Spending review
of labour market and social policies
Final report

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The Final Report of the Spending Review of Labour Market and Social Policies has been prepared in cooperation between the Ministry of Finance of the Slovak Republic and the Ministry of Labour, Social Affairs and Family of the Slovak Republic.

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Introduction and summary

The spending review of labour market and social policies carried out by the Ministry of Labour, Social Affairs and Family and the Social Insurance Agency examined annual expenditure which sum up to 3.7% of GDP. The objectives of the spending review are to increase the employment rate and decrease the at-risk-of-poverty rate of citizens. The spending review builds upon pilot evaluation of the expenditure of the Employment Service offices. The spending review is focused on the possible improvement of effectiveness and targeting of policies, especially on expenditure 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 expenditure in line with the Stability Programme of the Slovak Republic for 2017 – 2020. The spending review does not evaluate the default parameters of the pension system.

The measures proposed by the spending review are estimated to increase revenues by approximately EUR 49 mil. (total 0.1%GDP). These measures offer a potential to redirect expenditure to other areas and, consequently, improve performance of the sector in form of better employability of job seekers and encouraging social inclusion. Examined will be also further measures, in particular family benefits, which are not focused on targeted support for the poorest.

Severe material deprivation rate (%)

Long-term unemployment rate (%)
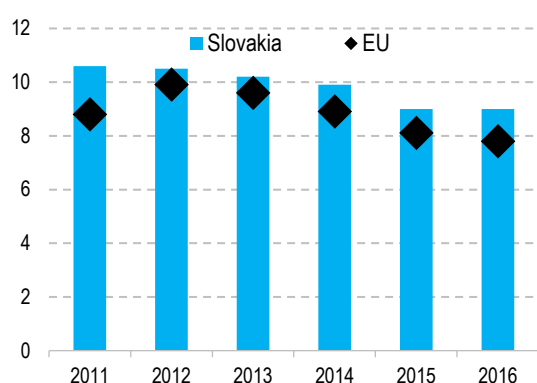
Note: The 2016 data are preliminary data   *Source: Eurostat*   *Source: Eurostat*
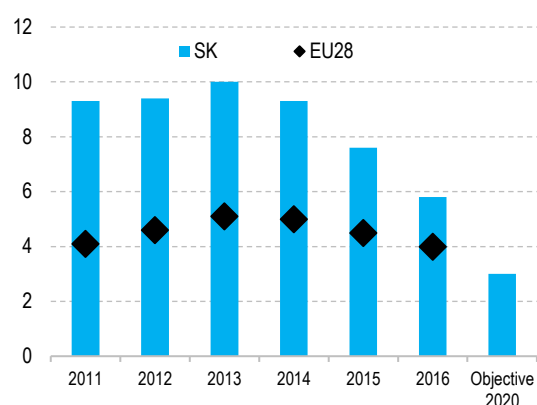
Slovakia is doing well in social policies. The risk of poverty is considerably below the EU average and Slovakia succeeds in reducing the severe material deprivation rate. In Slovakia, income disparities are lower than income disparities in the EU and in the neighbouring countries. During the past few years, the situation in the labour market has been improving although the long-term unemployment rate and unemployment rates of low-skilled persons still lags considerably behind the EU average.

Expenditure on social policies is close to the V3 average. Slovakia's social security expenditure accounts for around 15% of GDP, i.e., somewhat higher than the V3 average (14.5% of GDP), however, less than the EU average (19.2% of GDP). More than 2/3 of the envelope is expenditure for pensions (70%). In 2017, expenditure of the Ministry of Labour, Social Affairs and Family (hereinafter also the "Ministry of Labour") and the Social Insurance Agency is expected to reach EUR 2.2 bn. and EUR 7.6 bn, respectively. Major part of the Ministry's spending are social inclusion expenditure in the amount of EUR 1.8 bn.

Public spending on family policies expressed as a % of GDP close to the OECD average. However, purely cash benefits are higher than the OECD average. By contrast, the scope of services provided (nursery schools for children up to age three and kindergartens) is relatively smaller. Main family support benefits include child allowance (total spending in 2016: EUR 313 mil.), parental allowance (EUR 352 mil.), tax bonus (EUR 251 mil.) and contributions paid by the state on behalf parents taking care of a child below six years of age and nursing other persons (EUR 231 mil.)

Family support is not linked to the beneficiary's income. An ideal way to support families is to make eligibility for benefits conditional on low household income. However, the presently available data and controls do not enable effective implementation of such income testing system. The spending review recommends finding new ways to making the system better targeted and adoption of an income-testing system within a mid-term horizon.

Mothers with little children withdraw from the labour market. When compared with the EU, Slovakia considerably lags behind in employment rate of mothers aged between 25-35. Supported parental leave – until the child is three years of age – is the second longest leave in OECD, which is reflected in one of the highest percentages of women, who decide to stay at parental leave for longer than 12 months.

The decision to have or not to have children is influenced by work-family balance policies rather than by short-term financial benefits. Therefore, the spending review recommends considering a higher flexibility in parental allowances, which mitigate the effects of postponing parenting to a period with a higher income and to consider the role played by fathers in receiving parental allowances, aiming to support gender equality.

Active labour market policies (ALMPs) need to be focused on improving employability, mainly of the long-term unemployed. Slovakia's ALMPs are among the lowest within OECD, and the efficiency and effectiveness thereof is low. The number of vacancies is growing, and creation of jobs does not need to be further subsidised. Despite it, demand programmes prevail over supply (education and training) programmes and advisory services, which are internationally proven as most effective. Better targeted ALMPs tools, based on profiling of the unemployed right away at their first registration with the employment services office could increase number of employed ALMPs participants by nearly a half.

Support to the unemployed in Slovakia is relatively strict. The criteria for entitlement to an unemployment benefit In Slovakia after losing a job are among the strictest across OECD countries. The support period ranks among shorter ones and the compensation rate is around the average level. The Slovak system of social assistance benefits ranks among less generous in Europe. An important element of the system is encouraging the motivation to succeed in the labour market and to find a job.

Social assistance benefits are most frequently paid to single-person households without children. Households being beneficiaries of social assistance benefits include 3.9% of families with more than 5 children. The proportion between the amount of social assistance benefit and minimum subsistence income differs depending on structure of households and number of children. With growing number of children, the proportion is decreasing, with five children, the proportion increases, but as the number of children grows, the proportion decreases again.

Beneficiaries of social assistance benefits are sufficiently motivated to find a job. After finding a job the increase in income is relatively high, the only exception is working part-time at a low wage. The reason is that tools encouraging motivation for work (special allowance and tax bonus) are not available with earnings below minimum wage attributable to half-time job. The purpose of employment and social inclusion policies is to create conditions for finding a job at the best possible wage, and therefore, it is important to invest in education and skills of further employees. Adjusted entitlement to tax bonuses and special allowance is meant to make part-time employment more attractive to people who, for various reasons, cannot have longer-time jobs at higher wages.

To protect children, it is necessary to stop the growth in number of children raised outside their own family. In Slovakia, 14 thousand of children are brought up that way, which is 1.3% of all children. Moreover, from 2000, the percentage has been increasing. The number of seriously disabled children in orphanages increased as well. The fact that the percentage of children in substitute families compared to those in institutional care has been increasing is interpreted as a positive trend.

The system of compensations for persons with severe health disabilities mitigates the risk of poverty they face, although compared to EU, employment rate of persons with severe health disabilities in Slovakia is much lower. Spending for compensation of social consequences of serious disability amounted to EUR 226 mil. (2016), with an increase by EUR 30 mil. in 2017. When a seriously disabled person's income reaches the level equivalent to 5 times the minimum subsistence income, the seriously disabled person is no longer entitled to

compensation of expenditure on his/her disability, which may have a negative impact on the person's motivation to find a job. On the contrary, personal care allowance may reduce motivation to work for a person who takes care of a family member. The carer loses working skills and qualification and that makes it difficult for him/her to re-enter the labour market.

Population ageing exerts pressure on future public spending. Increase will be seen in expenditure on social services, pension security and healthcare. EC estimated that by 2060, expenditure on long-term care will double. One of proposed measures is to interconnect social and healthcare services in a single long-term care system, which would enable increasing the quality of care and cost savings. The amount spent by the MLSAF SR and other general government institutions for social services exceeds 0.5% of GDP. It has been estimated that by 2030 at least 10 000 additional beds will be needed in residential care facilities for elderly people.

Performance of funds in the in the 2nd and the 3rd pillars ranks among the lowest in OECD, the proposed measures are focused on higher yields. Savers mostly invest their funds in low-yielding conservative bond guaranteed funds. The yielding capacity can be improved by mandatory harmonization of the investment strategy of the existing savers and new savers with time horizon of their saving plans (with option for the saver to choose his own strategy). Another option to boost yields is to motivate pension management companies and agents to proactive recommendation of higher-yielding strategies.

While the management cost of funds in 2nd pillar is low, management cost of funds in the 3rd pillar is still more than double the OECD average, despite the long-term decline. Participation in the saving scheme is motivated mainly by contributions from employers. Increasing the real average yield by 1 p.p. in this pillar could increase monthly pensions for future beneficiaries by as much as 25%. Yield and cost ratios can be improved by mandatory supply of an index fund in the 3rd pillar. That will increase attractiveness of voluntary retirement savings through a mix of policies, including stronger competition. Consideration will be given to possibility of allowing employers to send voluntary contributions to pension savings also to the 2nd pillar.

Public Employment Services (PES) are more effective, however, differences in performance between PES offices persist. Improvements were mostly seen in employment service offices which were working least effectively. On the other hand, since 2014, job seekers have been placed to labour market less effectively. Although total number of job seekers joining the labour force slightly increased, in terms of proportion it did not correspond to the much higher intensity in employment services and better labour market conditions.

Social Insurance Agency's branches were analysed to identify opportunity for improving efficiency of their activities up to EUR 10 mil. within 3 years, which means 16% of spending. The proposed measures include transferring some of the existing staff to more efficient activities or to positions generating higher outputs and nearly 25% cost savings in purchased energy, goods and services and lower IT operation expenses.

The social insurance systems should be based on a fair distribution of contributions to the Social Insurance Agency and fair payments by the Social Insurance Agency to citizens. Therefore, annual clearing of social contributions will be established. The newly created legislative framework and reporting methodology will prevent reductions in contributions paid by high-income groups of citizens.

Measures

The terms of reference for the spending review require finding scope for increasing value for money through reallocation of expenditure from less effective policies to more effective ones. The spending review of labour market and social policies proposed a set of saving measures to create opportunity for increasing value. Potential savings or potential higher value have been calculated for each of the proposed measures in EUR or in other numerical value. It also defines measurable indicators, responsibility and deadlines. The tasks and the related indicators will be characterised in detail in the Implementation Plan, and subsequently with every spending review

Saving

Area	Task	Value* (EUR mil.)	Measurable indicator	Responsibility	Deadline
Family policies	Examine possibilities for better targeted family benefits		At-risk-of-poverty rate of families with children	MLSAF SR, MF SR	2018
Fair social system	Establish annual clearing of social contributions.	49		MLSAF SR, SIA, MF SR	2018
Operation	Increasing efficiency of Social Insurance Agency branches	10	Share of Admin. Fund expenditure in total SIA expenditure	SIA	2020

Value

Area	Task	Value	Measurable indicator	Responsibility	Deadline
Reduction of unemployment	Effective provision of ALMPs based on the job-seeker's profile and better placement of job seekers in the labour market. (Implementation NP ESC 2 – Analysis of Clients' Potential)		Net effectiveness and efficiency ratios. Employment rates	PES	2019
Encourage motivation to find a job	Consider extending of applicability of tax bonuses to include low income and part-time jobs		Inactivity trap (marginal effective tax rate)	MLSAF SR, MF SR	2018
Encourage motivation to find a job	Consider extending of applicability of special allowance to include low income and part-time jobs		Inactivity trap (marginal effective tax rate)	MLSAF SR, MF SR	2018
Family support	Consider implementation of flexible drawing of parental allowance with freedom of choice as to the period of receiving the allowance		Employment rate for women 25–34 years old	MLSAF SR	2018
Improving situation of families at risk	Deinstitutionalization of substitute care with priority given to family-based care (NP Encouraging Deinstitutionalization of Substitute Care)	Integration of 1.3 – 1.5 th. children at risk of social exclusion.	Number of children in substitute families	MLSAF SR OLSAF	2018
Improving situation of families at risk	Early intervention for children with less severe disabilities and their integration into normal education process (NP Every child counts)		Number of children subject to early intervention. Number of children with disabilities (option A) attending conventional schools. Number of inclusive facilities.	MLSAF SR	2018
Higher efficiency of pension saving	Establishing an index fund in the 3rd pension saving pillar.	Average real performance increased by 1 p. b. may increase pensions for savers by 25%.	Average annual yield of the 2nd and 3rd pillars.	MLSAF SR	2019
Higher efficiency of pension saving	Increase attractiveness of voluntary pension saving through mix of policies, including stronger competition. Consider possibility of allowing employers to send voluntary contributions to pension savings also to the 2nd pillar.		Percentage of population covered by supplementary pension schemes.	MLSAF SR	2019

Higher efficiency of pension saving	Mandatory harmonization of the investment strategy of the existing savers with time horizon of their saving plans.	The growth in voluntary long-term retirement savings.	MLSAF SR	2019
Higher efficiency of pension saving	Adjustment of charges for agents to motivate the agents to provide 2nd and 3rd pillar clients with more detailed and adequate recommendations.		MLSAF SR	2019
Higher efficiency of pension saving	Increasing awareness of 2nd and 3rd pillar clients of the existing yields, yields in other funds, distribution of savings in funds and comparison with foreign funds.		MLSAF SR	2019
Higher efficiency of pension saving	Change in redistribution of charges for pension accounts managers so that higher share of the charge is linked to performance of the funds.		MLSAF SR	2019
Employment services	Increasing efficiency of PES offices		PES	2018
Operation	Increasing efficiency of SIA branches	10	SIA	2018

Management

Area	Task	Measurable indicator	Responsibility	Deadline
Increasing effectiveness of ALMPs tools	Improving individual approach to job seekers, evaluate their skills and possibilities (NP Support to individualized consulting. Balancing job seekers' skills with real employability.)	Share of job seekers participating in ALMPs	MLSAF SR, PES	2018
Capital investments preparation and evaluation process	Prepare and publish a capital investments plan MLSAF SR a SP, irrespective of the source of funding	(yes/no)	MLSAF SR, SIA	2018
Capital investments preparation and evaluation process	For each capital investment above EUR 40 mil. prepare and publish a feasibility study and cost and benefit analysis	(yes/no)	MLSAF SR, SIA	on an ongoing basis
Capital investments preparation and evaluation process	Carry out cost and benefit analyses in accordance with the existing Public Investment Evaluation Framework	Average cost-benefit ratio of started projects Average internal revenue percentage of started projects	MLSAF SR, SIA	on an ongoing basis
IT spending	Increase effectiveness of MLSAF SR's IT spending	Saving compared to the baseline scenario	MLSAF SR	2017

Data and methodology

Area	Task	Measurable indicator	Responsibility	Deadline
Increasing effectiveness of social services	Unification of methodology and statements for collection of data about provided social services	(yes/no)	MLSAF SR, OLSAF, SO SR	2018
Capital investments preparation and evaluation process	Prepare budgets for all planned capital investments on the level of investment projects	(yes/no)	MLSAF SR, SIA	on an ongoing basis

Analytical tasks

Area	Task	Responsibility	Deadline
Increasing the motivation to work	Evaluation of effectiveness of tax deductibility of health insurance contributions	MLSAF SR	on an ongoing basis
Increasing effectiveness of ALMPs tools	Evaluation of effectiveness of ALMPs	Institute Social Policy MLSAF, PES	on an ongoing basis
Increasing effectiveness of ALMPs tools	Evaluation of ALMPs for persons with serious disabilities	MLSAF SR. PES	on an ongoing basis
Increasing effectiveness of social services	Evaluation of costs and benefits of social services	MLSAF SR MF SR	2018

Increasing effectiveness of pension savings	Analysis of measures supporting a more effective distribution of savings among asset classes in the 2nd and 3rd pension saving pillars	MLSAF SR, MF SR	2018
Increasing effectiveness of SIA operation	Evaluation of DEA of SIA branches	SP, MF SR	2018
Review of groups facing risk of social exclusion	Spending review focused on groups facing risk of social exclusion (persons with severe health disabilities, elderly persons, Roma communities)	MF SR, MLSAF SR, MZ SR, MV SR	2018
Review of long-term care	Spending review of long-term care	MF SR, MLSAF SR, MZ SR, MV SR	2019

- positive values refer to savings

1   Objectives of labour market and social policies

- **The purpose of the spending review of labour market and social policies is to assess expenditure of the Ministry of Labour, Social Affairs and Family of the SR (MLSAF SR) and the Social Insurance Agency (SIA), aiming for higher efficiency of current expenses and to analyse economic benefits and costs of the planned capital investments, while maintaining the level of expenditure in line with the Stability Programme of the Slovak Republic for 2017 – 2020.**

- **The key objectives of the Slovak Government in the area of employment and social policies include to increase the employment rate and decrease the at-risk-of-poverty rate of citizens. The terms of reference for the spending review also define measurable objectives to be met by 2020: reduction of long-term unemployment rate to 3% and increasing the employment rate to 72%.**

- **Major challenges faced by the labour market include long-term unemployment, unemployment of low-skilled persons and low employment rate of mothers with children. Slovakia's poverty risk indicators show results better that EU28 and V3 average, while Slovakia's severe material deprivation rate is slightly above the EU28 average.**

The purpose of the spending review of labour market and social policies is to assess expenditure of the MLSAF SR and the Social Insurance Agency, aiming for higher efficiency of current expenses and to analyse economic benefits and costs of the planned capital investments, while maintaining the level of expenditure in line with the Stability Programme of the Slovak Republic for 2017 – 2020. The focus is on identification of possibilities to **reallocate expenditure** to programmes with the highest effective rates. Expenditure for projects implemented from EU funds in programming period 2014-2020 should be spent evenly over the time ending 2020.

The key objectives of the Slovak Government in the area of employment and social policies include to increase the employment rate and decrease the at-risk-of-poverty rate. Slovakia's employment rate has considerably improved since 2010, however, it still does not meet either the goals set by the National Reform Programme SR, or the Europe 2020 Strategy, not the EU level. In at-risk-of-poverty rate, Slovakia's results exceed EU28 average, however, the severe material deprivation rate is slightly above EU28 average. Result indicators are to a large extent linked to targeted support provided to beneficiaries (mothers, families, disabled persons, employed persons, persons in material need and socially disadvantaged communities). The spending review also aims to improve consistency of the social insurance and pension schemes and increasing motivation to work and to pay contributions. Consideration will be given to long-term sustainability of the system and a well-balanced intergenerational solidarity. Higher effectiveness of public spending by MLSAF SR and the Social Insurance Agency will contribute to meeting the Government's goals in social policies and employment.

Graph 1: Employment rate (%,20-64-year-olds)
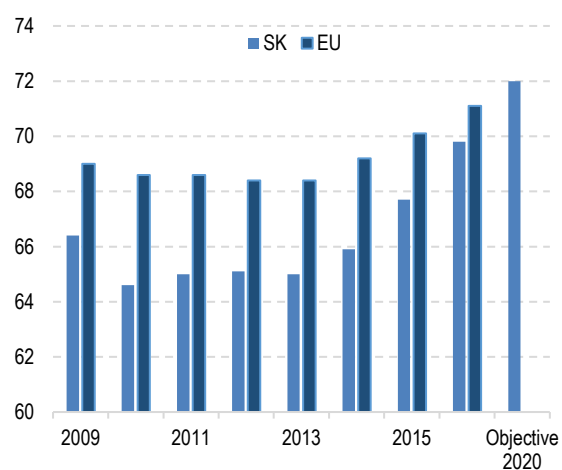
Source: Eurostat

Graph 2: At-risk-of-poverty rate after social transfers (%)
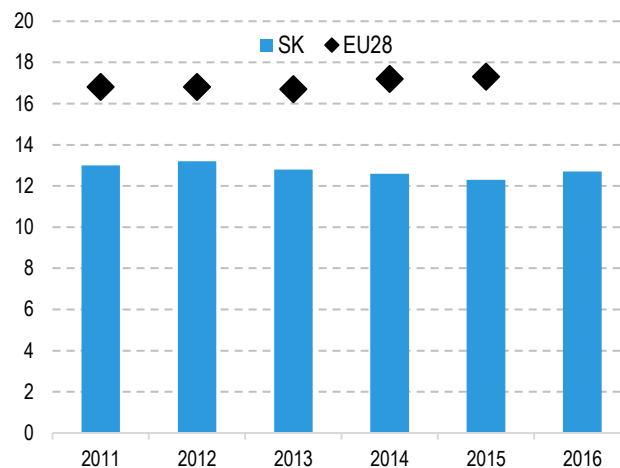
Note: EU28 data only available until 2015   *Source: Eurostat*

The Slovak Government's goals to be achieved by 2020 include decreasing the long-term unemployment rate to 3 % and increasing the rate of employment to 72 %. Major challenges identified by the National Reform Programme 2017 of the Slovak Republic (NRP) in the labour market are: long-term unemployment, unemployment of low-skilled unemployment and low employment rates of mothers with children. Slovakia's performance on the labour market is worse than both EU28 and V3 averages.

Graph 3: Long-term unemployment rate (%)
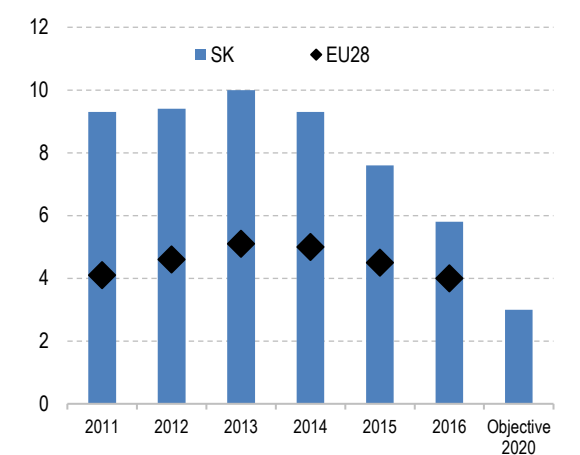
Source: Eurostat

Graph 4: Low-skilled unemployment rate (%)
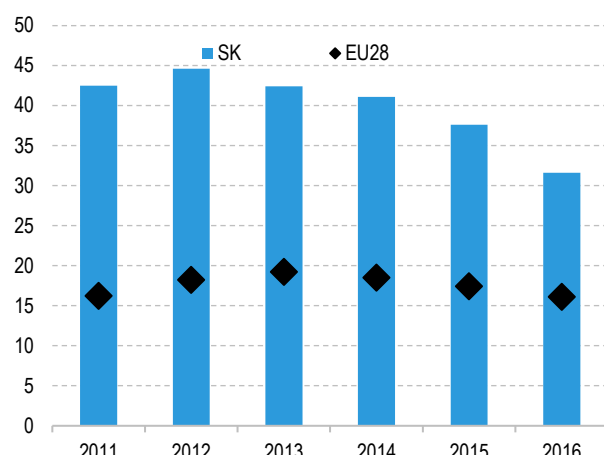
Source: Eurostat

In its social policies, the Slovak Government aims to reduce the percentage of population being at risk of poverty. Main social inclusion themes identified by the NRP 2017 are: increasing motivation of persons in material need, social services, social assistance to persons with severe health disabilities, services for victims of domestic violence and support to marginalized Roma communities. Slovakia's results in poverty risk indicators outperform both EU28 and V3 average, whether it is a relative poverty measured compared to median income, or in absolute figures against a fixed year. On the other hand, in 2015, 9% of Slovak population were facing severe material deprivation, while EU average was 8%. Since 2008, the severe material deprivation rate in Slovakia has been almost continually decreasing and is presently approaching the EU28 average.

Graph 5: Effects of social transfers (excl. pensions) to reduction of poverty (%)
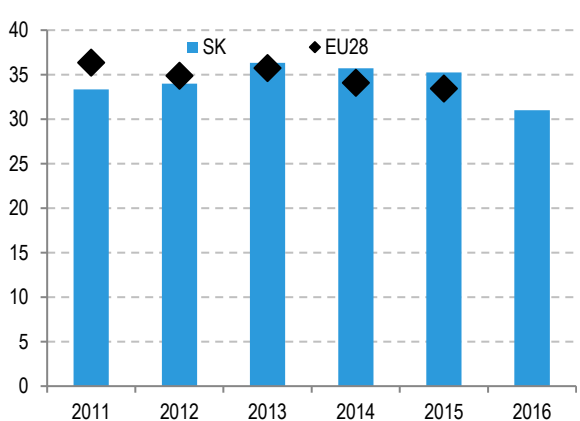
Note: EU28 data only available until 2015 Source: Eurostat

Graph 6: At-risk-of-poverty rate set in 2008, %[1]
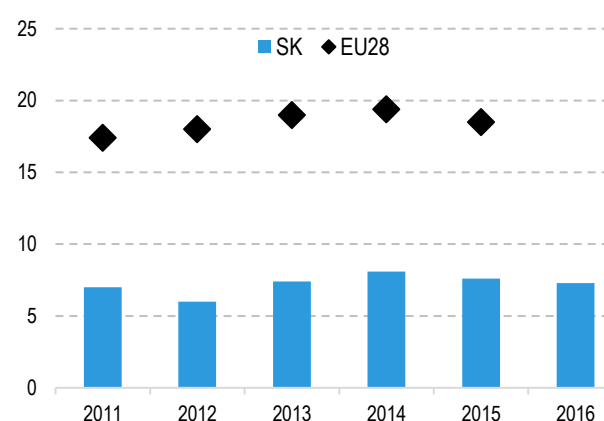
Note: EU28 data only available until 2015   Source: Eurostat

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[1] This expresses the percentage of population below poverty level. Poverty level has been determined for each country to be equivalent to 60% of the median disposable income in 2008, since then, it is only adjusted to reflect inflation.

2   Spending on labour market policies and social policies

- **Slovakia's spending on social security amounts to 15% of GDP (33% of public spending), which is slightly higher than the V3 average (14.5% of GDP), but less than EU average (19.2% of GDP).**
- **More than two thirds of the envelope is expenditure on pensions (70 %).**
- **In 2017, expenditure of the MLSAF SR and the SIA will be EUR 2.3 bn, and EUR 7.6 bn, respectively.**
- **A major part of MLSAF SR's spending is spending on social inclusion in the amount of EUR 1,795 mil. (80% of the spending), and thereof the largest amount, EUR 955 mil. is for family support.**
- **Further spending goes to employment services, in the amount of EUR 282 mil. (13%) and operating expenditure in the amount of EUR 157 mil. (7%).**
- **In 2017, major part of spending of the Social Insurance Agency (89%) was spending on pensions (old-age and disability pensions) in the amount of EUR 6.7 bn.**

Slovakia's spending on social security amounts to 15% of GDP, which is slightly higher than the V3 average (14.5% of GDP), but lower than EU average (19.2% of GDP). Spending on social security is the largest item of the public spending (33%). Although nominal expenditure on social security were growing, their share in total general government spending in 2014 and 2015 was decreasing. The reason was the faster growth of total general government spending.

Graph 7: Public spending on social security
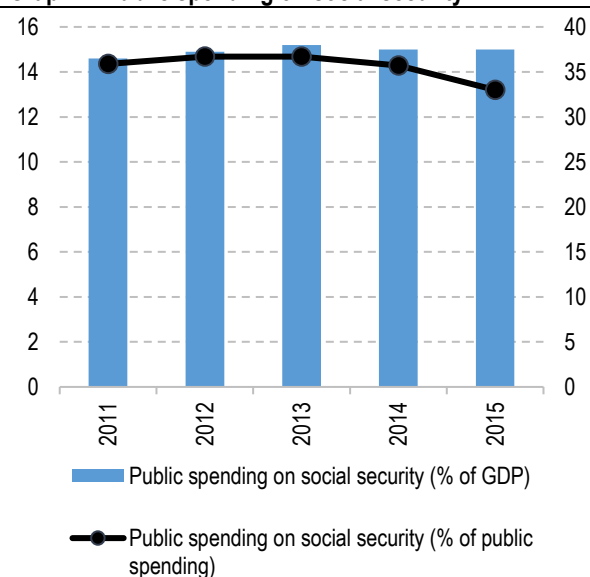
Graph 8: Public spending on social security in 2015 (% GDP)
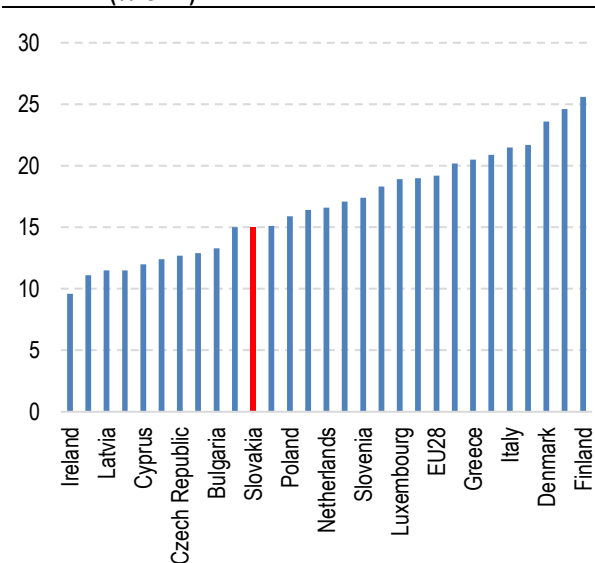
Source: Eurostat, COFOG Classification   *Source: Eurostat, COFOG Classification*

The spending review of labour market and social policies examined expenditure budgeted in 2017 for the Ministry of Labour, Social Affairs and Family and the Social Insurance Agency in the amount of 2.7% of GDP and 8.9% of GDP, respectively, i.e. in total amount being equivalent to 11.6% of GDP), excluding parametric setup of pensions (excl. spending on pensions 3.6% of GDP).

The baseline scenario (ZS) assumes growth in total spending on social policies (including the SIA expenditure), planned in accordance with the presently valid legislation and the no-policy-change scenario, and above the baseline scenario level, account was taken also of the proposed measures and expenditure under the Stability Programme of the Slovak Republic for 2018 - 2020.

Table 1: Social policies and employment policies (excl. EU funds and co-financing), EUR mil.

Material issues, sources: government budget and SIA	Baseline scenario				
	2016 S	2017	2018	2019	2020
Sickness insurance	474	510	605	645	690
Pension benefits	6,485	6,733	7,044	7,286	7,544
Accident insurance	47	48	53	57	60
Unemployment benefit	172	136	135	129	123
Guarantee insurance	13	17	15	15	16
Expenditure of SIA management	133	122	126	132	138
Total SIA	**7,324**	**7,564**	**7,969**	**8,255**	**8,560**
% GDP	*9.0%*	*8.9%*	*8.9%*	*8.7%*	*8.5%*
ALMP	52	41	38	36	34
Social assistance benefit (in material and social deprivation) (nCPI)	202	221	173	169	164
Family support	721	730	741	750	764
Compensation for persons with severe health disabilities	226	259	265	273	278
Care of children at risk	30	31	32	33	35
Contributions paid by the state (wage)	231	238	241	248	254
Other benefits and support	249	252	253	255	258
Other spending of MLSAF SR	256	240	249	259	271
Total MLSAF SR	**1,969**	**2,012**	**2,012**	**2,091**	**2,131**
% GDP	*2.4%*	*2.4%*	*2.2%*	*2.2%*	*2.1%*
Total SIA + MLSAF	**9,293**	**9,576**	**9,980**	**10,346**	**10,691**
% GDP	*11.5%*	*11.3%*	*11.2%*	*10.9%*	*10.6%*
Memorandum items					
Sickness insurance from MRÚ	5	8	9	9	17
Pension benefits outside SIA	345	370	374	378	383
EU + co-financing. (Ministry of Labour)	195	244	237	250	250
ToR of the spending review					
Total spending review (Ministry of Labour SR + SIA excl. pensions + EU and co-financing)	**3,003**	**3,087**	**3,173**	**3,309**	**3,397**
% GDP	*3.7%*	*3.6%*	*3.5%*	*3.5%*	*3.4%*

Note: For details of the baseline scenario see Box 1.   *Source: MF SR*

Box 1: Methodology for calculation of the baseline scenario for 2017 - 2020

The baseline scenario is an analytical tool for calculation of the expenditure envelope, against which measures have been quantified in the final report of the Spending Review.

Calculation of the baseline scenario (ZS) is based on the historical trends in expenditure. Actual results for 2016 are used as the base for the baseline scenario 2017-2020. The data considered above the scope of historical trends in expenditure included additional funds for sectors, allocated in the general government budget 2017–2019 and the enacted amendment of Act No. 461/2003 Coll. on Social Insurance.

Expenditure on ALMP tools for 2017-2020 were indexed by change in the forecasted growth of average wage in private sector and the change in the number of the disposable unemployed. In the scenario, the contributions paid by the state have been forecasted based on the growth rate of average wage in private sector 2 years ago. Benefits linked to daily assessment base (sickness and accident insurance) were indexed by growth of wages in private sector. In the baseline scenario, unemployment benefits were indexed by change in forecasted growth of average wage in private sector and the change on number of the disposable unemployed. In the baseline scenario, other current expenditure of the MLSAF and the Social Insurance Agency were indexed by growth of wages in private sector for personnel costs and by inflation for goods and services. Capital expenditure has been forecasted based on average for the past 5 years or at the prior year level. For items where the legislative development is known beforehand and measures have been communicated, the baseline scenario data equals to the budgeted values from the general government budget 2017-2019 or the fiscal framework of the Stability Programme 2018-2020.

Both the 2017 budget and the baseline scenario include the following measures above the scope of the base year 2016.

Table 2: Measures in social policies and labour market policies reflected in the general government budget and in the baseline scenario

Social affairs (EUR mil.)	2017	2018	2019	2020
Increase in personal care allowance	30	32	35	35
Increase in maternity benefit	7	13	14	14
2 % indexation of pensions in 2017	114	116	118	120
Minimum valorisation of social insurance benefits	0	81	109	142
Changes in unemployment benefits	0	9	9	10

Source: MF SR, Amendment to Act on the Social Insurance Agency
(clause of selected impacts)

2.1 Spending of the Ministry of Labour, Social Affairs and Family SR

Table 3: Spending of MLSAF by programming structure and the source of financing

EUR mil.	2011 S	2012 S	2013 S	2014 S	2015 S	2016 S	2017 R	2018 N	2019 N	2020 N
Human resources	**216**	**194**	**149**	**155**	**188**	**236**	**282**	**268**	**283**	**282**
EU + co-financing	153	148	122	109	156	178	230	227	239	237
Government budget	63	46	27	46	32	58	52	41	44	45
Social inclusion	**1,660**	**1,706**	**1,778**	**1,776**	**1,788**	**1,738**	**1,795**	**1,887**	**1,960**	**1,992**
EU + co-financing	16	14	16	26	64	16	14	10	11	13
Government budget	1,644	1,692	1,762	1,750	1,724	1,722	1,782	1,877	1,949	1,979
Policies development and implementation	**134**	**144**	**144**	**162**	**178**	**188**	**157**	**169**	**169**	**169**
Other	**16**	**10**	**3**	**5**	**1**	**2**	**18**	**18**	**18**	**18**
Total	**2,026**	**2,054**	**2,074**	**2,098**	**2,155**	**2,164**	**2,253**	**2,342**	**2,430**	**2,461**

Source: MF SR, MLSAF SR

In 2016, spending of MLSAF SR amounted to EUR 2.2 bn, which is approximately 2.7% of GDP and 6.8% of total budgeted general government spending. Three programmes with the highest expenditure focused on social inclusion (mainly family support, social assistance benefits and compensation for persons with severe health disabilities), active labour market policies and operating expenses. Despite program budgeting, programmes are not examined for efficiency.

While nearly all expenditure on social inclusion and administration are covered by the government budget funds, 75% of spending on active labour market policies (ALMP) are financed from EU funds and through co-financing. The 2017-2019 general government budget expects further growth in HR expenditure financed from EU funds, while expenditure is expected to decrease.

Graph 9: Spending of MLSAF in 2016 (EUR mil.)
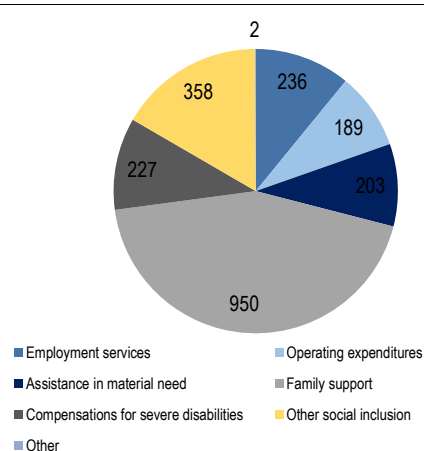
Source: MF SR

Employment services

Graph 10: Spending for employment services by Eurostat classification (% GDP)
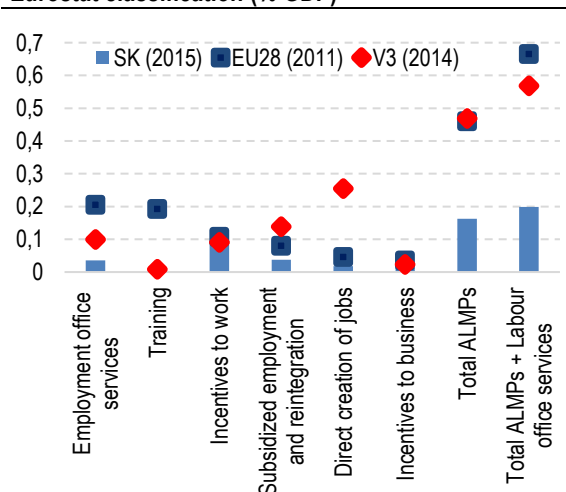
Source: Eurostat

Graph 11: Structure of spending for employment services by source of financing (EUR mil.)
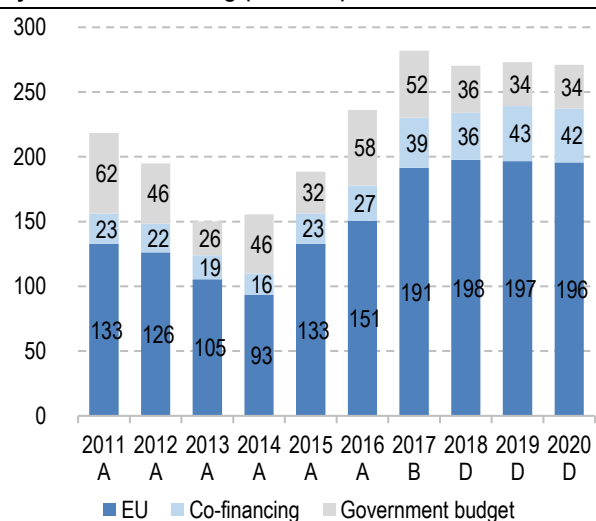
Source: MF SR

According to Eurostat, in 2015 Slovakia's spending on employment services accounted for 0.2% of GDP. Compared to EU and V3 averages, Slovakia spends less on employment services (mainly consulting) and on active labour market policies. Most of Slovakia's spending account for incentives to work (0.08% of GDP), and over the long term the lowest amount is spent on education (0.01% of GDP). The trends in EU are quite the opposite, expenditure on education account for the largest portion of ALMP expenditure.

Table 4: Number of placed job seekers/persons, or number of supported job seekers/persons

ALMP tool	2012	2013	2014	2015
Services provided by employment service offices	250,885	179,776	154,336	141,785
Education	2,169	1,629	8,288	18,432
Incentives to work	43,182	44,098	31,259	53,015
Employment and reintegration support	27,874	32,914	32,454	33,430
Direct creation of jobs	23,346	21,056	33,702	36,257
Incentives to business	9,295	5,289	2,825	2,744
Total ALMP	105,866	104,986	108,528	143,878
Total ALMP + employment services	356,751	284,762	262,864	285,663

Source: Eurostat

Social inclusion

The purpose of the Social Inclusion programme is sustainable reduction of poverty and elimination of social exclusion. Considering the budgeted amounts, the major sub-programme (53%) is the Family Support, the purpose of which is to support family income, irrespective of the amount of income. In 2017, social assistance benefits account for around 12% of the Social Inclusion programme and around 15% are compensations for persons with severe disabilities.

Graph 12: Expenditure under the Social Inclusion programme (EUR mil.)
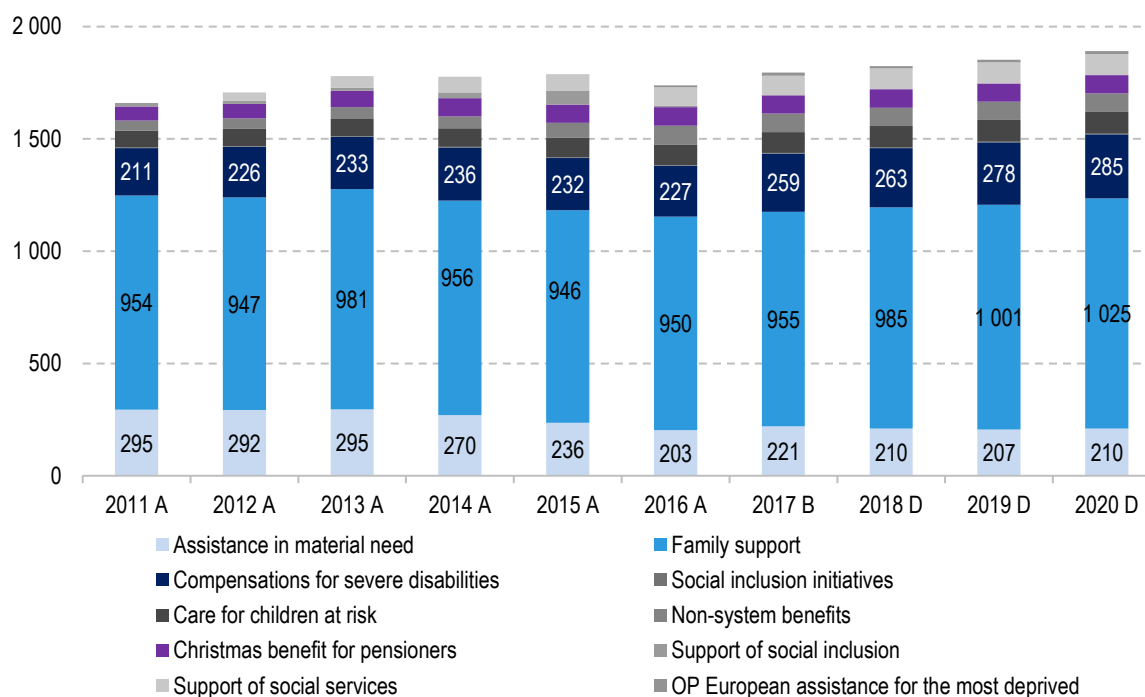
Source: MF SR

Social Assistance Benefit is intended for households with income lower than the minimum subsistence income. Another form of support for children from low-income families attending kindergartens or primary schools are subsidies for meals and a subsidy for school supplies[2]; and the beneficiary of the transfer is the school, i.e., the subsidy is not transferred directly to the student. A substitute child maintenance payment can be granted to a dependent child if the person liable to pay alimony fails to comply with the obligation of child support, or it can be granted to a dependent child, with orphan's pension lower than minimum subsistence income pursuant to the Family Act. This benefit is income-tested. Legislative changes and the favourable economic trends from 2013 had an impact on total spending on social assistance benefits. Since 2013, annual spending dropped by EUR 92 mil.

