The Strengths and weaknesses of financing social protection in Latvia

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INTRODUCTION

Public social protection spending in Latvia amounted to 15.2% of GDP in 2016. Financing social protection in terms of PPS per inhabitant was only 35% of the average amount in the EU-28 in 2016. The explanation for such a permanently low level of social protection funding is not only a modest level of economic development, but traditionally a low priority of social spending in Latvian politics. The analysis of changes in the financing level of social protection, the changes in the main sources of social protection, the impact of past reforms is in focus. The wide variety in financing structures of social protection systems across Europe and the different levels of financing provides an opportunity to better understand the specifics in Latvia and its mixture of sources of financing social protection system.

METHODS

The author uses data from ESSPROS, the State Social Insurance Agency, the Ministry of Welfare for 2005-2017 for Latvia and the EU28 and is doing analysis of secondary statistical data, public policy documents, analysis of legislative acts and Cabinet Regulations from 2005-2018.

RESULTS AND DISCUSSIONS

The social insurance schemes are based on the pay-as-you-go principle and the distribution is achieved between the present contributors and the present recipients, at the same time the benefit amount is closely linked to the contributions paid by a certain individual. Such a system creates proper work incentives, albeit requires significant resources for its administration. The State Social Insurance Agency showed an excellent performance in dealing with this task. Latvia's experience with the micro-enterprise tax regime demonstrated the pitfalls of an over-simplified approach to taxation, when the measure, aimed at combating unemployment, became a tax evasion trick at the cost of the workers' social security.

The strong side of the existing model of financing social protection is its ability to maintain a positive balance even in the background of a very turbulent environment. The sustainability of the social insurance budget has always been and remains a top priority for policy-makers. Social contributions play the leading role in the existing mix of financing social protection. The share of old-age function benefits is higher than the EU28 average. The expenditures on some functions grew faster: spending on disability benefits increased by 99%, on unemployment by 75%, on old-age and family benefits by 64%. The last decade demonstrated a trend to an increasing role of the general government contributions. The social contribution rates are already quite high (35.09% in 2018) and can hardly be increased, otherwise labour costs might become uncompetitive. Therefore, a further increase of general government contributions seems unavoidable.

CONCLUSIONS

Trends in reforms and policy changes were diverse and even contradictory: cost saving, support of specific target groups, reallocating funds in financial flows, an increase of the pension age. A number of policy adjustments were based on the lessons learned during the crisis. Means-tested benefits are thinly represented in the Latvian social security system, and the thresholds used for their calculation are inadequately low. The Latvian healthcare system is chronically underfinanced. It also has a high ratio of out-of-pocket co-financing by patients. Austerity measures had a strong influence on social protection expenditures from 2009–2014. Among the weaknesses of the social insurance schemes, one should mention the inadequately low minimum levels of benefits, especially as concerns old-age pensions. Low wage earners might have a disincentive to diligently pay the contributions, seeing that even the average old-age pension is lower than the at-risk-of-poverty threshold.

KEYWORDS

Financing the social protection system, tax-based, insurance-based**.**