel from Institute for Financial Policy and as well as others employees of Ministry of Finance SR. Fails and omissions are responsibility of the authors.

Introduction and summary

Spending reviews are part of the government Value for Money initiative that aims to reform rules, set up processes and strengthen institutions that will in turn support adoption of good decisions in line with public interest and significantly improve value for money within Slovak public sector.

In the second year of spending reviews, spending on education, labour market policies, social policies and environment, which sum up to 7.2 % GDP, is being evaluated. The preliminary report identifies areas with the greatest potential for efficiency improvement. Identified issues will be elaborated in more detail by June 30th in the final report. The final report will also include measures along with an implementation action plan. The government will approve the final report of the spending review along with the general government budget by October 15th.

Spending reviews will evaluate a majority of public spending during the current election term. It will review both effectiveness and efficiency of spending and will identify measures that will increase value for money in public finances, hence allow fiscal savings, enhanced public services for citizens (results) and/or reallocation of finances to government priorities. Measures proposed within spending reviews are in line with long-term sustainability of public finances.

Developed countries use spending reviews as a standard tool that helps governments find reserves within public policies for more efficient use of public funds as well as for savings necessary to meet national and European fiscal commitments.

Spending review of labour market policies and social policies of the Ministry of Labour, Social Affairs and Family of the SR (MLSAF SR) and the Social Insurance Agency (SIA) amounting to 3.7 % GDP p.a. will focus on the possible improvement of effectiveness and targeting of policies, especially on expenditures on social transfers and insurance, pensions, social services, employment policy, operation and investments of the ministry, its organisations and of the Social Insurance Agency, while maintaining the level of expenditures in line with the Stability Programme of the Slovak Republic for 2017 – 2020. The objectives of the spending review are to increase the employment rate and decrease the at-risk-of-poverty rate of citizens. Spending review will build upon pilot evaluation of the expenditures of the Offices of labour, social affairs and family.

Aims of the spending review, expenditures and results

- Spending review of labour market policies and social policies of the Ministry of Labour, Social Affairs and Family SR focuses on expenditure amounting to 2.7 % of GDP and the expenditure of the Social Insurance Agency amounting to 9 % of GDP in 2017 (together 11.7 % of GDP). Spending review doesn't evaluate parameters of the pension system. Excluding pensions, the total envelope of the spending review is 3.7 % of GDP.
- Main aims of the government of Slovak Republic in the area of employment and social policy are to increase the employment rate and decrease the at-risk-of-poverty rate of citizens. The mandate for the spending review also set quantitative targets for the year 2020: decreasing the long-term unemployment rate to 3 % and increasing the rate of employment to 72 %.
- With a record high rate of employment, the biggest challenges on the labour market are long-term unemployment, unemployment of low skilled workers and a low employment rate of mothers with children. Slovakia achieves better results than EU and V3 average in the at-risk-of-poverty rate indicator, while the severe material deprivation rate is slightly above the average of EU.
- Slovak spending on social protection amounts to 15 % of GDP, more than the average of V3 (14.5 % GDP), but less than the average of EU (19.2 % GDP). More than two thirds of the spending are expenditures on

pensions (70 %). In 2017, expenditures of the MLSAF SR amount to 2.2 billion euro, the expenditures of the Social Insurance Agency amount to 7.6 billion euro.

- The largest part of the expenditures of MLSAF SR is represented by spending on social inclusion, amounting to 1 795 million euro (80 % its expenditures); within this the biggest part is family support amounting to 730 million euro. Other MLSAF SR spending is directed to employment services, amounting to 282 million euro (13 %), and administration, amounting to 157 million euro (7 %).
- The biggest part of expenditures of the Social Insurance Agency (89 %) in year 2017 is made up of pension expenditures (old age and disability) amounting to 6.8 billion euro.