Graph 13: Social Assistance Benefits sub-programme– number of beneficiaries

Legend:
- Social assistance benefit
- Social assistance benefit - with assessed persons (Note 1)
- Subsidies to support education to proper eating habits (Note 2)
- Subsidies for school supplies for a child in material need (Note 3)
- Substitute alimony
- Substitute alimony - number of children (Note 4)
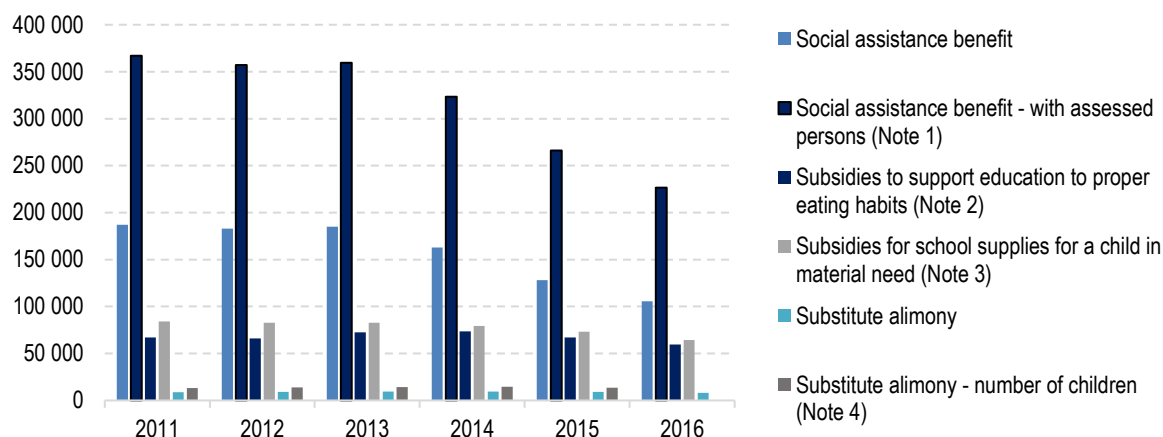
Note 1: Number of beneficiaries supported by the benefit
Note 2: Average monthly number of beneficiaries including school holidays
Note 3: The benefit is only granted in 2 months of year, therefore the average of the 2 months
Note 4: Number of children receiving a substitute child maintenance

Source: Public Employment Service

After overcoming the second bottom of the economic crisis in Europe in 2013, the number of beneficiaries of social assistance benefits is gradually decreasing. The factors that contributed to the reduction include the growing employment rate, which is at all-time highest level in Slovakia, and the fact that many pensioners were excluded from the social assistance scheme after minimum pension was established. Another factor that could have contributed to the reduction in number of beneficiaries, is the obligation of an adult member of the household to participate in activities to receive full amount of the social assistance benefit. Subsidies for meals and a subsidy for school supplies for children in kindergartens and primary schools depend, besides the phase of the economic cycle, on the existing demographic trends.

Major budget items in family support are the child allowance (33% of spending) and parental allowance (37% of spending). Other allowances of social support from the state include supplementary child allowance, care for dependent child allowance, childbirth allowance, allowance in case of multiple birth and funeral allowance.

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[2] *In Act 544/2010 Coll., which falls under competence of the Ministry of Labour, Social Affairs and Family, these subsidies are referred to as: subsidy for a child at risk of social exclusion to support education and compliance with school duties, and subsidy for a child at risk of social exclusion to support education and proper eating habits.*

Graph 14: Expenditure under Family Support sub-programme (EUR mil.)
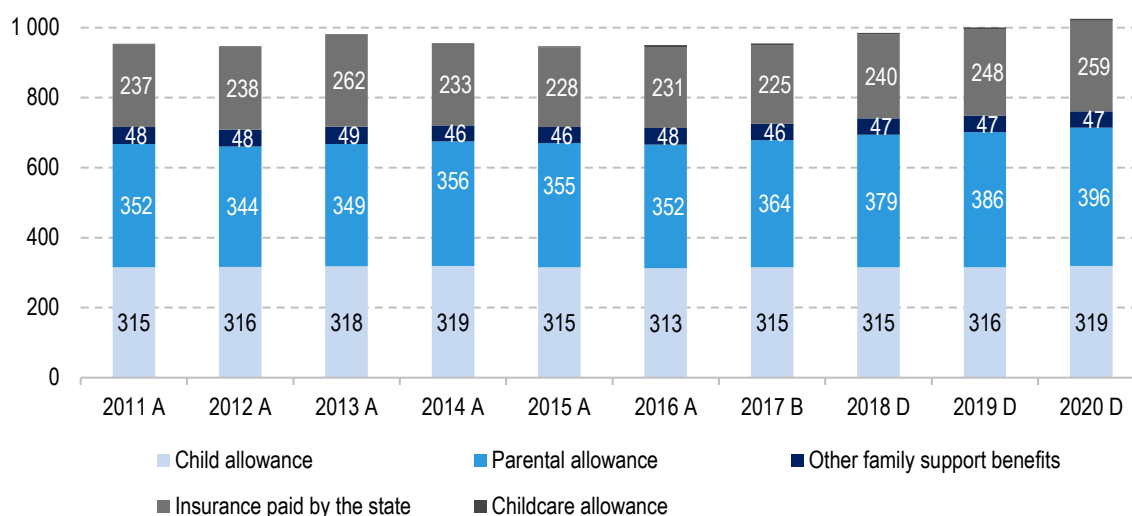
Source: MF SR

Insurance paid by the state is the third largest component of the family support budget (24 %), including long-term case support. The state pays social insurance contributions (old-age, disability, and a contribution to the solidarity reserve fund) on behalf of employees and self-employed persons, who receive maternity benefits, individuals taking care of a child below 6 years of age and on behalf of persons receiving personal care allowance and persons providing personal assistance.

Table 5: Family Support sub-programme – number of beneficiaries

Average monthly number of beneficiaries	2011	2012	2013	2014	2015	2016
Child allowance	697,651	688,344	677,012	666,926	659,401	653,218
Child allowance – number of children	1,176,427	1,155,687	1,134,234	1,113,776	1,100,384	1,089,750
Supplementary child allowance	3,958	3,811	3,075	2,797	2,610	2,292
Parental allowance	141,846	142,274	142,904	143,181	142,391	141,065
Care for dependent child allowance	1,914	1,752	1,808	1,946	1,888	2,914
Childbirth allowance	56,898	56,994	57,709	50,483	51,924	54,811
Supplementary childbirth allowance [1]	51,616	51,400	52,806	10,160	0	0
Allowance in case of multiple birth[1]	131	140	141	139	139	133

[1] Total number of beneficiaries in that year, not average monthly number of beneficiaries   *Source: OLSAF*

More than 40% of spending for compensation of social consequences of serious disabilities is personal care allowance. Seriously disabled persons are entitled to social assistance in form of one-off and recurring contributions for compensation of their health restrictions[3]. In 2016, considering the number of beneficiaries, the average monthly amount of the allowance was EUR 137. In 2016, personal assistance was the most expensive tool in proportion to number of beneficiaries (EUR 382 per month).

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[3] Act No. 447/2008 Coll. on financial contributions for compensation of serious disabilities.

Graph 15: Spending on compensation of social consequences for persons with severe disabilities (EUR mil.)

Legend:
- Cash benefit for caregiving
- Cash benefit for personal assistance
- Cash benefit for compensation of higher expenditures
- Other cash benefits
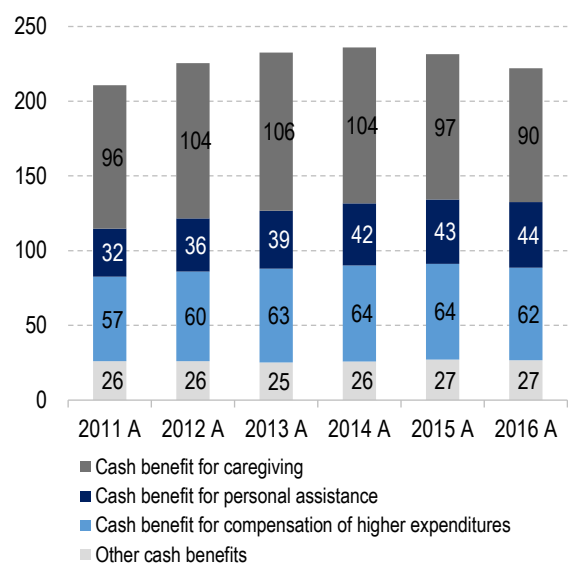
Source: OLSAF

Graph 16: Numbers of beneficiaries of compensation for social consequences of severe health disabilities (th.)

Legend:
- Cash benefit for caregiving
- Cash benefit for personal assistance
- Cash benefit for compensation of higher expenditures
- Other cash benefits
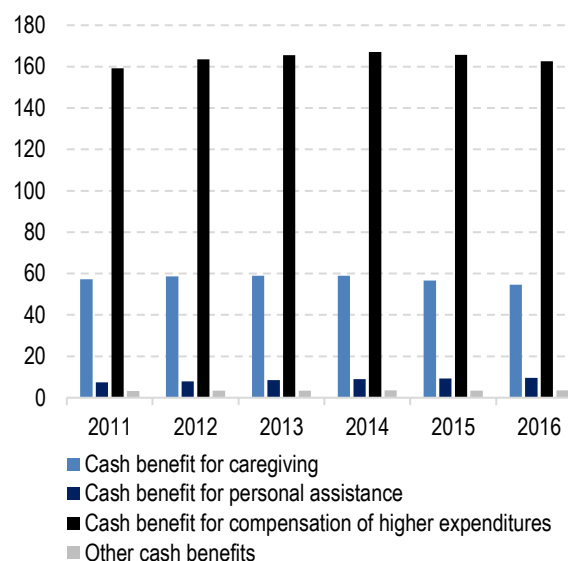
Source: OLSAF

Major portion from total spending (EUR 90 mil.) under the Care for Children at Risk sub-programme is directed to care of children in orphanages, prevailing are state-owned facilities. Number of children in orphanages (around 4 500) is lower than the number of children in substitute care (around 8 000 children). The annual spending on institutional care is EUR 76 mil. The Care for Children at Risk sub-programme does not include expenditure on social and legal protection of children and social guardianship activities carried out by Offices of Labour, Social Affairs and Family (OLSAF) staff, which is also a part of the care for children at risk.

Graph 17: Spending under the Care for Children at Risk sub-programme (EUR mil.)

Legend:
- Prevention and correction
- Institutional care in non-governmental institutions
- Institutional care in governmental foster homes
- Substitute family care
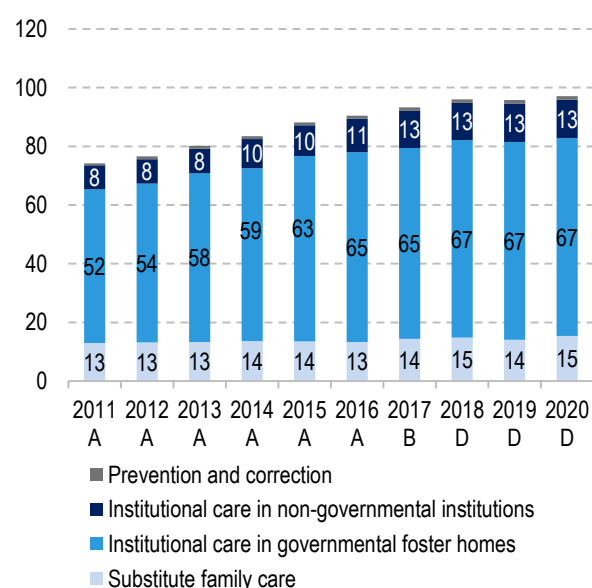
Source: MF SR

Graph 18: Care for Children at Risk sub-programme

Legend:
- Number of children placed at 31 December
- Number of children in substitute family care
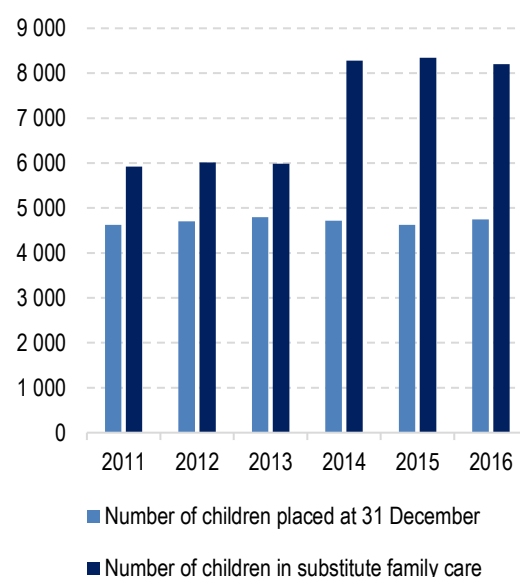
Source: Offices of Labour, Social Affairs and Family

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Operating expenditure

Graph 19: Operating expenditure of MLSAF (EUR mil.)
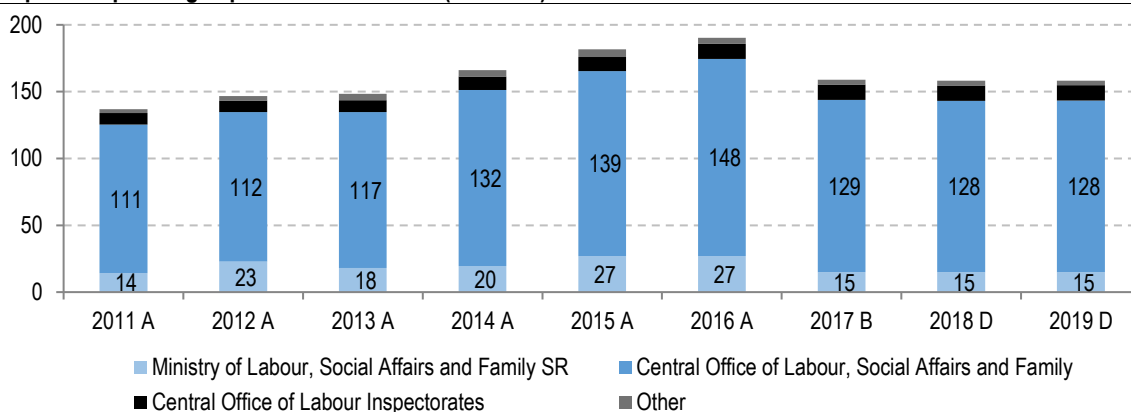
The largest organization of the MLSAF SR is the Central Office of Labour, Social Affairs and Family (COLSAF), as to amount of expenditure and number of employees. The reason is that all OLSAFs which carry out most of the MLSAF SR's scope of activities are organized under the Central Office of Labour, Social Affairs and Family.

2.2 Expenditure of the Social Insurance Agency

The Social Insurance Agency's responsibility is to pay social insurance benefits. In Slovakia, social insurance includes sickness insurance, pension insurance (old-age and disability insurance), accident insurance, guarantee insurance and unemployment contribution.

Graph 20: Expenditure of the social insurance system (EUR mil.)

Source: Annexes to the general government budget
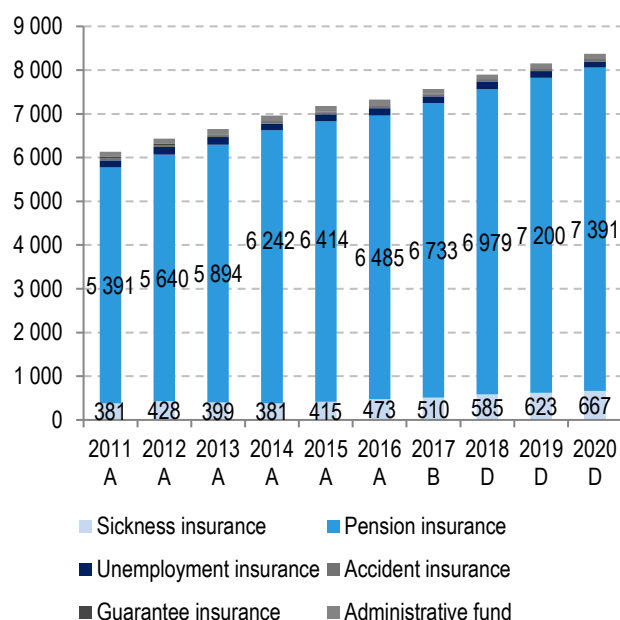
Graph 21: Expenditure by economic classification (excl. transfers) (EUR mil.)
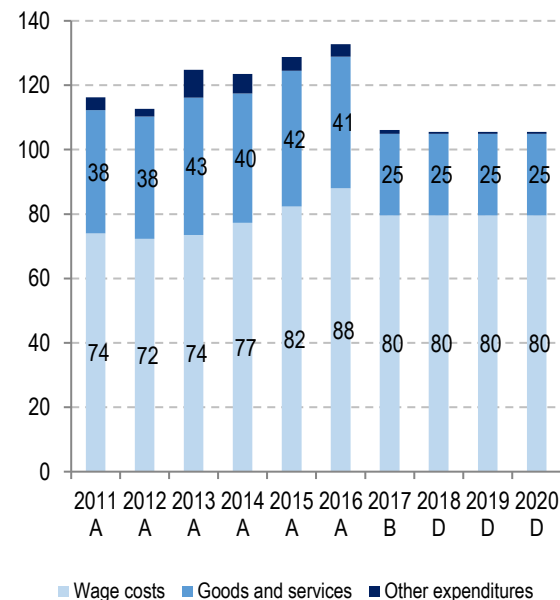
Source: Annexes to the general government budget

The largest expenditure item is the pension insurance. Expenditure on old-age pensions depend mainly on demographic trends. Expenditure of unemployment insurance depend on the phase of the economic cycle. Expenditure from this fund grow with lower economic performance and higher unemployment rates.

Table 6: Numbers of paid benefits, selected social insurance benefits

	2011	2012	2013	2014	2015	2016
Sickness benefits	1,264,517	1,300,650	1,244,753	1,180,550	1,266,403	1,320,032
Home nursing allowance	139,648	128,442	121,001	112,464	128,426	140,942
Maternity allowance	278,554	290,654	286,301	277,588	292,737	315,963
Old-age pensions (separate + cumulated)	957,633	980,863	988,277	1,018,814	1,032,197	1,048,842
Disability pensions (separate + cumulated)	223,182	227,801	231,547	233,009	234,451	235,131
Unemployment benefit	142,865	143,896	137,833	122,198	120,663	123,951
Accident annuity	79,448	79,067	80,379	83,590	84,729	85,059

Source: Report on the Social Situation of the Population of the Slovak Republic

3 Employment services

- **The persistent high rate of long-term unemployment is among the biggest challenges of the Slovak economy. Separate attention needs to be given to employment of low-skilled people, employment of women, labour market mobility and the gap between the labour market and the existing skills. The cross-cutting theme of employment of marginalized Roma communities will be addressed in a separate spending review.**
- **Expenditure on ALMPs rank among the lowest in OECD countries, and the 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 shows to be the most effective.**
- **Better targeting of ALMPs could increase the number of unemployed candidates successfully placed in the labour market by nearly one half.**
- **Extension of the scope of job-seekers' background information obtained at registration, together with labour market history information for each jobseeker facilitate selection of proper ALMPs for each jobseeker.**

3.1 Labour market priorities

In 2016, 54 thousand new jobs were created[4], it is the second most successful year in Slovakia's history. Despite the recent positive trends, the labour market remains, in long-term perspective, the key challenge of the Slovak economy. In 4Q 2016, total unemployment rate, net of seasonal effects, dropped to 9%, which is the best value since 4Q 2008. Anyway, it is still considerably higher than the V3 average.

The increase in number of economically active population, when the numerous populations born during 70s and 80s joined the labour market, contributed to increase in the unemployment rate. While until 2005 the number of persons joining the labour force was nearly double the number of those who were leaving, since 2013[5] the number of people leaving the working age population exceeds the number of those who reach the working age. In consequence of this trend, to fill the existing vacancies, it will be necessary to find, on average, 15 000 employees each year between 2017 - 2025, which is more than 0.5% of the existing labour supply (Lubyová & Štefánik, 2016). This trend is expected to partly contribute to reduction of unemployment; however, it can largely mean a lack of labour forces needed for the economy. Involvement of less active population groups in the labour market can mitigate the population trend of decreasing labour supply.

Graph 22: Quarterly trends in the unemployment rate by labour force survey (LFS) (%, net of seasonal effects)
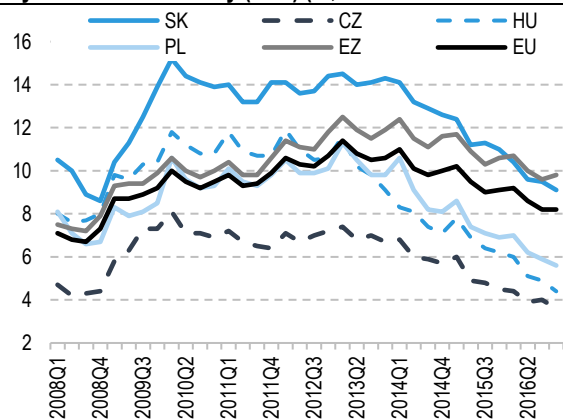
Source: Eurostat, Statistical Office SR

Graph 23: Long-term unemployment (in %, 2015, 2016)
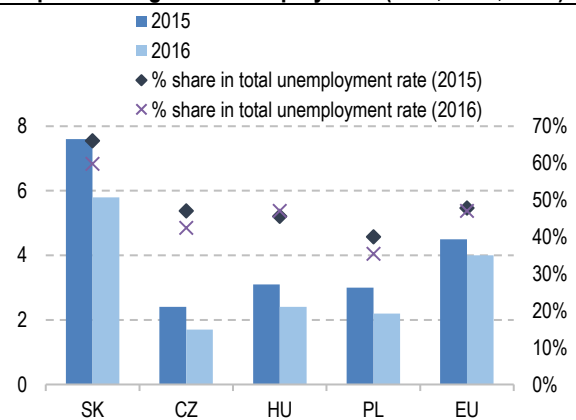
Source: Eurostat, Statistical Office SR

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[4] In accordance with the national accounts concept (ESA).
[5] Considering proportion of 20/60-year-olds.

In 3Q 2016, the share of the long-term unemployed in total number of the unemployed dropped in year-on-year comparison from 67% to 59%, however, it remains to be one of the highest values in EU countries. Long-term unemployment is also linked to skills of the unemployed. More than a half of low-skilled job seekers do not find a job earlier than in a year and every third of them is unable to find a job within two years. Lack of skills is a serious obstacle for Roma population in the labour market, as 77% of the unemployed Roma persons are low-skilled (UNDP-WB-EC, 2011).

Table 7: Expenditure on job seekers by duration of unemployment (2013)

Duration of unemployment	Number of job seekers	% JS receiving unemployment benefit	% JS receiving social assistance benefit	Expenditure per JS (passive policies)		Expenditure on passive policies per 1 JS (EUR)	Expenditure on active policies per 1 JS (EUR)
				yearly	Total for whole duration of unemployment		
		(% share)	(% share)	(EUR mil.)	(EUR mil.)	(yearly / cumulative)	(yearly)
below 6 mths	133,998	28%	12%	217.5	72.5	1,623 / 541	
6 mths-1 year	66,612	-	23%	47.4	35.6	712 / 534	
1 - 2 years	77,602	-	32%	68.4	102.6	881 / 1 322	
2 - 3 years	43,027	-	37%	43.5	108.8	1,011 / 2 529	
3+ years	79,931	-	49%	110.1	587.2	1,377 / 7 346	
Total	401,170	9%	28%	487.0	906.7	1,214 / 2 260	318

Source: IFP, 2016

Average direct expenditure per job seeker are around EUR 1 200 yearly, before expenditure on ALMPs. The largest spending refers to job seekers kept in the register of the unemployed for less than 6 months, also considering the fact that most of them are entitled to receiving an unemployment benefit. When a person is registered as unemployed for longer than 6 months, direct expenditure significantly decrease and then start growing again as it is highly probable that the job seeker becomes materially deprived and entitled to receiving a social assistance benefit in material and social deprivation. Long-term unemployment has also other adverse effects on individuals (mental, health, competence) and the society (criminality, social trap). Moreover, spread of long-term unemployment means impaired employability of population groups in a situation of an urgent lack of labour forces.

Graph 24: Relationship between unemployment rate and number of vacancies over time (Beveridge curve)
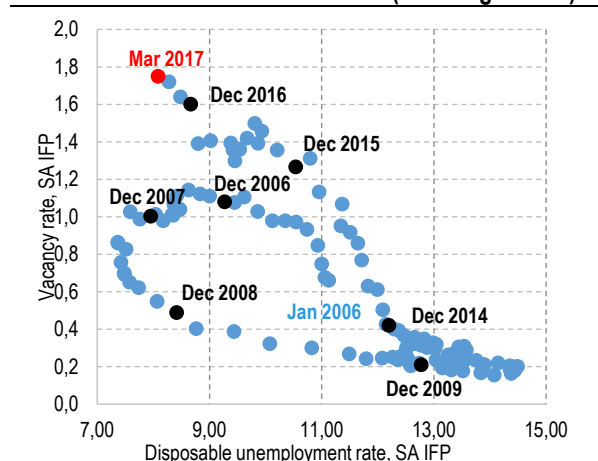
Source: IFP based on data from PES offices

Graph 25: Relationship between unemployment rate and number of vacancies by regions (March 2017)

Source: IFP based on data from PES offices

In the near future, lack of skilled labour force may become a new challenge in the labour market in all regions and sectors. With unemployment rates close to all-time lowest levels, certain regions and sectors may expect problems with finding skilled labour forces for corporations and pressure on a faster growth of wages. Numbers of vacancies registered by public employment services are all-time highest levels with decreasing unemployment rates. The highest job vacancies rate is reported by public employment services in regions with the

lowest unemployment rates. In the recent business survey, all-time highest number of employers responded that lack of labour force is a limiting factor for the manufacturing sector (SO SR, 2017).

Graph 26: Low-skilled labour force on the labour market (%, 2016)
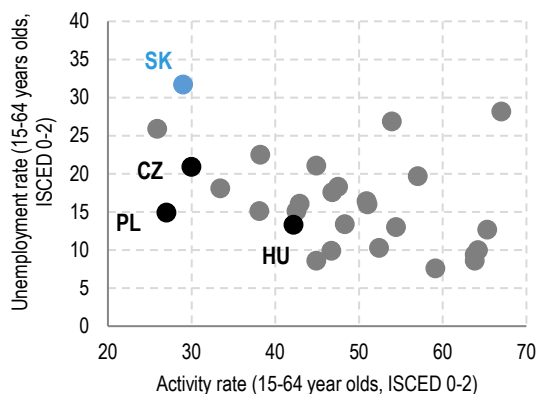
Source: Eurostat, Statistical Office SR

Graph 27: Employment rate of women by age groups (%, 2016)
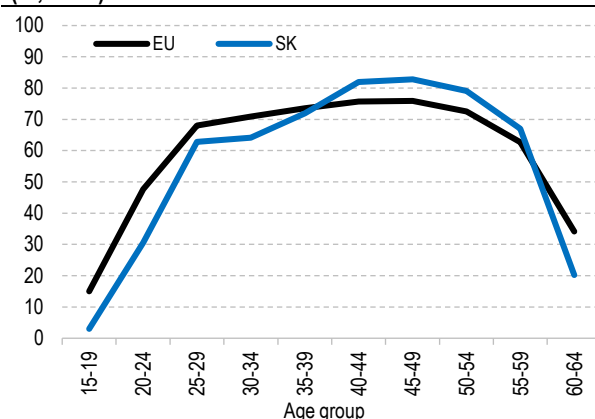
Source: Eurostat, Statistical Office SR

Low employment rate of mothers with children is one of the challenges faced by the Slovak labour market. The largest differences in employment of women compared to EU average are in young age groups owing to study or care of children. The remaining part of the population, employment rate of women in Slovakia is equal or even higher than EU average (excluding 60-64-year olds, owing to lower retirement age and more frequent retirement).

Low participation of Roma population in the labour market. Pursuant to a specific survey (UNDP, 2011) activity rate in 15-64 -year old Roma population was 48%, while activity rate of non-Roma population in the same location was 56%. Majority of active Roma population (70%) are unemployed. The survey concludes that low participation in the labour market is the reason why as many as 87% of Roma population live in relative poverty[6]. Another factor related with unemployment is lack of skills, as 77% of the unemployed Roma population lack any skills, which is the largest percentage among countries where the Roma survey was performed. Besides that, the Roma unemployed face additional obstacles compared to the majority population in the labour market. The Roma also face discrimination from employers (IFP, 2014). The present anti-discrimination laws do not enable to obtain detailed data about Roma population and thus it is difficult to measure and setup any policies.

Graph 28: Activity rates and unemployment rates of Roma and non-Roma population (%)
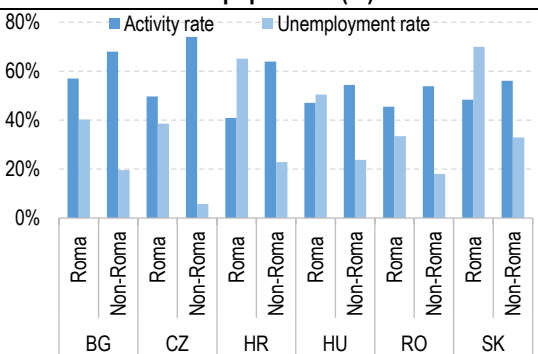
Source: UNDP-WB-European Commission regional Roma survey 2011

Graph 29: Skill levels of the unemployed Roma and non-Roma population (%)
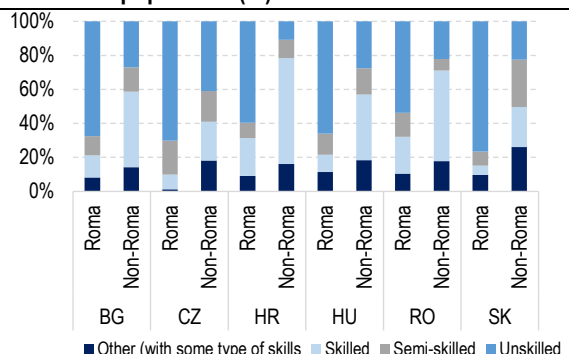
Source: UNDP-WB-European Commission regional Roma survey 2011

The cross-cutting theme of employment of marginalized Roma communities will be addressed in a separate spending review.

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[6] Relative poverty refers to disposable income lower than equivalent to 60% of the median disposable income.

3.2   Active Labour Market Policies

Slovakia's spending on active labour market policies (ALMP) is relatively lower than in most EU countries and effectiveness and efficiency of certain tools is lower compared to experience from other EU countries. Our trainings for the unemployed are ineffective for increasing the employment rate (Office of the Government, 2015). On the other hand, meta-analysis of more than 200 studies from the EU and the USA (Card et al., 2015) shown effectiveness of trainings. Increasing the expenditure on ALMP to the level of EU or V3 average would mean spending EUR 217 - 234 mil. in addition to the present spending of EUR 155.5 mil. (EC, 2015a). A substantial share in ALMPs financing is covered from EU funds. A considerably better outcomes for the existing labour market expenditure envelope can be achieved by more effective and efficient setup of the programmes.

Graph 30: Expenditure on ALMP by tools (% GDP)
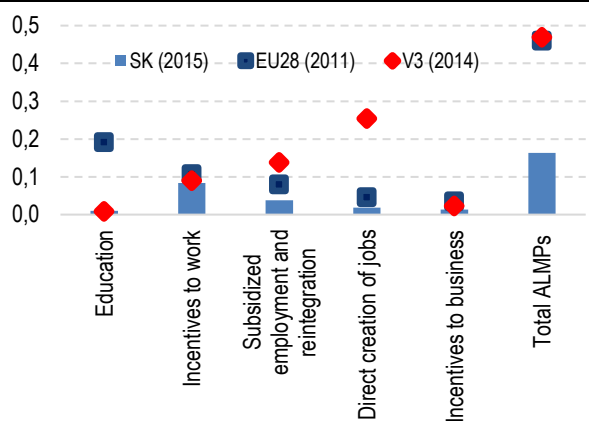
Source: VfM Unit, Eurostat

Graph 31: Expenditure on ALMPs (2015)
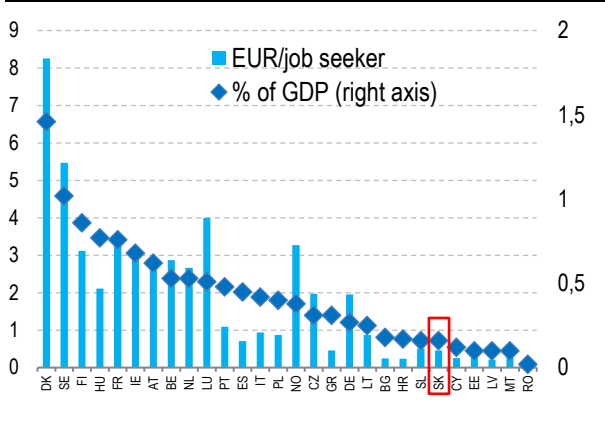
Source: Eurostat

The share of long-term unemployed in the register of job seekers (JS) during the post-crisis period has increased by more than 10 p.p. The growth was driven mainly by accumulation of long-term unemployed job seekers. New job seekers entered in the register kept by employment services offices (PES) are mostly registered as unemployed for less than 6 months (approximately 50% of new job seekers), or less than 12 months (approximately 75% of new job seekers).

Graph 32: Breakdown of job seekers by length of registration as unemployed – Balance
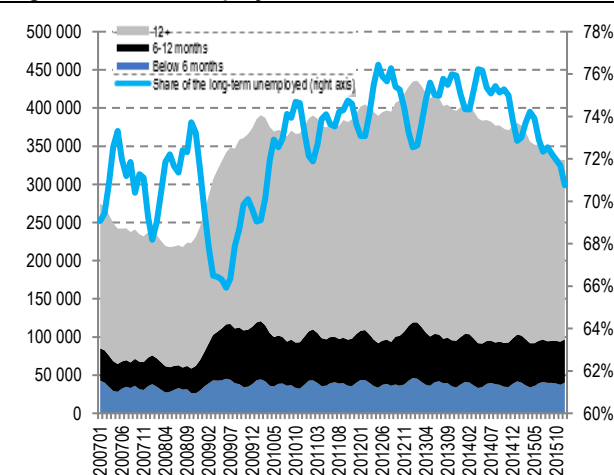
Source: VfM Unit, Public Employment Services

Graph 33: Inflow of job seekers by length of registration as unemployed
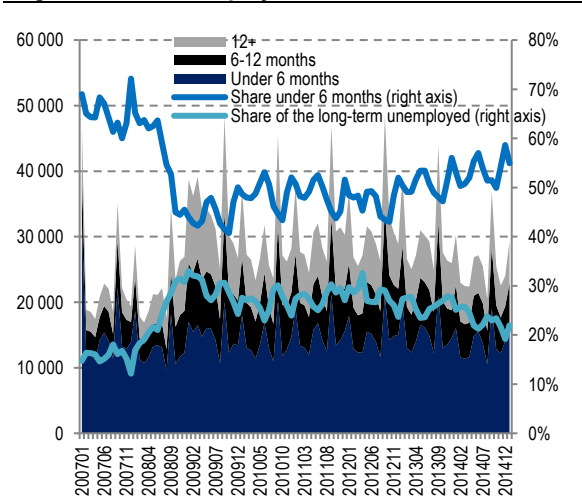
Source: VfM Unit, Public Employment Services

Structure of spending on ALMPs tools

In allocation of funds for financing ALMPs tools, prevailing are tools supporting the demand side of the labour market, i.e. incentives to work (§50J, §50, §54 NP XX), including incentives to work for people below 29 years of age (§54 NP XXI). The share of expenditure on this type of ALMPs in total ALMPs spending remains high, although it is more than double the EU average. On the other hand, empiric studies show that this type of tools brings a stronger, however just short-term, effect on employment of job seekers (Štefánik et al., 2014; Card et al., 2015). Owing to high costs needed for this support, the rate of return of these measures is rather low[7].

The necessity of ALMPs encouraging demand for work is falling. In consequence of the recent demographic trends and further economic growth, the labour market is expected to be less stressed by lack of vacancies. According to the forecast prepared by the MF SR, 116 thousand jobs[8] will be created by 2020. The expected future development has also implications on the structure of ALMPs tools provide by PES offices.

Slovakia, compared to EU countries (with over 40% share) spends considerably less on the demand-side (education and training) programs, which in 2015 accounted for only 7.7% of all expenditure on ALMPs tools[9]. The share of supported persons attending education and training programs was 12.8% of all supported persons[10].

Table 8: Comparison of costs and efficiency of ALMPs tools used in 2015 (excl. policies for persons with severe health disabilities)

ALMP tool	Share in total spending on ALMP in 2015	Average costs per supported job seeker	Average agreed costs per net employed[11]	Effectiveness of the policy in p.p. of the unemployment rate	Payback period of the support with participant's earning equal to min. wage[12]	Average period of unemployment	Share of long-term unemployed
	(%)	(EUR)	(EUR)	(p.p.)	(years)	(days)	(%)
§50J*	12.63	2,512	29,330	8.6	19	287	37.65
§54 NPXXI*	36.52[13]	4,171	12,485	33.5	8	183	9.6
§54 NP XX*		2,214	9,158	14.2	6	183	11.5[14]
§49*	10.14	3,506	8,247	42.5	5	280	22.26
§52a*	10.82	1,010	6,982	14.5	4	265	85.53
§51*	4.65	584	5,369	10.9	3	148	70.52
§53a	0.07	1,321	18,093	7.3	11	204	14.29
§53	1.18	194	2,520	7.7[15]	2	230	21.05
§52*	3.57	148	NA	NA	NA	847	99.95
§50	8.30	2,329	NA	NA	NA	296	37.43
§46+NP RE-PAS	7.73	406	8,284	4.9[16]	5	366	87.45
§51A	4.38	1,265	NA	NA	NA	241	14.78

Source: VfM Unit, PES offices, IFP (2016), Office of the Government (2015), Štefánik a Karasová (2016)
*Note: * Average costs (columns 3 and 4) for period 1.1.2013-30.6.2014, pursuant to IFP (2016)*

International experience suggests that education and training programmes and active job search and career guidance are the most effective tools for reduction of unemployment (OECD, 2005; Lehmann & Kluve, 2008; OECD, 2015). Effects of active job search and career guidance and policies and the related sanction and

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[7] Specifically, the payback period for Contribution to support development of local and regional employment (§50J) is as song as 19 years worked by the placed job seeker.

[8] According to the macroeconomic forecast of the MF SR dated February 2017, employment (under VZPS methodology) will grow from 2.491 million of persons employed in 2016 to 2.608 million in 2020.

[9] Excluding employment services, calculated from LMP Database-Eurostat LMP 2-7 and excluding policies intended for seriously disabled persons.

[10] Education provided under §46 including pilot RE-PAS retraining courses.

[11] Average agreed costs per net employed person are average agreed costs for the support period divided by net effectiveness of the tool, i.e. the difference in the participant's chance to be employed vs the control group of job seekers.

[12] Benefits in case of taxes and contributions from minimum wages in 2015.

[13] Total for all NPs under §54.

[14] Based on participation in 2014.

[15] Estimate for §53 and §53a for period 03/2009-04/2013, according to Štefánik a Karasová (2016).

[16] Estimate for §46 for period 01/2007-04/2008, according to KPMG Slovensko (2015).

incentive models become visible mainly in short-time horizon (within one year). Educational and training programmes are particularly effective in a mid-term or long-term horizon (after two years) with relatively higher effects on long-term unemployed (Card et al., 2015). From the perspective of increasing the chance to find a job, short-term support in form of 'graduate practice' scheme (available for the young below 26 years of age) and volunteering also seem to be a success.

Box 2: Designation of measures under the Act on Employment Services (as of 14. 12. 2015)

§46 - Education and training for job seekers to enter the labour market

§49 - Contribution to self-employment

§50 - Contribution to employment of disadvantaged job seekers

§50j - Contribution to support development of local and regional employment

§51 - Contribution to graduate practice

§51a - Contribution to support creation of jobs, preferentially for the first regularly paid employment

§52 - Contribution to support activation activities, such as training or small community work for the municipality of the self-governing region

§52a - Contribution to support activation activities in form of volunteering

§53 – Commutation allowance

§53a – Relocation allowance

§54 NP XXI – Support to creation of jobs in the private sector (the young below 29 years of age)

§54 NP XX - Support to employment of the unemployed in local government (mainly the young below 29 years of age)

§54 NP RE-PAS – Retraining as an opportunity for cooperation between job seekers, public employment services and educational institutions.

Box 3: Potential changes in the "Contribution to support activation activities..." §52

Considering the present condition of the labour market, it is necessary that the ALMPs portfolio is extended to include more effective tools focused on activation of the long-term unemployed. One of the possibilities is to improve the existing contribution to support activation activities in form of small community work for the municipality of the self-governing region (granted under §52). This tool has not been used as an across-the-board active labour market policy; however, it has been implemented in selected regions with positive effect on employment of participants.

This policy has been implemented in cooperation with municipalities. Sharing good experience from this scheme and encouraging broader support to this scheme under small pilot "municipal" projects could increase effectiveness of this support. Evaluation of the pilot projects would then show the way to better setup of this policy. Further enhancement of this support to include a training/education component provided either through mentors at the workplace or in form of a more detailed guidance could considerably increase effectiveness of this policy (Mýtna–Kureková, et al. 2013).

When comparing costs and benefits, spatial mobility support is even more profitable than training programmes (Caliendo et.al, 2015)[17]. From the public finance perspective, the payback period of the Commutation allowance is the shortest from among all ALMPs. Compared to all OECD countries, Slovakia is the country with the lowest intra-state migration (OECD, 2016a), therefore there is a considerable opportunity for increasing the mobility. This type of support, however, can only be applied in a specific context, preferably for job seekers with shorter period of registration among the unemployed[18].

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[17] In case of Commutation allowance (§53) positive effects were also confirmed in Slovakia (Štefánik & Karasová, 2016), as the findings show that beneficiaries of the Commutation allowance (§53) travel longer distances to earn much more compared to working within their regions.

[18] The prerequisite to using this tool for job seekers is the existence of a suitable job in other, relatively close region.

Broader scope of job seekers' background information obtained at registration, in combination with prior unemployment and employment records, can facilitate selection of proper ALMPs for each jobseeker. Based on information available right after registration, ALMPs can be targeted to the job seeker to maximise the effects. Around half of the registered job seekers are deregistered within 6 months. During the first six months, measures offered to this type of job seekers should only support spatial mobility. More intense forms of assistance, focused on increasing employability and retraining can be focused on job seekers who, based on their profiles, are expected to be unemployed for longer than 6 months. Thus, these intense ALMPs will be better available to more difficult cases of unemployment persons, who are more in need of such support. Thus, individual tools can be applied while the job seeker is registered as being unemployed, and gradually more intense and more expensive tools can be applied on hard-to place job seekers.

Table 9: Draft model combining ALMPs tools for job seekers excluding persons with severe health disabilities

Group	Duration of registration	Share in total inflow %	ALMPs tools first offered	Potentially available ALMPs tools
A	Less than 6 months	50	At registration	§53, §53A
B	6 - 12 months	25	At registration	§53, §53A §51, §52A, NP-REPAS
			From beginning of 7th month	§46 §49 §51A
C	More than 12 months	25	At registration	§53, §53A §46 §51, §52, §52A,
			From beginning of 13th month	§50, §50J, NP – subsidised employment

Source: VfM Unit

Box 4: Statistical model profiling at registration of job seekers

The probability model[19] using these attributes which are already visible at registration, can identify more than 85% of job seekers who are able to leave the database in less than 6 months. These cases are identified as group A. The same attributes can be considered in another, equally accurate, probability model identifying seekers who remain in the database for longer than 12 months – the C group. The B group includes job seekers who remain in the database for longer than 6 months and less than 12 months, including cases when it is impossible to clearly classify the job seeker based on the facts known at registration.

