

ADEQUACY OF DISABILITY PENSION SYSTEM IN LATVIA

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ABSTRACT

The author analyzes the performance of the disability pension system in Latvia in order to assess the ability of the system to perform its main function: to prevent poverty among people with disabilities. It has been found that the system does not meet the criteria of adequacy and the causes of the problem have been addressed.

In the analysis, the author uses statistical data from Eurostat and the Central Statistical Bureau of Latvia, Mutual Information System on Social Protection (MISSOC) database, as well as considers statutory regulations.

Particular attention is paid to such an element of the pension system as statutory minimum pension amount as a key tool aimed at ensuring the adequacy of the social protection of people with disabilities. Additionally, the author provides a comparative analysis of minimum disability pension provisions in the EU member states.

Since the systems of old-age pensions and disability pensions in Latvia are closely connected, the author emphasizes the importance of the improvement of the adequacy of disability pensions in achieving more adequate old-age pensions.

***Keywords:** public pensions, welfare state, poverty prevention, disability*

INTRODUCTION

The concern of the social protection system inadequacy in Latvia has intensified in the political agenda after a critical exchange of views between the government and the Ombudsman during 2019. The result of this exchange was the filing of five lawsuits to the Constitutional Court on non-compliance of the social benefits system with the democratic principles (see [1] for more details). One of the lawsuits relates to inadequately low performance of the Latvian disability pension system.

When assessing the adequacy of the disability pension system in Latvia, one should start with a definition of what adequacy is and what criteria can be used to evaluate whether it is good, satisfactory or unsatisfactory. In the case of pension schemes, their adequacy mainly relates to their ability to provide adequate pensions. Other characteristics of pension systems include their sustainability,

affordability, predictability, equity and robustness [2]. The meaning that different researchers and policymakers put into these concepts differs and overlaps, as all these criteria are interdependent [3]. This paper follows a narrower approach of assessing the adequacy of the pension system through the adequacy of disability pension benefits it generates.

METHODS AND METHODOLOGY

Adequate pension benefits must provide adequate living standards for the recipients, that is, at the very least, protect pensioners against poverty. The poverty threshold can be measured both: absolutely, for example, by calculating the minimum consumer basket for an individual or a household, and relatively by comparing it to the median income level in the country. The European Commission in its working papers defines the poverty line as 60% of the median equivalised income, this rate is used in all Eurostat publications when comparing the EU member states. The OECD uses a lower threshold set at 50% of the median equivalised income. Also, a threshold of 40% of median equivalised income, the “severe poverty” threshold, is sometimes used [4]. This paper will apply both approaches: absolute and relative, to evaluate the adequacy of the disability pension system in Latvia.

The following section discusses, firstly, the overall effectiveness (or, rather, ineffectiveness) of the performance of the disability pension system in Latvia against the background of other EU member states. The analysis is mainly based on the Eurostat EU-SILC data. Secondly, a comparative analysis of the present minimum disability pension regulations in the EU countries is provided on the basis of the Mutual Information System on Social Protection (MISSOC) database.

RESULTS AND DISCUSSION

(In)Effectiveness of Latvian disability pension system in addressing the problem of poverty

Pension systems, both for old-age pensions and for disability pensions, can be designed very differently, both in terms of funding and principles according to which pension benefits are calculated. The main criterion of the quality of a system is the extent to which it is able to perform its main function: to prevent poverty and social exclusion among those groups of people who, for objective reasons, are totally or partially unable to support themselves.

Speaking about the adequacy of the social protection system for the people with disabilities in Latvia on the whole, statistics, alarmingly, show that Latvia copes with this task much worse than most EU member states. Among the people with disabilities, the share of people at risk of poverty (at risk-of-poverty rate, AROP) in Latvia is the second largest in the EU: 37.3%, which is almost twice the EU average of 20.9% (Eurostat, data for 2018). Moreover, in Latvia the ratio

of people at risk of poverty among people with disabilities is disproportionately higher than among people without disabilities. The gap between these indicators is the second largest in the EU, both in absolute and in relative numbers. While the average gap in EU-28 equals to 5.9 percentage points (p.p.) or 39.3%, in Latvia it is 20.5 p.p. or 122% (i.e. the risk of poverty is 2.2 times higher among people with disabilities).

