

Útvar hodnoty za peniaze Ministerstvo financií SR

Spending review of labour market policies and social policies

Preliminary report

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Útvar hodnoty za peniaze
Ministerstvo financií SR

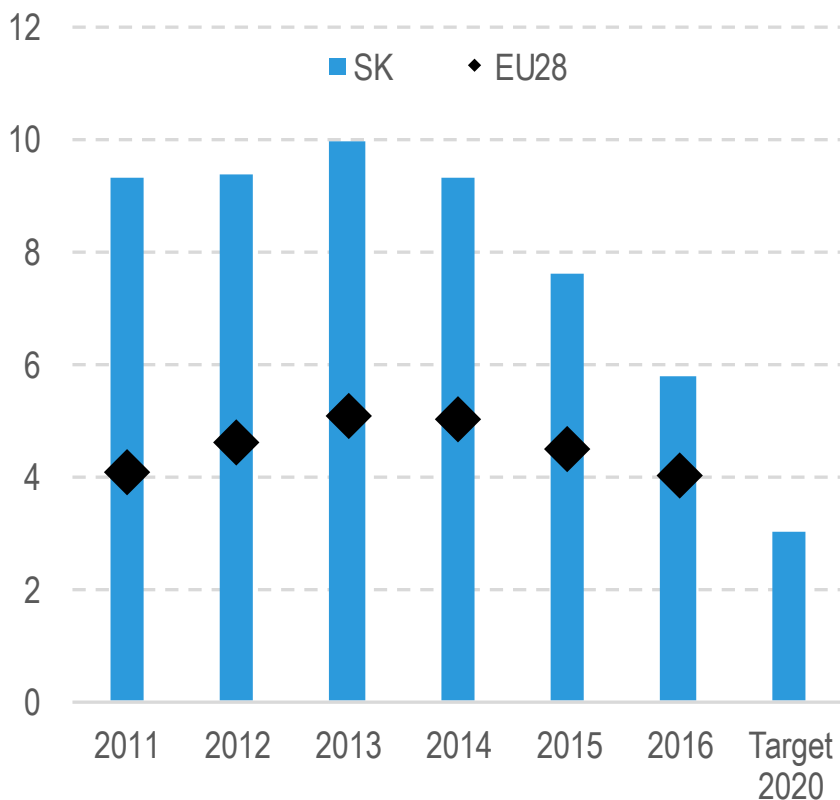
| Agenda

- Aims & expenditure overview
- Employment policies and ALMPs
- Pathway to unemployment
- Assistance in poverty
- Motivations for employment
- Social protection
 - Parents
 - Persons with disabilities
 - Long-term care
 - Children at risk
- Pensions
- Administrative spending analysis

Spending review aims

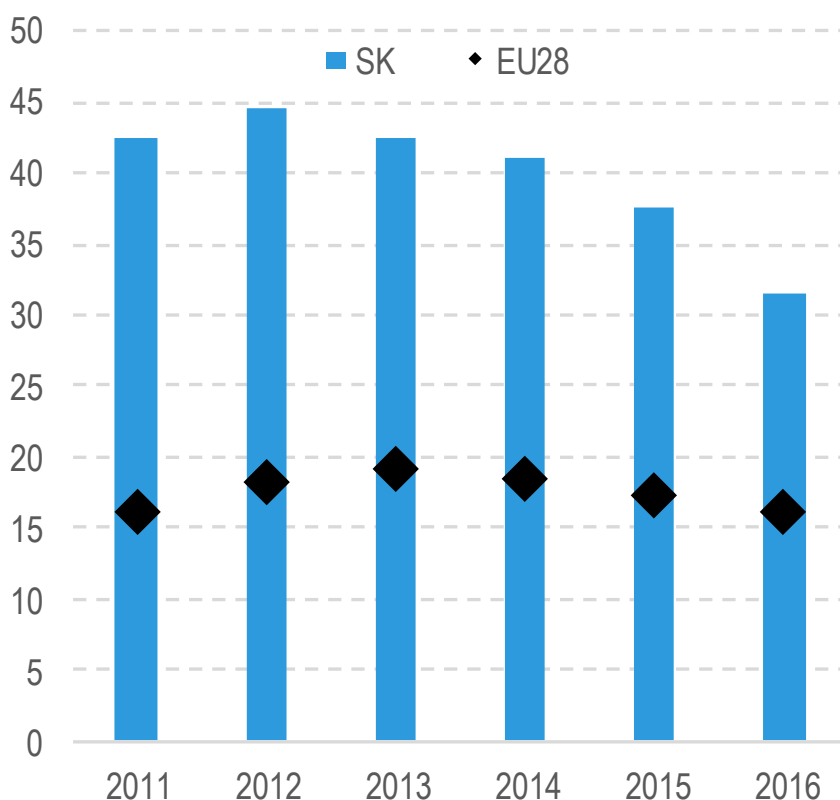
- To increase the employment rate
- Targets for the year 2020: long-term unempl. rate 3 %, employment rate 72 %.