Better targeting of ALMPs could increase the number of unemployed candidates successfully placed in the labour market by nearly one half. During 2015, every tenth job seeker participated in some of the ALMPs. Pursuant to IFP (2016), effective application of ALMP tools would enable placing more than 15 thousand job seekers in jobs thanks to activation through the tools. If equal amount of funds is allocated only to the three most effective tools, availability of ALMPs tools would grow from 10% to 21% and thanks to activation, the number of job seekers placed in jobs would grow by 46% to 22 409. Assuming average costs per unemployed person in the amount of EUR 1,214 additional placement of job seekers would save approximately EUR 8.6 mil. yearly. Profiling job seekers and provision of active labour-market policies by identified characteristics will increase success rate of placing job seekers in the labour market. Profiling, and/or analysis of the job seekers' potential is the subject matter of the national project carried out under the authority of MLSAF SR. Implementation of the project may face difficulties resulting from regional differences and voluntary participation.

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[19] Benefits and limitations of statistical models in profiling the registered jobseekers – discussed by Konle-Seidl (2011).

Graph 34: Effects of more effective allocation of ALMP financing

Bar chart data:

- Share of placements in total number of registered job seekers: Model of the three most effective measures 2%, Model 2015 1%
- Share of placed job seekers: Model of the three most effective measures 10%, Model 2015 14%
- Availability of ALMPs for the long-term unemployed: Model of the three most effective measures 19%, Model 2015 12%
- Availability of ALMPs: Model of the three most effective measures 21%, Model 2015 10%

X-axis: 0,00 — 0,05 — 0,10 — 0,15 — 0,20 — 0,25

Legend: ■ Model of the three most effective measures ■ Model 2015

Source: VfM Unit

Ongoing evaluation of effectiveness of each ALMPs will ensure that financial funds and resources are invested in the most effective labour market policies. Better utilisation of effective tools will increase the percentage of job seekers placed in the labour market. Evaluation of ALMPs under similar methodology shall be set up also for persons with severe health disabilities. Effectiveness of active labour market policies can be increased by implementation of two national projects focused on supporting individualized consulting. Implementation of these projects will increase number of consultants at public employment services and individual job search and career guidance services.

Upon transfer of funds to new forms of active policies, in the first year, it is advisable to evaluate the effectiveness on a pilot group of job seekers (e.g. within one district). The programme would be extended to all job seekers only after effectiveness thereof is proven. The existing forms of active policies shall be tested every year for effectiveness and, based on results of the test, adjustments shall be made to the portfolio of offered programmes. The evaluation methodology applied to selected policies was used in the Public Employment Services Effectiveness Analysis (IFP, 2016). Regular evaluation of effectiveness will be the responsibility of the MLSAF SR (Institute for Social Policy) and employment services offices.

Results of the first evaluation of effectiveness of employment services offices in the study named "*Veľa práce na úradoch práce*" (IFP, 2016) can be used for reallocation of PES resources. The quality of provided consulting services can be improved by increasing capacities in districts with higher unemployment rates. The following comparison of processes between PES offices, followed by improving effectiveness of the performed activities, consulting services and, consequently, this is expected to increase the percentage of job seekers placed on the labour market.

Box 5: Challenges faced by performance management at Offices of Labour, Social Affairs and Family

Analysis of operation of Offices of Labour, Social Affairs and Family (IFP, 2016) showed that there are considerable differences between PES offices in effectiveness of employment services, even after considering regional conditions on the labour market. Success rate upon job seekers' placement is negatively affected by higher workload of employment services employees and longer period of unemployment. Comparison of effectiveness between employment services offices shows that better placement of the unemployed could find jobs for 2 100 - 5 700 job seekers and save every year EUR 2.5 - 7 mil. in public spending. Therefore, the challenge for the Central Office of Labour, Social Affairs and Family is to intensify provision of professional consulting services, which would be reflected through increasing the number of placements, mainly in regions with high percentage of the long-term unemployed. One of the ways to intensify the services is to create a motivating environment through application of performance management elements. Additionally, there are hardly explainable differences between individual PES offices in effectiveness of certain ALMPs. Statistical evaluation of results achieved by participants in individual ALMPs shows that the chance to find a job may be increased through participation in an ALMP organised by public employment services (PES) office within one region, while participation in the same ALMP in a region falling under competence of other PES office decreases the chance. One of the factors that may have a negative impact on effectiveness of placing job seekers on the labour market is an improper mix of ALMPs (e.g. when PES office prefers activation activities which are ineffective).

Another challenge faced by the Central Office of Labour, Social Affairs and Family is to unify the existing implementation procedures and control thereof within PES office's regions.

4   Social inclusion

Social inclusion is focused on mitigation of social consequences of loss of income, unemployment, diseases, disabilities or old age. Social inclusion also includes family and parentship support.

The purpose of social inclusion is to prevent and to mitigate consequences of social exclusion. Loss of income, unemployment, diseases, disabilities or old age can result in social exclusion. Social inclusion, not only through financial transfers, mitigates social exclusion.

Slovakia is doing well in reducing both at-risk-of-poverty rate and severe material deprivation rate. The share of population below the at-risk-of-poverty level keeps decreasing and it is lower than the EU average. On the other hand, however, and despite the reduction, there is still a relatively large percentage of Slovak population facing a severe material deprivation. The percentage is higher than the EU average.

Graph 35: At-risk-of-poverty rate
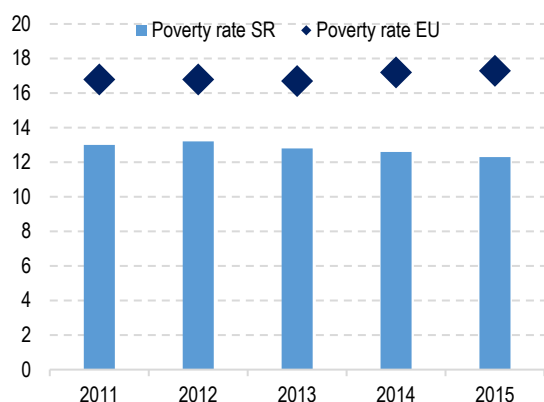
Note: Data available only until 2015   *Source: Eurostat*

Graph 36: Severe material deprivation rate
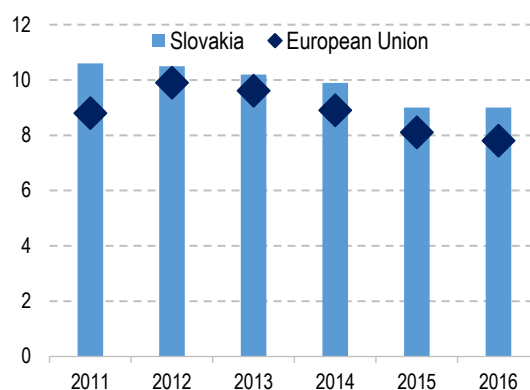
Note: 2016 data are preliminary   *Source: Eurostat*

Another indicators of social position include the income inequality rate and the property gap. In Slovakia, income inequality measured by Gini coefficient (see Box 6), **is lower than in other EU countries.** From long-term perspective, Slovakia ranks among countries with high income inequality rate. Income inequality rate is largely influenced by social insurance transfers (including pensions), support and assistance (IFP, 2015).

Graph 37: Gini coefficient (2016)
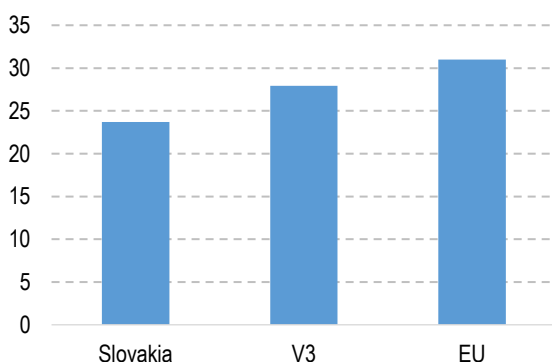
Source: Eurostat – SILC

Note: Data from SILC do not represent total Roma population. When updating the sampling frame, the statistical survey used the information about reduction or increase in number of (newly built and brought into use) permanently occupied houses and apartments in regions in 2014. EU data for 2015.

Graph 38: Poverty gap in Slovakia
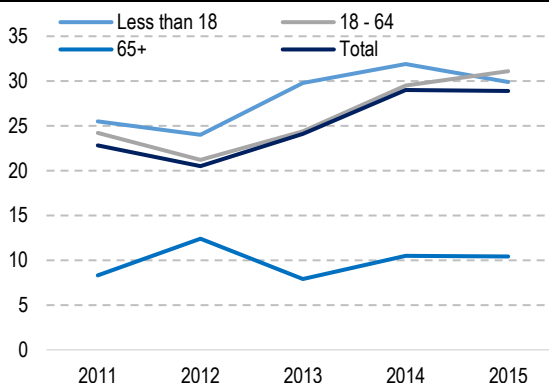
Source: Eurostat - SILC

Note: Poverty threshold defined as 60 % of median income.

Total poverty gap stagnates, while the poverty gap of the active population if growing. Only the share of persons older than 65 is lower than the EU average. The poverty gap expresses how intense poverty is (see Box 6). Poverty gap for total population stagnates, however, since 2012, it keeps growing for persons in active age. In 2015, Slovakia succeeded in narrowing the poverty gap for underage persons. In nearly all age groups, poverty gap exceeds the EU average, only for persons older than 65, the poverty gap is lower.

Box 6: Methodology of the Gini coefficient, poverty gap and severe material deprivation

Gini coefficient expresses the income inequality rate. Income inequality rate is defined as the difference between the Lorenz curve (distribution of income in a society) and the equality line. The higher is the value of Gini coefficient, the higher is the income inequality in the society, and zero value would mean perfect equality.

Gini coefficient can be interpreted in various way, the key difference is in reflecting transfers. Subject to comparison may be net income before transfers, or income after transfers. Evaluation of different values of Gini coefficient can be used to determine the effect of transfers on income inequality rate in the country.

Poverty gap[20] expresses intensity of poverty. The value of poverty gap is determined as a difference between median equivalent disposable income of persons below the at-risk-of poverty threshold and the poverty threshold. It is expressed as the poverty threshold percentage.

Interpretation of poverty gap should reflect several factors. The ratio does not show distribution of poverty among the population facing the risk of poverty. The calculation only includes values of median income of persons whose income is below poverty threshold. The difference in the poverty rate is expressed as a percentage, to enable international comparison. The percentage reflects the amount of income that needs to be added to reach the poverty threshold, expressed as a percentage of the threshold.

Severe material deprivation rate expresses the percentage of persons which cannot afford at least four of nine specific items (e.g. to eat meat or proteins regularly, to keep their home adequately warm, a telephone, etc.). In every country, subject to examination is the possibility of buying the same assets, therefore it is the absolute poverty indicator.

4.1   Social security

- **In 2016, spending on unemployment benefits amounted to EUR 172 mil., social assistance benefit EUR 203 mil. and child allowance EUR 313 mil.**
- **The conditions for entitlement to unemployment benefit in Slovakia are among the strictest in OECD countries. The support period is shorter, the rate of compensation is around the average.**
- **Low-income employees are** those most affected **by decline in income after the losing their job.**
- **Social assistance benefit represents a safety net for situations when the income of a household drops below the subsistence level. Slovak system of social assistance benefit 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 in the labour market, especially to find a job.**
- **The most frequent beneficiaries of social assistance benefit are households of childless individuals. Families with more than five children represent 3.9 % of households that are beneficiaries of social assistance benefit.**
- **The most frequent beneficiaries of child allowances are one-child families. Families with at least four children account for 3.3% of beneficiaries and receive 9.5% of the total expenditure envelope**
- **The ratio of social assistance benefit and the subsistence level vary 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**
- **Persons in material need can improve their financial situation through obtaining the activation benefit. Besides financial income, the purpose of activation benefit is to maintain basic working habits.**

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[20] The Poverty Gap indicator is frequently referred to as the "relative median at-risk-of-poverty gap".

However, the benefit does not result in real activation and employment of the beneficiaries is not improved.

- Activation benefit is a part of social assistance benefit. The purpose of the benefit is to increase employability of the beneficiaries through obtaining, deepening or improving their knowledge, professional skills, practical experience and working habits, most frequently through small community work for the municipality of the self-governing region.

- 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.

Social security system in the Slovak Republic is comprised of three parts: Social insurance protects population in various life situations (e.g. maternity, inability to work, loss of job) through insurance, which is created from contributions made from prior economic activity. **Social assistance** is a system of assistance from the state in various social situations, such as material need, serious health disability, etc. The key objectives are to prevent material deprivation and long-term marginalization (mainly through integration to labour market). The state provides **social support** as a contribution aimed to cover expenses associated with certain life situations acknowledged for this purpose by the state (e.g. giving birth to a child, care of a child). Entitlement to public social benefits is not conditioned by payment of contributions or by income of the entitled persons[21].

Participation in the social security system, as viewed by a person who lost his job, was without any income for a longer time and then again found a job is analysed below. Three life situations - transfer to unemployment, duration of unemployment with dependence on the social assistance and support system and comeback to employment – are arranged in a logical time sequence.

Transfer to unemployment benefits

The criteria for entitlement to an unemployment benefit In Slovakia after losing a job are among the strictest from in OECD countries. To become entitled to an unemployment benefit, the person must participate in the unemployment insurance system for at least two years from the past three years. The period of support is six months, which is on the short side among OECD countries. The amount of the benefit does not change over the six months.

Graph 39: Percentage of wage replacement (2015) and duration of employment benefit (in months; 2015)
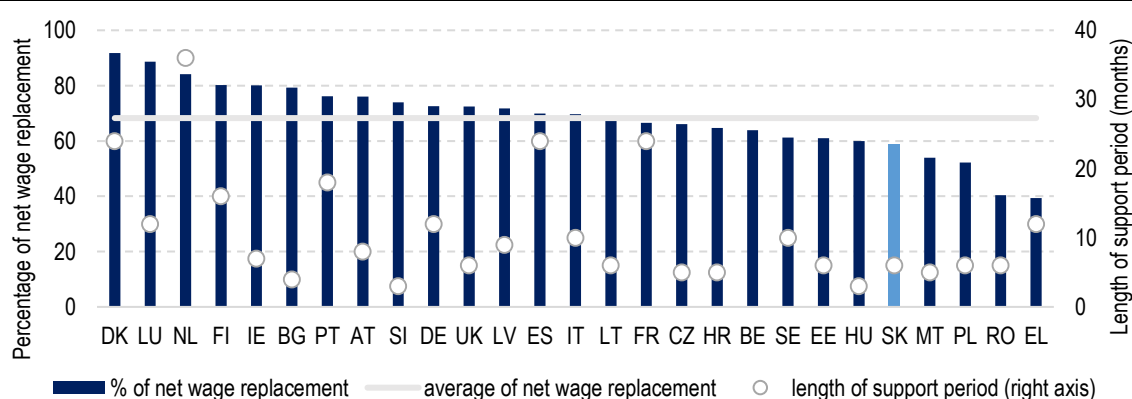
Note: Percentage of net wage replacement refers to a couple with two children and income from employment at the level of average wage. The duration of the support period in each country was stated for persons who have been insured for unemployment for 2 years.

Source: OECD, MISSOC

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[21] According the EURES (EURopean Employment Services) portal, part Living and working conditions in EU/EEA.

Low-income households are considerable affected by relative drop of income after losing a job. For a childless individual, the decline in disposable income after losing a job with minimum wage amounts to 45%, when losing a job paid at 1.5 multiple of minimum wage, the decline is just 35%. If both persons in a two-earner couple with two children lose their jobs, the difference is lower, although still considerable (44% for minimum wage, 39% for 1.5 multiple of minimum wage). An individual with two children will not be worse off as a result of decline in the initial income unless the amount falls below the minimum wage level. Then with losing a job, such person becomes entitled to social assistance benefit. Total decline in disposable income is derived from prior income and tax and contribution reliefs. For some households, transition to unemployment is also associated with social assistance benefit.

Graph 40: Decline of disposable income upon loss of job (2016)

Gross income as a percentage of average wage
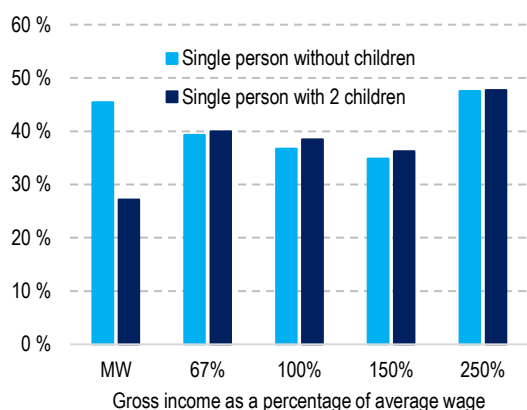
Source: VfM Unit

Graph 41: Decline of disposable income upon loss of job (2016)
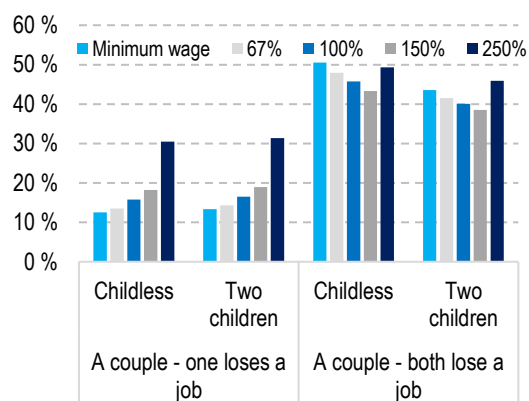
Note.: One in the couple has income equal to average wage.

Source: VfM Unit

An unemployed person may be provided with social assistance, however as unemployment benefit is paid after loss of job, entitlement to social assistance benefit usually starts after six months. While out of employment, the person can increase his income through participation in active labour market policies or through temporary job contracts (work by agreement) not establishing employment. Since 1 May 2017, an unemployed person can have income from working by agreement up to the amount of minimum subsistence in duration 40 days in a year[22]. This limitation has been established to combat undeclared work, when an unemployed person declared a part of his income as earned from work by agreement and the other, undeclared, part of wage was paid cash. In 2013, 7% employees in the Slovak Republic had an experience with undeclared income[23].

Social assistance benefit is comprised of five components (social assistance benefit, housing benefit and allowance for a dependent child, activation and protection benefit). Although activation benefit is a part of this assistance scheme, models intentionally show it separately. Unlike other components of social assistance benefit, activation benefit pursues an additional goal: increase employability of beneficiaries on the labour market through obtaining, deepening or improving their knowledge, professional skills, practical experience and working habits, most usually through small community work for the municipality of the self-governing region. Activation benefit is used only 42% of beneficiaries of social assistance benefit. The Roma most likely account for considerable share in all participants of activation works (Mýtna-Kureková et al., 2013), which, so far, could not be reflected in measuring net effectiveness of the activation tools. Evaluation of the outcome of activation works is a topic worth a separate comprehensive analysis.

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[22] Amendment to Act No. 5/2004 Coll. on employment services.
[23] Results from Eurobarometer *Undeclared Work in the European Union* 2007 and 2013 (the second one was published 2014).

Graph 42: Trends in income[24] of an individual with children[25] after losing a job with minimum wage
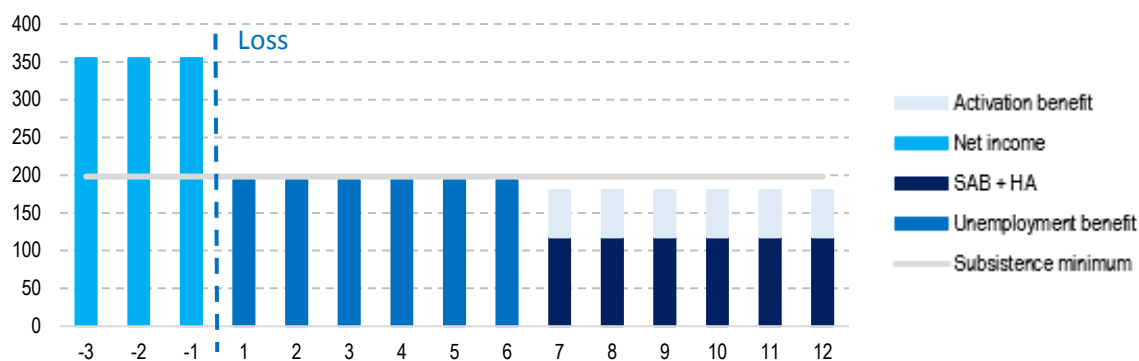
Note: SAB – social assistance benefit, HA – housing allowance   Source: VfM Unit

Social assistance and support

International comparison of the protection from poverty system ranks Slovakia approximately in the middle among less generous countries, considering the amount of minimum income benefits. The guaranteed minimum income system protects citizens from full loss of income. In Slovakia it is equivalent to social assistance benefit. The income guaranteed by CEE countries to their childless citizens is 14–30% of the median income and 20–40% of the median income for households with children. In the Czech Republic, the income is slightly higher.

Graph 43: Net income received by beneficiary of minimum income benefits, as % of median income, childless individual, 2015
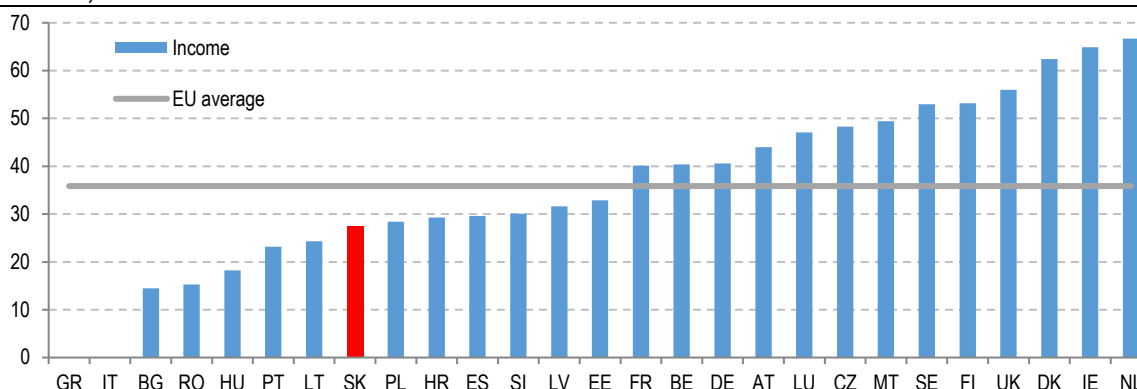
Note.: See note below Graph 44.   Source: OECD

Various rates of provided minimum income represent different approaches to social security applied by each of the countries. The rate of compensation is higher in particular in Scandinavian countries and in Benelux countries. Lower minimum income prevails in post-communist countries and in the Southern Europe, as the more strongly motivate to work after losing a job.

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[24] The model assumes maximum use of all entitlements.
[25] For more types of households see the annex.

Graph 44: Net income received by beneficiary of minimum income benefits, as % of median income,– a couple with 2 children, 2015
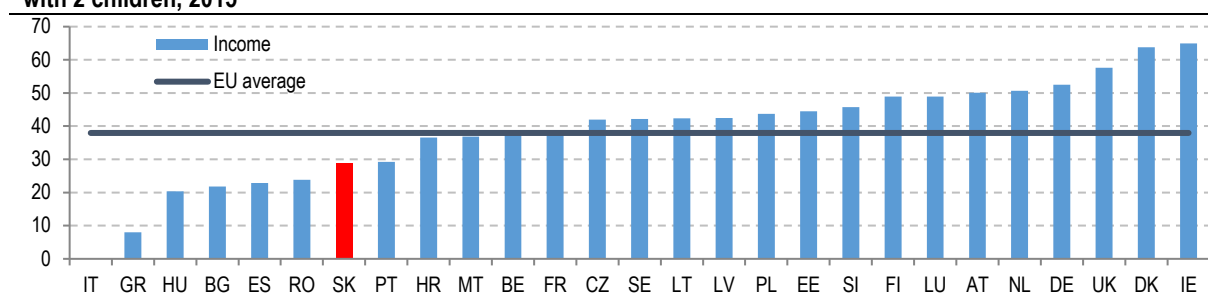
Source: OECD

Note: Minimum income benefits are equivalent to Slovak social assistance benefit, housing allowance and allowance for dependent child. Median income of households is determined using an equivalent scale – for that purpose, the first member of the household aged 14+ years is assigned a weight of one household member (entitled to one median income). The second household member aged 14+ years is weighted at 50%. Each child below 14 years of age is assigned a 30 % weight. For simplification, the Graph assumes that all children are below 14 years of age.

Among households receiving social assistance benefit, only 3.9% are families with more than five children. Most frequently is social assistance benefit provided to childless individuals. Total spending on the social assistance benefit system in 2016 and 2015 amounted to EUR 203 mil. and EUR 236 mil., respectively. The spending review is focused on a more detailed evaluation of provided social assistance benefit, by type of beneficiaries.

Graph 45: Beneficiaries of social assistance benefit by type of beneficiaries, numbers 2016

Single childless person
Single person with 1 – 4 children
Single person with 5+ children
Childless couple
Couple with 1-4 children
Couple with 5+ children
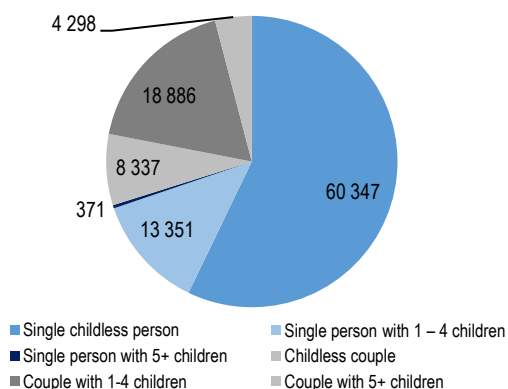
Source: MLSAF SR

Graph 46: Beneficiaries of child allowance by number of children, spending in EUR mil., 2016

1 child ■ 2 children ■ 3 children ■ 4+ children
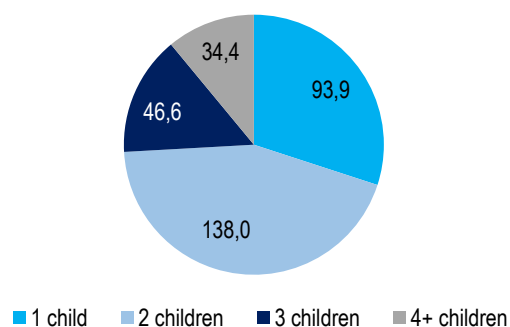
Source: MLSAF SR

The most frequent type of family as to number of children are families with one child. Families with one child account for 51% of families with dependent children[26] and receive child allowances amounting to 45% (EUR 141.3 mil.) of total spending (EUR 313 mil. in 2016) for this type of family support. Families with at least 4 children account for 3.3% of beneficiaries and receive 9.5% (EUR 30.1 mil.) of total expenditure envelope of the allowance.

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[26] A child until completion of mandatory schooling or until turning 26, provided that he/she is continuously preparing for future occupation or is prevented to do so considering poor health.

Box 7: Social assistance benefit

Basic characteristics and methodology used in the spending review

Social assistance benefit is granted to persons who are unable to generate income at minimum subsistence level.

Social assistance benefit is comprised of social assistance benefit, protection benefit, activation benefit, housing allowance and allowance for a dependent child.

Entitlement to social assistance benefit arises if income generated by the household is lower than sum of entitlements to individual components of social assistance benefit. The amount of granted social assistance benefit is the difference between total entitlement and the income under consideration.

The method used for calculation of the amount of social assistance benefit is rather complicated. A household is in material need if the household's income is below minimum subsistence level. The amount of entitlement to assistance is not derived from minimum subsistence level and it is determined as the difference between income of the household and the amount of entitlement to social assistance benefit. Amount of all components of social assistance benefit depends on additional conditions.

For simplification, Graphs used in the spending review show three components of social assistance – social assistance benefit, dependent child allowance and housing allowance – jointly as a single item The activation benefit is on purpose, presented separately, as it is used by less than a half of beneficiaries of social assistance benefit (in 2015 on average 42%, excl. persons assessed jointly with the beneficiary). The protection benefit was not presented as it is only granted in specific cases to a low number of beneficiaries.

The state **subsidies catering at schools** in the amount of max. EUR 1 per day of schooling for children from households with income below minimum subsistence level. The average monthly amount of allowance per 1 child in 2016 was EUR 14.32. Although this benefit is paid directly to schools, it is considered as a non-financial income of households as it contributes to reduction of the basic cost of living of the family. Such households are also provided with **a subsidy for school supplies** in the amount of EUR 33.20 per year and per child. Owing to low average monthly amount, this subsidy was not included in the models.

For comparison with the minimum subsistence level, the spending review presents the at-risk-of poverty threshold. The internationally used at-risk-of poverty threshold has been defined as 60 % of median equivalent disposable income household including social transfers. For that purpose, the first member of the household aged 14+ years is assigned a weight of one household member (a 100% weight). The second household member aged 14+ years is weighted at 50%. Each child below 14 years of age is assigned a weight of 30% of median income. For simplification, the Graph assumes that all children are below 14 years of age. The minimum subsistence level and at-risk-of poverty threshold are presented as percentage 57–78%, growing with higher number of children.

Graph 47: Minimum subsistence level, poverty threshold and social benefits to individuals with no income, various number of children, 2015

Activation benefit
Child allowance
Child catering subsidy
Social assistance benefit, housing allowance and allowance for dependent children
Subsistence minimum level
At-risk-of-poverty threshold
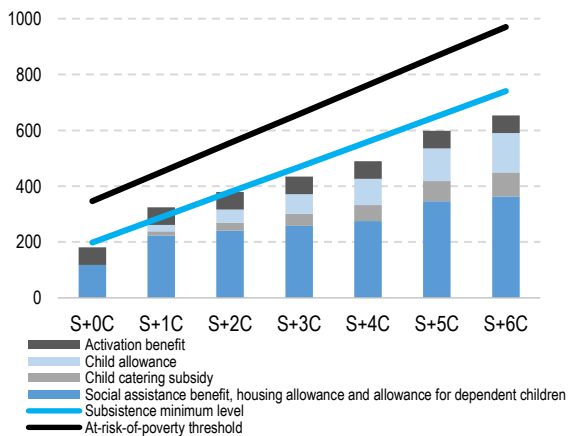
Source: VfM Unit

Graph 48: Share of benefits in minimum subsistence allowance and poverty threshold, individual, various number of children, 2015

Share of activation benefit in minimum subsistence income
Share of child allowance in minimum subsistence income
Share of child catering subsidy in minimum subsistence income
Share of SAB + housing A + A for dependent children in minimum subsistence income
Share of social benefits in at-risk-of-poverty threshold

Source: VfM Unit

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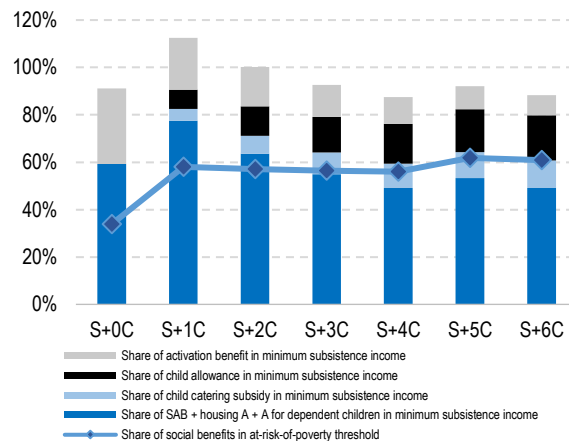
Benefits and allowances being the components of social assistance benefit, pursue various goals. Such setup makes the extent of granted assistance vary depending in the type and activity of the household. The existing legislation[27] defines material need as a situation when income generated by members of a household is below the minimum subsistence level. The sum of entitlement to social assistance benefit households (in identical situation) differs when expressed as a percentage of minimum subsistence level, depending on number of children in the household. Childless households receive considerably lower assistance from the state than households with children. A household with one parent and one child, which is a beneficiary of social assistance benefit excl. the protection benefit thus becomes entitled to assistance equal to 99 % of their minimum subsistence level. On the other hand, a household with one parent and four children receiving the same benefits, becomes entitled to only assistance equal to 60 % of their minimum subsistence level. The child allowance and the school catering allowance somewhat mitigate the inequality, although differences persist.

Slovak system of social assistance benefit is strongly driven by an effort to motivate beneficiaries to work. According to the existing legislation, the purpose of social assistance benefit is to ensure basic living conditions – one hot meal a day, necessary clothing and housing. Effective from January 2014, to receive full amount of the social assistance benefit adult members of the household are required to participate in activities in form of small community work, volunteering or emergency events in the extent of at least 32 hour per month.

Family support benefits improve situation of low-income families, while for high-income households it is a negligible item in their family budget. The purpose of the support is to assist families to ensure care of dependent children, their education and upbringing. Some of the benefits are not classified as income when considering dependence on social assistance. Dependent families without own income do not exceed the minimum subsistence level even after receiving the family support. Thus, family support benefits in fact help them to cope with their poverty, although it is not the purpose of this policy. High-income families receive this form of social support in the same amount.

Family support is not linked to the beneficiary's income. The ideal way to support families is making low income of the household a precondition to obtaining the support. However, the presently available data and the existing controls do not enable us to establish such income effective testing system. The spending review recommends finding other ways to make the system better targeted and to implement the income testing system in mid-term horizon.

Reduction of income taxes in form of tax bonus on child and items deductible from the tax base are also provide on across-the -board basis, irrespective on income, and/or start falling from the level of 1.8-multiple of the average wage[28]. Again, for high-income families this benefit, is a negligible amount in their net income. Although tax policy does not fall under competence of the Ministry of Labour, Social Affairs and Family, this spending review comments on aspects related to family support.

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[27] Act No. 417/2013 Coll. on Social Assistance Benefit.
[28] The non-taxable parts of the tax base are defined as a multiple of minimum subsistence level.

Graph 49: Benefits by income (% average wage, 2015) – Individual with 2 children[29]

- Child catering subsidy
- Social assistance benefit, housing allowance and allowance for dependent children
- Reduction of income tax
- Reduction of health insurance contributions
- Tax bonus on a child
- Child allowance
- Share of benefits in net wage – right axis
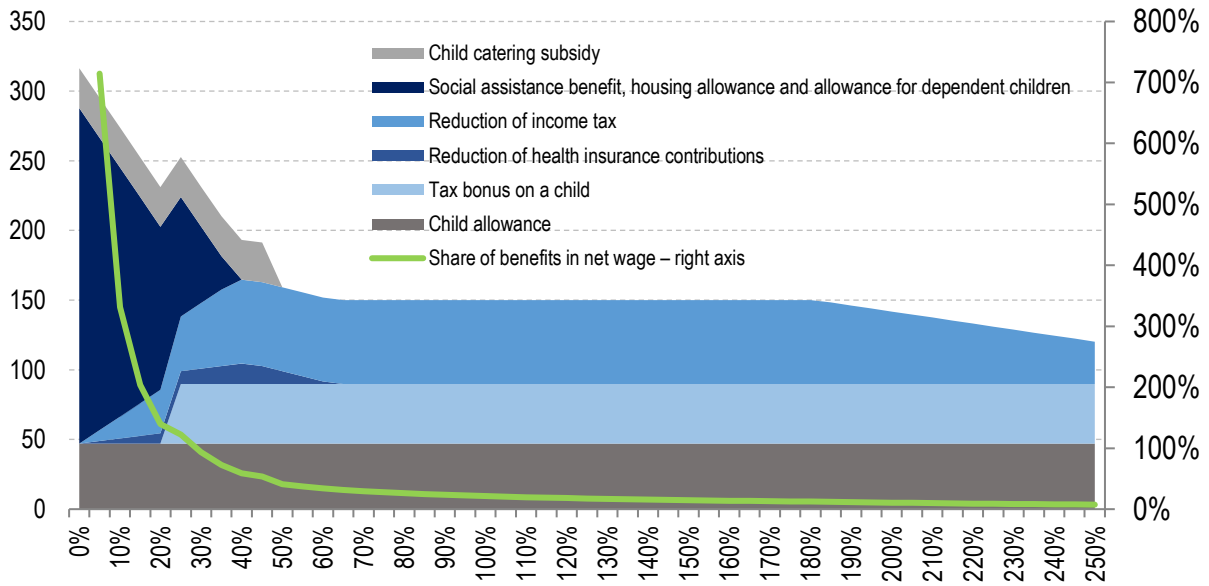
Source: VfM Unit based on the existing legislation
Note: SAB – a=social assistance benefit; HA – housing allowance; AfDC – dependent child allowance

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Box 8: Income distribution of households receiving family support benefits

Data from SILC 2015 survey show that 6% of beneficiaries of child allowance do not have any income from employment or self-employment. High-income and low-income households have approximately equal number of children. 51% of beneficiaries have income lower than average income, 81% of beneficiaries earn less than 1.5 multiple of average income. The Box only presents active gross income of households excluding transfers. The purpose is to show whether there is a link between parents' gross income and number of children. Using an equivalent scale considering number of children would assign lower income to households with more children. Thus, the information about total gross income earned by parents and the link to number of children would be lost. Income of households, adjusted by number of children, is presented in the following parts of this chapter.

Tax bonus is granted only to persons whose income in the fiscal year exceeds the defined minimum threshold. That is why household with zero or minimum income are not entitled to tax bonuses. 47% of beneficiaries report income lower than the average income, 79% of beneficiaries earn less than 1.5 multiple of average income.

Graph 50: Number of children (thousands) supported by child allowance, by income of the household
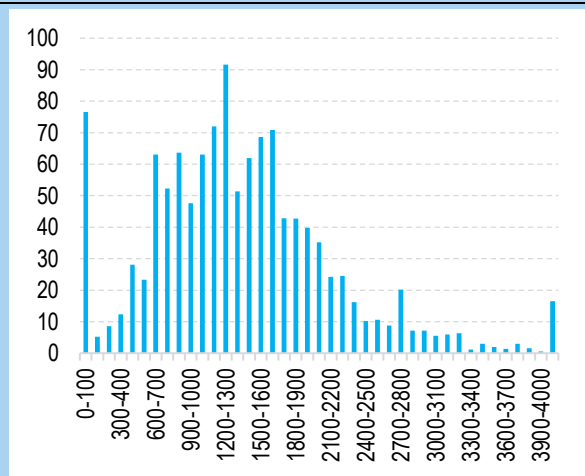
Source: EU SILC 2015, SO SR

Graph 51: Number of children (thousands) for which tax bonus, is claimed by income of the household
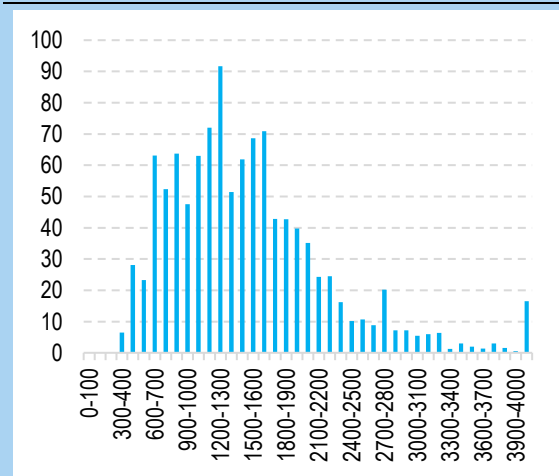
Source: EU SILC 2015, SO SR

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[29] For more types of households see the annex.

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Social system and motivation to work

The amendment of rules for entitlement to special allowance from January 2015 encouraged the motivation to work for a lower wage. However, this does not apply to those who work less than part-time for minimum wages. With low wages motivation to work remains low. Entitlement to special allowance starts with earnings equal to half of minimum wage.[30] Moreover, at this wage level parents become entitled to claiming tax bonus on their children. The entitlement to special allowance ceases to exist when earning reaches the amount equal to double the minimum wage (85% of average wage). Households comprised of several members also lose their entitlement to social assistance benefit after reaching the minimum wage level.[31] The motivation to work is assessed based on inactivity trap, which shows the amount of gross income lost after starting to work (in consequence of taxation, contributions and potential loss of entitlement to social benefits). While upon commencement of work paid at minimum wage, the inactivity trap is around 14%[32], for low wage (annual sum lower than 6 times the minimum wage) it is 30%. In practice it refers to work for several months or short part-time jobs which could be performed by e.g. mothers after receiving parental allowance who are willing to gradually join the labour force.

The spending review recommends considering reduction of the threshold for entitlement to the (gradually growing) part of tax bonus and the special allowance starting from annual income equal to 25% of minimum wage. This measure should increase the motivation to work also at lower wages or in short part-time jobs. The purpose of employment and social inclusion policies is to facilitate employment at the best possible wages and therefore it is important to invest in education and skills of future employees. Adjustment of entitlement to tax bonus and special allowance is expected to facilitate the access to labour market for those who, for other reasons, are unable to work full-time and at higher wage (e.g. mothers after parental leave and long-term unemployed).

Graph 52: Inactivity trap, childless individual, 2016
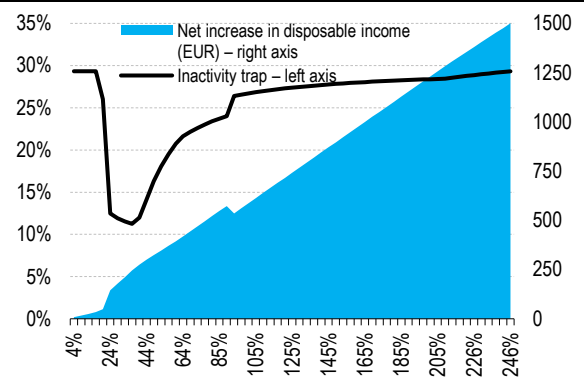
Source: VfM Unit based on the existing legislation

Graph 53: Inactivity trap, couple with 2 children, 2016*
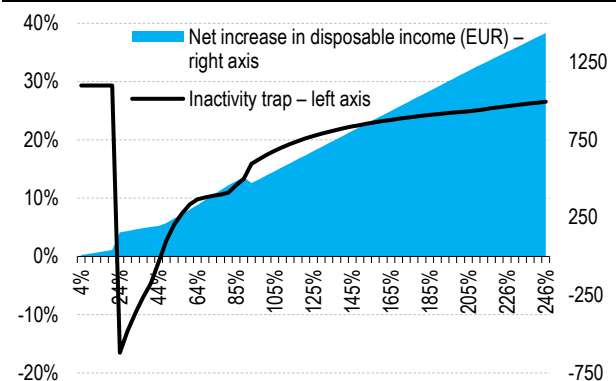
Source: VfM Unit based on the existing legislation
*An inactive couple, one of them gets employed and the other one becomes a job seeker.

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[30] Assumption based on amount of special allowance applicable for the first 6 months from commencement of employment. The entitlement arises after 12 months of unemployment or inactivity.
[31] The amount of the support is based on the minimum subsistence level, composition of the household and total income of the household.
[32] This applies to a childless individual.

Box 9: Inactivity trap

The inactivity trap states how much of additional gross income does a person lose after employment in consequence of the effects of the earning from employment on social support, contributions and taxes. Thus, inactivity trap answers the question how the social security system motivates people to work. With low increase of disposable income, it is advisable to keep the inactivity trap as low as possible. The ideal value of inactivity trap cannot be clearly defined. It is not necessary to have the value of inactivity evenly spread across the new income amount. With substantial growth of disposable income, people are sufficiently motivated to work.