The effectiveness of social policy in combatting poverty is measured by comparing the difference in AROP rates before and after social transfers. In all countries, the well-being of persons with disabilities is highly dependent on social support from the state. On average, 67.8% of disabled people in EU are at risk of poverty before social transfers, compared to 61.2% in Latvia. However, after social transfers the segment of such people decreases on average in EU by 46.5 p.p., whereas in Latvia it decreases only by 23.9 p.p. (the second-worst indicator in the EU). Thus, it is obvious that social policy measures in other member states are much more adequate for reducing poverty and social exclusion of people with disabilities.

The International Labour Organization (ILO) Convention on Minimum Standards of Social Security (No. 102, 1952), which Latvia has not ratified explicitly, but which is an integral part of the European Social Charter, provides for minimum security for disability in the same amount as the minimum security for the old-age pension, i.e. it should not be less than 40% of the average employee's salary. The current minimum amount of disability pension even in the most severe disability case covered only 16% of the average gross salary in 2019. The people with such severe disability in majority of cases do not have an opportunity to receive additional income from work, and disability pension is their main income source. The average disability pension in 2019 represented 22% of gross salary. Such replacement rates are far from being adequate and the existing system in Latvia is not consistent with the spirit and letter of the European Social Charter.

Regarding second dimension of the adequacy, namely, the ability to ensure income above the poverty line expressed not as percentage, but in absolute number, the situation is not much better, either.

The statutory minimum disability pension amount is set at extremely low levels: in 2020 it is €80 per month for the least severe disability group, €112 for the middle disability group and €128 for the people with most severe disability.

Unfortunately, starting from 2014 the Central Statistical Bureau of Latvia stopped the calculation of the minimum consumer basket, the previously existing method was considered outdated, but the new one has not been developed yet. The latest available figure for the consumer minimum relates to 2013 and equalled €253 per month per person. This amount is significantly higher than the average disability pension at that time and at present in 2019 the average disability pension

was €176.72 according to CSB. Healthy adequate nutrition cannot be ensured by existing disability pensions, without even considering other needs.

There is the current situation in Latvia, where the minimum amount of disability pension has remained unchanged for years, whereas the pensions already assigned are indexed annually. As a result, depending on the year of retirement, pensioners were placed in an unequal position.

Considering the function of specific components of the social protection system for the people with disabilities, it is necessary to bear in mind the double financial burden of disability: decrease in income with simultaneous increase in expenses. Firstly, due to their full or partial incapacity to work, a disabled person is incapable of earning as much as they could in full health; and secondly, compared to a healthy person, they have additional costs incurred by their disability, such as medicines, care products, rehabilitation expenses, transportation costs, etc. In summary, the analysis of social protection systems for people with disabilities distinguishes between income support and need-based payments [5].

Central and local authorities in different countries provide different types of in-cash and in-kind allowances for compensating the expenditures on assistants, transportation costs, as well as offer lower prices on motor vehicle insurance policies, reduced patients' fees when visiting doctors, and a variety of other benefits of such kind. Such benefits and allowances are intended to serve as compensation for additional disability-related expenses. There are many different types of such benefits in the EU member states, both in cash and in kind, and it is not always correct to compare the scope and the amounts of such benefits, as the cultural traditions, health care systems, organisation of welfare schemes and division of responsibilities between local and national level authorities vary a lot among the member states.

In this paper, the focus is not on the mechanisms intended to compensate for the increase of expenses, but mainly on the tool intended to compensate for the loss of income, namely, disability pension. We will narrow down our analysis by considering only one element of the disability pension system, but a very important one, i.e. the statutory pension minimum.

Statutory minimum disability pensions in Latvia and other EU member states

Disability pension systems in different European countries are designed according to quite different principles. There are countries using a uniform flat scale, where the pension amount does not depend on previous earnings; and there are countries where the pension amount depends on whether the recipient is single or lives with a spouse or a partner. Not all member states have prescribed minimum statutory disability pension amount (for example, Germany and Italy

do not have such regulation). The approaches to the classification of the people with disabilities into two or more classes (groups) in order to establish the different statutory minimum in each class vary as well. A number of states apply a “binary” division distinguishing full and partial disability; some countries (including Latvia) define more disability groups depending on the severity of disability. In some countries, the scale is expressed in terms of percentage of disability or, conversely, in terms of the percentage of preserved health. There are countries that specify different levels of minimum disability pension to people who need temporary rehabilitation and to those who need it permanently.