Long-term unemployment rate (%)



Source: Eurostat

Unemployment rate of low-skilled workers (%)

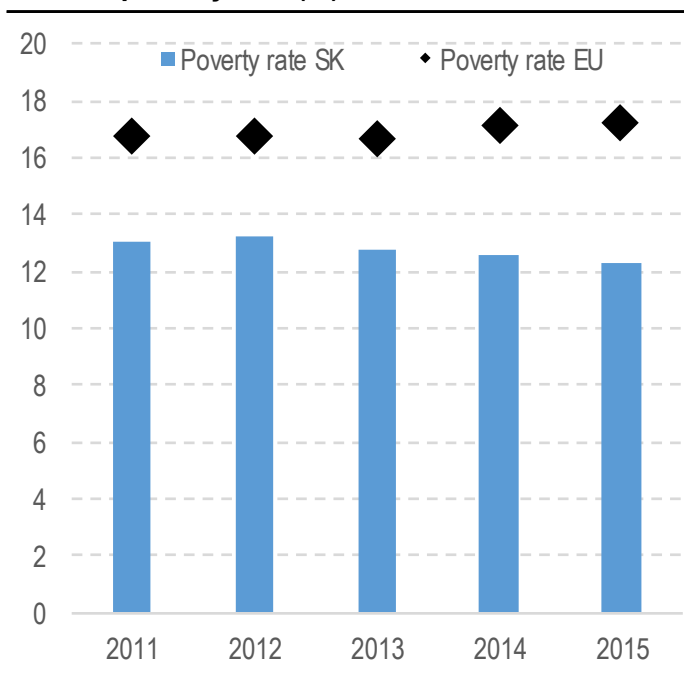


Source: Eurostat

Spending review aims

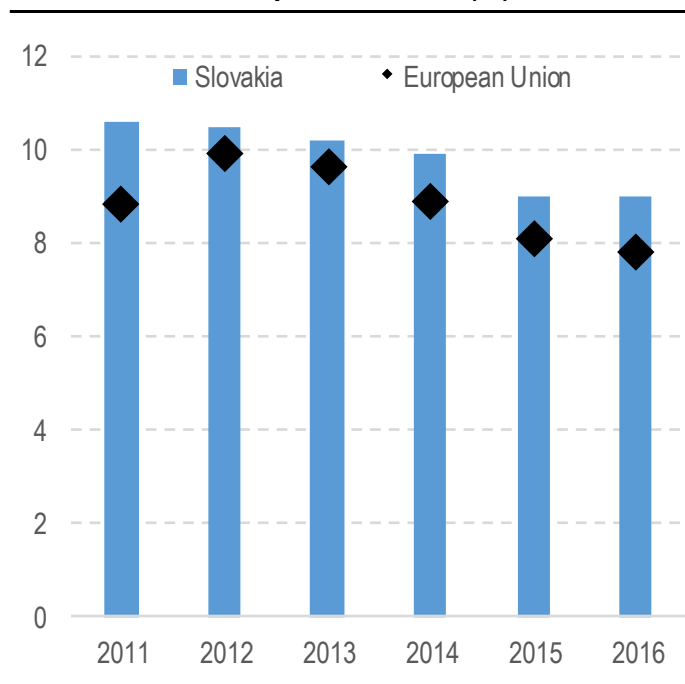
- To decrease the at-risk-of-poverty rate of citizens
- Slovakia achieves better results than EU and V3 average in the at-risk-of-poverty rate indicator, while the severe material deprivation rate is slightly above the average of EU

Risk of poverty rate (%)



Source: Eurostat

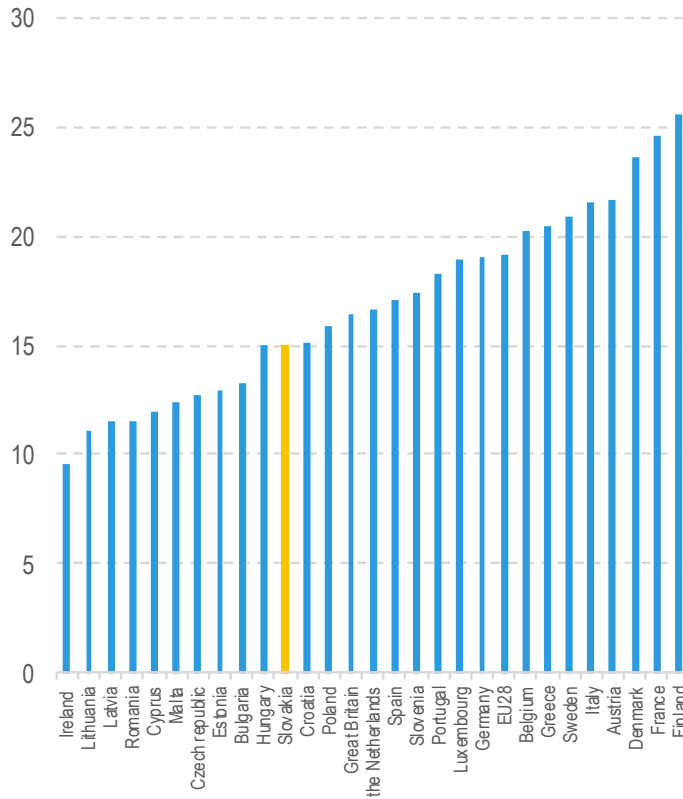
Severe material deprivation rate (%)