The inactivity trap is defined as 1 – (change in net income)/change in gross income, while the change in gross income equals the gross was at which the person gets employed. The change in net income is calculated as net income from employment less reduction in social benefits. In case of families, net income is calculated as net income of all members of the household including social and family benefits. If the value is negative, it means that the disposable income of the person (i.e., wage after contributions and taxes, and including social transfers) is higher than the person's gross earnings from employment.

The model also considered social assistance (social assistance benefit, housing benefit and allowance for a dependent child), contributions and taxes and special allowance.

An unemployed person who does not find a job in 6 months, may be motivated to remain unemployed for as long as 12 months. If an individual with two children gets employed at minimum wage after being unemployed for 12 months, his/her income increases by more than 100%. The source of the income would change from social assistance benefit to earnings from employment, and, on top of it, he/she gets a special allowance. Special allowance increased motivation of the long-term unemployed to find a job and that mitigated the effects of the inactivity trap.[33]

Graph 54: Growth of disposable income after joining the labour force, by duration of unemployment (in months) – Individual+2children
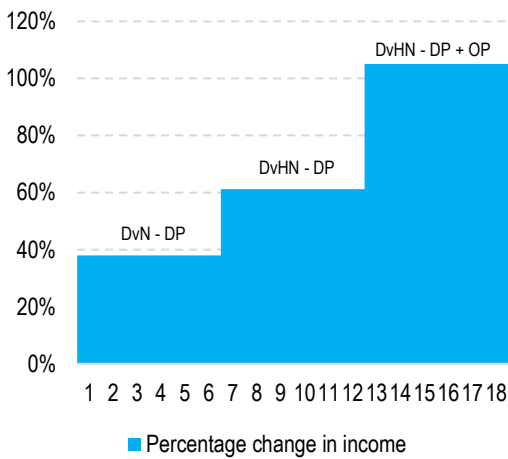
Source: VfM Unit

Note: An unemployed person got employed at minimum wage. Acronyms: DvN – employment benefit; SAB – social assistance benefit; DP – disposable income; OP – special allowance

Graph 55: Income of an individual with two children after joining the labour force (EUR)
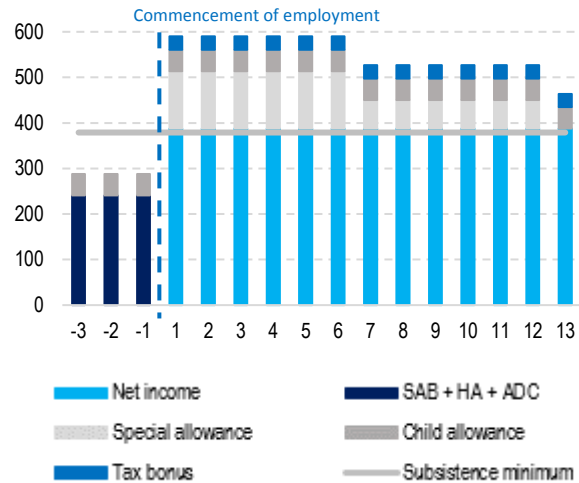
Source: VfM Unit

Note: SAB – social assistance benefit, HA – housing allowance, AfDC – allowance for dependent child

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[33] A change in conditions for entitlement to special allowance effective from May 1, 2017 has been approved to motivate the long-term unemployed to accept and keep jobs despite low wages, as 50% of their earning will not be regarded as income for the purpose of entitlement to special allowance.

4.2   Family support

- **Total public spending on family policies is about 1.7 billion euros. In relation to GDP they are nearly 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 contributions paid by the state on behalf parents taking care of a child below six years of age and/or caregiving of other persons were 231 million euros.**
- **The duration of financial support granted to families with a child in formal education in Slovakia is the third longest in OECD**
- **Slovakia is among OECD countries with the highest proportion of women who stay at 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.**
- **Decisions about the number of children in a family can be influenced by work-family balance policies.**
- **The length of paid parental leave or cash benefits for the parents do not have any significant effect on birth rates.**

Public spending on family support policies in Slovakia expressed as a % of GDP nearly equals the OECD average. However, cash benefits exceed the OECD average. In the extent of tax reliefs and, in particular, the scope of provided services (e.g. nursery schools) Slovakia lags behind all other V4 countries. In order to encourage care of children aged below three years, the conditions for financial support and use of financial funds are under preparation in programming period 2014–2020 (MF SR, 2017).

Graph 56: Public spending on family policies in OECD countries, % of GDP, 2011
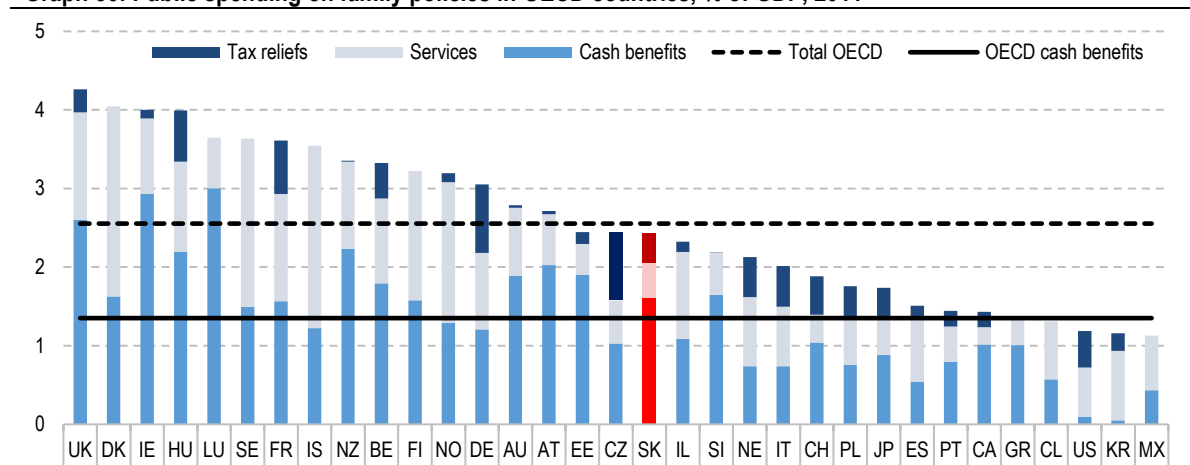
Source: OECD

Slovakia is among countries with the highest proportion of women who stay at parental leave for more than 12 months. OECD concludes that receiving a parental allowance for a period longer than 20 months is detrimental to participation on the labour market. The average period spent by mothers with children at parental leave without working is 26 months[34].

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[34] These data refer to mothers which were on maternity and parental leave in 2010 – 2011. Based on analysis prepared by IFP.

Graph 57: Share of women staying on parental leave longer than 12 months (% of employed women, 2010)
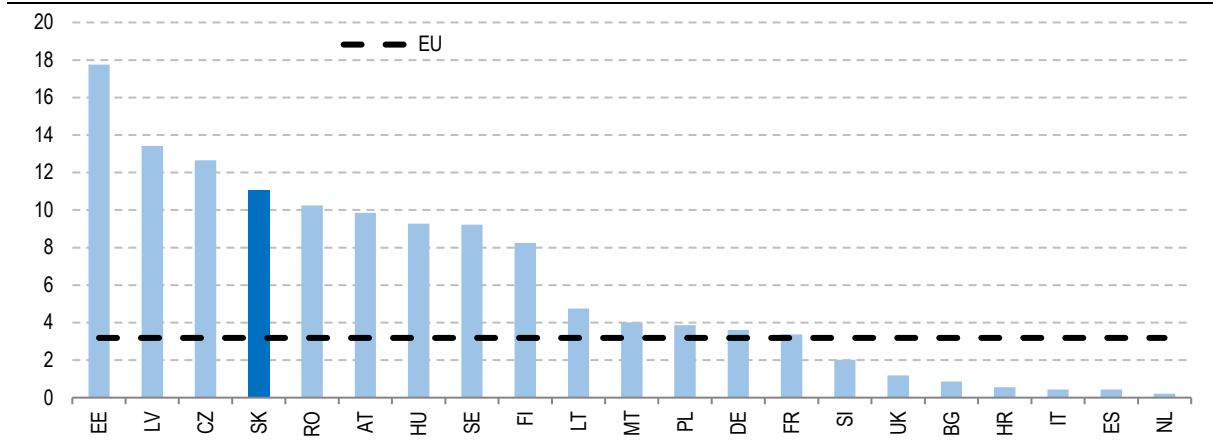
Source: Eurostat

The duration of financial support granted in Slovakia to families with a child in formal education by the age of the child is the third longest in the OECD. A usual practice in OECD countries is granting regular financial support for a child until the child comes of age. Dependent adult children from low-income families studying at universities are usually supported in form of social scholarship. In Slovakia, children are supported until 25 years of age, along with the existing social scholarship system.

Graph 58: Family support benefits by age of the child (in months), 2017
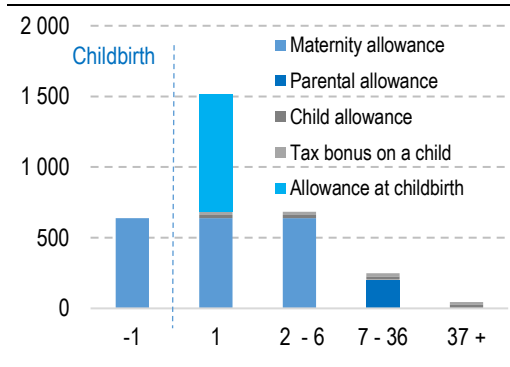
Source: VfM Unit based on the existing legislation
Note: The amount of maternity benefit is attributable to average wage, 2016

Graph 59: Duration of granting family support benefit, by age of the child, 2010

Source: OECD

In OECD countries, duration of paid parental leave for mothers with children does not have any considerable effect on birth rates[35]**.** International comparison between OECD countries shows common characteristics of Central-European countries and Baltic countries. Mothers are provided with longer paid leave than the average for other countries. Despite that, their birth rates are on the low side[36], which is rather the consequence of sociological factors.

Graph 60: Relationship between birth rate and paid leave for mothers with children in OECD countries (2015)
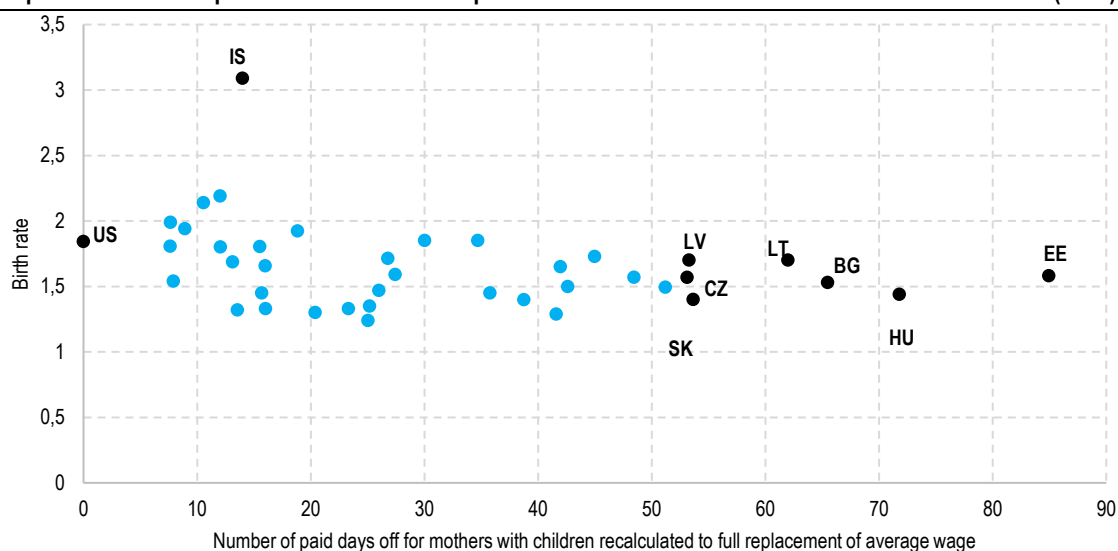
Note: This is supported leave for mothers with children at maternity and parental leave.   *Source: OECD*

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[35] Supported parental leave includes the period when the state provides financial support to a parent as the parent takes care of a child after the birth. In Slovakia this includes the maternity leave and the period when the parent becomes entitled to receiving parental allowance and/or child care allowance.
For more details see OECD (2011).
[36] The total fertility rate is the average number of children born per woman.

Experience from other countries show that family support benefits provided to families with children are more likely to influence fertility rate in low-income households, in particular one-off benefits paid at childbirth for the second or third child (OECD, 2011). The purpose of the family support policy is not to control fertility rate; the goal is to contribute to compensation of expenses associated with birth and upbringing a child. **Financial benefits have impact on timing of parentship** (Gauthier & Thévenon, 2011). Families planning parentship postpone births until later time, when they are older and better off.

The decision to have or not to have children is strongly influenced by work-family balance policies. (Gauthier & Thévenon, 2011). Such measures include sufficient capacity of pre-school facilities, legislation supporting teleworking from home and part-time jobs. An example from among Slovak motivating tools are the child-care allowance and tax bonus for a child, which, however, is not available to persons with low income, which may be attributable to short part-time jobs.

Flexible drawing of parental allowance would facilitate work-family balance and would help in planning return to the labour market. Total entitlement to parental leave would be retained and the parent could modify the duration of drawing over a period not longer than until the child turns 3 (as it is now). Additionally, this measure can help to mitigate postponement of parentship until the parents are better off. However, it will be necessary to ensure that the measure does not invoke incorrect motivations. A stronger father role in receiving parental allowance could support gender equality.

Increasing capacities of nursery schools would enable parents to use benefits of measures encouraging motivation to return to work after the childbirth. Currently, it is necessary to identify necessary capacities and locations where places in nursery schools are most in demand. Information amount demand for nursery schools are presently not available as there are no lists of families waiting for placing their child in a nursery school. Effective targeting of funds requires knowing the necessary capacity and setup of a sustainable financing mechanism. Besides coverage of capital investments for construction of facilities it is also necessary to ensure financing of operating costs.

Box 11: Factors having impact on duration of parental leave and return to the labour market

Flexible forms of employment in Slovakia are used only in a small extent, although these forms of employment could help women to return to the labour market after maternity or parental leave. The percentage of women in part-time jobs (including temporary work by agreement) is among the lowest in the EU.

Graph 61: Share of women in part-time jobs (15-39-year-olds, 2015)
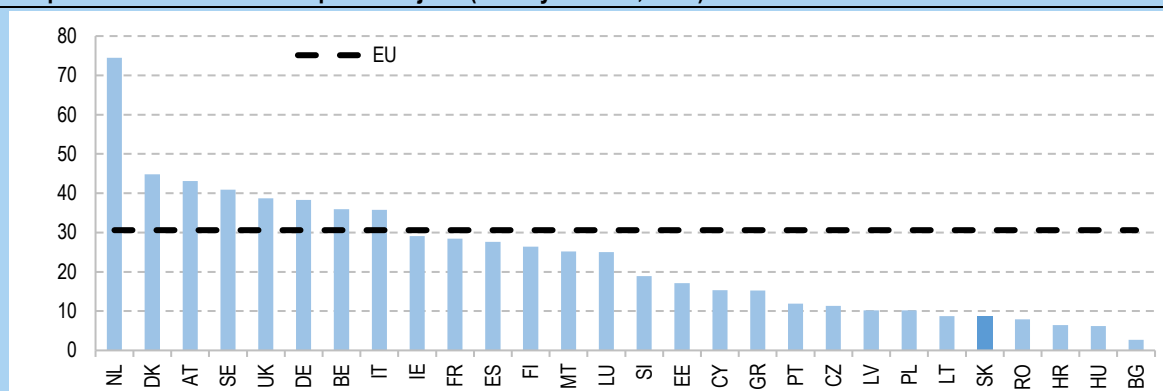
Source: Eurostat

Supported parental leave is among the longest in OECD countries. Slovakia presently enables to receive maternity allowance for 6 months after the childbirth and then parental allowance until date when the child turns 3. While in Slovakia the rate of compensation of prior net income during maternity leave equals 100% (already for income equal to average wage), the parental allowance is paid in the amount of EUR 203.20 (approximately 30% of net average wage). Effective

from May 2017 the amount increased to EUR 213,20. Although the purpose of parental allowance is not to compensate the parent's income, in view of international comparison, it is advisable, from methodological view, to include these amounts in the supported period. Thus, total compensation rate over the entire length of paid leave is approximately one third of the prior wage. Parental allowance can be received whilst working.

Graph 62: Length of supported leave and average monthly compensation rate for average wage (2016)
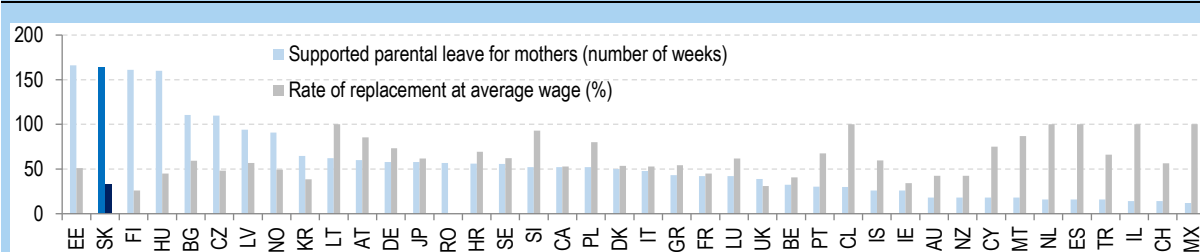
Participation of children aged below 2 years in nursery schools ranks among the lowest in OECD and EU countries, as in this age home care prevails. Low participation of children in nursery schools may be caused by lower employment

Graph 63: Participation in formal care by children aged 0-2 years (% of the age group)
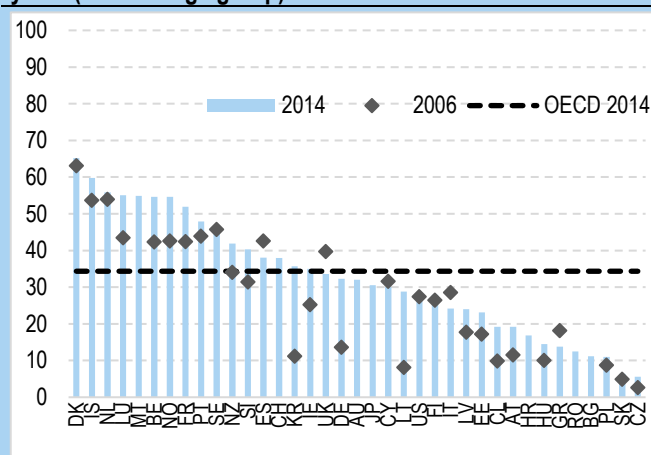
Graph 64: Number of days spent on paid parental leave (based on income in prior job)[37]
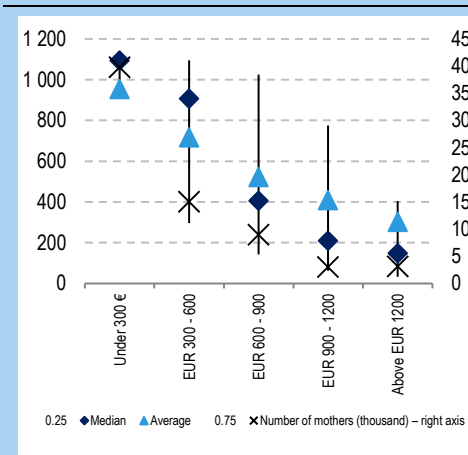
rate of women of this age group.

Average duration of parental leave in Slovakia varies depending on prior economic activity and income from prior employment[38]**.** From among 36 months available, the average period spent by women on parental leave without working is 26 months, although there are no restrictions by the state to being involved in any economic activity while receiving parental allowance. Women who did not work before the childbirth or were earning only below-average income, receive parental allowance nearly over the whole period. In case of nearly average income, half of women return to work within one year. Thus, duration of parental leave and early return to work depends on parent's potential income from employment and economic level of the region, although in Bratislava region mothers tend to prefer earlier return to work.

Participation of women on the labour market can also be influenced by gender pay gap. Even after considering objective labour characteristics the gap in Slovakia is above average (IFP, 2017)**.** Smaller wage gap can already be seen at commencement of career. Income of women are driven down by the fact that they are often employed in less

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[37] Including mothers without prior employment.
[38] Based on regression analysis by IFP using data from the SIA for 2010-2015 about mothers with children born in 2010 and 2011 and subject to monitoring was the period from their birth until 4 years of age. Distortion of data by chaining births was prevented by including only the last child born to the mother. Analysis prepared by IFP.

earning sectors. Longer careers and better education do not bring higher income to women to the same extent as it does to men. While maternity is associated with lower wages, fathers tend to be given a raise.

Compared to men, women in Slovakia have, on average, a slightly lower chance of being invited to an interview, although their CVs indicate similar competence and skills[39]. This difference, however, depends on the type of employment. While in trade and commerce, men and women have approximately equal chances, men are preferred when looking for a job in manufacturing. On the other hand, women are preferred in office work. Jobs where none of the genders prevails in total number of employed persons, do not show any discrimination.

4.3   Support to persons with severe disabilities

- **The share of persons with severe disabilities being at risk of poverty in Slovak Republic is below the EU average. Their employment rate is also lower (31.9 % in the Slovak Republic vs. 47.3 % in EU)**
- **Spending on compensation for social consequences of severe health disabilities amount to EUR 227 mil. (2016). The budget for 2017 is higher by EUR 32 mil.**
- **The system of compensations for social consequences of severe health disabilities consists of recurring and one-off financial allowances. Most expenditure are spent on recurring financial allowances.**
- **Financial allowances, for personal care and for compensation of increased expenditure, account for 78% of total expenditure on recurring financial allowances.**
- **Setup of the system of financial allowances for compensation of consequences of severe health disabilities may discourage persons with severe disabilities from getting employed**
- **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 on an across-the-board basis to all people with severe health disabilities. It is necessary to review their justification of the benefits.**

The at-risk-of poverty rate of persons with disabilities, like the entire population, in the Slovak Republic is lower than the EU average. Participation on the labour market is also lower. Despite that, persons with disabilities in Slovakia are considerably less exposed to risk of poverty than average V3 and EU persons with disabilities. Poverty rates are strongly mitigated by transfers. In case of persons with severe disabilities, a part of the transfers are disability pensions. On the other hand, when compared to V3 countries and EU, in Slovakia less persons with disabilities participate on the labour market, and their employment rates are among the lowest in EU.

Graph 65: At-risk-of poverty rate (%, 2015)
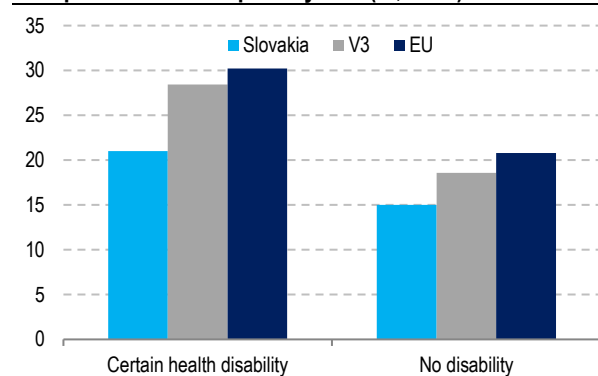
Source: Eurostat - SILC

Graph 66: Employment rate (%, 2011)[40]
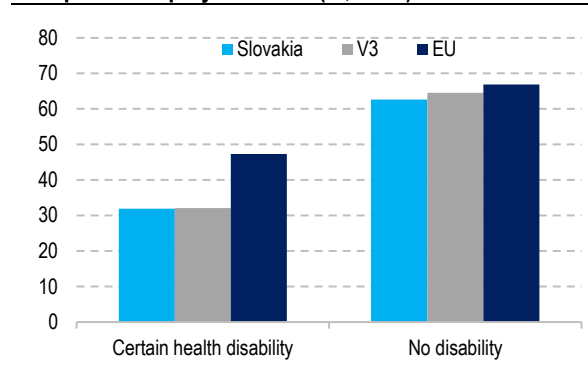
Source: Eurostat - LFS

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[39] Comments prepared by IFP, comparing chanced of men and women to be invited to an interview.
[40] Health disability defined as difficulty in performing basic activities.

The employment rate may be influenced by the system of financial benefits. Income of persons with severe disabilities is tested for the purpose of financial benefits. It is assessed jointly with the income of the close range of persons[41]. If the income is higher than the defined multiple of minimum subsistence level per one adult person[42], then the benefit is either reduced or not granted. Such setup of the system for compensation of severe health disabilities may discourage from finding a job.

Slovakia is doing well in protection of persons with severe disabilities from poverty. On the other hand, employment rate of this group of population is by more than 15 p.p. lower than the EU average. Good results in prevention from poverty also need to be achieved in employment rate of persons with severe disabilities using active labour market policies. Currently, the definition of persons with severe disabilities used for compensation of social consequences of severe health disabilities differs from the definition used for the purpose of active labour market policies[43].

Graph 67: Percentage of population with severe disabilities
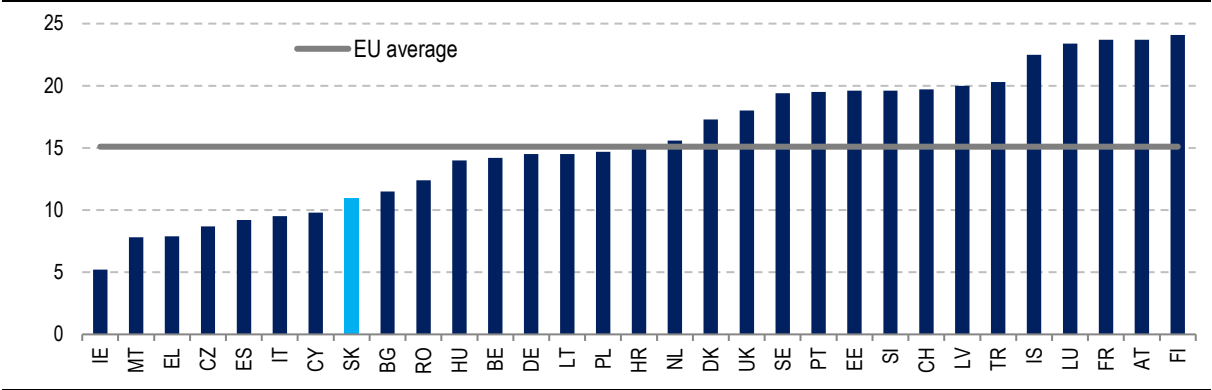
Source: Eurostat - LFS

The percentage of population with disabilities in Slovakia is lower than the EU average. The percentage of **population with disabilities** is by more than 4 p.p. lower than the average. However, the presented data are in line with subjective opinion of the respondents to the survey.

Graph 68: Trends in the budget (EUR mil.) and use of the funds for compensation of consequences of severe health disabilities
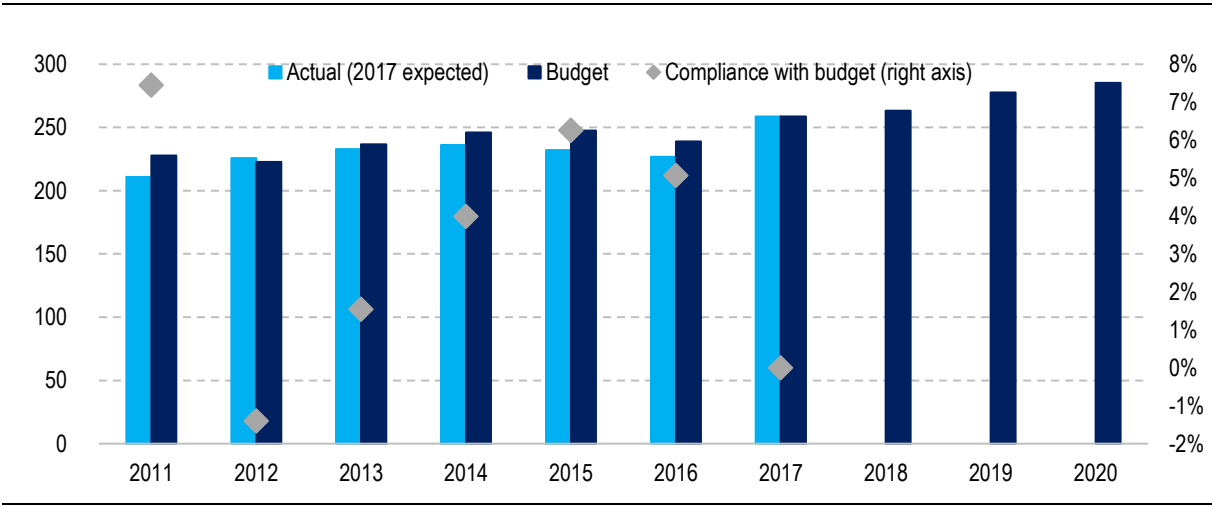
Source: Budget IS

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[41] E.g. husband, wife, dependent child. The range of persons is defined in § 18 of Act No.447/2008 Coll.

[42] Financial allowances for compensation of consequences of severe health disabilities are not granted, or are reduced, if the income of assessed persons exceeds three times (for one-off financial allowances five times) the amount of the minimum subsistence level.

[43] For the purpose of compensation of consequences of severe health disabilities, the rate of the person's functional disorder shall be at least 50 %. For the purpose of active labour market policies, the person's ability to perform a gainful activity must be reduced by more than 40 %.

Since 2014, spending of the MLSAF SR for compensation of consequences of severe health disabilities have been falling. The budget, however, expects growth of the spending. In 2016, spending for compensation of consequences of severe health disabilities amounted to more than EUR 226 mil. The 2017 budget for compensation of consequences of severe health disabilities is higher by more than EUR 32 mil. Since 2010, the expenditure exceeded the budgeted amount in one year only. On average, the budget is annually by nearly EUR 9 mil. higher than actual spending on compensation of consequences of severe health disabilities. The key difference between the budgeted and the actually used funds resulted from MF SR forecasts of inflation trends from which certain benefits and the minimum subsistence level are derived.

Graph 69: Average monthly amount of financial allowance in 2016 (EUR)
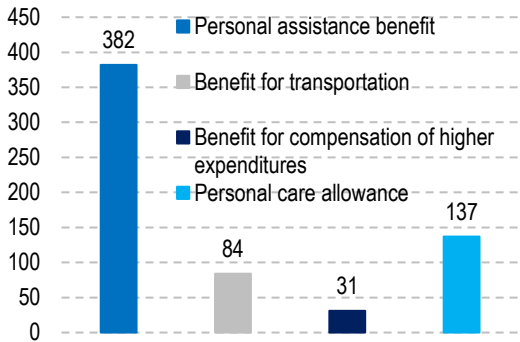
Source: MLSAF SR

Graph 70: Spending on compensation of severe health disabilities in 2016 (EUR mil.)
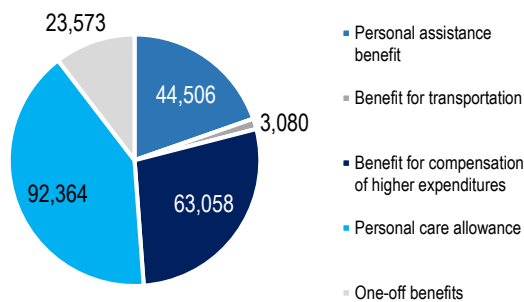
Source: MLSAF SR

Despite growing number of persons in population of 80+year-olds the number of persons being cared for is decreasing. The number of persons with severe disabilities, being cared for by family members of working age, decreased, in particular in the group of persons with severe disabilities older than 80. However, demographic data show that the same group of persons in the Slovak Republic was growing in number. Main reasons may include finding other solution to dependence on assistance of other person (in form of social services), higher number of carers for seniors, and/or the economic cycle.

The highest value for a dependent person is staying as long as possible in their natural home environment. Supporting family caregivers is the option with the lowest unit spending for the state. But the caregiver reduces his/her chance to find a job. Home environment has a positive impact on persons with severe disabilities (Colombo et al., 2011). When compared to personal assistance, public spending on family caregiving is on average by nearly EUR 245 lower per person (see Graph 69). On the other hand, family caregiving reduces the caregiver's future chances to get employed. It would be difficult to quantify costs of lost skills and, consequently, lower employability.

Number of children with severe disabilities in orphanages is growing. Therefore, MLSAF SR will prepare a programme to support early intervention. Since 2010, number of children with severe disabilities increased by nearly 50% (815 children in 2015) (WHO and IZP, 2016). Early intervention can prevent the necessity to place a child with severe disabilities into an orphanage or a special needs school. Experience from abroad shows that early intervention can improve integration of persons with severe disabilities in higher age.

Graph 71: Numbers of persons being cared for, by age – cared for by a person in working age
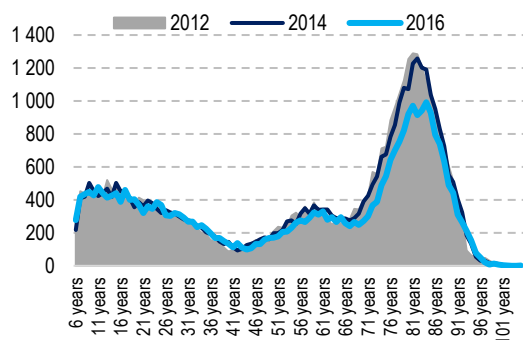
Source: MLSAF SR

Graph 72: Numbers of persons with a personal assistant, by age
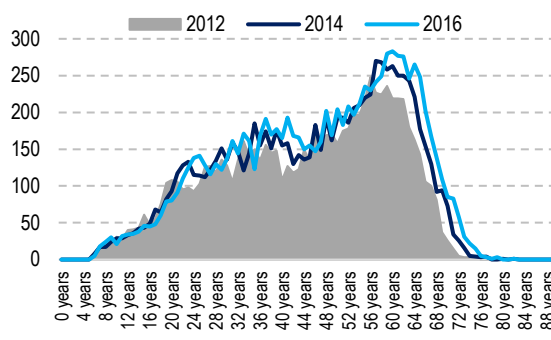
Source: MLSAF SR

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There is a growing number of persons with severe disabilities, using services of a personal assistant. The key objective of the assistance is to activate and support social inclusion of persons with severe disabilities. The growth in number of persons using a personal assistant experienced a strong change in 2014, in response to the change in the protected part of the income and, consequently, the entitlement to financial allowance for personal assistance was available to more persons. The major growth was observed in the group of 55-65-year-olds.

Box 12: Persons with severe disabilities

Persons with severe disabilities are a sub-group of persons with disabilities[44]. The definitions of persons with disabilities provided by Slovak laws are inconsistent (e.g. poor health, health disability, etc.).

MLSAF SR grants financial allowances for compensation of consequences of severe health disabilities. The financial allowances can be granted to persons with severe disabilities and the rate of the person's functional disorder being at least 50 %, provided that the persons are dependent on exactly specified compensation (in mobility and orientation, communication, higher expenses or self-service) and comply with the statutory requirements.

Other general government entities also participate in social inclusion of persons with severe disabilities. MLSAF SR issues special ID cards for persons with severe health disabilities and parking ID cards for persons with disabilities, to prove their entitlement to financial and non-financial benefits within the general government. This way, the state encourages social inclusion. General government benefits include reliefs in taxes and fees, reduced entrance fees, reduced fares, exemption from obligation to have a cash register, etc.

The benefits and discounts provided to holders of disability cards on an across-the-board basis does not take account of severity of the disability. Cards issued to persons with severe disabilities serve for claiming discounts and benefits[45]. The amounts are determined by competent ministries or by service providers. The benefits are provided on an across-the-board basis and do not reflect the degree of dependence of the beneficiary, or the beneficiary's income.

Considering the complexity of this theme with issues overlapping with other departments, groups of persons facing the risk of social exclusion will be addressed in a separate spending review. The spending review of expenditure on groups at risk of social exclusion will include analysis of the situation of groups, which resulted from issues addressed by the spending review of labour market and social policies:

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[44] The Convention on the Rights of Persons with Disabilities defines persons with disabilities as "persons who have long-term physical, mental, intellectual or sensory impairments which in interaction with various barriers may hinder their full and effective participation in society on an equal basis with others".

[45] E.g. exemption from payment of concessionary fees, reduced local taxes and fees, reduced fares in public transport, etc.

- improving **social inclusion of Roma** is the most complex set of issue overlapping with the departments of labour, education, health and interior and have not been open in this spending review;
- analysis of possibilities of care for **children at risk** should assess the effect of better availability of social housing, consulting and more intense fieldwork with families to reduce numbers of children taken from families and to increase number of returns to families after remedy;
- as to support provided to **persons with disabilities,** it is necessary to analyse weaker motivation to work in combination with the conditions for granting allowances for compensation of social consequences of severe disabilities. It is important to explain the reasons for why families fall into poverty in case of sudden long-term disease (potentially short period of granting caregiving allowance).

4.4 Social services

- **Demographic trends in the Slovak Republic will increase the demand for social services. By 2030 around 10 thousand places will need to be added only in residential long-term care facilities for seniors. According to the EC estimates, total expenditure on long-term care are expected to double by 2060**
- **Family caregiving improves the quality of life. The purpose of social services should be to ensure that people remain in their natural social or home environment**
- **Public spending by MLSAF SR and other general government institutions is approximately 0.3% of GDP with expected growth.**

Under the assumed demographic trends, expenditure on long-term care will grow. Slovakia is one of the fastest ageing countries in the European Union (EC, 2015, Eurostat). According to the EC estimates, by 2060 expenditure on long-term care are expected to grow from present 0.3% of GDP to approximately 0.6% of GDP. Under the risk scenario, the growth may go up to 4.6% of GDP.

Graph 73: Estimated trends in spending on long-term care (% GDP)
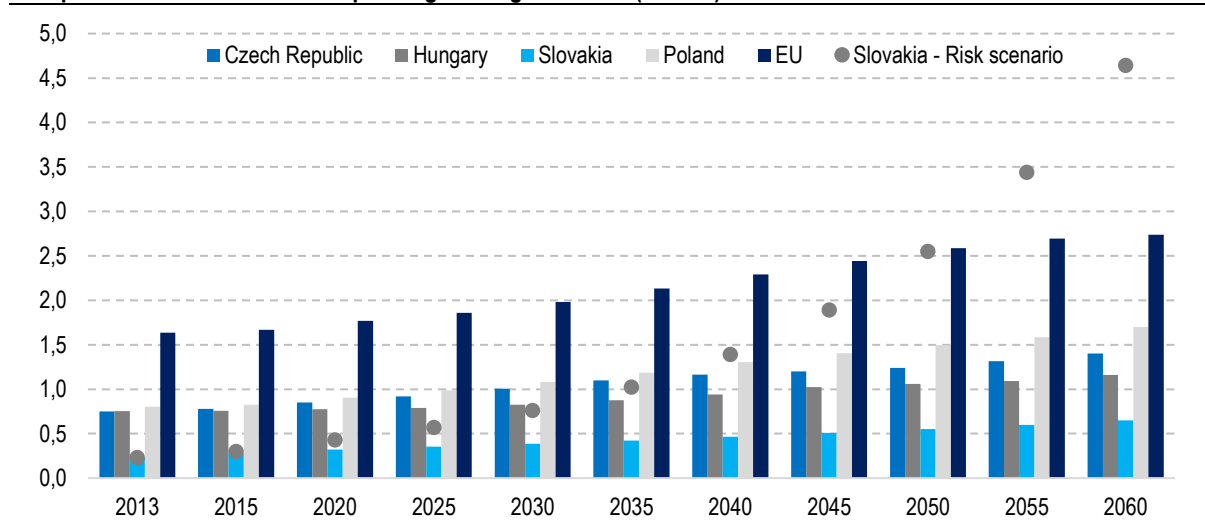
Source: EC, 2015b

The number and percentage of persons older than 65 years will be considerably growing within the population. The European Commission estimated that, by 2030, the percentage of persons older than 65 years will grow by more than 40 %. Similar growth is observed in Slovakia in number of persons dependent on long-term care. Until 2014, the percentage of these persons was lower than the OECD average. In 2015, the percentage of dependent persons exceeded the OECD average.

Graph 74: Percentage of persons 65+years old dependent on long-term care
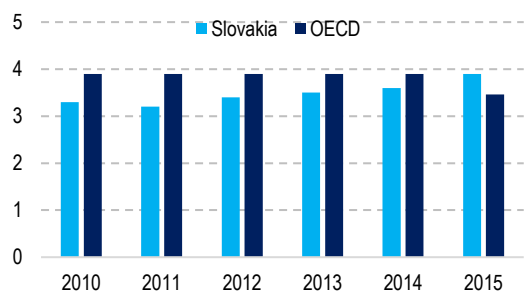
Graph 75: Trends in number of elderly persons by 2030
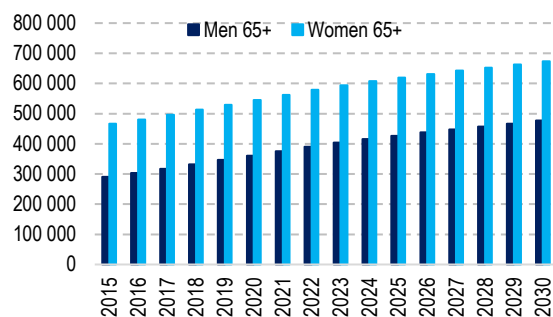
Spending on social services accounts for 0.5% of GDP. In 2015, expenditure of social service providers exceeded EUR 445 mil. The year-on-year growth exceeded EUR 30 mil. The highest spending is for wage cost of social service providers.

Major part of spending on social services are services established by higher territorial units. Nearly EUR 180 mil. were expenditure on social services incurred by social services providers established by higher territorial units. On average, expenditure in such type of facilities are around EUR 9 thousand and the lowest average expenditure, around EUR 6.5 thousand per bed are incurred by non-public providers (natural persons and legal entities). Differences between founders may reflect different structure of services and facilities.

Graph 76: Expenditure by providers of social services in 2015
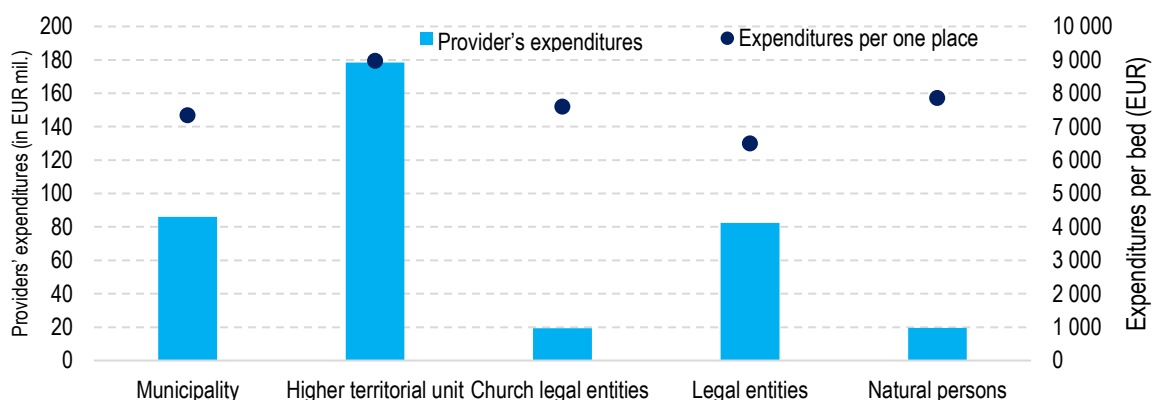
Expenditure of the MLSAF SR are only a part of public spending on social services. In 2015 and 2016, MLSAF's expenditure on social services accounted for EUR 73 mil. and EUR 82 mil., respectively. The amount budgeted for these expenditure in 2017 is around EUR 90 mil.