Public employment services

- The persistent high rate of long-term unemployment is among the biggest challenges of the Slovak economy. Separate attention is required by the employment of low-skilled people and the employment of women aged 25-35. The cross-cutting theme of employment of marginalized Roma communities will be a topic for a separate spending review.
- Expenditure on ALMPs is among the lowest in the OECD, its efficiency and effectiveness is low. Spending is dominated by demand-side programs at the expense of supply-side (training and education) programs and consulting services that international experience show to be the most effective.
- Better targeting of ALMPs, for example on the basis of information on the candidates obtained when they are registered, together with their past unemployment records and employment history, could increase the number of unemployed candidates successfully placed in the labour market by almost one half.

Social protection

- In 2016 spending on unemployment benefits amounted to 172 million euros, assistance in material need 203 million euros, and child allowance 313 million euros.
- The conditions for entitlement to unemployment benefits in the Slovakia are among the most severe within OECD countries. The support period is shorter, the rate of compensation is average. The decline in income after the loss of employment is most significant for low-income employees.
- Assistance in material need represents a safety net for situations when the income of a household drops below the subsistence level. Slovak system of assistance in material need belongs among the less generous in Europe (in terms of minimum income benefits). An important element of the Slovak system is the effort to increase motivations to be active on the labour market, especially to find employment.
- The most frequent recipients of assistance in material need are households of individuals without children. Families with more than five children represent 3,9 % of households that are beneficiaries of assistance in material need.
- The most frequent recipient of child allowance is a one-child family. Families with at least four children account for 3.3% of beneficiaries and receive 9.5% of the total expenditure envelope.
- The ratio of assistance in material need and the subsistence level varies depending on the household composition and the number of children. This ratio is declining as the number of children grows, then increases for families with five children, and slowly falls again as the number of children increases.
- The special allowance successfully increases the motivation to work for a lower wage. However, this does not apply to low-wage work who work less than part-time, where motivation remains low.
- Family benefits improve the financial situation of households. They are provided to all families regardless of their income. For high-income households they represent a negligible portion of the family budget.

Family support

- Total public spending on family policies is about 1.7 billion euros. In relation to GDP they are almost at the OECD average. Net cash payments are above the OECD average. On the contrary, the range of services provided is lower than the OECD average.
- In 2016 child allowance spending amounted to 313 million euros in Slovakia, parental allowance reached 352 million euros, tax bonus amounted to 251 million euros, and in-kind social benefits were 231 million euros (paid for parents looking after a child under the age of 6 and for carers).
- Slovakia is among OECD countries with the highest proportion of women who use parental leave for more than 12 months. The length of parental leave depends on previous economic activity and on the amount of income in previous employment. At the same time, the participation of children up to two years of age in formal care in Slovakia is below the OECD average.
- The length (according to his or her age) of financial support to the family of a child in formal education in Slovakia is the third longest in OECD.
- Decisions about on the number of children a family has can be influenced by policies that simplify career and family life. On the contrary, the length of paid parental leave or cash benefits for the parents of children do not significantly affect birth rates.

Support for people with severe disabilities

- The rate of people with severe disabilities at risk of poverty in Slovak Republic is below the EU average. Their employment rate is also lower (31,9 % in Slovak Republic vs. 47,3 % in EU).
- Spending on compensations for social consequences of severe health disabilities amount to 226 million euro (2016). The budget for the year 2017 is higher by 30 million euro.
- The system of compensations for social consequences of severe health disabilities consists of periodic and single financial allowance. Two financial allowances, for personal care and for compensation of increased expenditures, amount to 78 % of all expenditures on periodic financial allowances.
- Tying the system of financial allowances for social consequences of severe health disabilities to the level of income of the person with disabilities can reduce their motivations to work.
- Personal care allowance can reduce the motivation to work for people who care for their family member. The carer loses working skills and qualification, which makes their re-entry to labour market difficult.
- There is a large number of financial and non-financial benefits that are provided to all people with severe health disabilities without regard to their actual health needs. It is necessary to review their justification.