However, having studied the existing regulation of disability pension in the EU, one can conclude that, as of 2020, Latvia's statutory minimum disability pension is the lowest among all 27 member states. The current regulations [6] on minimum disability pensions are discussed below.

We shall start with the comparison of Latvian regulation to the other Baltic states: Estonia and Lithuania.

In Estonia, the disability pension does not depend either on social contributions paid by an employee, or on the length of their employment record, but only on the degree of disability: whether it is full or partial. In 2020, people with full disability receive €14.89 per day, i.e. €446.70 per month; and people with partial disablement receive 57% of this amount, i.e. €254.62 per month.

In Lithuania, disability pension is organised on the same principles as the old-age pension and, similarly to the latter, consists of two parts: general pension and individual pension. The general part depends on the length of service (for different age of disability acquisition, the required minimum length of service varies), and the individual part is proportional to the social contributions paid by an employee in the past. Should the sum of the general and individual parts be lower than the legally established minimum consumer basket (in 2020 it equals €257 per month), the disability pension is automatically supplemented to reach this minimum. If a person has insufficient employment record to qualify for a disability insurance pension, they receive a social assistance disability pension, which amount depends on the degree of disability: ranging from €140 to €280 per month.

Even in two poorest EU countries, Romania and Bulgaria, the minimum disability pensions are higher than in Latvia. In Romania it constitutes €147 per month, and in Bulgaria the statutory minimum ranges from €95 per month (for those with 50-70% disability) to €118 (71-90% disability) and €130 (with more than 90% disability) per month.

In Hungary, the minimum disability pension varies from €91 to €166 per month depending on the degree of the preserved health. In Poland, the statutory minimum disability pension is defined at the level of €194 per month for people with partial disability and €258 per month for people with full disability.

In the Czech Republic, the minimum amount is not formally set. However, as the disability pension benefit consists of two parts: a fixed part, which equals 10% of the average country-wide salary, and an individual part, which depends on the length of service, salary and disability group of the person, the pension formula cannot generate a number lower than €167 per month in 2020. In fact, such a low figure is possible only in case of exceptionally unfavourable circumstances and hardly ever occurs.

Slovakia also has no established minimum disability pension amount, but, similarly to the regulation of the statutory minimum old-age pension, the minimum in each case depends on the length of service and the minimum subsistence level. Thus, for a person with 30 years of insurance experience, the pension cannot be less than €334.30 per month.

In Slovenia, the statutory minimum disability pension is €226.55 per month, and if the recipient has the right for full pension (15 years) then the minimum is raised to €583.50 per month.

As regards minimum disability pension regulation in Western and Northern Europe, significantly more generous benefits are guaranteed in those countries. Statutory minimums range from €384 per month in Cyprus and €472 per month in Malta up to €1,893 per month in Luxembourg.

In a number of countries, such as Finland, Sweden, the Netherlands, no particular statutory minimum of disability pension is specified, but instead there exists a framework of a guaranteed social minimum (from €800 per month and higher). Therefore, if the calculated disability pension benefit falls below this minimum, the pensioner automatically receives an additional payment supplementing the pension up to the social minimum.

It is important to note that there is no need for the recipient to apply for this additional payment. Social policy researchers [7] stress that when the organization system of benefits includes the need to make a special application, collecting various references and overcoming bureaucratic obstacles, it makes the recipient feel ashamed and inferior, which humiliates the human dignity of people who are already in a difficult situation.

CONCLUSION

Thus, assessing the adequacy of disability pensions in Latvia on the background of the existing EU member states practice, one has to draw a conclusion about the inadequacy of the system. This is especially alarming considering the fact that as much as 29% of all disability pensions in Latvia are minimum pensions, which is also an extremely high proportion comparing to other European countries. The present standards of disability benefits do not

perform their function to prevent poverty among one of the most vulnerable population groups.

The system of disability pensions is important not only in itself but also in its relationship to the old-age pension system. In many countries, including Latvia, the recipient's disability pension benefit is converted into old-age pension benefit upon reaching retirement age. So the improvement of the adequacy of disability pensions leads to more adequate old-age pensions, as well.

The financial sustainability of the pension system is undoubtedly important. But it cannot be an aim, achieving the desired result at the expense of the most vulnerable and disadvantaged groups, the disabled and seniors. World experience has demonstrated that even with limited resources it is possible to use them more fairly and effectively.

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