Table 10: MLSAF SR's spending on social services (EUR thousands)

Type of social facility	Public providers		Non-public providers		Total		
	Spending 2015	Spending 2016	Spending 2015	Spending 2016	Spending 2015	Spending 2016	Spending per bed 2016
Day hospital	889	1,587	5,259	10,855	6,149	12,442	1.87
Social services facility	1,864	1,139	0	0	1,864	1,139	3.66
Dormitory	521	563	865	892	1,386	1,455	1.30
Specialised facility	732	873	0	0	732	873	3.83
Shelter	787	765	0	0	787	765	1.29
Supported residential facility	38	37	0	0	38	37	2.29
Emergency residential facility	313	308	0	0	313	308	1.65
LTC facilities for seniors	5,607	5,516	2,970	2,922	8,577	8,438	3.58
Retirement homes	28,808	29,767	24,386	26,991	53,194	56,758	3.84
TOTAL	39,559	40,555	33,480	41,660	73,040	82,215	3.06

Source: MLSAF SR Final Account

MLSAF SR's spending grew on the year-on-year basis, which was mostly influenced by doubled capacity of day hospitals. MLSAF SR's spending increased by nearly EUR 9 mil. and thereof expenditure on day hospitals increased by EUR 6 mil. and their capacity grew by 100%. Increase was seen also in LTC facilities for seniors. Nevertheless, the demand from persons dependent on personal assistance still exceeds the supply.

Major portion of financial funds to finance social services, approximately EUR 146 mil. (33 %), are subsidies from budgets of higher territorial units. Almost 93 % of all revenues came from 3 sources: from founders, contributions from the government budget and fees paid by clients. Major growth, by nearly EUR 16 mil. (14 %), was observed in fees paid by clients.

Graph 77: Sources of revenues for LTC facilities
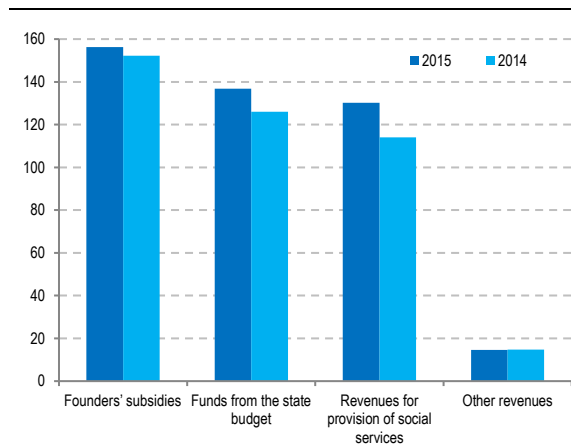
Source: Soc1-01

Graph 78: Numbers of LTC facilities and beds in the facilities
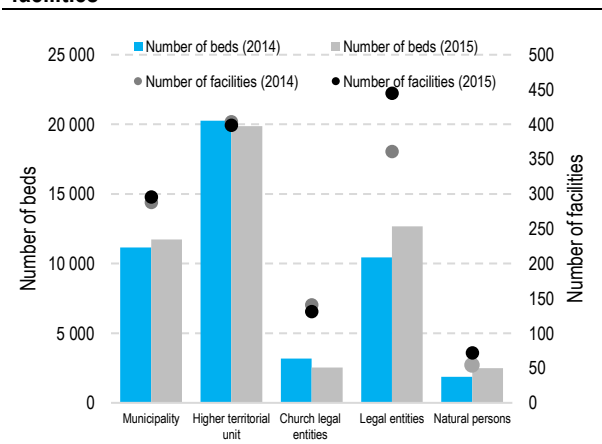
Source: Soc1-01

Social service providers are growing in number in year-on-year comparison. The number of beds available in LTC facilities is also growing. Between 2014 -2015 number of LTC facilities increased by more than 7%. Majority of the newly established providers of social services were established by private legal entities.

A half of beneficiaries of social services are seniors. More than a half of them are placed in retirement homes and more than 30 % of all financial funds is spent on these facilities. Further beneficiaries are long-term sick, persons with severe disabilities, children at risk or homeless people. Assistance to these groups reduces expenditure which would have to be spent by the society if the assistance was not provided.

Demand for services rendered by social services providers is growing and presently the market is unable to satisfy needs of nearly 14% social service beneficiaries. There are nearly 55 thousand beds in 1,410 LTC facilities and yet there are 7,699 persons waiting for this type of social services. The number of candidates only

includes those who have filed an official application, the real number, however, may be lower as some of them are registered as candidates at more than one facility.

Currently, more than 20% of the demand for places in LTC facilities for seniors remained unsatisfied. The present demand is covered by more than 17 thousand of beds in LTC facilities for seniors. Waiting lists include another more than 4 thousand seniors. The year-on-year growth was observed despite the fact that capacities were increased by nearly 3 thousand beds. Ageing of the population brings risks on the supply side and these risks need to be addressed within a relatively short time by providing additional beds in long-term care facilities, primarily in senior care facilities.

Table 11: Number of candidates by type of social services

Type of facility	2014	2015	2016
LTCF for children with physical disabilities	0	0	4
LTCF for children with mental and behavioural disorders	59	33	51
LTCF for children with physical disabilities, mental and behavioural disorders	69	72	64
LTCF for adults with physical disabilities	228	197	63
LTCF for adults with mental and behavioural disorders	721	465	550
LTCF for adults with sensory disabilities	15	10	6
LTCF for adults with combined disabilities	1,421	1,083	1,032
Facilities for seniors	1,717	3,427	4,541
Supported residential facility	24	23	68
Rehabilitation facilities	1	0	4
Specialized facilities	266	690	1,316
Total	**4,521**	**6,000**	**7,699**

Note: LTCF –Long-term care facility   *Source: Ministry of Labour, Social Affairs and Family SR, V10-1*

Numbers of seniors will grow faster and the supply of beds in facilities may not be sufficient. In 2015, the demand for senior care facilities exceeded 20 thousand persons, thereof the number of available beds is 17,137. Another 3,427 persons are records on the waiting list as candidates for a social service. To balance the demand and the supply, more than 10 thousand beds will need to be added in residential long-term care facilities for seniors by 2030. Creation of new places in facilities will be associated with additional capital investments by the founder.

Table 12: Forecast of trends in number of beds in residential long-term care facilities

	2015	2020	2030	2040	2050	2060
Total population	5,421,349	5,458,718	5,464,199	5,373,043	5,261,609	5,114,570
Persons aged 65+	756,879	906,197	1,150,091	1,307,149	1,528,075	1,635,556
Share of clients in LTC facilities	2.72 %	2.72 %	2.72 %	2.72 %	2.72 %	2.72 %
Number of beds in the facilities	20,564	24,621	31,247	35,515	41,517	44,437

Source: Eurostat; VfM Unit

Box 13: Refund of provided medical care to social services providers

There are 9 specific healthcare activities that the existing health insurance companies refund to social services providers. Other activities are not refunded by public health insurance. Social services providers are allowed to provide certain medical care activities, however, the existing public health insurance system only refunds expenditure on nine specifically defined medical care activities[46]. Any other healthcare activities are provided in healthcare facilities. The amount of healthcare expenditure refunded from public health insurance system from April 2015 to March 2016 was EUR 80 thousand.

In the Czech Republic, health insurance companies refund medical care activities amounting to tens millions of euros. In the Czech Republic, health insurance companies refund a broader scope of medical care activities to several providers. That is why in the Czech Republic during the comparable period refunded medical care activities amounted to EUR 44.8 mil. (CZK 1.2 bn) (Ďurana, 2017).

Family caregiving has a positive effect on dependent persons (Colombo et al. 2011). **Support social services, caregiving and transportation services organised by municipalities contribute to maintaining dependent persons in their home environment.** The most frequently used services provided by municipalities are caregiving services. More than 77% of total spending were used for caregiving service. The added value of the services is in keeping dependent persons in their natural social or home environment. All social services are originally organised under competence of municipalities and higher territorial units.

Popularity of caregiving services is growing. Nevertheless, despite payment by most clients, this is a deficit and underfinanced service. Caregiving is used by more than 13 thousand persons. Most clients (nearly 87 %) paid full amount of the social service.

Table 13: Number of hours worked by providing social services and spending by municipalities (EUR) in 2016

Type of social services	Number of hours spent by providing services	Total spending	Average expenditure per hour
Caregiving services	5,751,630	35,261,334	6
Transportation services	136,533	347,961	3
TOTAL	5,888,163	35,609,295	

Source: OLSAF

Another 20% of the expenditure were spent on services provided by canteens and day centres. The remaining expenditure on the social services were less than 3%.

Table 14: Number of clients and expenditure (in EUR) by municipalities to public providers in 2016[47]

Type of social service	Number of clients	Total Spending	Average spending per client
Canteen	21,123	5,896,436	279
Day centre	40,491	2,559,465	63
Community centre	10,028	1,190,846	119
Filed social service of emergency intervention	6,948	549,572	79
Assistance in personal care for a child and support to career and personal life balancing	61	207,418	3,400
Low-threshold day centre for children and family	1,325	189,957	143
Laundry	4,163	139,437	33

Source: OLSAF

Personal care allowance is provided only to persons with severe disabilities and under certain circumstances it can be detrimental to the carer's motivation to work and/or his/her skills and working habits. In many cases, the beneficiary of support, caregiving and transportation services may also be entitled to a carer (personal care allowance).

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[46] Annex No. 7 to Act No. 577/2004 Coll.
[47] The table shows types of social services which required the highest spending. The table does not include social services where total expenditure is less than 3% of total spending (EUR 11,053,296). The table does not include zero items.

Data about expenditure and performance of social services are incomplete and recognised through various reports and institutions. Consolidation of the data is presently very difficult. Inconsistencies in reported data, methodologies that differ between data collecting institutions and data divided between general government institutions – each of these factors is an obstacle to detailed and fair analysis of expenditure and performance. Unification of methodology and appointing a single institution to collect and process data about the social services system is the way to better transparency. Therefore, one of the measures to be implemented in cooperation with other general government authorities is to unify the data collection and processing methodology.

Considering the complexity of this theme and overlapping of the issues with other departments, long-term care will be subject to a separate spending review. Ageing of the population exerts a pressure aimed at interconnection of social and healthcare services under a single long-term care system, which would enable increasing the quality of the provided care and cost savings. The subject matter of the spending review will be comparing cost rates for medical actions in hospitals and in LTC facilities; values and cost rates of institutional care and personal care provided at the recipient's home; cost of increased provision of services and family caregiving.

4.5 Care for Children at Risk

- **Public spending on institutional care for children in public and private facilities amounted to EUR 76 mil., while spending on a substitute family care reached EUR 13 mil. (contains only spending on allowances**
- **in Slovakia, around 14,000 children are raised outside their own family 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.**
- **Average monthly expenditure on a child placed in a child-care facility based on a court decision are EUR 1,020, while average monthly expenditure per child in substitute family care are EUR 337.**
- **To protect children, it is necessary to stop the increase in number of children raised outside their own family. A more intense field work and consulting for families at risk and availability of social housing are the potential value adding measures (children staying with their parents) and, at the same time, reduce the expenditure on orphanages.**
- **More than a half of children taken from their families could return home if the family is provided with an adequate support. In 2010 for 42% of such children the key requirement to be met for the child to return home was availability of proper housing.**

Graph 79: Share of children aged 11, 13 and 15 living in state orphanages
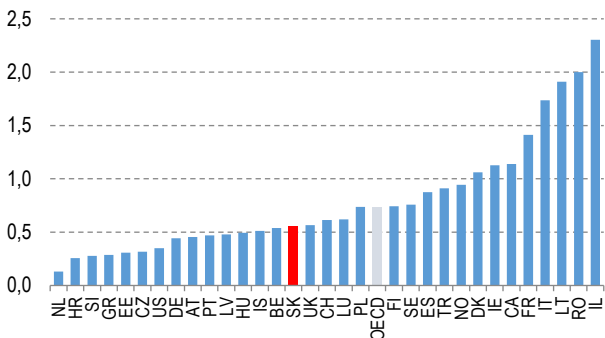
Source: WHO, 2010; GGB

Graph 80: Children raised outside their own families (number of children)

Social care facility
Re-education facility
Boarding special needs school
Foster home
Substitute family
% of children outside own family in total number of children (right axis)
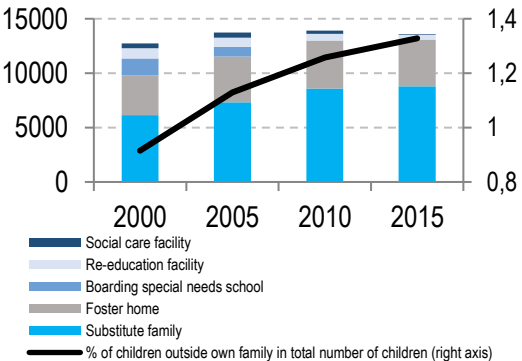
Source: VfM Unit

The most numerous group of children in orphanages (both public and private) in Slovakia are children aged 11 - 15 years (34% of all children in 2016), and the international comparison focused on upbringing of 11–15 years old shows that the share of children raised in public orphanages in Slovakia is lower than the

OECD average, and the Czech Republic and Hungary did even better. To see the whole picture, it is necessary to consider also other than state facilities, children of every age and substitute family care.

There are two trends notable in upbringing of children outside their own families[48]: Starting from 2000, the percentage of all children raised outside their own families is growing. During the same period, positive changes were made in internal structure of the existing forms of childcare outside the children's own families and **the percentage of children in substitute families is growing.** When considering various types of substitute families, preferred are those when children are raised by their family relatives or other close persons. On the other hand, there is a long-term trend of falling interest in foster family care and adoptions.

Expenses per child in substitute family care equal to a third of expenses for a child placed in a child-care facility based on a court decision. Besides higher costs per child compare to institutional care, substitute family care is the way to better utilisation of public spending. Monthly stay of a child in an orphanage costs around EUR 1020.[49] Monthly costs per child in foster family care are EUR 161.65 (child care benefit EUR 138.13 + child allowance EUR 23.52) and the benefit for the foster care provider EUR 175.62.[50] Currently Slovakia implements nations project Encouraging Deinstitutionalization of Substitute Care. Implementation of the project will increase the share of children in substitute families. Considering the budgeted amounts, the project is expected to bring high value for children being at risk of social exclusion.

Graph 81: Reasons for placing children in institutional care based on court decision, 2015
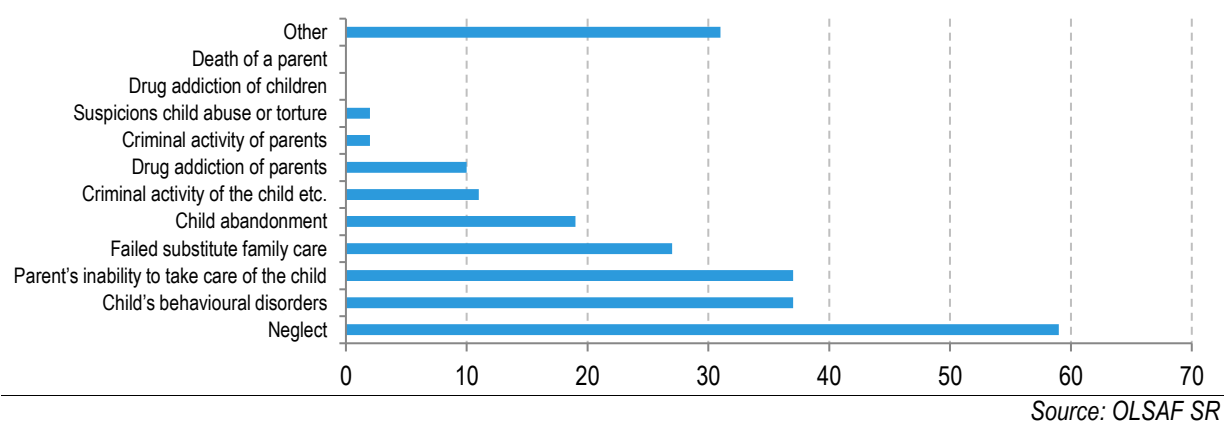
Source: OLSAF SR

More than a half of children taken from their families could return home if the family is provided with an adequate support. In 2010 for 42% of such children the key requirement to be met for the child to return home was availability of proper housing.[51] After children are placed in a childcare facility, contacts and cooperation with families are poor. On average two out of three children in a childcare facility are invited to visit their family once a year. Children are visited in the childcare facility by their family members nearly twice a year, on average.[52] In 2016

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[48] I.e., not raised by their own parents.

[49] This refers to costs of care for a child placed in a state or non-state child-care facility based on court decision. Total annual expenditure on upbringing a child in such facility equal EUR 76 mil. Facilities operated by local governments or by the Ministry of Education have not been included in this assessment. The amount does not include expenditure for execution of measures adopted by the social guardianship authorities and statutory benefits divisions.

[50] In case of poor health of a child or taking care for more than one child at a time, the benefits are higher.

[51] Owing to absence of proper place to live or defects that put the child's life or health at risk.

Since 2006, *Úsmev ako dar* (Smile as s Gift) Foundation in cooperation with Central Office of Labour, Social Affairs and Family analyze reasons for taking children from their families and the possibilities of return to their families. Selected publications: Mikloško (2011); *Úsmev ako dar* (2015).

[52] The existing summary statistics only provides data about number of visits and numbers of children, without distinguishing between visited children and those who have never been visited (Statistical Office SR).

15 % of children[53] (from among children whose families were subject to remedy) returned to their families after successful correction of their family environment.

Preventive taking of a child from family and remedy in the family are supported by the state in form of support granted to accredited non-governmental organizations in the amount of EUR 1.1 mil. Records kept by the Offices of Labour, Social Affairs and Family show that as at 31. 12. 2016, subject to certain risk[54] were 4 192 families with 9 978 children. Quantification of the potential effects of more intense fieldwork with the family at risk and better availability of social housing will be addressed by a separate spending review focused on persons being at risk of social exclusion.

Box 14: Objectives and activities of social and legal protection of children and social guardianship

Care for children at risk is the competence of authorities of social and legal protection of children and social guardianship (SLPC&SG). The key objective of their policies is to provide families with necessary assistance so that children could be raised by their parents. If it is impossible to ensure that a child be raised by broader family, the social guardianship authority (SLPC&SG) arranges for a substitute family care or placing the child in an orphanage.

For the time being, it is necessary to provide substitute family care for 1 500 - 1 600 children. In total, 14,000 children in Slovakia are raised outside their own family. More than 17% of children placed in orphanages require and exclusively residential care owing to their health condition.

In **social and legal protection of children** (SLPC) competent authorities act also in situations when the parents are able to care for the child, but the family is facing a problem to be solved (divorce, custody of the child, paternity action, etc.), in situations which do not require taking the child from the family, although the care provided by the parents shows some fails (neglect, alcohol, parents' criminality etc.) or children are negatively affected by behaviour of persons other than the child's parents (e.g. victims of criminal activities, etc.) and in situations when children need to be provided with a substitute family care (search for family relatives, or close persons who could be granted custody of the child, of, if no such relatives are found, arranging for a foster family care or adoption). **In 2016, child social and legal protection authorities handled approximately 55 thousand cases.**

In **social guardianship,** measures are adopted with respect to children who have committed and offence or a criminal act in consequence of their addiction, and in case of disorders and problematic behaviour. **In 2016, social guardians handled approximately 15 200 cases of children** (social guardianship authorities for adults adopt measures in particular for persons released from prison or detention, drug addicts, etc. In 2016 such measures were adopted for 4,657 of adults).

In 2016, there were approximately 96 active family cases (133 children) per one regular employee of social and legal protection of children and social guardianship authorities, which is three times more than would be the optimum quantity[55]. The further developing specialization and professionalization of measures implemented by SLPC&SG authorities (in particular the fieldwork in family environment), and the support to deinstitutionalization, have been addressed mostly using structural funds, with budgeted amount of EUR 35 mil. for 2016 - 2018.

Table 15: Cases addressed by social and legal protection of children and social guardianship authorities

	Number of families		Number of children	
	2015	2016	2015	2016
New cases in the course of the year	15,378	14,607	21,737	20,784
Current cases -total number	52,363	49,618	70,079	69,102
thereof soc guardianship of children			15,182	15,179
Number of cases as at 31.12.	229,747	231,942	345,592	347,049

Source: Public Employment Services

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[53] In approximately 1800 cases of children in orphanages, the parents cooperated in correction of the family environment. After the remedy, 270 children returned from orphanages back to their family environment. Another 148 children returned home because after expiration of the term of the adopted urgent or educational measures, no further measures were needed).
[54] Conditions that are a threat to proper mental, physical and social development of the child.
[55] According to Schavel & Daniškova (2012) "the number of families per social worker in England or Sweden is around 15".

5 Social insurance and pension system

- **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 p.p. 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 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 contracts with a benefit plan, 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.**

The social insurance system is comprised of eight funds. The largest of them are the old-age insurance fund and the disability insurance fund, which together are referred to as the pension insurance. In 2016 their expenditure amounted to EUR 6.5 bn, and their revenues were by EUR 1.9 bn lower. All funds excluding pension insurance funds and the administrative fund ended up with a surplus. Revenues of the solidarity reserve fund amounted to nearly EUR 1 bn, and in line with the purpose of this fund, this amount was spent for settlement of deficit incurred by other funds.

Graph 82: Management of social insurance funds in 2016 (EUR mil.)
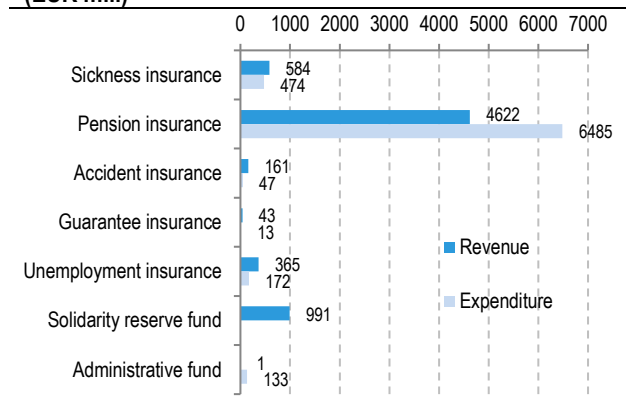
Source: Social Insurance Agency
Note: Revenues of pension insurance funds do not include transfer from the government budget in the amount of EUR 365 mil.

Graph 83: Projection of pension insurance expenditure (% GDP)
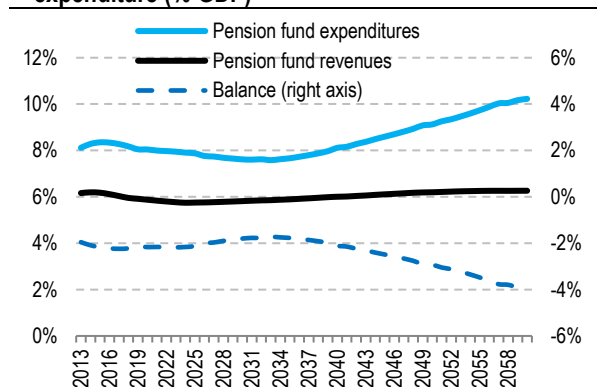
Source: MLSAF SR, SLOPEM

Thanks to the existing demographic trends and a relatively fast assumed economic growth, the deficit in pension insurance is expected to slowly grow to reach the level of around 1.5% of GDP until 2035. Then, however, the population ageing will mean additional burden for public finance. Insurance expenditure will grow faster than revenues and until 2060 the deficit will increase by 2.3% of GDP.

The social insurance systems should be based on a fair distribution of contributions to the Social Insurance Agency and fair payments by the Social Insurance Agency to citizens. By the end of 2018, a new legislation will be enacted with the aim to establish an annual clearing of social insurance as a effective tool to

prevent entities from optimization of contributions[56]. The purpose is to discourage entities from reporting high bonuses in one month and, as a result, the social security burden will be fairer and state revenues higher. Effective from January 2019, it will be possible to pay social insurance advance payments and the annual social insurance clearing will be done in 2020 for the prior year. The estimated positive impact on tax and contribution revenues of the general government account for approximately EUR 49 mil., depending on final proposal and excluding the costs of implementation. Considering the present recognition of accruals in social contributions, the accrual effect is to be seen for the first time in public finance for 2020 (MF SR, 2017).

5.1   Pension savings

Old-age pension saving (2nd pillar)

The second pillar consists of mostly younger savers, in age group 25 – 45-year-olds, 65 % SIA insurers are involved in the 2nd pillar. Their higher participation rate relates to periods of mandatory or automatic entry to the 2nd pillar when entering the labour market. In December 2016, the records showed 1.4 mil. savers. Thereof, active savers were 1.1 mil., which is 44.4 % of savers of the Social Insurance Agency.

Since the introduction of voluntary entry in 2008 (with a break in 2012), only 30% of those entering the labour market have entered the second pillar. Numbers of persons entering the 2nd pillar culminate in the first two years after entering the labour market; those entering the 2nd pillar are mainly people with higher education, better paid and in age shortly after completion of education.

Graph 84: Number of savers in 2nd pillar and old-age insured persons in Social Insurance Agency
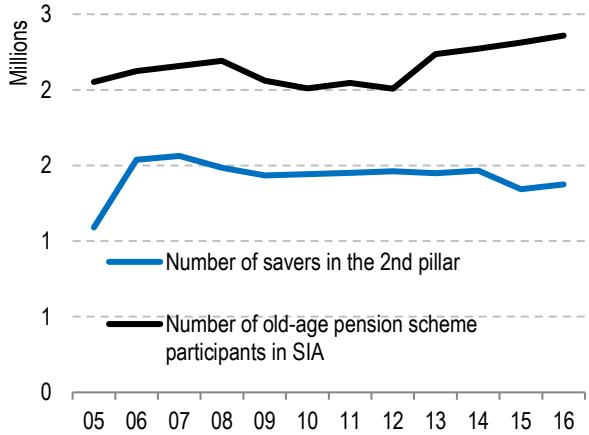
Source: SIA

Note: Number of insured persons in December of the given year. Including savers without assessment base.

Graph 85: Share of 2nd pillar client in persons insured with SIA
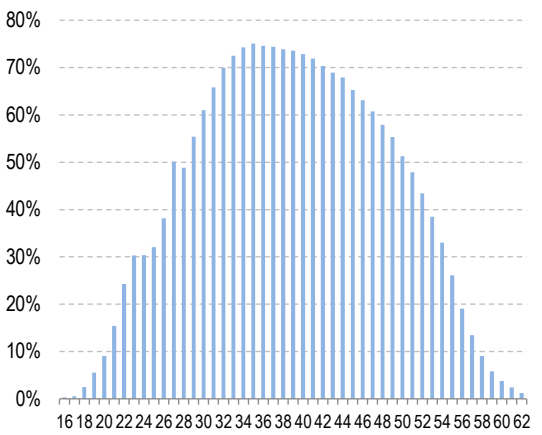
Source: SIA

Despite tax benefits, interest in voluntary saving in the 2nd pillar was low. The average number of savers with voluntary contribution was gradually growing, however, did not exceed the level 0.2% of all savers in the 2nd pillar in any of the years of existence. The amount of average voluntary contribution oscillated around EUR 40 per month. If the savers were paying maximum possible contribution on which tax relief can be claimed (2% of the tax base),

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[56] Under sponsorship of MLSAF SR in cooperation with the SIA and MF SR.

it would refer to saver's average wage in the amount of EUR 2,000 per month. The tax benefits for voluntary payers were in force from 2012 until the end of 2016.[57]

Table 16: Voluntary contributions to 2nd pillar

	2013	2014	2015	2016
Number of savers with voluntary contribution (th.)	1.9	2.3	2.4	2.8
Ø voluntary contribution (EUR)	45	35	40	41
Sum of contributions (EUR th.)	882	982	1,153	1,369
Fiscal effect / tax expenditure (EUR th.)	187	180	176	233*

Source: SIA, MF SR, own calculation.
*Note: *Fiscal effect estimated based on data from tax returns and tax assessment reports.*

Supplementary pension saving (3rd pillar)

Supplementary pension saving is distinctly preferred to voluntary saving under 2nd pillar. Year-on-year comparison shows that the number of new participation contracts keeps growing (since 2009 with two exclusions in 2014 and 2016). In 2016, 30 % of persons insured with the Social Insurance Agency (755 th. persons) were saving under the 3rd pillar. However, from a long-term view, the percentage of participants with at least one contribution made in the given year is only 70 % of all participants. Savers in the 3rd pillar are, on average, older than savers in the 2nd pillar. While the average age of the saver is around 38 years, the average age of a saver in the 3rd pillar is 44 years.

Graph 86: Participants and supplementary pension saving contracts
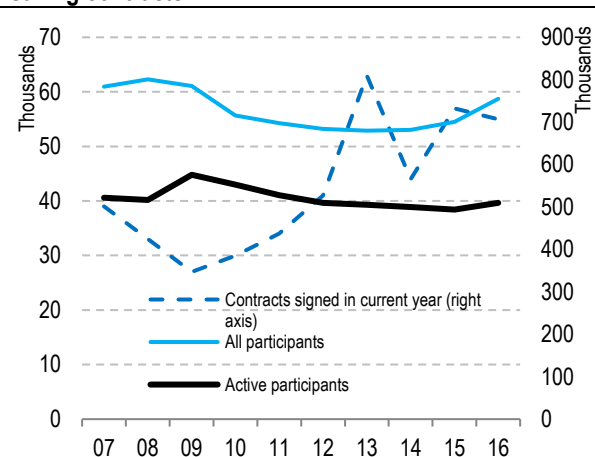
Source: Association of Supplementary Pension Companies

Graph 87: Contribution by participants
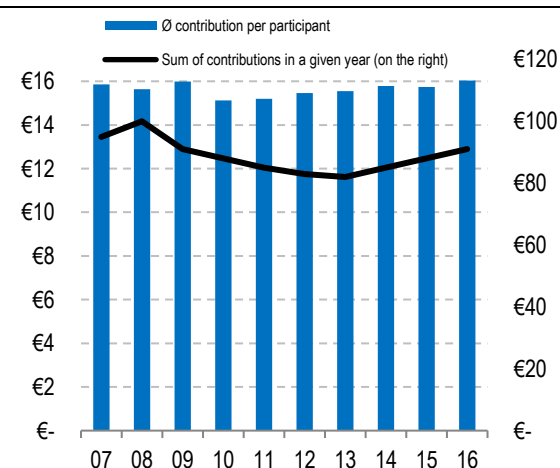
Source: Association of Supplementary Pension Companies

In the 3rd pillar the main motivation to save are the contributions from employers. In 2016, only 8% of all participants were saving without contribution of their employers. The average contribution from employer increased from approximately EUR 20 (in 2007) to EUR 26 in 2016. The average contribution made by participants remains nearly unchanged since 2007, although nominal wages increased by more than one third.

An increase of the saver's monthly contribution by 1 euro would, under the present conditions, increase their monthly pension in current prices by EUR 2.88, i.e., up to 6%.[58] Average real returns higher by 1 p.p. (3% yearly) could increase the monthly pension by up to 28%. An increase of the saver's monthly contribution by 1 euro would (under the present saving terms) is estimated to increase their monthly pension at constant prices

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[57] See § 11 (8) of Act No. 595/2003 Coll. on income tax. From 1 January 2013 to 31 December 2016, tax benefits were granted on voluntary contributions and the amount of voluntary contributions could be included in the non-taxable part of the tax base up to 2 % of the tax base, however not more than 2 % of 60-times the average wage in Slovakia 2 years ago.
[58] With period of saving 42 years and returns 2 % p.a. (nominal) and 0.54% p.a. (real) (which is equivalent to average weighted yield of funds in the 3rd pillar during the last 5 years). Lifetime pension estimated based on terms and conditions presently offered by insurers operating in the 2nd pillar to 62-years old savers.

by EUR 2, i.e. by 6%. Average real returns higher by 1 p.p. (1.5 % yearly) could increase the monthly pension by as much as 25%.

Under the same terms, participant in supplementary pension saving with an average contribution (EUR 16) can save approximately EUR 12 600. This, at the moment of retirement, the saver receives a lifetime annuity in monthly amount of EUR 41 - EUR 48. If his employer contributes the same amount, the saver's monthly annuity would be EUR 82 - EUR 96.

The introduction of a tax allowance on participant's contributions, in the amount of EUR 180, did not have a significant impact on the average saver's contribution, as since 2007 it on average exceeds EUR 15. More than 39% of old contracts and 46% of new contracts are for contribution amounting to EUR 15. It means that signing a new contract can motivate savers to paying a higher contribution, although more than a half of savers with new contracts do not make maximum use of the existing tax benefit (they pay less than EUR 15 per month).

Graph 88: Distribution of contracts, by saver's contribution (%)
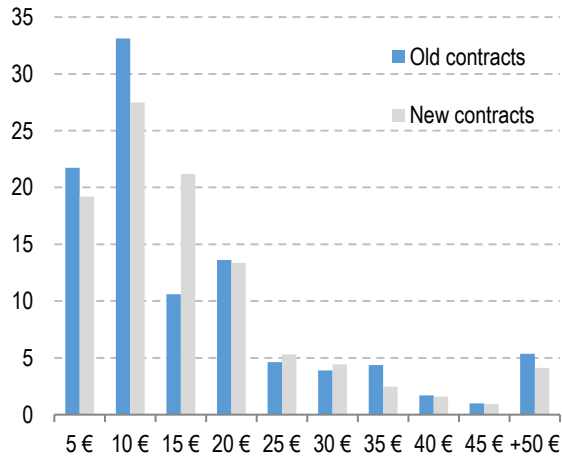
Source: SPMC
Note: Contributions higher than EUR 50 are in the last category.

Graph 89: Employer contracts and average contributions paid by employers
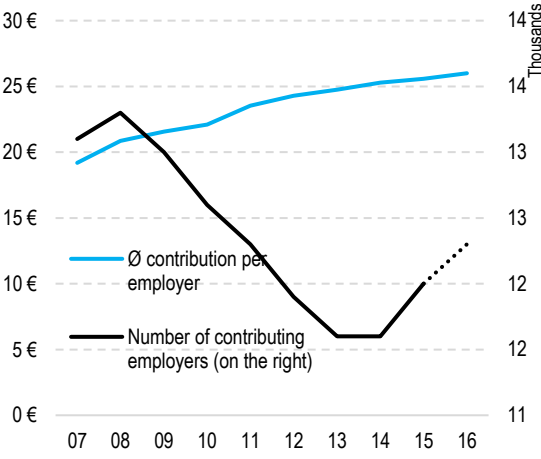
Source: Association of Supplementary Pension Companies
Note: The number of employers in 2016 is estimated.

Since 2014, the number of contributing employers increased. Number of employers contributing their employees to pension saving was decreasing starting from the economic crisis until 2013. The following increase may not be associated with tax benefits, it may be driven by the economic cycle or other factors. In 2015, only approx. 12 thousand employers (7% of all employers) were contributing to supplementary pension saving, but these employers were employing 30% of all employees (including the self-employed employing other persons). Average contribution paid by employers is steadily growing and in 2016 it reached the amount of EUR 26. The spending review suggests increasing attractiveness of voluntary pension saving using a mix of policies, including stronger competition. As a part of this measure, consideration will be given to allowing employers to send voluntary contributions to pension savings also to the 2nd pillar. Higher cumulative amount of savings in the 2nd pillar will result in higher absolute yields with the same percentage yield.

Employers presently on average no longer make full use of tax benefits on contributions to supplementary pension saving. In the years under consideration, average contribution paid by employers was around 2.9% of average wage, while the available tax benefit for employers is at 6%.

Box 15: Tax benefit in supplementary pension saving

Supplementary pension saving is associated with tax benefits both on the side of the participant and on the employer's side. Bothe participants and employers can add a part of the amount of contributions made to supplementary pension saving to non-taxable part of the tax base. In 2005 – 2010, the existing legislation made it possible to reduce the tax base by contributions made to supplementary pension saving in the amount of up to SKK 12 000 (equivalent of EUR 398,33). As of 1 January 2011, this benefit was cancelled and until 1 January 2014, the state did not support supplementary pension through any tax benefits for savers. Effective from 1 January 2014, tax benefits apply to newly signed contracts under the rules described below. The "new" contracts shall mean also contracts of savers who signed an amendment to the "old" contract to cancel the benefit plan.

Tax benefits on the side of savers

In order to encourage long-term pension saving, the state introduced the optional reduction of taxpayer's tax base[59] by the amount of contributions paid up to EUR 180 yearly (EUR 15 per month). Thus, each year, the participant can save EUR 34.2 on paid taxes. However, the tax relief can only be claimed by participants with "new" contracts. In 2016, approximately every fourth saver had the "new" supplementary pension saving contract.

In 2015, participants with "new" contracts paid contributions totalling EUR 22 mil. Thereof 6.7 mil. were claimed as a deductible item in tax returns and in reports on tax assessment. As a result, net decrease in tax revenues caused by granting this tax benefit in 2015 amounted to EUR 1,268 mil. (Source: MF SR).

Table 17: Contributions by participants of supplementary pension saving

Year	2014	2015	2016*
Fiscal effects / tax expenditure (EUR th.)	589	1,268	1,600

Source: SPMC, MF SR, own calculation.
*Note: *Estimated based on fiscal effect in 2015 and data from SPMC for 2016.*

Tax and social insurance benefits on contributions paid by employers

The tax benefits also refer to contributions to supplementary pension saving paid by the employer on behalf of the employee (irrespective of the type of contract).[60] In 2015, the amount of contributions to supplementary pension saving paid by employers totalled EUR 131.5 mil. Fiscal effect in 2015 is estimated at approximately EUR 13,8 mil.[61]

In addition to that, contributions paid by employers to supplementary pension saving on behalf of the employee are also subject to relief in social insurance payments. The contributions are exempt from social insurance – both contributions made by the saver and those made by the employer.[62] In 2015, this incentive caused decrease in social insurance revenues of around EUR 45.4 mil. Net fiscal effect of this benefit in 2015 is estimated at EUR 39 mil.[63]

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[59] See § 11, (11)-(13) of Act No. 595/2003 Z. z. on Income Tax.
[60] See § 19 (3) l) of Act No. 595/2003 Z. z. on Income Tax. These contributions can be claimed up to the amount of 6 % of posted wage and wage compensation of an employee.
[61] In 2015, 11 963 employers (including the self-employed employing other persons) paid at least one contribution on behalf of their employee. Among these employers, net of general government entities, 7 579 companies reported profit (positive result) after tax. If these companies were contributing to their employees max. to the amount of eligible tax costs, the fiscal effect of the benefit, assuming the corporate income tax rate at 22 % (2015) would be EUR 15 mil. per year. To consider the individual ceiling of the tax benefit (6% of employee's wage) we assumed that each employee earns an amount of average wage i.e. EUR 883 (2015). The resulting fiscal effect thus would be around EUR 13.8 mil.
[62] See, in particular, § 138 (1) and (8) of Act No. 461/2003 Coll. on Social Insurance.
[63] Considering the deficit results of the Social Insurance Agency's operations (deficits of the fundamental old-age fund) the decrease in collection of the premium brought the need for higher transfers from the government budget (in full amount of the relief).The net fiscal effect of the relief in social insurance also reflects the effect of higher income on income tax.

5.2 Performance and cost ratios of the 2ⁿᵈ and the 3ʳᵈ pillar

Comparison of performance

Weighted return performance of funds in the 2ⁿᵈ and the 3ʳᵈ pillar are among the lowest in OECD, which is, to a large extent, caused by the structure of savers in the funds. From June 2010 to June 2015, average yields generated by Slovak funds were 1.9% (nominal) and 0.4% (real) which is less than the nominal (5.37%) and real (3.69%) weighted average of OECD[64]. In 2015, real weighted yield of Slovak funds was 0.8%, which is less than the Czech Republic (0.9%) and Hungary (3.7%), however, higher than Poland (-6.1%), where several regulatory changes were adopted.

Return performance of the second pillar is, on average, higher than return performance of the 3ʳᵈ pillar. During the past 5 years, average annual yield from PFMC funds (weighted by assets in each fund) was 2.12% in nominal and 0.85% in real terms. For comparison, in 2015, despite fluctuations on financial markets, more risky funds in the 2ⁿᵈ pillar (SRRI 4+)[65] brought real return performance (5%) several times higher than the OECD average (0.6%). Nevertheless, their weight on total return is low, owing to relatively low amount of managed assets.

Graph 90: Real weighted yield of pension funds (%)
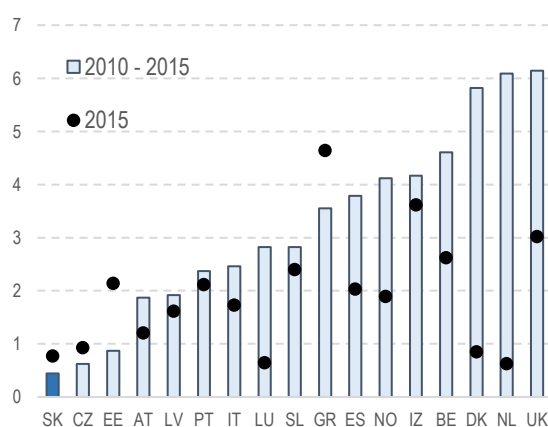
Source: OECD

Graph 91: Distribution of assets in pension funds
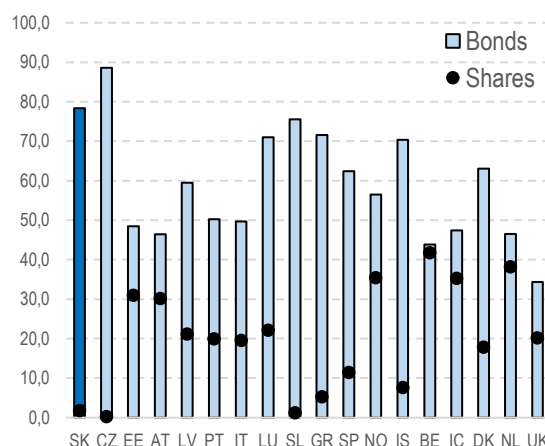
Source: OECD

Most of savers' funds are placed in conservative guaranteed bond funds with lower returns. Three fourths of all assets in pension funds are allocated in bond investments (bonds or bond ETFs). The present distribution of assets between pension funds was largely influenced by one-off transfer of savers into guaranteed bond pension funds[66] effective from 30 April 2013. Anyway, the transfer did not result in major increase in proportion of bond investments which has been 2/3 since 2010.

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[64] The OECD study (2016b) compares yields in 25 from among all 35 OECD members.

[65] For better comparability with DDS funds, we present comparison of yields from PFMC funds structured by Synthetic Risk and Reward Indicator (SRRI). Standard methodology of SRRI calculation in accordance with recommendations of the European Securities and Markets Authority (ESMA). SRRI category 2 includes conservative bond funds, category 3 includes mixed funds and certain equity funds and category 4+ included more volatile funds investing primarily in equities or copying index.

[66] Under § 123ai of Act No. 43/2004 Coll., PFMC were obliged, by the end of February 2013 send a specific form to all savers in mixed, equity and index funds. The saver who were willing to stay in those pension funds, we to respond by sending the form back to the pension management company by 31 March 2013. Otherwise these savers were, effective from 30 April 2013 transferred to guaranteed bond funds.