Social services

- Public spending on long-term care is approximately 0.3% of GDP.
- Demographic changes in the Slovak Republic will increase the demand for social services. By 2030 around 7 300 places will need to be added only in residential long-term care facilities. According to the EC estimates, total expenditures on long-term care are expected to double by 2060.
- Long-term care facilitated at home improves the quality of life. The purpose of social services should be to ensure that people remain in their natural social or domestic environment.

Care for children at risk

- State budget spending on institutional care for children in state and non-state facilities amounted to 76 million euros, while spending on substitute family care reached 13 million euros (contains only spending on allowances).
- 14,000 children are raised outside their own family in Slovakia, which is 1.3% of all children. This share has increased since 2000. At the same time, more children are placed in substitute families compared to institutional care.

- Monthly expenditures on each child placed in a child-care facility based on a court decision average 1020 euros, in substitute family care average monthly expenditures are 337 euros.

Pension saving schemes

-
- The second pillar consists of mostly younger savers. Since the introduction of voluntary entry in 2008, only 30% of those entering the labour market have entered the second pillar.
- An increase of the monthly contribution of the saver into the 3rd pillar by one euro will increase their monthly pension by up to 6%. Average real returns higher by 1 pp could increase the monthly pension by up to 25%.
- In the 3rd pillar the main motivation to save are the contributions from employers. The introduction of a tax allowance on participant's contributions in 2014 did not have a significant impact on the average saver's contribution.
- The return-performance of funds in the 2nd and 3rd pillar is among the lowest in OECD. Majority of savers'assets are in the more conservative, guaranteed bonds funds, which achieve lower returns.
- The investment behaviour of fund managers is relatively short-term. While in the 2nd pillar a potential for long-term investment exists, in the 3rd pillar such potential is significantly lower, as most of the assets are allocated to batch-payment contracts that may require a large portion of the savings to be paid out on demand.
- The average management cost of retirement savings is 0.9% of the value of managed assets, approximately at the OECD average. While the management cost of funds 2nd pillar is below the OECD average, it is still more than double the OECD average in the 3rd pillar, despite a long-term decline.

Analysis of expenditures of organisations of MLSAF SR and the SIA

- Employment spending in the Ministry of Labor and Social Affairs of the Slovak Republic increased by an average of 9% per year from 2012 onwards. Employment in the chapter grew by an average of 3% per year since 2012, while wages grew by an average of 7% per year.
- Goods and services were a significant part of the budget in three organizations (CMPODM, IVPR, IAMPSVR). Between 2012 and 2016, they grew at an average rate of 10% per year. Although spending on EU funds accounted for only 21% of all spending on goods and services between 2012-2016, they contributed to more than four-fifths of its growth.
- IT expenditures of the Ministry of Labor and Social Affairs of the Ministry of Labor and Social Affairs of the Slovak Republic are between 10 to 20 million euros in the long run. In 2010-2016, on average, 75% of expenditure was financed from the state budget. Long-term average of IT expenditures of the SIA ranges from 10 to 20 million euros, the average in the budget for 2017-19 is 10 million euros.
- In the year 2017, the Ministry of Labor and Social Affairs plans to make two significant IT purchases for about 12 million euros (support for the operation of IS social benefits management (plus e-forms) and support for the operation of IS DMS).
- The largest investments of the SIA for 2017 are increasing the availability and reliability of the central data warehouse, investments in cyber security and in the consolidation of the server environment (each costing about 2 million euros).
- Outcome indicators, which could be used to assess the performance and results of IT systems, have not been established nor monitored at the office of the ministry or of the SIA. An internal methodology for assessing IT spending could help identify the optimal set-up of purchased services.
- There are significant differences between the subsidiaries of the Social Insurance Agency in the transformation of inputs to outputs. The spending review will use a DEA analysis to evaluate the efficiency of the subsidiaries of the SIA. The analysis will estimate the achievable savings and opportunities to increase the performance of less efficient subsidiaries.