Graph 92: Assets in funds of Pension Fund Management Companies (PFMC)
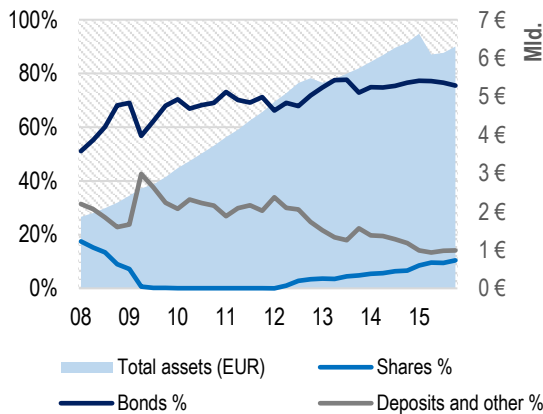
Source: NBS

Graph 93: Assets in funds of Supplementary Pension Management Companies (SPMC) (%)
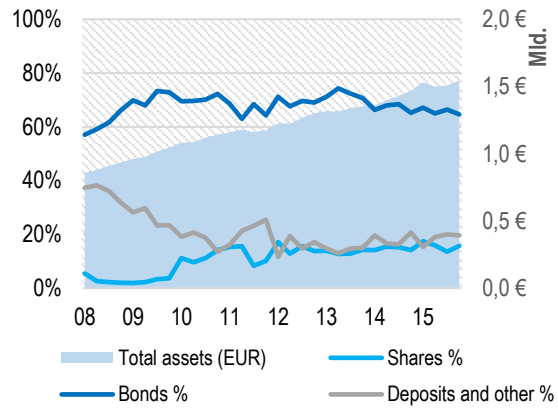
Source: NBS

Table 18: Assets in the 2nd pillar by types of funds

	Bond	Mixed	Equity	Index
Share in total assets (%)	82	1	11	6
Value (EUR mil.)	5,777	68	798	445
Return performance in 2013[67] (%)	6.2	20.1	24.5	47.1

Source: NBS at 24.03.2017

Investment behaviour of fund managers is relatively short-term oriented – average residual maturity of bonds in PFMC portfolios is presently around 5-6 years and the share of equity investments does not, in long-term view exceed 10%. Anyway, there is a potential for long-term investments. As many as 62.4% of present assets managed by PFMCs (approximately EUR 4.2 bn) will not mature earlier than in 20 years. Thereof, EUR 1.3 bn is not expected to be needed by PFMCs to finance their liabilities earlier than in 30 years.

Rather than insufficient supply of pension funds, the major problem faced by the 2nd pillar is the existing gap between the structure of savers' assets and the time horizon of the saving scheme. The consequence thereof is that total average return performance of savings in the 2nd pillar considerably lags the OECD average despite the fact that several funds of the 2nd pillar bring above-average yields compared to similar funds in OECD countries. This situation increases the risk of low future pensions for savers. **Introduction of mandatory harmonization of the investment strategies of the existing and future savers with time horizon of their saving schemes** would increase average return performance of assets and duration of assets will get closer to the investor's retirement horizon. The spending review recommends development of a default investment strategy with optional back-out (choice of own strategy), for active management of savings considering individual term of saving (dynamic life-cycle strategy).

A potential alternative to automatic transfer of savers to equity funds is the set of measures improving awareness of savers and encouraging management companies and agents to being more proactive in offering saving strategies bringing more attractive yields for savers within the existing saving horizon.

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[67] In May 2013, the present legislative regulation of the 2nd pillar came into force and in consequence thereof, the distribution of savers' assets between funds has considerably changed.

Graph 94: Nominal return performance of PFMC funds p.a. (%)
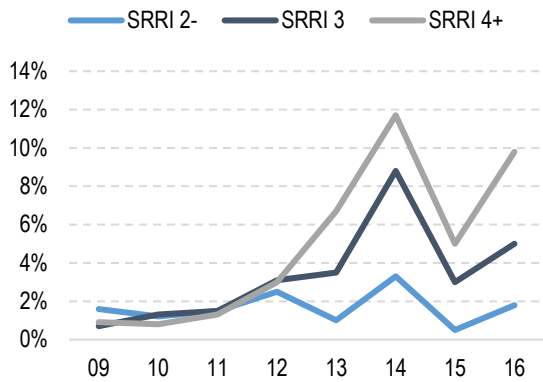
Source: NBS

Graph 95: Nominal return performance of PFMC funds p.a. (%)
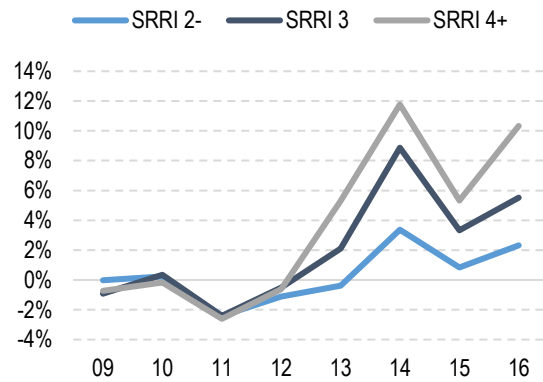
Source: NBS

Return performance of SPMC funds is relatively low. Average annual yield for the past 5 years (weighted by assets in each fund) is 1.81% (nominal) and 0.54% (real). SPMC funds also invest in bonds. Effective from 2010, the proportion of the equity component fluctuates around 15% of total assets. Here, unlike the 2nd pillar, the rule that higher-risk funds bring higher yields does not work.

Graph 96: Nominal performance of SPMC funds p.a. (%)
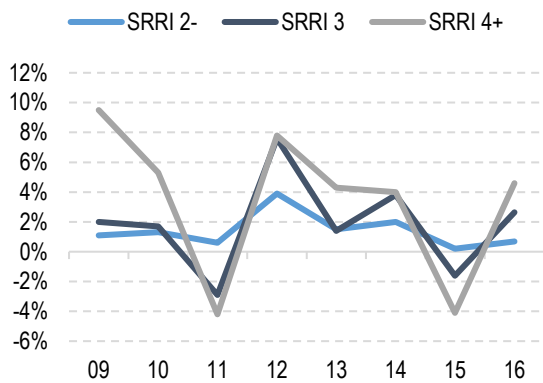
Source: NBS

Graph 97: Real performance of SPMC funds p.a. (%)
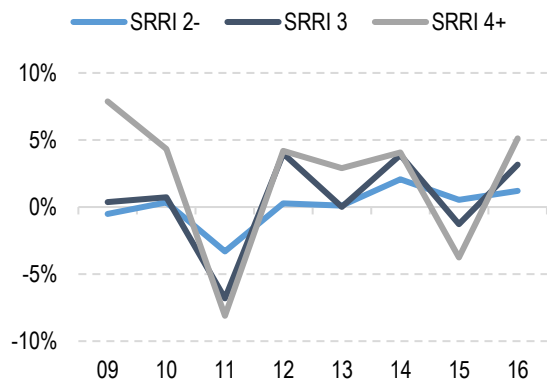
Source: NBS

Managers of 3rd pillar funds are relatively more proactive, achieve, on average, a higher turnover of portfolios and until 2015 they seem to use mainly direct instruments (equities and bonds). In 2015 the proportion of structured financial instruments (ETF and unit trusts) grew to nearly 10%, anyway, it still considerably lags behind the 20% performance of the 2nd pillar. The 3rd pillar, however, lack index funds, which, in long-term horizon, bring higher yields. Mandatory introduction of index funds into supplementary pension saving makes it possible for savers to invest in an easily understandable product with yields equal to whole-market returns.

The prospect of long-term investing of SPMC funds is low. As many as 80% of present assets have been allocated to contracts with a benefit plan, under which it is necessary to reckon with immediate payout of large amounts of cash, and thus, requirement of immediate liquidity. SPMC are required to hold 18% of assets for immediate disposal and additional 49% may be invested within the horizon of max. 10 years. The residual maturity of bonds held in SPMC is approx. 5-6 years, while long-term investments, such as infrastructure projects, are characterised by lower liquidity.

Comparison of expensiveness

While expensiveness of 2nd pillar funds is below the OECD average, expensiveness of funds in the 3rd pillar, despite long-term decrease, remains more than double the OECD average. Average expensiveness of all

Slovak pension funds fluctuates slightly above the level of arithmetic average of operating costs of comparable saving schemes in OECD and V3 countries.

Graph 98: Proportion of operating costs in managed assets in non-guaranteed saving (DC) schemes
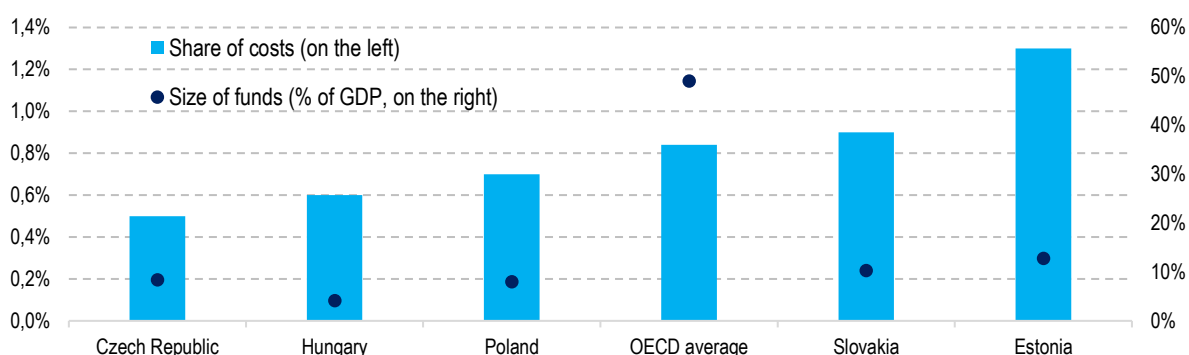
In international comparison, expensiveness of Slovak pension schemes is on average level, but above V3 level. In 2012 and 2013, the 3rd pillar in absolute figures, is more expensive than the 2nd pillar, despite the fact that the 3rd pillar managed five times less assets.[68] A relative higher return performance of equity and index funds in the 2nd pillar in 2014 contributed to the fact that revenues of pension management companies from charges in the 2nd pillar increased and exceeded the revenues of SPMC from charges in the 3rd pillar by more than a half. Thus, fees charged for return performance increased on year-on-year comparison by 130%.

Table 19: Share of charges in managed assets (total expense ratio, %)

	2012	2013	2014	2015	2016
PFMC	0.62	0.57	0.78	0.63	0.56
SPMC	2.61	2.48	2.03	1.9	1.51

Source: Annual reports of PFMC and SPMC, own calculation
Note: Calculated as proportion of sum of all fees charged in average value of assets in the current year.

Box 16: Fees charged by PFMC and SPMC

PFMC in the 2nd pillar are entitled to three types of fees: for management (0.3% of the value of assets), for maintenance of account (1% of the sum of contributions) and for return performance (max. 10% of the amount of returns).

Table 20: Fees charged by PFMC (EUR thousand)

	2012	2013	2014	2015	2016
For management	15,210	16,484	18,185	18,929	19,824
For account maintenance	7,706	3,872	4,345	4,388	4,640
For return performance	8,386	10,945	25,171	16,708	12,668
Total	31,302	31,301	47,701	40,025	37,132

Source: Annual reports PFMC

In 2015, fees charged by PFMCs comprised, on average, of: fees for management 47 %, fees for maintenance of account 11% and fees for return performance 42 %.

SPMC in the 3rd pillar are entitled to four types of fees: for management (1.6% of the value of assets in the contributory fund for 2016 – gradually falling to 1.2% until 2020), for return performance (10% of returns), for migration (5% of the account balance when the client migrates within 1 year) and severance pay (5% of the value of the account under the "old" contract).

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[68] Expensiveness and amount of fees in the 2nd and the 3rd pillar differ, as in the 2nd pillar mandatory contributions are collected by the Social Insurance Agency (§ 159 of Act No. 461/2003 Coll. on Social Insurance). The Social Insurance Agency is entitled to fees for assigning contributions to individual PFMC – a fee in the amount of 0.25% of the amount of assigned contributions; on average it is EUR 1.1 mil. per year. These revenues of the administrative fund of the Social Insurance Agency in 2015 and 2016 accounted for 0.68% of all revenues of the administrative fund.

Table 21: Fees charged by SPMC (EUR thousand)

	2012	2013	2014	2015	2016
For management	24,942	25,871	21,954	22,642	23,312
For transfer to another SPMC	3	2	0	117	1
For return performance	4,665	3,376	4,445	5,006	146
Severance pay	2,629	3,703	1,963	1,088	1113
Total	32,239	32,952	28,362	28,853	24,572

Source: Annual Reports SPMC

In 2015, the sum of fees charged by SPMCs comprised, on average, of: fees for management 78 %, fees for return performance 17 %, severance pay 4 % and fees for transfer to another SPMC less than 1 %.

Revenues of both PFMC and SPMC can be increased by amending the methodology of calculation. Currently, two largest fees are charged for account management. On the other hand, the fee for return performance is charged at 17% (SPMC) and 42% (PFMC) of total fees. Increasing the percentage of the fee for return performance would have an effect on behaviour of management companies. Higher yields generated by the change could bring higher income for the pensioners.

6 Analysis of expenditure of MLSAF SR organisations and the SIA

- **From 2012 onwards, employment spending of the Ministry of Labour, Social Affairs and Family of the Slovak Republic increased by an average of 9% per year. Employment in the chapter grew by an average of 3% per year since 2012, while wages grew by an average of 5% per year**
- **Goods and services were a significant part of the budget in three organizations (CIPC, ILFR, IAMLSAF). Between 2012 and 2016, the expenditure grew at an average rate of 10% per year. Although spending from EU funds accounted for only 21% of all spending on goods and services between 2012-2016, they contributed to more than four-fifths of the growth.**
- **The spending review using a DEA analysis evaluated the efficiency of SIA branch offices. The analysis estimated the achievable savings and opportunities to increase the performance of less efficient branch offices.**
- **IT spending of the Ministry of Labour, Social Affairs and Family vary between EUR 10 - 20 mil. in the long run. In 2010-2016, on average, 75% of the spending was financed from the government budget. Long-term average of IT spending of the SIA varies from 10 to 20 million euros, the average in the budget for 2017-2019 is EUR 10 mil.**
- **In 2017, the Ministry of Labour, Social Affairs and Family plans to make two major IT purchases for about EUR 12 mil. (support for the operation of IS for social benefits management (including 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 consolidation of the server environment (costing about 2 million euros each).**
- **No key performance indicators (KPI) have been established and monitored to assess the performance of information systems at the Office of the Ministry and/or the SIA and results achieved by the IS in meeting the existing objectives. Another problem is the absence of an internal methodology or other internal guideline to assess IT spending, which could help identify the optimal set-up for purchased services**

6.1 Current expenditure of the Ministry of Labour, Social Affairs and Family (MLSAF SR)

During 2010-2016, current transfers accounted for 86-90% of the MLSAF SR current expenditure budget chapter. The proportion of wages, insurance contributions, goods and services kept growing until they reached 14% in 2016

Graph 99: Key categories of current expenditure (%)
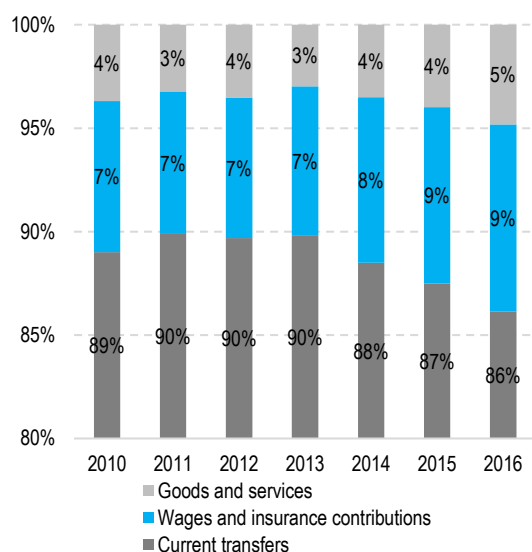
Source: Budget IS, VfM Unit

Graph 100: Structure of current expenditure of the budget chapter, excl. transfers (EUR mil.)
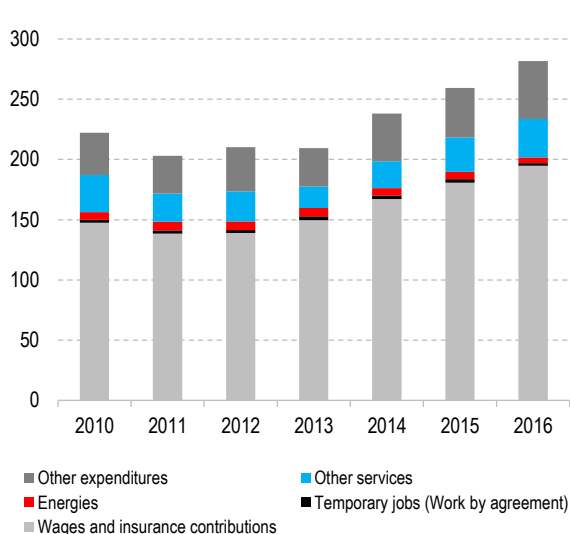
Source: Budget IS, VfM Unit

Apart from transfers, in 2010-2016 the budget of MLSAF SR varies between EUR 203-282 mil. per year. In 2016, spending on human resources (wages, insurance contributions and compensation for persons working under temporary job contracts (work by agreement) accounted for major part of these expenditure, however, it was only somewhat higher than the average for the whole general government (70%, average 65%). On the contrary, the share of total spending on other services was lower than the general government average (11%, average 15%). The differences in the structure of expenditure reflects the differences in activities under each budget chapters performed by each general government organisation.

Graph 101: Breakdown of current expenditure of the budget chapter, excl. transfers (2010-2016), %
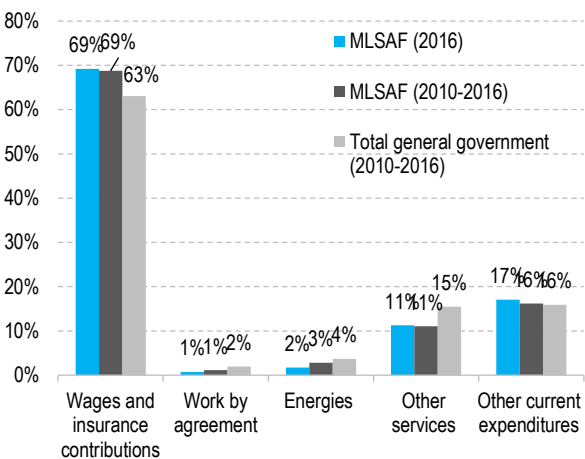
Source: Budget IS, VfM Unit

Graph 102: Employment spending of the budget chapter – selected indicators (2010-2016), %
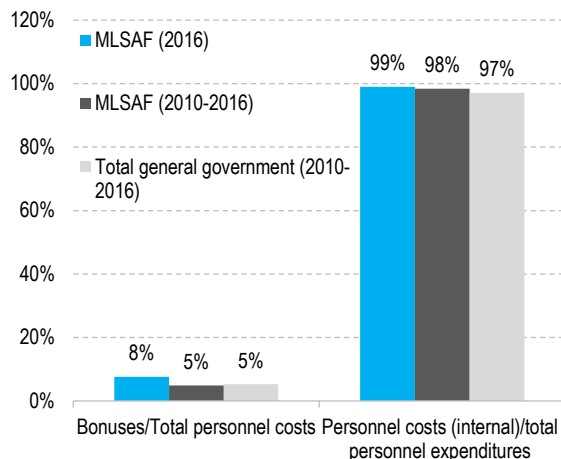
Source: Budget IS, VfM Unit

The share of spending on IT services in total spending on services under the budget chapter of MLSAF SR considerably exceeds the average, it is as high as 8.1%. Similarly, IT services account for a large part of all IT spending (11.2%, average 7.3%).

Graph 103: Expenditure on IT services under the budget chapter– selected indicators (2017-2020)
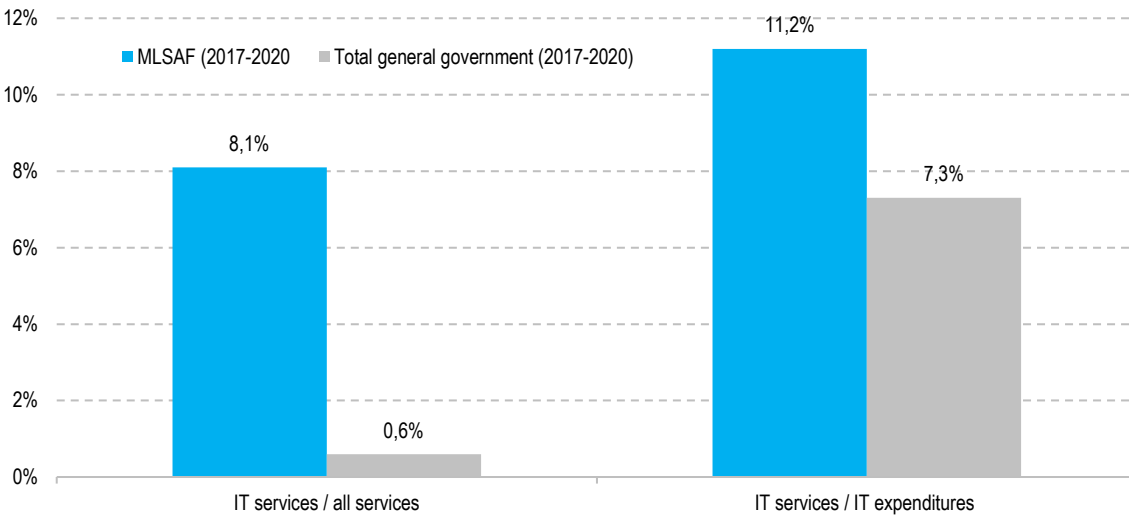
Source: Budget IS, VfM Unit

Note: The data are the average for 2017-2020 owing to different classification used before 2017.

Besides the Office of the Ministry, the budget chapter of the MLSAF SR includes six budgetary organisations and one subsidiary organisation. In 2014, Social Implementation Agency and the Social Development Fund expired with the Implementation Agency for the Employment and Social Inclusion Operational Program appointed as their successor organization. Until 2015, the Ministry's organizations included the Education Centre for the Ministry of Labour, Social Affairs and Family SR, which then merged with the Implementation Agency for the

Employment and Social Inclusion Operational Program and the name of the successor organization was then changed to Implementation Agency for the Ministry of Labour, Social Affairs and Family SR.

Table 22: List of subordinate budgetary and subsidiary organisations of MLSAF SR

Acronym	Name	Core activity	S/B*
ILR	Institute for labour rehabilitation of persons with disabilities	Secondary vocational school educational and training activities for students with disabilities	B
RCVI	Rehabilitation centre for the visually impaired	Consulting aimed at finding a job for visually impaired persons, including basic social rehabilitation	B
OLSAF	Offices of Labour, Social Affairs and Family		B
NLI	National Labour Inspectorate	Inspections of compliance with the Labour Code	B
CIPC	Centre for International Legal Protection of Children and Youth	Assistance for Slovak nationals in enforcement of alimony within EU countries and outside EU, international kidnaps of children and negotiating the right of contact, international adoptions	B
ILFR	Institute for Labour and Family Research	Research regarding labour, employment, labour relations equality of chances, social insurance, social and family policies	S
IAMLSAF	Implementation Agency MLSAF SR	Implementation of projects financed from EU funds.	B

*Note: * subsidiary organisation (S) / budgetary organisation (B)*

Human Resources

Since 2012, employment spending in the budget chapter of the MLSAF SR increased, on average by 9% per year. For the whole chapter, this means growth by EUR 55 mil. (39%) since 2012, thereof EUR 7 mil. resulted from spending financed from EU funds.

Table 23: Employment spending *

	Spending (EUR thousand)					Change (2012 = 100%)				Average growth
	2012	2013	2014	2015	2016	2013	2014	2015	2016	2016/2012
ILR	1,324	1,427	1,599	1,690	1,790	108%	121%	128%	135%	**8%**
RCVI	342	377	425	453	484	110%	124%	132%	142%	**9%**
OLSAF	118,330	127,428	142,311	153,593	167,244	108%	120%	130%	141%	**9%**
NLI	6,548	6,777	7,769	8,089	9,017	103%	119%	124%	138%	**8%**
CIPC	279	303	343	500	369	109%	123%	179%	132%	**7%**
ILFR	445	546	794	1,889	920	123%	178%	425%	207%	**20%**
IAMLSAF	1,850	2,176	3,865	5,939	4,558	118%	209%	321%	246%	**25%**
EC MLSAF***	1,503	2,701	1,902	51	0	180%	127%	3%		**-**
SIA**	2,315	2,157	550	0	0	93%	24%			**-**
Office MLSAF	8,447	8,920	10,444	11,531	12,459	106%	124%	137%	148%	**10%**
Total	141,383	152,812	170,002	183,735	196,841	108%	120%	130%	139%	**9%**

*Note: * Spending on wages, insurance contributions and bonuses for temporary job contracts ("work by agreement")*
*** Social Implementation Agency*
**** Education Centre MLSAF SR*

Source: Budget IS

The highest percentage growth was observed in the Institute for Labour and Family Research (on average 11% per year). The increase in ILFR's spending by EUR 475 thousand nearly evenly caused by growth in wages and insurance contributions (by EUR 315 thousand) and compensation for "work by agreement" (by EUR 163 thousand). In 2016, persons working under temporary job contracts ("work by agreement") accounted for approximately 22% of spending for employment.

Table 24: Numbers of employees

	Number of employees*					Change in number of employees (2012 = 100%)				Average growth
	2012	2013	2014	2015	2016	2013	2014	2015	2016	2016/2012
ILR	112	114	113	113	113	102%	101%	101%	101%	**0%**
RCVI	32	34	32	31	34	106%	100%	97%	106%	**2%**
OLSAFR	10,930	11,063	11,832	12,193	12,348	101%	108%	112%	113%	**3%**
NLI	462	472	495	493	491	102%	107%	107%	106%	**2%**
CIPC	17	17	17	18	18	100%	100%	106%	106%	**1%**
ILFR	22	22	24	38	34	100%	109%	173%	155%	**11%**
IAMLSAF	89	108	203	243	205	121%	228%	273%	230%	**23%**
EC MLSAF***	22	15	13	1		68%	59%	5%	0	**-**
SIA**	112	101				90%	0	0	0	**-**
Office MLSAF	380	388	394	419	441	102%	104%	110%	116%	**4%**
Total	12,178	12,334	13,123	13,549	13,684	101%	108%	111%	112%	**3%**

Note: * Rounded up to whole persons
** Social Implementation Agency
*** Education Centre MLSAF SR

Source: Budget IS

From 2012 onwards, employment in this budget chapter was growing on average by 3% per year, while wages were growing, on average by 5% per year. Wages within the budget chapter were growing faster than average wages for the entire Slovak economy, which were growing, on average, by 3% per year. The highest growth in number of employees was observed for the Implementation Agency of MLSAF (although after making adjustment for employees of the Education Centre and the SIA, total number of employees dropped by 8%) and the Institute for Labour and Family Research. From 2012 onwards, the fastest growth of wages (11% per year) was observed in ILFR.

Table 25: Average wages

	Average gross wages (EUR/month)					Change (2012 = 100%)				Average growth
	2012	2013	2014	2015	2016	2013	2014	2015	2016	2016/2012
ILR	716	757	858	899	961	106%	120%	126%	134%	8%
RCVI	657	667	800	886	882	102%	122%	135%	134%	8%
OLSAF	662	704	736	766	819	106%	111%	116%	124%	5%
NLI	867	872	962	1,001	1,121	101%	111%	115%	129%	7%
CIPC	999	1,092	1,161	1,280	1,263	109%	116%	128%	126%	6%
ILFR	1,115	1,156	1,192	1,186	1,190	104%	107%	106%	107%	2%
IAMLSAF***	1,226	1,200	1,266	1,312	1,317	98%	103%	107%	107%	2%
EC MLSAF*	1,567	1,421	1,626	1,981		91%	104%	126%	0%	
SIA**	1,258	1,284				102%	0%	0%	0%	
Office MLSAF	1,307	1,345	1,537	1,582	1,664	103%	118%	121%	127%	6%
Total	703	742	781	813	867	106%	111%	116%	123%	5%

Note: * Education Centre MLSAF SR
** Social Implementation Agency
*** Before 2014, Social Development Fund

Source: Budget IS

Goods and services

Table 26: Spending on goods and services

	Spending (EUR thousands)					Change (2012 = 100%)				Average growth
	2012	2013	2014	2015	2016	2013	2014	2015	2016	2016/2012
ILR	417	394	411	388	398	95%	98%	93%	95%	**-1%**
RCVI	113	105	109	107	111	93%	96%	95%	99%	**0%**
OLSAF	51,349	46,297	55,572	58,835	68,171	90%	108%	115%	133%	**7%**
NLI	1,906	2,039	2,131	2,166	2,148	107%	112%	114%	113%	**3%**
CIPC	67	94	111	1,341	145	140%	166%	1999%	215%	**21%**
ILFR	139	200	870	1,837	526	144%	627%	1324%	379%	**40%**
IAMLSAF	235	481	719	2,380	1,102	205%	306%	1014%	469%	**47%**
EC MLSAF**	2,758	3,781	2,773	649	0	137%	101%	24%	0	**-**
SIA*	250	300	30	0	0	120%	12%	0	0	**-**
Office MLSAF	14,641	8,208	10,449	16,299	31,444	56%	71%	111%	215%	**21%**
Total	71,874	61,900	73,175	84,004	104,044	86%	102%	117%	145%	**10%**

*Note: * Social Implementation Agency*   Source: Budget IS
*** Education Centre MLSAF SR*

Although between 2012 - 2016 expenditure from EU funds only accounted for a third of all expenditure on goods and services, they had a more than 4/5 share in growth of total spending on goods and services. During that period, spending on goods and services in the budget chapter of the MLSAF SR increased by EUR 32 mil. (45%), thereof EUR 26 mil. was the growth in expenditure from EU funds. When considering just expenditure from the government budget, from 2012 onwards, expenditure on goods and services were increasing, on average, by 2% per year. The strong growth observed in the Implementation Agency MLSAF resulted mainly from the merger with the Education Centre.

Table 27: Spending on goods and services from the government budget

	Spending (EUR thousands)					Change (2012 = 100%)				Average growth
	2012	2013	2014	2015	2016	2013	2014	2015	2016	2016/2012
ILR	412	387	404	388	398	94%	98%	94%	97%	**-1%**
RCVI	113	105	109	107	111	93%	96%	95%	99%	**0%**
OLSAF	44,048	41,908	48,746	48,468	47,635	95%	111%	110%	108%	**2%**
NLI	1,860	2,000	2,088	2,126	2,108	108%	112%	114%	113%	**3%**
CIPC	67	94	111	172	60	140%	166%	257%	89%	**-3%**
ILFR	106	125	131	112	128	118%	123%	106%	121%	**5%**
IAMLSAF	82	235	287	502	586	285%	348%	609%	710%	**63%**
EC MLSAF**	695	1,765	436	15	0	254%	63%	2%	0	
SIA*	166	192	19	0	0	116%	12%	0		
Office MLSAF	13,443	7,834	9,553	10,985	15,799	58%	71%	82%	118%	**4%**
Total	60,992	54,645	61,884	62,876	66,825	90%	101%	103%	110%	**2%**

*Note: * Social Implementation Agency*   Source: Budget IS
*** Education Centre MLSAF SR*

Efficiency of Public Employment Services

The pilot spending review estimates that, in 2014, potential improvement in efficiency was around EUR 37 mil. (IFP, 2016)**.** To improve effectiveness of employment services offices' activities, the Central Office of Labour, Social Affairs and Family (COLSAF) SR implemented measures derived from results of the pilot evaluation of efficiency.

Efficiency of PES offices keeps growing, however, differences in productivity between offices persist. While in 2016 average productivity of branch offices was estimated at 76% of theoretical potential, in 2014 it was just

66%. Improvement was mostly observed at low-performing PES offices. Such were the outcomes of the DEA analysis comparing effectiveness of authorities in utilisation of funds for employment services.[69]

Graph 104: Effectiveness of activities carried out by public employment services, comparison between 2014 and 2016
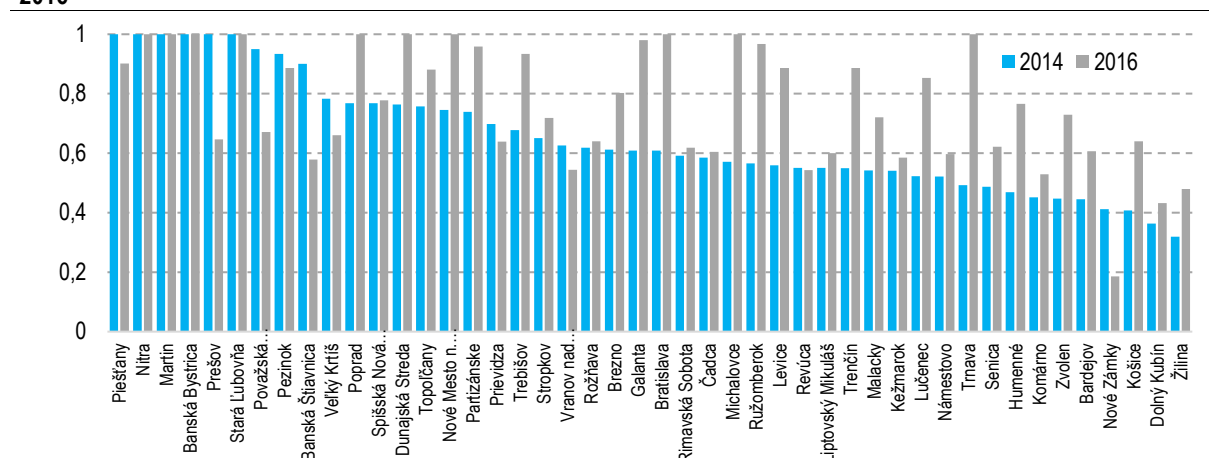
Source: VfM Unit

Analysis of efficiency of OLSAF SR branch offices defines the best performing branch offices by comparing inputs and outputs from activities carried out by individual OLSAF SR branch offices. Outputs from the branch offices include: 1) number of persons provided with individual consulting; 2) number of professional advisory services; 3) number of recommendations per vacancy; 4) number of participants in education; 5) number of job seekers activated ALMP. The outcome indicator presents number of job seekers deregistered after placed in the labour market.

Graph 105: Utilisation rate of employment services staff, average per PES office
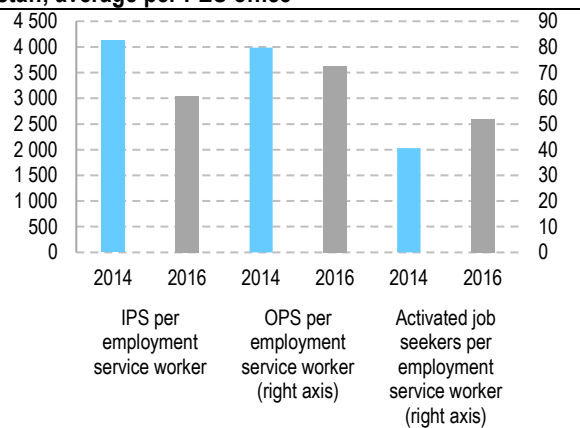
Source: PES offices

Note: IPS – Information advisory services, OPS – Professional advisory services, activisation of job seekers – job seekers assigned to ALMP program

Graph 106: Number of employment services staff, total number for the SR (excl. the Central Office)
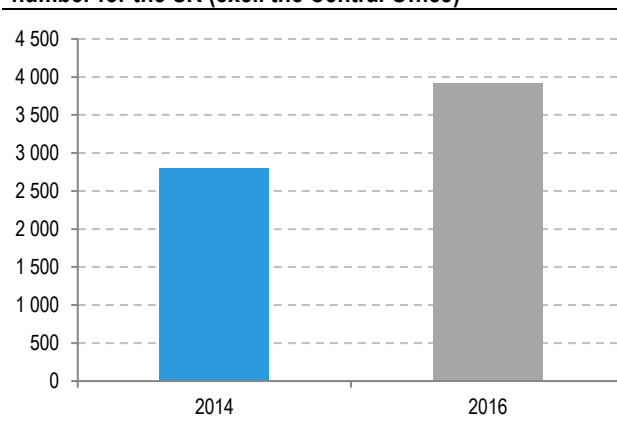
Source: PES offices

Major potential for improvement of efficiency of PES offices is in reduction of load on employment services staff and development of advisory and education activities. In 2014, the load on the staff is higher than the load abroad, the highest load was on PES offices in regions with high long-term unemployment rates (IFP, 2016). The number of employees providing employment services increased between 2014 and 2016. Thus, the number of provided advisory services (information and professional) per employee decreased, which opens opportunity for improving quality of advisory services to clients. Total amount of provided advisory services increased.

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[69] The methodology is based on IFP (2016) and is described in detail in the Annex.

Graph 107: Indicators of placement of job seekers in the labour market by employment services
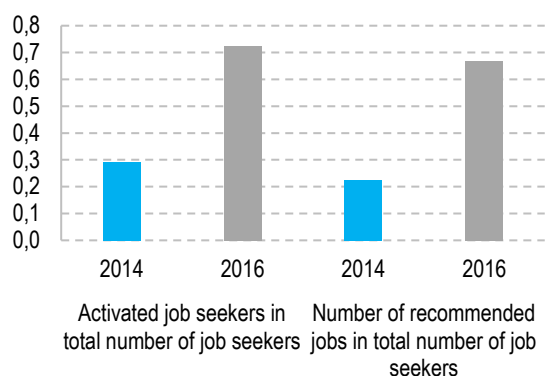
Source: PES offices

Graph 108: Number of participants at education and requalification programmes
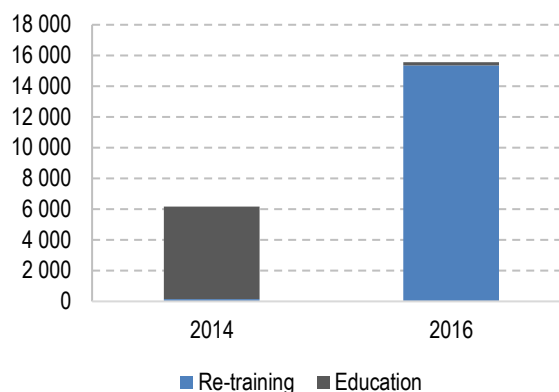
Source: PES offices

The percentage of job seekers assigned to ALMP programmes has increased. The number of job seekers participating in education and retraining programmes increased as well. Total number of activated job seekers nearly doubled (105 thousand participants ALMP in 2014 vs 195 thousand in 2016). In 2016 Number vacancies was growing and, consequently, the offices could recommend more vacancies to job seekers. The strong growth in the number of recommendations was, among other factors, driven by strict reporting of vacancies from employers. From 2014 total number of participants of education and retraining programmes nearly tripled. At the same time, there was a shift from standard education programmes to retraining policies.

Effectiveness of placing job seekers on the labour market has decreased. Although there was a mild increase in total number of job seekers placed on the labour market, the proportion was not in line with the sharp increase in the amount of provided employment services and better conditions on the labour market. If effectiveness of the best offices was achieved across-the-board, the number of job seekers placed on the labour market in 2016 could have grown up to 3.5 multiple (1.8 multiple in 2014) of the actual number. Achieving the potential level would lead to additional increase of placements by 4-12 thousand job seekers.

Graph 109: Results in effectiveness of placement by job seekers, comparison 2014 and 2016
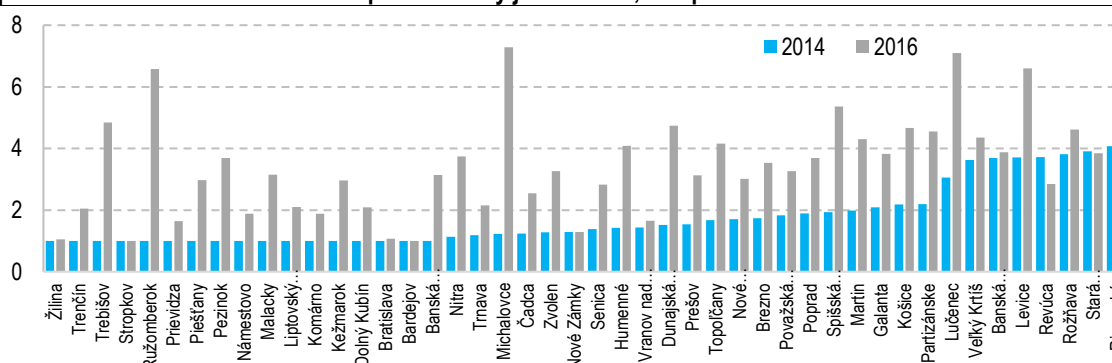
Source: VfM Unit

6.2 Capital expenditure of the Ministry of Labour, Social Affairs and Family SR)

Capital investments are a negligible item of the MLSAF budget, from the annual amount of more than EUR 2 bn yearly, capital investments account for around EUR 10 mil. (less than 1%). Capital investments planned for 2017 - 2019 amount for EUR 5 mil. yearly. Most of the investment are financed from the government budget. In the prior programming period, ESIF funds amounted to 30-50%, and for 2017-2019 no capital investments to be finances from EU funds have been planned.

Graph 110: Expenditure of MLSAF SR (% share, data in column in EUR mil.)
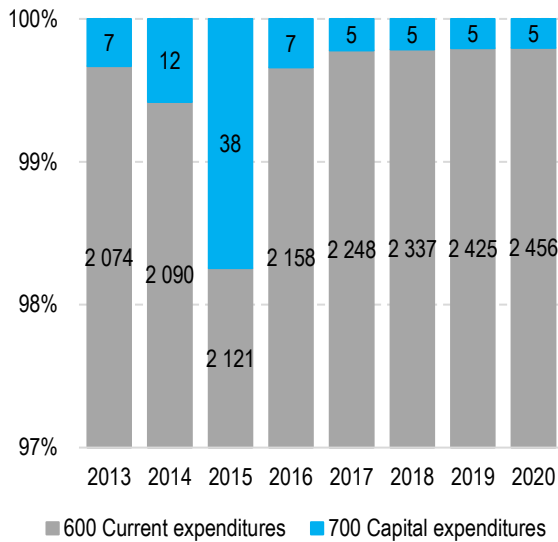
Source: Budget IS

Graph 111: Source of financing of capital expenditure (% share)
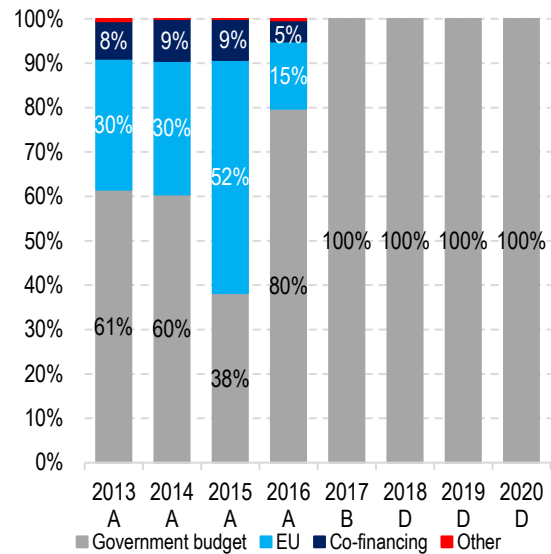
Source: Budget IS

In 2013-2016, the investments we split between the competence of the Central Office of Labour, Social Affairs and Family SR and the Office of the Ministry (EUR 10 mil. and 6 mil., respectively). The only major investment was NP ESC in 2015 (*Efektívnymi službami k občanovi – Effective Services for Citizens*) at EUR 22 mil. For 2017 - 2019 four fifths of capital investments have been budgeted at the Central Office (EUR 3.6 mil.). These funds are intended mainly for purchase and renovation of family houses (orphanages) and other capital investments related to orphanages.

Investments of the Ministry of Labour, Social Affairs and Family (MLSAF) SR

The investment plan of the MLSAF includes projects totalling **EUR 12 mil., which are not included in the 2017 budget for capital investment projects.**

Table 28: Investment Plan of the Ministry of Labour, Social Affairs and Family for 2017

Entity	Name of investment	Estimated cost of investment incl. VAT (EUR mil.)	Key source of financing
MLSAF SR	Support for operation of IS SBM (plus e-forms)	6.1	Government budget
MLSAF SR	Support for operation of IS DMS	5.6	Government budget
Total		11.7	

Source: MLSAF SR

Process and methodologies

OP Human Resources (ESIF)

The formal aspects of project selection process under OP HR is similar to other operational programmes. There is methodological support for any financial or economic evaluation of capital investments, however, on the other hand there are no plans for any large investment projects under this OP.

1. *Strategy and goals setting*
    a. Priority axes and goals have been defined at the operational programme level
    b. The operational programme is approved by the Slovak Government and then by the European Commission
    c. The Strategy and goals are monitored for compliance with the Partnership Agreement and other EC priorities
2. *Selection from project charters and challenges*

    a. There are no major investment projects under OP Human Resources

    b. All calls for demand-driven projects are approved by the Central Coordination Authority and monitored for compliance with the objectives and investment priorities of the OP

    c. The selection process for national projects and calls for demand-driven projects based on the existing goals and investment priorities has not been formalised and none is known

    d. The only "investment plan" is the indicative schedule of calls.

3. *Selection of alternatives and economic evaluation*

    a. There is no methodology for financial or economic evaluation of the projects, or no such methodology is mandatory.

    b. There is no formal process/methodology for selection of alternatives and no feasibility studies are prepared.

Other investments

Priorities defined by the Ministry are derived from strategies such as the "National Employment Strategy". The Strategy identifies objectives and the action plan. The action plan, however, is more focused on policies than on investments. And considering the nature of the department, in order to achieve value for money, the critical thing is to assess policies and measures rather than assess costs and benefits of investments.

Box 17: Recommendations to achieve compliance with the Framework for Assessment of Public Investment Projects in the Slovak Republic:

- In strategic materials, identify measurable objectives and priorities for investments and public policies (irrespective of the source of financing). While in OP HR such approach was applies right from the beginning of development of the document, it is absent on the departmental level.
- Development of a departmental methodology for assessment of non-investment measures and policies referring to majority of the department's activities.
- Considering the low proportion of investment activities, evaluate own investments using the methodology described in the Framework for Assessment of Public Investment Projects in the Slovak Republic.
- Communicate investment priorities including their economic assessment.

MLSAF SR will support the value-for-money principles in the investment preparation and evaluation process. At the commencement of investment process, each investment project will be required to have a cost-benefit analysis prepared, in accordance with the Framework for Assessment of Public Investment Projects[70]. Strategic priorities and value for money will underlie preparation and publication of the investment plan which will be the basis for preparation of projects.

6.3 IT budget and spending

Budget Chapter of MLSAF SR

In long-term view, average IT spending[71] under the budget chapter of the Ministry of Labour, Social Affairs and Family varies from EUR 10 mil. to EUR 20 mil.; the average for 2017-20 is EUR 19 mil. With IT spending equal to 8% of the budget (net of transfers), the department ranks among departments with high share of IT spending. In 2010-16, on average 75% of the spending was financed from the government budget and the share of EU funds was 20%. The budget for 2017-20 so far does not include unplanned, unapproved expenditure from structural funds.

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[70] The methodology of the Framework Assessment of Investments is available at: https://goo.gl/CwAwmi
[71] Spending on hardware, software, communication infrastructure and telecommunication technology. Definition in accordance with the IT Spending Review. Final Report, Annex No.1 (http://goo.gl/MpIF12)

Graph 112: IT spending under budget chapter of the MLSAF SR (EUR mil.)
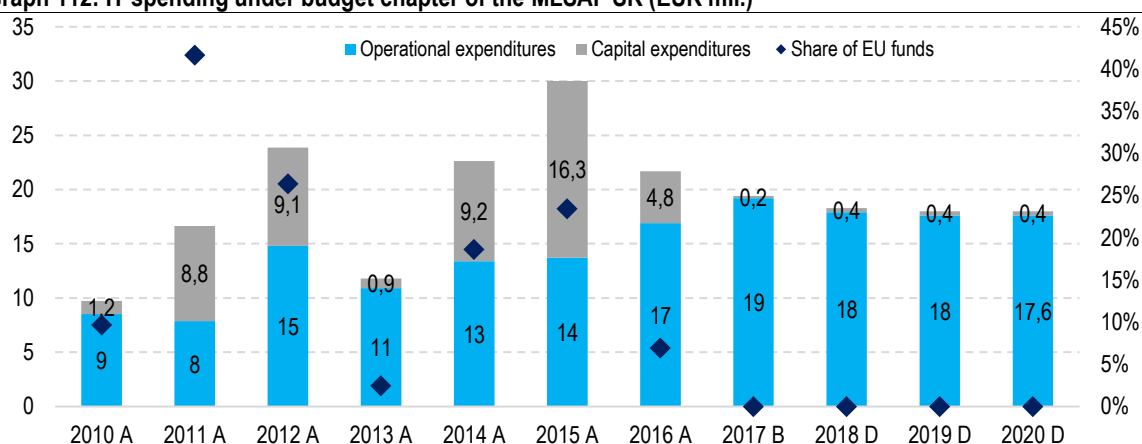
IT spending is reflected in budgets of organisations reporting to the MLSAF SR, nevertheless, the expenditure are concentrated mainly in two organisations: the Office of the Ministry and the Central Office of Labour, Social Affairs and Family; on average their expenditure account for 85% of total IT spending of the budget chapter. Expenditure spent by the Office of the Ministry account for 2% of total spending, on average, and expenditure of the Central Office of Labour, net of transfers, account for 7% on average. The breakdown is provided in Table 1 below.

Table 29: IT spending under the budget chapter in EUR mil.

Organization	2010 S	2011S	2012S	2013S	2014S	2015S	2016 S	2017 R	2018N	2019N	2020 N
Ministry of Labour - Office	3.0	8.8	17.2	5.5	11.5	12.0	14.6	9.7	9.8	9.6	9.6
Central Office…	6.4	7.6	6.5	6.0	10.8	17.6	6.7	9.3	8.0	7.9	7.9
Other	0.3	0.3	0.2	0.3	0.3	0.4	0.4	0.3	0.5	0.5	0.5
Total	**9.7**	**16.7**	**23.9**	**11.8**	**22.6**	**30.0**	**21.7**	**19.4**	**18.3**	**18**	**18**

The analysis further examines only spending of the Office of the Ministry.

Major expenditure items

Table 30: IT spending of the Office of the MLSAF SR (EUR mil.)

Type	2010 S	2011 S	2012 S	2013 S	2014 S	2015 S	2016 S	2017 R	2018 N	2019 N	2020 N
Current	3.0	3.2	8.3	5.3	6.6	6.9	10.0	9.5	9.6	9.4	9.4
Capital	0.1	5.6	8.9	0.2	4.9	5.1	4.5	0.2	0.2	0.2	0.2
Total	**3.0**	**8.8**	**17.2**	**5.5**	**11.5**	**12.0**	**14.6**	**9.7**	**9.6**	**9.6**	**9.6**

In 2010-2016, IT spending of the Office of the Ministry accounted for 75% of operating expenditure (on long-term basis approximately EUR 5-10 mil.). In 2017 – 2020, it is nearly 100% of planned spending. In 2016, 65% of the budgeted amount were directed into 4 areas (IS), Social benefits management IS, including the Central Register of Clients, Document Management System IS (IS DMS), support to SAP licences and Employment Services IS.

Table 31: Major IT spending items, Office of the MLSAF SR, 2016

Item	Spending (EUR mil.)	Share in budget
Social benefits management IS + Central Register of Clients	3.5	24%
IS DMS	2.3	16%
Support to SAP licences	2	15%
Employment Services IS	1.4	10%
Total	**9.2**	**65%**

In 2017, MLSAF SR plans two major IT purchases at approximately EUR 12 mil. – acquisition of support for operation of the social benefits management IS (plus e-forms) with cost estimated at EUR 6 mil. and support to operation of IS DMS with cost estimated at EUR 5.6 mil. MLSAF SR will cooperate with the MF SR in finding ways to improving efficiency of IT spending.

No key performance indicators (KPI) have been established and/or monitored to assess the performance of information systems and results achieved by the IS. Current operating indicators (such as availability of the support, number of reported and resolved incidents) have been officially defined for the SAP licence support, which is provided under standardized terms. It is recommended to define and to monitor expensiveness and performance of information systems, including organizations reporting to the Ministry.

The Ministry of Labour, Social Affair and the Family does not operate any major ISs within the government cloud and does not have available any plan for migration of IT services into the government cloud. It is recommended to prepare a plan for migration of IS to the government cloud.

The Ministry does not have any evaluation methodology or other internal guideline in place to assess IT spending. Thus, it is impossible to conclude as to whether the existing alternatives have been considered to meeting the IT spending objectives, expenditure and value indicators.

6.4   Operation of the Social Insurance Agency

Analysis of branch office of the Social Insurance Agency identified an opportunity for improving activities or reallocation of resources to support performance in in amount of up to EUR 10.5 mil. in the course of 3 years (16% of analysed expenditure). Efficiency can be improved through:

- re-allocation of resources within the branch office,
- re-allocation of resources between branch offices,
- transfer and consolidation of activities from several branch offices, and improving efficiency thanks to specialization,
- savings in operating costs, including energies, goods and services.

Efficiency of SIA's core activities can be improved by either reduction of costs or improving results, however, the largest opportunity for improvement is in collection of insurance contributions. The existing support activities, energy consumption and purchase of goods and services are aimed at reduction of expenses. Implementation of savings is feasible through gradual cuts to reflect potential limitations in reaching the total amount of potential saving.

Performance indicators need to be defined to enable monitoring of trends in efficiency. The indicators may include outputs used in DEA model, or a part thereof, the input-output ratio for selected activities or other indicators. Besides defining indicators, it is also necessary to specify the range of values indicating that activities are efficient and the inefficiency threshold. If results of operations are ineffective, the management of the branch office shall suggest detailed corrective action.

DEA model defines the most efficient branch offices by comparing inputs and outputs by Social Insurance Agency's activities and potential savings in performance. The branch offices perform four core activities: 1) collection and enforcement of insurance contributions, 2) Payment of benefits and assessment of sickness, accident, guarantee and unemployment insurance claims, 3) Medical examination activities, 4) Support to pension saving schemes (client consulting services). Efficiency of support expenditure (to ensure operation of branch offices – goods and services, energies, staff of economic and operating units) was assessed using internal benchmarking.

The limitation of the model is the fact that it does not consider differences between branch offices as to difficulty of actions and lack of specialised staff at certain branch offices. Additionally, it does not consider all statutory defined tasks of the Social Insurance Agency. Therefore, actual saving can be lower than potential amount. Additionally, the analysis can be made more accurate by adding external factors having impact on activities of branch offices. Further potential is in improving efficiency of the Central Office's activities which were not subject to analysis. Including the same in the comparison will extend possibilities for internal benchmarking of support expenditure. The analysis is based on 2015 data and therefore the implementation shall consider the trends from that period onward.

Expensiveness of SIA's activities increased owing to frequent legislative changes. From 2011, Act No. 461/2003 Coll. on Social Insurance was 35 times amended, which means 5.5 amendments per year. Limitation of substantial changes in legislation to not more than once a year would make it possible to redirect resources to other activities and to increase efficiency of spent funds.

Graph 113: Amendments of the Social Insurance Act

Year	Direct	Indirect
2017	1	1
2016	1	3
2015	2	10
2014	1	4
2013	1	2
2012	2	1
2011	1	5

■ Direct ■ Indirect
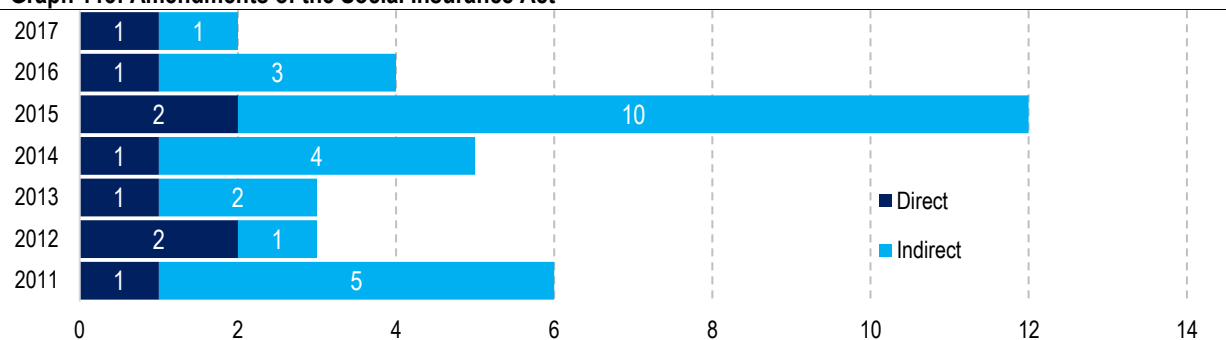
Source: Slov-lex

Investments of the Social Insurance Agency

The Social Insurance Agency does not plan implementation of any capital investment projects above EUR 5 mil. in 2017. The largest IT investments for 2017 include improving availability and reliability of the central data warehouse, investments in cyber security and consolidation of the server environment.

Table 32: Major planned capital investments (EUR mil.)

Investment	Plan 2017	Share
improving availability and reliability of the central data warehouse	2	22%
cyber security	2	21%
consolidation of the server environment	1.8	19%
Total	**5.8**	**62%**

Source: Social Insurance Agency

The Social Insurance Agency plans to make major changes in its information systems[72], in the amount estimated at more than EUR 30 mil. Projects intended for Operational Programme Integrated Infrastructure (OPII) include effective data management in SIA environment, modernization of benefit agendas, introduction of client-oriented processes and services to support clients and to develop analytical services supporting controls and decision making. The reform plan of the Social Insurance Agency is expected to be approved in July 2017.

The Social Insurance Agency does not have any internal regulation in place to regulate preparation of IT investments[73]. Thus, it is impossible to assess the methodology used for selection of investments and whether the best possible alternative has been selected. Methodologies for preparation of the feasibility study and the cost-benefit analysis (CBA) is in particular important for large IT projects financed through EU funds. In the past this applied to, e.g., the Social Insurance Agency's information system supporting transformation of social insurance performance; after the selected solution was analyse for gainfulness, the analysis had to be additionally amended to comply with the required format.

The Social Insurance Agency will strengthen the value-for-money principles in the investment preparation and evaluation process. Strategic priorities and value for money will underlie preparation of the investment plan which will be the basis for preparation of projects.

IT budget and spending

IT spending[74] of the Social Insurance Agency in 2010-2016 was, on average, EUR 13-25 mil. With long-term share of IT spending accounting for more than 14% of the budget excluding transfers, the Social Insurance Agency ranks among offices with high percentage of IT spending. In the long-term run, nearly 90% of the Social Insurance Agency's spending are operating expenses (Graph 114, approximately EUR 13-17 mil.).

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[72] Under the reform plan "Efficient Services of the Social Insurance Agency in social insurance".
[73] Source: IT Section of the Social Insurance Agency.
[74] Spending on hardware, software, communication infrastructure and telecommunication technology.

Graph 114: IT spending (EUR mil.)
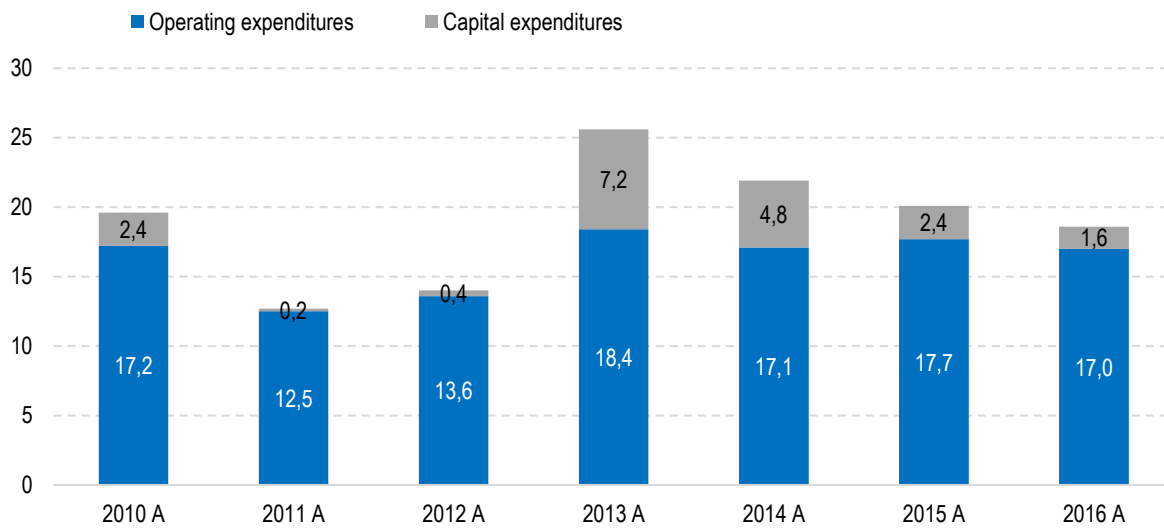
Major expenditure items

In 2016[75] nearly 50% of the IT budget were concentrated in 3 items: support for software licences (mainly SAP and Oracle), IS for collection of insurance premiums and contributions (IS CIP) and IS for pension insurance (IS PI). The Social Insurance Agency operates 14 information systems and does not hold a copyright or an exclusive licence [76] for 6 of the information systems. Upon replacement of unsettled information systems with assumption of long-term development we recommend whether copyright or exclusive licence have been examined, so that the SIA could make modifications without the supplier's approval. We recommend that new information systems are only acquired including rights allowing for modifications of the system.

No performance indicators have been established and/or monitored to assess the performance of information systems and results achieved by the IS. We recommended to define and to monitor such indicators, including expensiveness of each information system. The Social Insurance Agency so far does not have available any plan for migration of IT services into the government cloud; we recommend preparing the plan.

Table 33: Major expenditure items in 2016 (EUR mil.)

Item	Expenditure	Share
Support for software licences	4.6	26%
IS collection of insurance premiums and contributions (VPP)	2.8	15%
IS of pension insurance (DP)	1.2	7%
Total	**8.5**	**48%**

The support to development of IS SAP totalling to EUR 1.1 mil. per year involves two contracts - services for standardized SAP software (EUR 0.3 mil.) and support at SAP platform for tailor-made systems (EUR 0.8 mil.).

Support for standard SAP software is provided through a standardised package with the terms and price costing method are identical for the whole region. Standardized packages are available on two levels, the Social Insurance Agency uses the highest version guaranteeing availability under 24x7 scheme, the response time for most serious

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[75] Data for 2017 are not available.

[76] The author who does not grant an exclusive licence, can use the work himself in a way that is subject to non-exclusive authorization without prejudice to the author's right to grant the licence to a third person. Moreover, non-granting a licence prevents development of the system by a supplier other than the original supplier.

incidents within 1 hour enables inclusion of third-party applications. Transition to a lower level ensuring support during the standard business hours with response within 4 hours would reduce costs by EUR 38 thousand per year.

Depending on the system, the amount charged by the Social Insurance Agency per man-day of support is EUR 625 or EUR 680. Comparable, although not fully identical support service,[77] is purchased by Žilinská teplárenská at daily rate EUR 530. With such rate, the SIA could save EUR 58 thousand per year. We recommend exploring feasibility of transition to the level and rate used at Žilinská teplárenská.

Microsoft products are used at the Social Insurance Agency by more than 5 000 users, the software is secured by historically held licences, and purchase of additional licences[78] is subject to 9% discount on the standard list prices of Microsoft products. As a rule, licences are renewed in multiannual cycles. The Social Insurance Agency does not have available the time schedule and the method of updating. A repeated purchase of licences for complete software licences for all 5 000 users under the presently existing government contract could, depending on the structure of the licences, save EUR 0.5-1 mil. compared to the SIA's contract. We recommend exploring feasibility of a non-binding involvement in the new multi-licencing agreement signed by the government and before the purchase compare the most convenient method of licencing.

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[77] In particular the absence of confirmation of receiving the notification, within 30 minutes, with observing the response time for incidents preventing the use of the system, a longer response time and an unguaranteed service time for incidents not having a major effect on user's work

[78] Until 2013, licences were purchased under a central contract for the general government and public administration. After expiration thereof, licences are purchased under an individual contract, mainly owing to specific structure of used products which have been excluded from the EA[78] and owing to the transition from per device licencing to per user licencing.

7 Annexes

7.1 Changes in the amount of income[79] after losing a job

If gross income of a single individual receives equals 67% of average wage[80], that person's disposable income decreases by 39.33%. In case of a one-member household, unemployment benefits provided over the whole support period ensure income above the level of minimum subsistence level.

Graph 115: Changes in the amount of income for a single individual without children after losing a job (67 % of average wage)
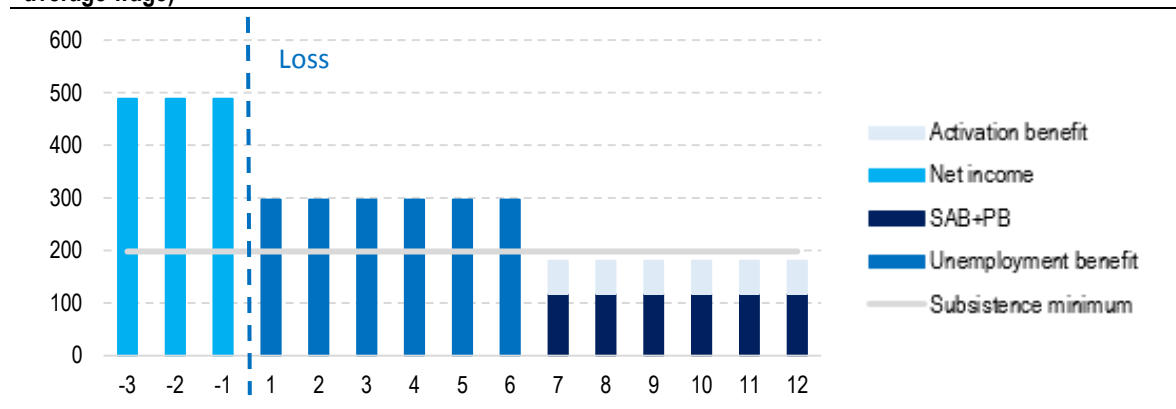
A single individual with two children whose gross income, before losing a job, equalled 67% of average wage is provided with a social assistance benefit already along with the unemployment benefit. A household comprised of one adult person and two minor children is one of the most-at-risk combinations. The household is at risk not only upon the adult person's transition to unemployment, but also in the following period when the household is provided with social assistance benefit. The decrease in net income is 39.99 %.

Graph 116: Changes in the amount of income for a single individual with two children after losing a job (67 % of average wage)
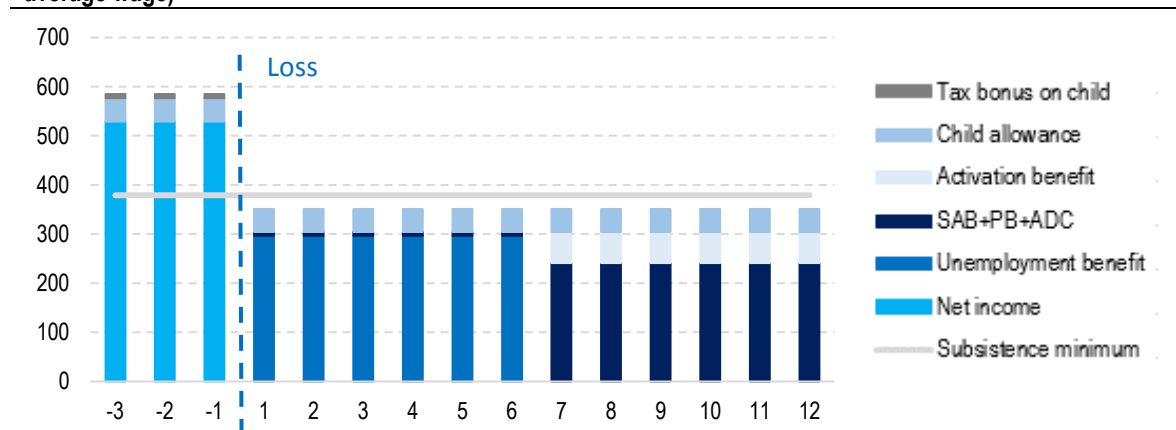
The largest portion of their disposable income (43.89%) is lost by the family where both working members of the household lose their jobs. The decrease occurs when they lose their jobs at the same time and their income equalled 67% of the average

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[79] All models assume making maximum use of eligible claims.
[80] Average wage level of 2016 equals EUR 912 (Source. Statistical Office of the Slovak Republic).

gross wage. Despite a relative high reduction of disposable income, unemployment benefits paid under the existing social security system prevents the income of the household from falling below the minimum subsistence level. However, a couple earning a minimum wage in similar situation would fall below the minimum subsistence level.

Graph 117: Changes in the amount of income for a couple with two children after both working persons lose their jobs (minimum wage)
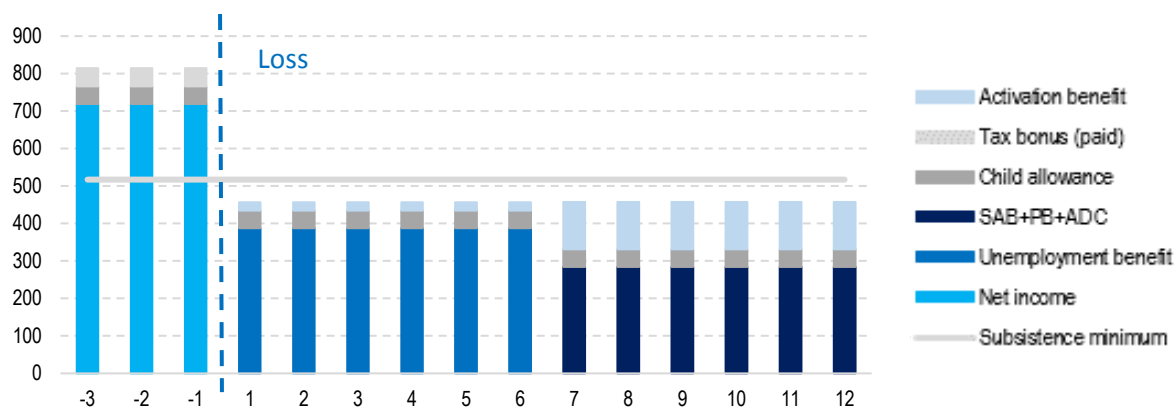
Note: SAB – social assistance benefit, HA – housing allowance, AfDC – allowance for a dependent child
If the social assistance benefit is lower than the activation benefit, then activation benefit applies.

7.2 Effects of the social system on households

The basic analysis reflects the social assistance benefit and the child allowance and the lower income taxes and contributions[81]. Nevertheless, it does not take account of other components of the available state support and assistance, which are linked to life or social events (such as birth of a child or loss of employment). The amounts of the benefits are derived from the valid legislative entitlement. The presumption is that the citizens are aware of available benefits and claim full amount they are entitled to.

Graph 118: Net income incl. benefits by amount of income (% of average wage, 2015) – Single childless individual

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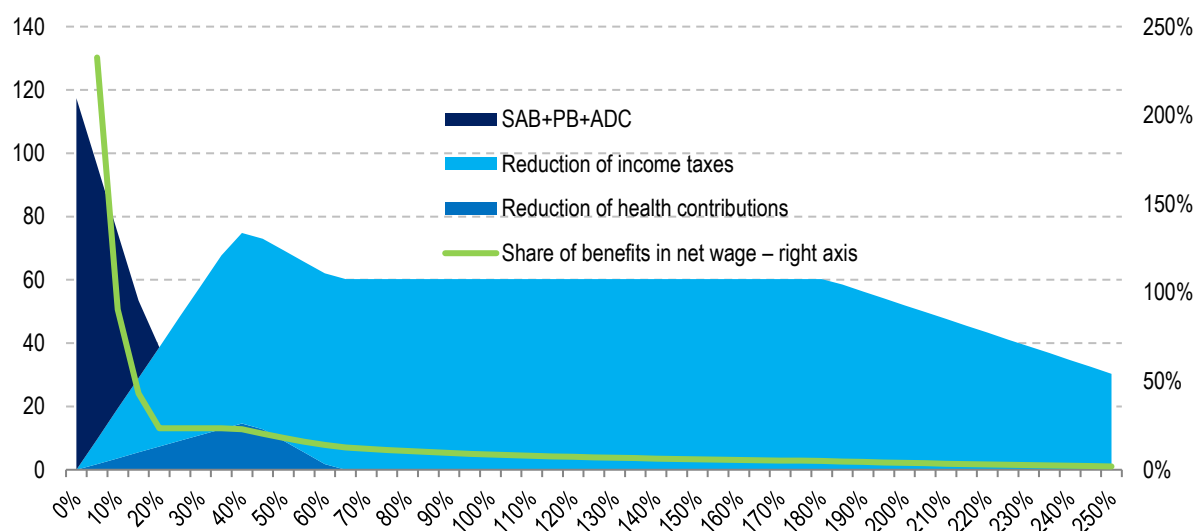
[81] Non-taxable parts of the tax base are expressed as minimum subsistence level multiples. The item deductible for health insurance contributions is EUR 380 per month – for income below EUR 380 (this is a fixed amount equal to minimum wage of 2015), and then it is decreased by EUR 2 per each EUR 1 of income above EUR 380, and becomes zero for income equal to EUR 570. This benefit can only be claimed by persons working under employment contracts.

The state subsidises school catering for households with income below minimum subsistence level. The subsidies are granted in the amount of EUR 1 per schooling day. In 2016, the average monthly amount of the contribution per 1 child was EUR 14.32.

Graph 119: Benefits by income (% of average, 2015 wages) – a couple (1 unemployed) with 2 children

Legend:
- Child catering subsidy
- SAB+PB+ADC
- Reduction of income taxes
- Reduction of health contributions
- Tax bonus on child
- Child allowance
- Share of benefits in net wage – right axis
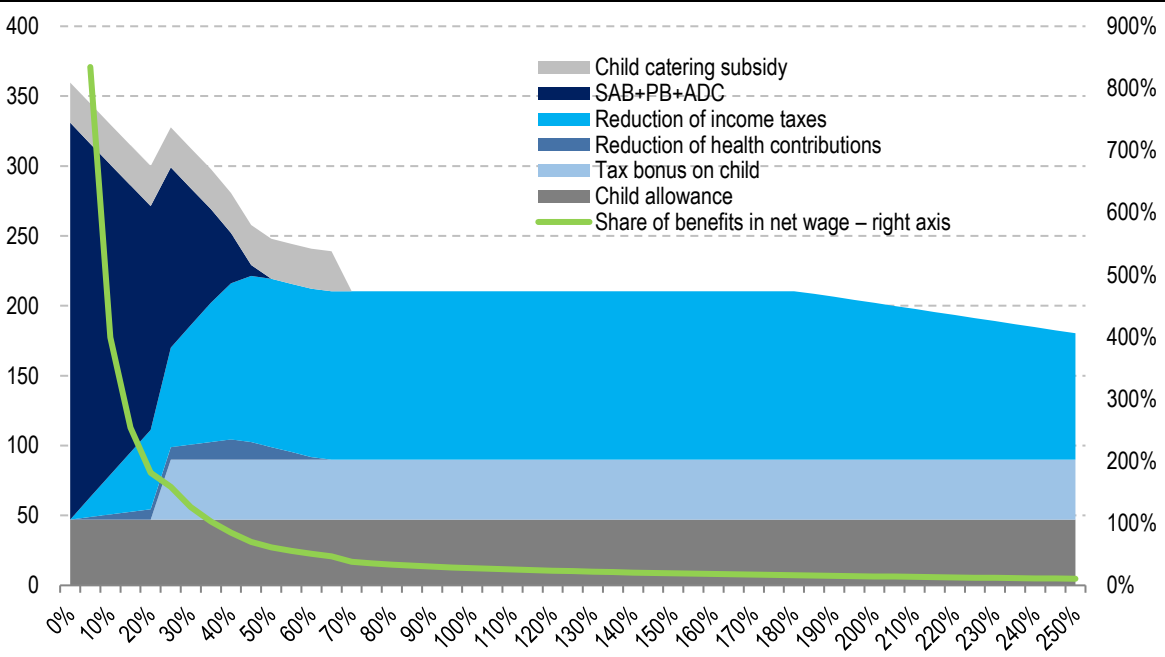
Source: VfM Unit based on the existing legislation

Graph 120: Benefits by income (% of average, 2015 wages) – a couple with equal income, 2 children

Legend:
- Child catering subsidy
- SAB+PB+ADC
- Reduction of income taxes
- Reduction of health contributions
- Tax bonus on child
- Child allowance
- Share of benefits in net wage – right axis
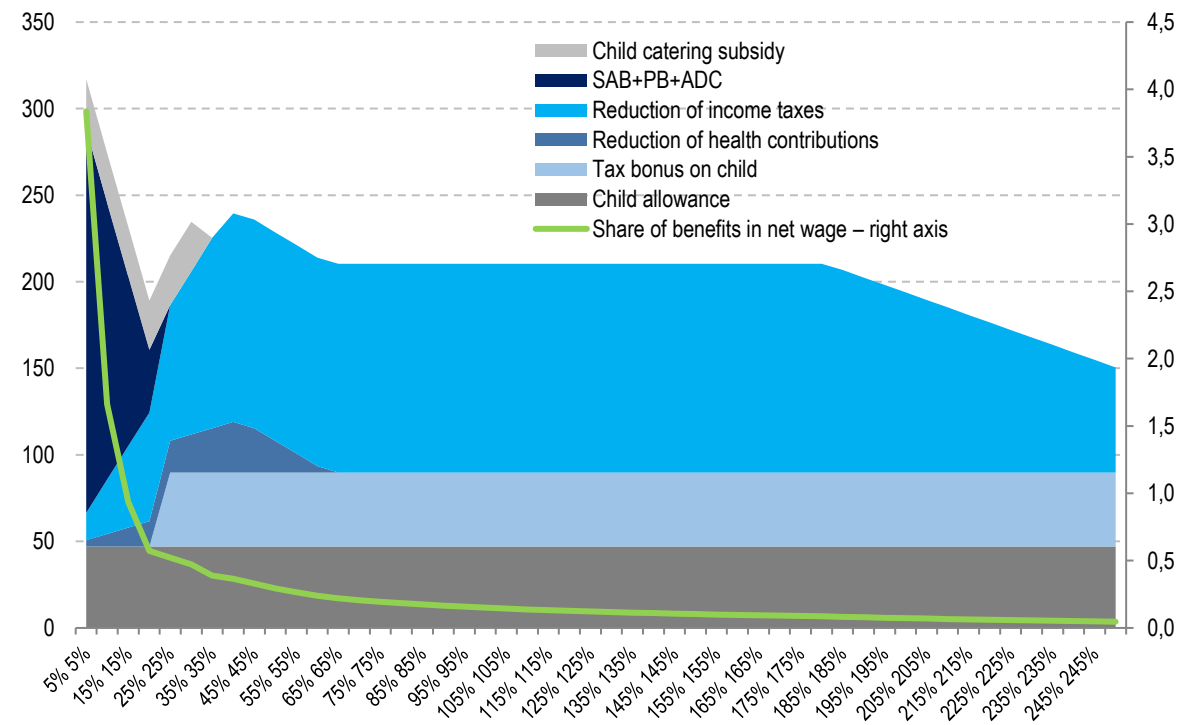
Source: VfM Unit based on the existing legislation

Graph 121: Minimum subsistence level, poverty threshold and social benefits, a couple with no income, various number of children, 2015

Legend:
- Activation benefit
- Child catering subsidy
- Subsistence minimum level
- Child allowance
- Material need
- At-risk-of-poverty threshold

Source: VfM Unit
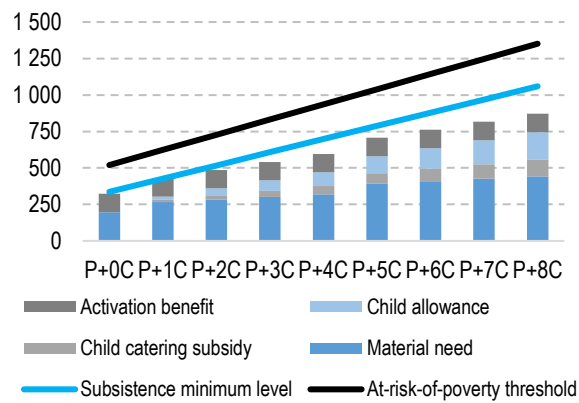
Graph 122: Share of benefits in minimum subsistence level and the poverty threshold, a couple, various number of children, 2015

Legend:
- Share of child allowance in minimum subsistence income
- Share of child catering subsidy in minimum subsistence income
- Share of activation benefit in minimum subsistence income
- Share of benefits in MN in minimum subsistence income

Source: VfM Unit
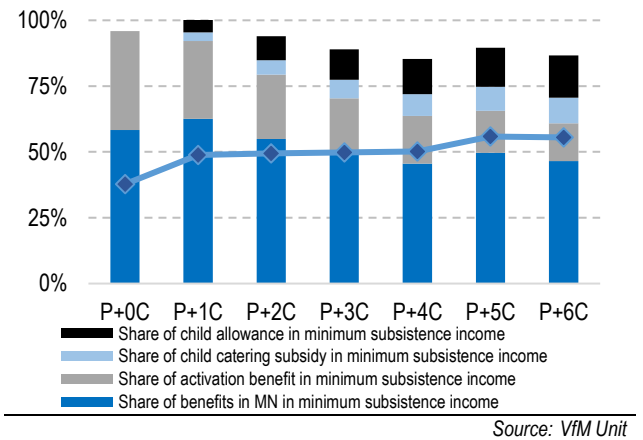
7.3 Changes in income after joining the labour force

After joining the labour force, long-term unemployed persons can increase their income to nearly three times the income during unemployment. A single childless individual, who is entitled to a special allowance, and got employed with an income of EUR 435 (minimum wage in 2017), can considerably improve his/her financial situation.

Graph 123: Changes in income of a single childless individual after joining the labour force, with minimum wage

Legend:
- Activation benefit
- Tax bonus
- Special allowance
- Net income
- SAB + HA
- Minimum subsistence income

Source: VfM Unit
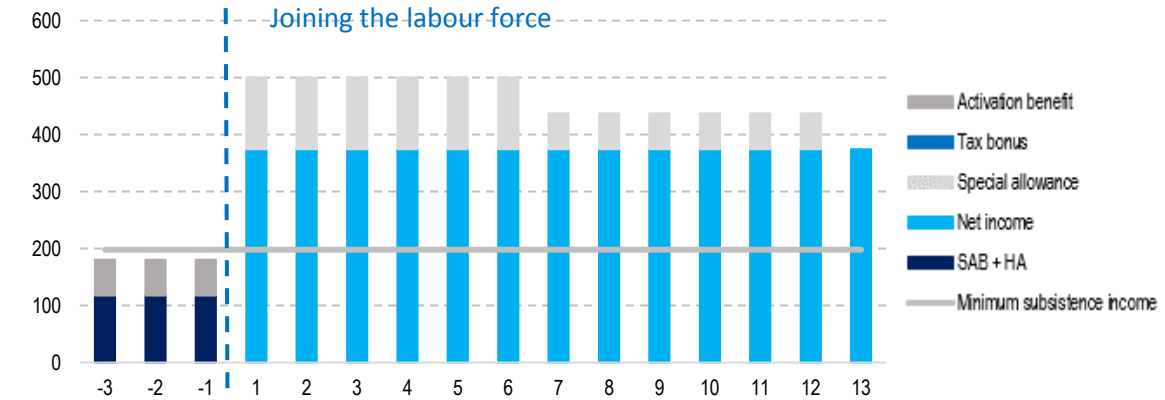
Note: SAB – social assistance benefit, HA – housing allowance

After one of a long-term unemployed couple gets employed at minimum wage, the income of the family can be increased above the minimum subsistence level. In such case, the income increases by nearly 5%, plus there is another strong motivation for a long-term unemployed person in form of special allowance which is paid in the first year from commencement of employment.

Graph 124: Changes of income of a couple with two children after one from the couple joins the labour force
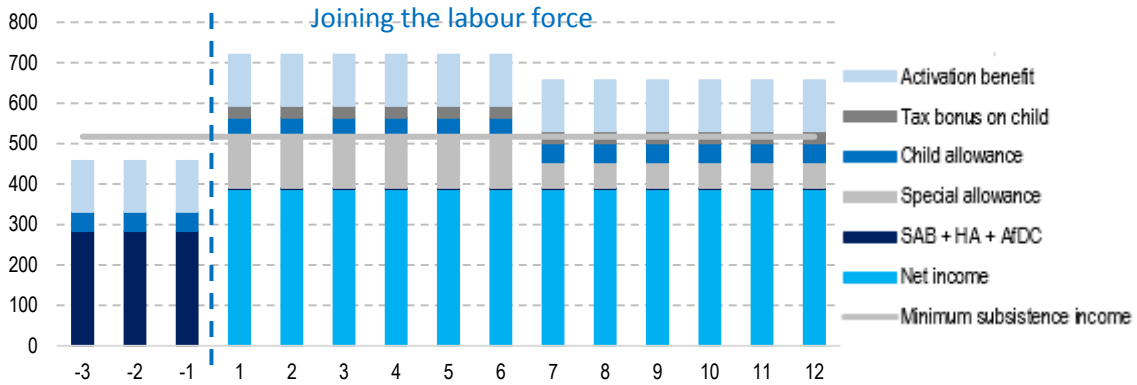
Source: VfM Unit

Note: SAB – social assistance benefit, HA – housing allowance, AfDC – allowance for a dependent child

In a couple from which only one person was employed at minimum wage, can increase their income by nearly 44% after the second person gets employed. The following is also the case when the income for the family increases thanks to special allowance, although to a lower extent. The key factor increasing the disposable income for the household is the income from the other person's employment.

Graph 125: Changes in income of a couple with two children after joining the labour force
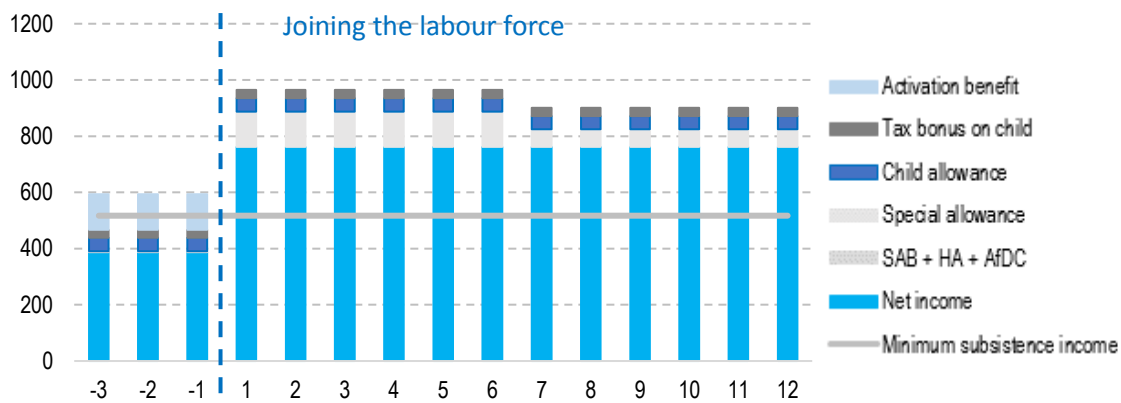
Source: VfM Unit

Note.: SAB – social assistance benefit, HA – housing allowance, AfDC – allowance for a dependent child
One from the couple is employed at minimum wage and the other person gets employed (at minimum wage as well).

7.4 DEA-analysis of public employment services

The text is based on (IFP, 2016) and has been modified to enable use of the model for 2014 and 2016 at a time.

Specification of DEA model with description of variables

The analysis uses data from various sources (ÚPSVR and Budget IS) for 2014 and 2016, which are the best approximation of processes at PES offices and, at the same time, meet the requirements of a theoretical model (for input and output values see Tables 35 and 36). Total number of PES offices is 46, and the existing organization structure includes another 72 organization units in districts of the Slovak Republic.

Theoretical model

Simplified model of employment services operation processes is depicted in the scheme below. Support to job seekers upon joining the labour force is regarded as main outcome of activities of public employment services. This objective is fulfilled through ALMPs, which serve as temporary variables. Input data used to "generate" these temporary (intermediate) variables include number of employees of public employment services and operating

expenditure and expenses for the ALMPs. The effect of public employment services on placement of job seekers depends also on regional characteristics of the labour market (exogenous inputs), which are not directly controllable by the PES office. Therefore, also these so called exogenous inputs shall be considered (Sheldon, 2003). The first phase of the analysis is focused on technical **effectiveness of activities** and thus generation of maximum possible amount "employment services" using minimum input amount of labour and capital. The second phase is then focused on **effectiveness of placement** upon decreasing the number of job seekers using temporary inputs from the first phase (Mosley & Schütz, et al., 2003).

Theoretical Model for Evaluation of Operational Effectiveness
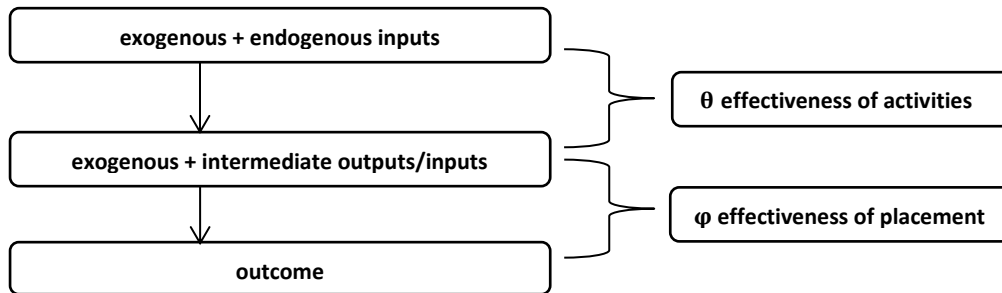
DEA-analysis

The non-parametric method of threshold effectiveness "Data Envelopment Analysis" (Charnes & Cooper, et al., 1978) or analysis of data envelopes is applied with the purpose to estimate technical effectiveness of public employment services[82]. The double-phase DEA, as designed in Mosley & Schütz, et al. (2003), separately measures effectiveness of activities θ in the first step and effectiveness of placement φ in the second step. The benefit from such chained DEA-analysis (Färe & Grosskopf, et al., 2007) is the possibility to capture the internal structure of processes in the organizational unit without a simplified "black-box" view, where temporary inputs are either omitted or assigned to the input or output side (Halkos & Tzeremes, et al., 2014). On one side the input-oriented model estimates the effectiveness of "generation" of activities (ALMPs, employment services – consulting). That defines possibilities for reduction of inputs such as number of employment services staff, expenditure on ALMPs and expenditure on normal operation of public employment services. On the other side, an output-oriented model measures effectiveness of support to placement of job seekers on the labour market. This method enables defining the potential increase in number of placements on the labour market through improving effectiveness of processes. Both cases also apply non-discretionary (uncontrollable by PES offices) input in form of regional characteristics index[83], reflecting the disadvantaged position of certain PES offices.

Effectiveness of activities (an input-oriented CCR model with non-discretionary inputs)

$$\min \quad \theta - \epsilon\left(\sum_{i \in D} s_i^- + \sum_{r=1}^{s} s_r^+\right) \tag{1}$$

$$\theta x_{i0} = \sum_{j=1}^{n} x_{ij}\, \lambda_j + s_i^-, \qquad i \in D$$

$$x_{i0} = \sum_{j=1}^{n} x_{ij}\, \lambda_j + s_i^-, \qquad i \in ND$$

$$y_{r0} = \sum_{j=1}^{n} y_{rj}\, \lambda_j - s_r^+, \qquad r = 1, \dots, s$$

$$\lambda, s_i^-, s_r^+ \geq 0$$

where $\boldsymbol{\theta}$ refers to effectiveness criteria for activities of organizational unit and, thus, share of all inputs, which would be sufficient – compared to effective reference units – to achieve the given amount of outputs, $\boldsymbol{x_{ij}}$, and $\boldsymbol{y_{rj}}$ are vectors of inputs and/or outputs of the jth organizational unit, $\boldsymbol{\lambda_j}$ is the weight vector and $\boldsymbol{s_r^+}$, $\boldsymbol{s_i^-}$ are delays of

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[82] Cavin & Stafford (1985); Behrenz & Rikard (1998); Sheldon (2003); Mosley & Schütz, et al. (2003); Vassiliev & Luzzi, et al. (2006).
[83] Increasing the discriminatory power of DEA-models through analysis of key components as designed in Adler & Yazhemsky (2010).

relevant inputs/outputs. The set of values *D* includes only discretionary inputs or inputs controllable by the PES office, while the *ND* set of values includes non-discretionary exogenous inputs.

Effectiveness of placement (output-oriented CCR model with non-discretionary inputs)

$$\max \quad \varphi + \epsilon\left(\sum_{i=1}^{m} s_i^- + \sum_{r=1}^{s} s_r^+\right) \tag{2}$$

$$\varphi y_{i0} = \sum_{j=1}^{n} y_{ij}\,\lambda_j - s_r^+, \qquad r \in D$$

$$y_{i0} = \sum_{j=1}^{n} y_{ij}\,\lambda_j - s_r^+, \qquad r \in ND$$

$$x_{i0} = \sum_{j=1}^{n} x_{ij} + s_i^-, \qquad i = 1,\ldots,m$$

$$\lambda, s_i^-, s_r^+ \geq 0$$

where φ is the effectiveness criterion for placements by the organizational unit and thus the share of all outputs, which could be generated – compared to effective reference units – using the given amount of inputs.

An efficient unit should achieve $\theta = 1$, and/or $\varphi = 1$ and sum of delays equal to zero. An organizational unit is inefficient if $\theta < 1$, and/or $\varphi > 1$ (technical inefficiency) or if delays occurred (mixed inefficiency).

Returns to scale are calculated using the procedure under which the sum of dual weights λ_j indicates either growing ($\sum \lambda_j < 1$) or falling returns within the scope ($\sum \lambda_j > 1$) (Zhu, 2014; Zhu & Shen, 1995).

Variables were selected using the theoretical model based on description of processes and considering a positive correlation between inputs and outputs:

Inputs:

Exogenous:

- U   average number of registered job seekers
- V   average number of registered vacancies
- z_1 Share of low-skilled persons in all job seekers
- z_2 Share of the long-term unemployed in all job seekers

Endogenous:

- w_1 Number of employment services staff[84]
- w_2 expenditure on ALMPs directly attributable to the PES office
- w_3 expenditure on normal operation of the PES office (expenditure on goods and services)

Intermediary outputs/inputs:

- y_1 Number of individual informative consulting services (IPS) (§42) + number of group informative consulting services (IPS) × 20[85] (§42)
- y_2 Number of professional consulting services (OPS) (§43)
- y_3 Number of vacancy recommendations
- y_4 Number of attending educational programmes (§46(4), §47, 54-REPAS)
- y_5 Number of job seekers activated through ALMPs focused on increasing employability and employment, excluding education (§ 43, 49, 50, 50c, 50j, 51, 52, 52a, 52a, 54, 54-REPAS, 56, 57)

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[84] Expenditure for wages have only been reflected through number of employees.
[85] A simplified assumption of 20 job seekers per IPS group was used for imitation of the potential number of used variables to increase the discriminatory power of the model and absence of data about actual number of job seekers in groups.

y_6 Number of all persons activated through ALMPs focused on increasing employability and employment rates and stabilisation of the existing jobs (§§ 43, 46(4), 47, 49, 50, 50a, 50c, 50j, 51, 52[86], 52a, 52a, 53, 53a, 54, 54-REPAS, 56, 56a, 57, 59, 60)

Outcomes*:*

Y Average number of job seekers deregistered after being placed on the labour market

	Inputs	Outputs
Efficiency of activities	*index (non-discretionary input), w_1, w_2, w_3*	y_1, y_2, y_6,
Efficiency of effects	*index (non-discretionary input), y_1, y_2, y_3, y_4, y_5*	Y

Number of job seekers deregistered after being placed on the labour market Y serves as a proxy variable, as only a part of registered job seekers is placed on the labour market through direct support from the PES office using employment services and ALMPs tools. A positive correlation between the two variables will ensure correct selection of the variable (Sheldon, 2003). Additionally, empirical evidence indicates that even informal placements of job seekers in the labour market of own initiative are positively influenced by advisory services y (Eppel et al., 2014).

Calculation of potential increase in placements driven by public employment services has been defined as:

[Y × (φ − 1)] × assumed impact of PES office on placement

To facilitate comparison between various potential scenarios, we used a simplified assumption, under which more efficient employment services lead, on average, to 10–30% increase in number of job seekers placed on the labour market. DEA-model calculations have been programmed in R using the ‚Benchmarking' package (Bogetoft & Otto, 2010), allowing for processing of non-discretionary inputs.

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[86] The amount assigned to this tool complies with the valid legislation and can be claimed by a municipality under exactly defined criteria for a specific number of job seekers. The purpose is to organise and to facilitate activation works. The actual number of activated job seekers supported by passive measures in form of benefits in material needs do not equal the number of claimable job seekers. Assuming this number, spending on active measures would not correspond to the number of activated persons. Assessment of results of activation works is a topic that requires a more detailed examination and cannot be estimated using the above described methodology.

Table 34: Outcome from DEA analysis, years 2014 and 2016

| Year | PES office | Efficiency of "generation" of activities θ | | | | Efficiency of placing job seekers on the labour market φ | | | | Potential growth in placements | |
| | | | | | Potential reduction of inputs | | | | | | |
		CRS	VRS	SE	1-θ	CRS	VRS	SE	φ−1	(φ−1)* 10%[b]	(φ−1)* 30%[b]
2014	Bratislava	0.61	0.75	0.81	39%	1	1	1	0%	0	0
2014	Malacky	0.54	1	0.54	46%	1 [a]	1	1	0%	0	0
2014	Pezinok	0.93	1	0.93	7%	1	1	1	0%	0	0
2014	Dunajská Streda	0.76	0.87	0.87	24%	1.52 [a]	1.51 [a]	1.01	52%	19	57
2014	Galanta	0.61	1	0.61	39%	2.09 [a]	1.8	1.16	109%	28	84
2014	Piešťany	1	1	1	0%	1	1	1	0%	0	0
2014	Senica	0.49	0.62	0.79	51%	1.38 [a]	1.06 [a]	1.3	38%	14	43
2014	Trnava	0.49	0.85 [a]	0.58	51%	1.18	1	1.18	18%	7	20
2014	Partizánske	0.74	0.88	0.84	26%	2.19	2.17	1.01	119%	33	99
2014	Nové Mesto n. Váhom	0.75	0.99 [a]	0.76	25%	1.7	1.68	1.01	70%	19	57
2014	Považská Bystrica	0.95	1	0.95	5%	1.83	1.82	1.01	83%	28	84
2014	Prievidza	0.7	0.72	0.97	30%	1	1	1	0%	0	0
2014	Trenčín	0.55	0.69 [a]	0.8	45%	1	1	1	0%	0	0
2014	Komárno	0.45	0.62	0.73	55%	1 [a]	1	1	0%	0	0
2014	Levice	0.56	0.66	0.85	44%	3.71	2.41 [a]	1.54	271%	84	253
2014	Nitra	1	1	1	0%	1.14	1.01	1.13	14%	9	27
2014	Nové Zámky	0.41	0.45	0.91	59%	1.29	1 [a]	1.29	29%	17	50
2014	Topoľčany	0.76	1	0.76	24%	1.67 [a]	1.44	1.16	67%	14	43
2014	Čadca	0.58	0.77	0.75	42%	1.24 [a]	1	1.24	24%	7	22
2014	Dolný Kubín	0.36	0.98	0.37	64%	1	1	1	0%	0	0
2014	Námestovo	0.52	0.72	0.72	48%	1	1	1	0%	0	0
2014	Liptovský Mikuláš	0.55	0.85	0.65	45%	1	1	1	0%	0	0
2014	Martin	1	1	1	0%	1.99	1.83	1.09	99%	29	87
2014	Ružomberok	0.57	0.93	0.61	43%	1	1	1	0%	0	0
2014	Žilina	0.32	0.44	0.73	68%	1	1	1	0%	0	0
2014	Banská Bystrica	1	1	1	0%	1	1	1	0%	0	0
2014	Banská Štiavnica	0.9	0.93	0.97	10%	3.69	2.47 [a]	1.49	269%	82	246
2014	Brezno	0.61	0.82	0.74	39%	1.74 [a]	1.68	1.04	74%	15	45
2014	Lučenec	0.52	0.65	0.8	48%	3.06 [a]	1.16 [a]	2.64	206%	56	168
2014	Revúca	0.55	0.77	0.71	45%	3.72	1 [a]	3.72	272%	35	106
2014	Rimavská Sobota	0.59	0.62	0.95	41%	4.08	1 [a]	4.08	308%	65	196
2014	Veľký Krtíš	0.78	0.91	0.86	22%	3.63	1 [a]	3.63	263%	40	120
2014	Zvolen	0.45	0.57	0.79	55%	1.28 [a]	1.27 [a]	1.01	28%	10	30
2014	Bardejov	0.45	0.52	0.87	55%	1	1	1	0%	0	0
2014	Humenné	0.47	0.63	0.75	53%	1.42	1.36	1.04	42%	16	47
2014	Poprad	0.77	0.8	0.96	23%	1.89	1.21 [a]	1.56	89%	35	105
2014	Prešov	1	1	1	0%	1.53	1	1.53	53%	40	120
2014	Stará Ľubovňa	1	1	1	0%	3.91	3.39	1.15	291%	60	180
2014	Stropkov	0.65	0.97	0.67	35%	1 [a]	1	1	0%	0	0
2014	Vranov nad Topľou	0.63	0.66	0.95	37%	1.44 [a]	1.1 [a]	1.31	44%	13	40
2014	Košice	0.41	0.42	0.98	59%	2.18	1 [a]	2.18	118%	94	283
2014	Michalovce	0.57	0.58	0.98	43%	1.22	1	1.22	22%	8	25
2014	Rožňava	0.62	0.7	0.89	38%	3.82	1.87 [a]	2.04	282%	55	164
2014	Spišská Nová Ves	0.77	0.77	1	23%	1.93	1.25 [a]	1.54	93%	36	108
2014	Trebišov	0.68	0.7	0.97	32%	1	1	1	0%	0	0
2014	Kežmarok	0.54	0.66	0.82	46%	1	1	1	0%	0	0
2014	Average	0.66	0.79	0.83	34%	1.75	1.29	1.38	75%		
2014	Total									969	2907

CRS – CCR model with fixed returns to scale; VRS – BCC model with variable returns to scale; SE – scale efficiency;
a. existence of delays (mixed inefficiency) i. e. in case of radially efficient entity existence of delays only leads to pseudo-efficiency, as reduction of certain specific inputs or increase of certain outputs is possible;
b. possible increase in placements, assuming impact of PES offices in the extent of 10 or 30 %

Table 34 (continued): Outcome from DEA analysis, years 2014 and 2016

Year	PES office	Efficiency of "generation" of activities θ				Efficiency of placing job seekers on the labour market φ				Potential growth in placements	
		CRS	VRS	SE	1-θ	CRS	VRS	SE	φ−1	(φ−1)*10%[b]	(φ−1)*30%[b]
					Potential reduction of inputs						
2016	Bratislava	1 [a]	1 [a]	1	0%	1.07	1	1.07	7%	6	19
2016	Malacky	0.72	1	0.72	28%	3.15	2.95	1.07	215%	46	138
2016	Pezinok	0.89 [a]	1 [a]	0.89	11%	3.69	2.34	1.58	269%	103	310
2016	Dunajská Streda	1	1	1	0%	4.73	2.33 [a]	2.03	373%	144	431
2016	Galanta	0.98 [a]	1	0.98	2%	3.82	3.07	1.24	282%	70	210
2016	Piešťany	0.9 [a]	0.95 [a]	0.95	10%	2.97	2.17	1.37	197%	68	203
2016	Senica	0.62	0.69	0.9	38%	2.83	1.96	1.44	183%	68	205
2016	Trnava	1 [a]	1 [a]	1	0%	2.15	1.8	1.19	115%	43	128
2016	Partizánske	0.96	1	0.96	4%	4.55	2.8	1.63	355%	100	299
2016	Nové Mesto n. Váhom	1	1	1	0%	3.01	2.13	1.41	201%	51	152
2016	Považská Bystrica	0.67	0.78 [a]	0.86	33%	3.27	2.18	1.5	227%	76	228
2016	Prievidza	0.64	0.67	0.96	36%	1.64	1.33 [a]	1.23	64%	31	93
2016	Trenčín	0.89 [a]	0.94 [a]	0.95	11%	2.05	1.4	1.46	105%	56	167
2016	Komárno	0.53	0.6	0.88	47%	1.88	1.38 [a]	1.36	88%	39	116
2016	Levice	0.89	0.92	0.97	11%	6.59	2.61 [a]	2.52	559%	188	563
2016	Nitra	1 [a]	1	1	0%	3.74	1.45 [a]	2.58	274%	171	513
2016	Nové Zámky	0.19	0.35	0.54	81%	1.29	1.23	1.05	29%	17	51
2016	Topoľčany	0.88	1	0.88	12%	4.16	3.04	1.37	316%	76	228
2016	Čadca	0.6	0.74 [a]	0.81	40%	2.54	1.99	1.28	154%	51	152
2016	Dolný Kubín	0.43	0.87 [a]	0.49	57%	2.09	2.05	1.02	109%	19	57
2016	Námestovo	0.6	0.73 [a]	0.82	40%	1.88	1.58	1.19	88%	31	93
2016	Liptovský Mikuláš	0.6	0.76	0.79	40%	2.1	1.78	1.18	110%	27	82
2016	Martin	1	1	1	0%	4.3	2.8	1.54	330%	91	272
2016	Ružomberok	0.97	1	0.97	3%	6.57	3.84 [a]	1.71	557%	121	363
2016	Žilina	0.48	0.58 [a]	0.83	52%	1.06	1	1.06	6%	4	11
2016	Banská Bystrica	1 [a]	1 [a]	1	0%	3.14	2.15	1.46	214%	67	202
2016	Banská Štiavnica	0.58	0.61	0.95	42%	3.88	2.57 [a]	1.51	288%	100	301
2016	Brezno	0.8	0.93	0.86	20%	3.53	2.67 [a]	1.32	253%	58	175
2016	Lučenec	0.85	0.86	0.99	15%	7.09	2.34 [a]	3.03	609%	186	557
2016	Revúca	0.54	0.69	0.78	46%	2.85 [a]	2.32 [a]	1.23	185%	26	77
2016	Rimavská Sobota	0.62	0.64	0.97	38%	5.2	1 [a]	5.2	420%	125	374
2016	Veľký Krtíš	0.66	0.79	0.84	34%	4.35	3.49	1.25	335%	58	173
2016	Zvolen	0.73	0.76	0.96	27%	3.27	2 [a]	1.64	227%	79	237
2016	Bardejov	0.61	0.66	0.92	39%	1	1	1	0%	0	0
2016	Humenné	0.77	0.77	1	23%	4.08	2.14 [a]	1.91	308%	126	378
2016	Poprad	1	1	1	0%	3.69	1.61 [a]	2.29	269%	121	362
2016	Prešov	0.65	0.78	0.83	35%	3.13	1.04 [a]	3.01	213%	166	499
2016	Stará Ľubovňa	1	1	1	0%	3.84	2.74	1.4	284%	64	192
2016	Stropkov	0.72	0.91	0.79	28%	1 [a]	1	1	0%	0	0
2016	Vranov nad Topľou	0.54	0.58	0.93	46%	1.65	1 [a]	1.65	65%	21	64
2016	Košice	0.64 [a]	1	0.64	36%	4.67	1 [a]	4.67	367%	314	942
2016	Michalovce	1	1	1	0%	7.29	2.08 [a]	3.5	629%	254	761
2016	Rožňava	0.64	0.68	0.94	36%	4.62	2.27 [a]	2.04	362%	84	252
2016	Spišská Nová Ves	0.78	0.8	0.98	22%	5.36	1.99 [a]	2.69	436%	184	551
2016	Trebišov	0.93	0.94	0.99	7%	4.84	1.17 [a]	4.14	384%	130	391
2016	Kežmarok	0.59	0.65	0.91	41%	2.96	1.32 [a]	2.24	196%	71	214
2016	Average	0.76	0.84	0.9	24%	3.45	1.98	1.83	245%		
2016	Total									3928	11783

CRS – CCR model with fixed returns to scale; VRS – BCC model with variable returns to scale; SE – scale efficiency;

a. existence of delays (mixed inefficiency) i. e. in case of radially efficient entity existence of delays only leads to pseudo-efficiency, as reduction of certain specific inputs or increase of certain outputs is possible;

b. possible increase in placements, assuming impact of PES offices in the extent of 10 or 30 %

Table 35: Inputs to DEA-analysis 2014 and 2016

Year	PES office	Exogenous inputs					Endogenous inputs		
		U	*V*	z_1	z_2	*index*	w_1	w_2	w_3
2014	Bratislava	14,060	1,025	0.11	0.36	46.11	64	1,953,972	1,184,948
2014	Malacky	2,948	289	0.25	0.38	39.08	21	732,688	278,813
2014	Pezinok	4,846	235	0.12	0.31	30.80	29	1,264,689	570,126
2014	Dunajská Streda	7,798	172	0.26	0.46	54.13	56	2,175,332	560,649
2014	Galanta	3,385	345	0.21	0.33	33.81	36	1,169,556	378,534
2014	Piešťany	5,015	245	0.15	0.4	38.41	45	1,427,327	464,508
2014	Senica	6,223	129	0.29	0.46	53.33	51	2,252,199	507,973
2014	Trnava	4,817	303	0.14	0.28	29.50	47	1,419,243	472,802
2014	Partizánske	5,302	88	0.18	0.48	46.73	44	1,391,684	499,563
2014	Nové Mesto n. Váhom	4,063	137	0.18	0.41	39.48	32	1,872,749	433,015
2014	Považská Bystrica	5,847	167	0.13	0.47	43.70	47	2,478,807	507,470
2014	Prievidza	9,835	149	0.19	0.5	55.92	71	5,005,599	637,154
2014	Trenčín	7,974	171	0.1	0.39	40.25	49	3,057,461	673,388
2014	Komárno	9,665	81	0.31	0.6	69.59	59	2,500,669	617,098
2014	Levice	8,671	187	0.3	0.55	63.50	77	3,220,367	710,820
2014	Nitra	10,647	212	0.16	0.41	50.12	82	2,604,128	791,069
2014	Nové Zámky	11,784	348	0.24	0.49	60.25	100	4,213,906	945,251
2014	Topoľčany	4,981	108	0.16	0.5	45.68	36	1,627,239	338,638
2014	Čadca	6,463	109	0.16	0.47	46.48	42	3,527,876	483,044
2014	Dolný Kubín	2,781	41	0.12	0.49	39.33	26	1,063,817	301,194
2014	Námestovo	6,234	105	0.15	0.45	44.86	40	3,187,778	555,019
2014	Liptovský Mikuláš	5,155	168	0.27	0.53	53.97	33	2,219,306	415,790
2014	Martin	5,863	186	0.2	0.47	47.17	48	2,147,162	562,419
2014	Ružomberok	3,943	104	0.19	0.49	45.22	33	1,611,203	370,095
2014	Žilina	9,670	397	0.15	0.58	57.35	91	2,650,290	856,058
2014	Banská Bystrica	5,947	130	0.14	0.45	43.01	38	2,901,068	491,783
2014	Banská Štiavnica	7,630	79	0.21	0.56	57.43	61	2,545,319	633,756
2014	Brezno	5,282	76	0.35	0.53	59.09	39	1,887,380	382,100
2014	Lučenec	11,165	84	0.41	0.65	81.02	83	2,291,959	663,599
2014	Revúca	6,581	80	0.51	0.73	83.46	41	1,748,406	434,489
2014	Rimavská Sobota	14,201	33	0.52	0.75	99.74	79	3,044,320	861,211
2014	Veľký Krtíš	5,407	88	0.3	0.61	61.73	39	2,220,875	413,395
2014	Zvolen	8,708	115	0.22	0.5	56.35	81	3,194,077	690,194
2014	Bardejov	12,155	301	0.31	0.6	72.83	83	4,894,793	521,580
2014	Humenné	9,889	104	0.18	0.59	61.13	62	2,682,213	577,834
2014	Poprad	11,040	252	0.42	0.57	75.57	81	3,022,357	755,891
2014	Prešov	20,821	231	0.34	0.62	91.71	127	6,668,403	1,216,583
2014	Stará Ľubovňa	3,904	196	0.37	0.49	55.21	35	2,561,338	355,252
2014	Stropkov	3,636	45	0.32	0.63	61.45	30	1,918,774	363,654
2014	Vranov nad Topľou	9,720	198	0.44	0.65	79.29	77	3,682,650	621,461
2014	Košice	24,176	334	0.3	0.53	89.24	239	7,603,954	1,796,118
2014	Michalovce	12,606	110	0.35	0.63	78.58	123	3,919,076	721,634
2014	Rožňava	8,822	100	0.42	0.69	80.07	57	2,615,581	542,870
2014	Spišská Nová Ves	11,689	72	0.46	0.6	81.88	85	3,997,100	712,082
2014	Trebišov	12,511	56	0.35	0.69	82.54	102	3,047,910	784,315
2014	Kežmarok	9,531	134	0.6	0.69	91.45	60	2,039,442	455,727

Source: Own calculation based on data for 2014 and 2016 from various sources (ÚPSVR and the Budgeting Information System)

Table 35 (continued): Inputs to DEA-analysis 2014 and 2016

Year	PES office	Exogenous inputs					Endogenous inputs		
		U	*V*	*z₁*	*z₂*	*index*	*w₁*	*w₂*	*w₃*
2016	Bratislava	11,842	6,187	0.10	0.36	14.39	101	3,798,420	884,686
2016	Malacky	2,190	991	0.25	0.35	32.32	33	1,275,892	189,257
2016	Pezinok	3,806	909	0.12	0.27	23.16	44	2,321,808	476,739
2016	Dunajská Streda	5,489	723	0.27	0.42	44.60	80	3,084,722	442,126
2016	Galanta	2,357	1,240	0.21	0.26	22.79	48	1,439,056	283,494
2016	Piešťany	3,026	689	0.13	0.30	22.90	57	1,628,007	359,034
2016	Senica	4,278	533	0.27	0.38	43.41	79	2,240,041	395,307
2016	Trnava	3,377	2,373	0.13	0.22	11.89	62	1,643,861	420,224
2016	Partizánske	3,607	597	0.17	0.42	36.85	62	1,928,838	344,134
2016	Nové Mesto n. Váhom	2,904	987	0.18	0.38	33.00	52	1,519,531	332,191
2016	Považská Bystrica	3,996	760	0.12	0.40	32.51	61	2,797,562	420,067
2016	Prievidza	7,093	1,259	0.18	0.48	43.13	88	5,104,784	534,862
2016	Trenčín	5,333	1,354	0.09	0.33	24.59	74	3,095,401	549,206
2016	Komárno	6,881	584	0.30	0.57	59.45	92	3,762,136	436,278
2016	Levice	6,337	492	0.30	0.55	57.68	113	3,574,034	618,573
2016	Nitra	7,404	1,160	0.16	0.38	35.74	115	2,880,574	586,250
2016	Nové Zámky	9,100	971	0.24	0.45	51.68	143	3,999,714	626,568
2016	Topoľčany	3,491	455	0.15	0.44	37.16	48	2,004,763	251,797
2016	Čadca	4,420	280	0.16	0.44	39.83	62	3,114,700	352,170
2016	Dolný Kubín	2,020	317	0.11	0.43	32.44	37	1,342,800	294,438
2016	Námestovo	3,669	430	0.15	0.34	33.13	61	3,316,961	396,878
2016	Liptovský Mikuláš	3,750	654	0.29	0.46	45.47	52	3,159,701	301,326
2016	Martin	3,666	646	0.19	0.34	29.67	78	2,479,691	453,454
2016	Ružomberok	3,150	186	0.19	0.48	42.78	48	2,042,201	268,924
2016	Žilina	8,915	2,453	0.11	0.41	28.58	80	3,230,435	602,982
2016	Banská Bystrica	4,657	1,753	0.14	0.44	31.61	64	2,859,241	352,970
2016	Banská Štiavnica	5,725	490	0.21	0.49	46.12	86	4,864,045	563,370
2016	Brezno	4,443	172	0.34	0.53	57.13	54	3,163,064	273,782
2016	Lučenec	9,043	240	0.42	0.61	76.13	117	4,091,139	556,873
2016	Revúca	5,567	181	0.52	0.60	73.74	72	4,575,488	338,050
2016	Rimavská Sobota	11,999	185	0.53	0.70	92.09	109	5,826,326	681,370
2016	Veľký Krtíš	3,890	137	0.32	0.58	57.85	53	3,052,611	361,338
2016	Zvolen	6,917	443	0.23	0.51	49.29	106	3,464,330	436,451
2016	Bardejov	10,792	1,113	0.31	0.55	62.34	104	7,273,566	479,976
2016	Humenné	8,435	293	0.18	0.55	55.20	91	3,083,483	457,922
2016	Poprad	8,916	985	0.42	0.53	65.33	107	4,161,521	510,220
2016	Prešov	16,756	1,034	0.38	0.58	75.88	190	9,039,455	953,803
2016	Stará Ľubovňa	3,131	322	0.41	0.44	51.60	52	3,843,530	283,458
2016	Stropkov	3,138	86	0.34	0.57	55.41	43	3,467,733	255,812
2016	Vranov nad Topľou	8,491	333	0.45	0.61	74.56	97	4,376,177	519,074
2016	Košice	19,938	1,136	0.31	0.52	77.75	297	8,415,290	1,516,819
2016	Michalovce	10,984	574	0.38	0.59	72.81	107	5,435,262	606,828
2016	Rožňava	7,352	247	0.44	0.66	75.66	89	5,260,215	484,763
2016	Spišská Nová Ves	9,935	778	0.47	0.56	72.17	112	7,259,890	651,674
2016	Trebišov	10,720	193	0.37	0.65	77.67	117	5,923,506	594,466
2016	Kežmarok	8,060	254	0.59	0.63	84.19	79	3,576,783	447,686

Source: Own calculation based on data for 2014 and 2016 from various sources (ÚPSVR and the Budgeting Information System)

Table 36: Outputs from DEA-analysis, 2014 and 2016

Year	PES office	Intermediary outputs						Outcome
		y_1	y_2	y_3	y_4	y_5	y_6	Y
2014	Bratislava	77,766	8,552	59	180	502	1,604	895
2014	Malacky	103,722	1,269	575	98	285	787	188
2014	Pezinok	6,903	6,132	1,486	434	501	1,458	379
2014	Dunajská Streda	209,234	9,449	1,926	85	873	1,601	363
2014	Galanta	40,716	4,742	1,566	114	527	1,001	257
2014	Piešťany	506,679	3,630	5,890	46	550	1,207	338
2014	Senica	111,402	2,705	2,093	462	665	2,063	373
2014	Trnava	24,744	4,345	1,676	80	688	1,300	367
2014	Partizánske	316,486	3,749	1,436	179	692	1,445	276
2014	Nové Mesto n. Váhom	321,068	2,688	730	112	644	1,360	272
2014	Považská Bystrica	188,709	10,176	1,173	100	825	1,644	337
2014	Prievidza	8,420	2,814	919	74	1,563	4,549	520
2014	Trenčín	70,382	3,444	2,647	85	973	2,332	539
2014	Komárno	21,461	6,089	514	80	1,005	1,652	402
2014	Levice	120,334	8,643	3,383	254	1,367	2,588	312
2014	Nitra	657,270	17,369	2,314	105	1,232	2,100	643
2014	Nové Zámky	30,273	3,096	5,491	232	2,102	3,434	573
2014	Topoľčany	294,416	4,295	763	50	742	1,204	215
2014	Čadca	22,917	3,990	308	145	1,034	2,239	305
2014	Dolný Kubín	23,613	626	605	40	431	800	161
2014	Námestovo	67,007	3,668	2,093	35	1,048	1,876	385
2014	Liptovský Mikuláš	12,006	315	2,368	94	971	1,694	258
2014	Martin	810,541	2,643	1,095	147	960	1,829	294
2014	Ružomberok	23,125	3,874	1,364	16	927	1,442	203
2014	Žilina	67,637	2,607	2,835	267	894	2,170	647
2014	Banská Bystrica	712,125	245	165	51	780	1,428	290
2014	Banská Štiavnica	82,183	12,657	448	269	1,218	2,161	305
2014	Brezno	27,518	1,012	400	74	1,545	2,147	205
2014	Lučenec	101,378	6,809	2,748	125	1,638	2,119	272
2014	Revúca	49,734	1,353	1,174	100	1,870	2,084	130
2014	Rimavská Sobota	341,219	4,508	744	129	2,554	3,200	213
2014	Veľký Krtíš	359,459	3,668	936	154	722	1,839	152
2014	Zvolen	14,602	3,046	1,196	285	1,260	2,493	358
2014	Bardejov	39,338	999	67	68	2,128	3,250	447
2014	Humenné	149,990	4,626	720	68	1,450	1,908	372
2014	Poprad	767,223	1,724	726	126	2,565	3,322	392
2014	Prešov	480,958	7,805	5,368	126	3,260	5,409	757
2014	Stará Ľubovňa	419,969	4,549	2,778	189	1,239	12,327	206
2014	Stropkov	14,795	364	283	54	981	1,813	120
2014	Vranov nad Topľou	455,093	733	1,209	80	1,614	3,010	299
2014	Košice	291,419	11,313	4,864	387	2,720	5,440	799
2014	Michalovce	367,673	7,575	2,325	20	1,975	2,994	373
2014	Rožňava	98,537	2,908	580	142	2,556	3,037	194
2014	Spišská Nová Ves	686,965	3,034	1,729	62	2,860	3,983	386
2014	Trebišov	510,062	5,548	562	0	2,598	3,533	292
2014	Kežmarok	251,289	622	640	0	1,539	1,994	264

Source: Own calculation based on data for 2014 and 2016 from various sources (ÚPSVR and the Budgeting Information System)

Table 36 (continued): Outputs from DEA-analysis, 2014 and 2016

Year	PES office	Intermediary outputs						Outcome
		y_1	y_2	y_3	y_4	y_5	y_6	Y
2016	Bratislava	37,373	7,553	1,219	649	2,764	3,749	919
2016	Malacky	35,077	3,458	1,837	329	1,551	1,905	214
2016	Pezinok	101,563	7,738	4,883	458	2,522	3,074	384
2016	Dunajská Streda	449,266	18,433	3,941	217	5,341	6,012	385
2016	Galanta	316,871	6,417	1,771	145	1,952	2,451	249
2016	Piešťany	347,010	5,307	7,989	204	2,069	2,556	344
2016	Senica	90,377	4,420	3,266	308	2,486	3,316	374
2016	Trnava	132,598	2,762	3,567	364	1,587	2,229	371
2016	Partizánske	497,200	5,403	5,151	386	2,301	2,916	281
2016	Nové Mesto n. Váhom	64,015	2,236	2,408	113	3,302	4,361	251
2016	Považská Bystrica	35,544	6,091	4,124	254	2,866	3,487	335
2016	Prievidza	43,087	2,690	3,123	472	2,623	4,938	485
2016	Trenčín	130,501	4,719	5,123	273	2,626	3,858	530
2016	Komárno	77,255	2,170	2,672	393	2,844	3,510	438
2016	Levice	711,522	14,057	5,831	403	3,927	4,897	336
2016	Nitra	422,075	13,017	5,889	493	5,028	5,785	624
2016	Nové Zámky	120,638	4,374	9,317	428	849	1,361	587
2016	Topoľčany	369,600	4,583	2,701	259	2,114	2,481	241
2016	Čadca	132,000	2,875	2,355	285	2,109	3,260	328
2016	Dolný Kubín	66,377	1,094	1,393	184	964	1,276	173
2016	Námestovo	115,105	1,871	2,105	183	2,148	3,224	352
2016	Liptovský Mikuláš	32,245	891	3,132	185	2,069	2,729	248
2016	Martin	720,650	6,048	2,918	181	2,846	3,727	275
2016	Ružomberok	59,380	8,623	3,648	461	3,308	3,715	217
2016	Žilina	45,922	1,522	2,915	427	2,458	3,347	623
2016	Banská Bystrica	561,494	3,290	2,608	266	2,461	3,631	315
2016	Banská Štiavnica	129,137	10,160	3,449	182	3,446	4,032	348
2016	Brezno	77,923	2,628	1,501	371	2,634	3,379	230
2016	Lučenec	176,189	12,952	3,149	310	6,379	6,802	305
2016	Revúca	152,566	568	1,796	186	2,631	2,730	138
2016	Rimavská Sobota	169,017	4,540	2,454	370	5,504	5,946	297
2016	Veľký Krtíš	70,449	3,014	2,368	154	2,325	3,117	172
2016	Zvolen	40,693	4,948	2,605	242	3,822	4,731	348
2016	Bardejov	20,605	755	905	405	3,065	4,478	496
2016	Humenné	195,593	11,379	1,441	261	4,495	4,821	409
2016	Poprad	1,116,802	5,141	4,762	442	4,099	4,864	449
2016	Prešov	348,593	8,538	10,588	582	7,458	9,481	782
2016	Stará Ľubovňa	658,073	2,748	4,546	205	2,211	3,025	225
2016	Stropkov	6,595	1,333	1,120	203	2,066	2,708	140
2016	Vranov nad Topľou	45,511	883	1,288	381	2,990	4,268	328
2016	Košice	1,045,678	18,800	10,622	1,107	8,164	10,275	855
2016	Michalovce	392,273	16,686	5,499	421	8,186	9,336	403
2016	Rožňava	383,132	2,551	2,802	264	3,805	4,264	232
2016	Spišská Nová Ves	561,209	12,075	5,200	388	5,651	6,805	421
2016	Trebišov	69,083	11,808	1,879	551	7,657	8,538	339
2016	Kežmarok	167,080	4,440	1,960	214	3,359	3,871	363

Source: Own calculation based on data for 2014 and 2016 from various sources (ÚPSVR and the Budgeting Information System)

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9 Acronyms

§50	**Contribution to support employment of disadvantaged job seekers**
§46	Education and training for job seekers to enter the labour market
§49	Contribution to self-employment
§50j	Contribution to support development of local and regional employment
§51	Contribution to graduate practice
§51a	Contribution to support creation of jobs, preferentially for the first regularly paid employment
§52	Contribution to support activation activities, such as training or small community work for the municipality of the self-governing region
§52a	Contribution to support activation activities in form of volunteering
§53	Commutation allowance
§53a	Relocation allowance
§54 NP RE-PAS	Re-training as an opportunity for cooperation between job seekers, offices of labour, social affairs and family and educational institutions
§54 NP XX	Support to employment of the unemployed in local government (mainly the young below 29 years of age)
§54 NP XXI	Support to creation of jobs in the private sector (the young below 29 years of age)
ALMP	Active Labour Market Policies
APTP	Active Labour Market Policy
CBA	Cost-benefit analysis
CCA	Central Coordination Authority
CIPC	Centre for International Legal Protection of Children and Youth
COFOG	Classification of Functions of Government
EC MLSAF	Education Centre of the Ministry of Labour, Social Affairs and Family of the Slovak Republic
DEA	Data envelopment analysis
LTU	Long-term unemployment
SAB	Social assistance benefit
EC	European Commission
ESA	European System of Accounts
ESO	Efficient, reliable and open general government
ESIF	European Structural and Investment Funds
ETF	Exchange-Traded Fund
EU-28	EU countries (28 countries as at March 2017)
EURES	EURopean Employment Services
GDP	Gross domestic product
IA ZaSI	Implementation Agency of the Ministry of Labour, Social Affairs and Family of the Slovak Republic
IAMLSAF	Implementation Agency MLSAF SR
IFP	Institute for Financial Policy
ILR	Institute for Labour Rehabilitation of Persons with Disabilities
IS DMS	Information System for Electronic Documents Management System
IS PI	IS for Pension Insurance
IS SBM	Information System for Social Benefits Management

IS CIP	IS for collection of insurance premiums and contributions
IT	Information technologies
ILFR	Institute for Labour and Family Research
I+2C	Individual with two children
KPI	Key performance indicators
LFS	Labour Force Survey in the Slovak Republic
MF SR	Ministry of Finance of the Slovak Republic
MISSOC	Mutual Information System on Social Protection
MLSAF SR	Ministry of Labour, Social Affairs and Family of the Slovak Republic
NPTB	Non-taxable part of the tax base
NLI	National Labour Inspectorate
NP ESC	National Project: Effective Services for Citizens
NRP	National Reform Programme of the Slovak Republic
OECD	Organisation for Economic Co-operation and Development
OLSAF	Offices of Labour, Social Affairs and Family
OP ESI	Operational Programme Employment and Social Inclusion
HA	Housing allowance
PES	Public Employment Services (unit of OLSAF)
SAB	Social assistance benefit
PFMC	Pension fund management companies
PM	Number of supported persons
AfDC	Allowance for dependent child
BSO	Budgetary or subsidiary organisations
RE-PAS	Re-training as an opportunity for cooperation between job seekers, offices of labour, social affairs and family and educational institutions
RIS	Budget information system
RCVI	Rehabilitation Centre for the Visually Impaired
GGB	General government budget
SIA	Social Implementation Agency
SILC	Statistics on Income and Living Conditions
SLOPEM	Slovak Pension Model
SP	Social Insurance Agency
SPMC	Supplementary Pension Management Companies
SLPC	Social and Legal Protection of Children
SLPC&SG	Social and legal protection of children and social guardianship
SR	Slovak Republic
SRRI	Synthetic Risk and Reward Indicator
GB	Government budget
SO SR	Statistical Office of the Slovak Republic
VfM	Value for Money Unit
UNDP	United Nations Development Programme
UNDP-WB-EC	United Nations-World Bank-European Commission Development Programme

JS	Job seeker
HTT	Higher territorial unit
ZS	Baseline scenario
MSL	Minimum subsistence level