Source: Eurostat

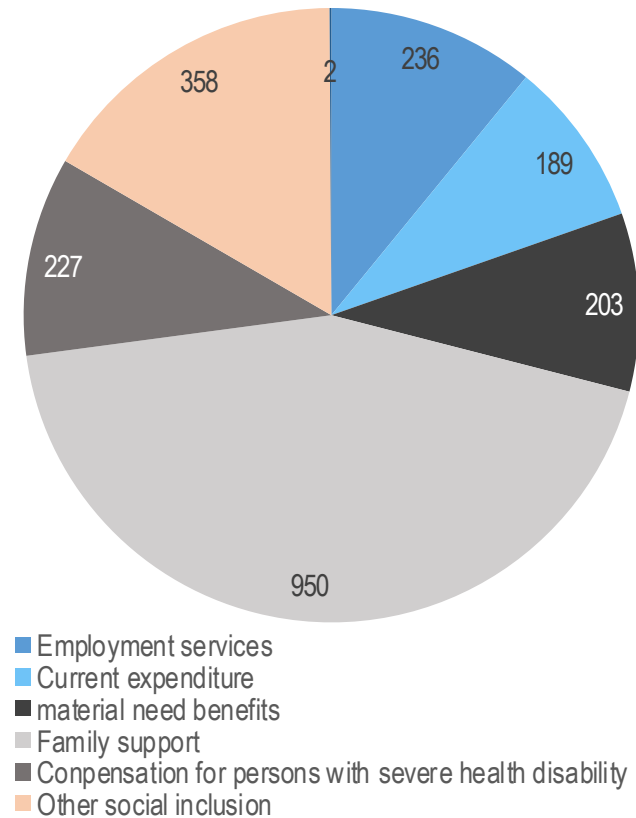
Expenditure envelope

Public spending on social protection in 2015 (% GDP)



Source: Eurostat - General government expenditure by function (COFOG)

Spending of Ministry of Labour, Social Affairs and Family of the Slovak Republic in 2016 (in mil. eur)



Source: MF SR

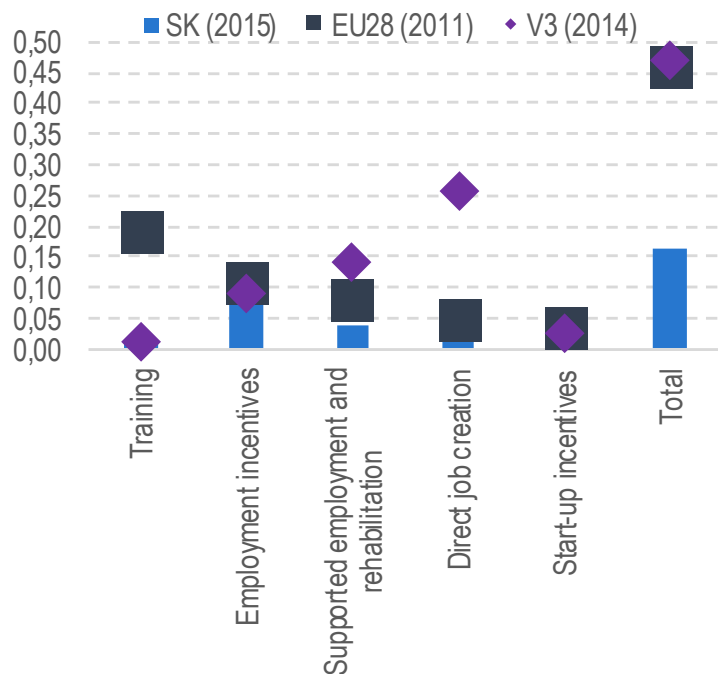
I Public employment services

- Biggest challenges on the labour market:
 - long-term unemployment
 - unemployment of low skilled workers
 - low employment rate of mothers with children
- The cross-cutting theme of employment of marginalized Roma communities will be a topic for a separate spending review

ALMP expenditure

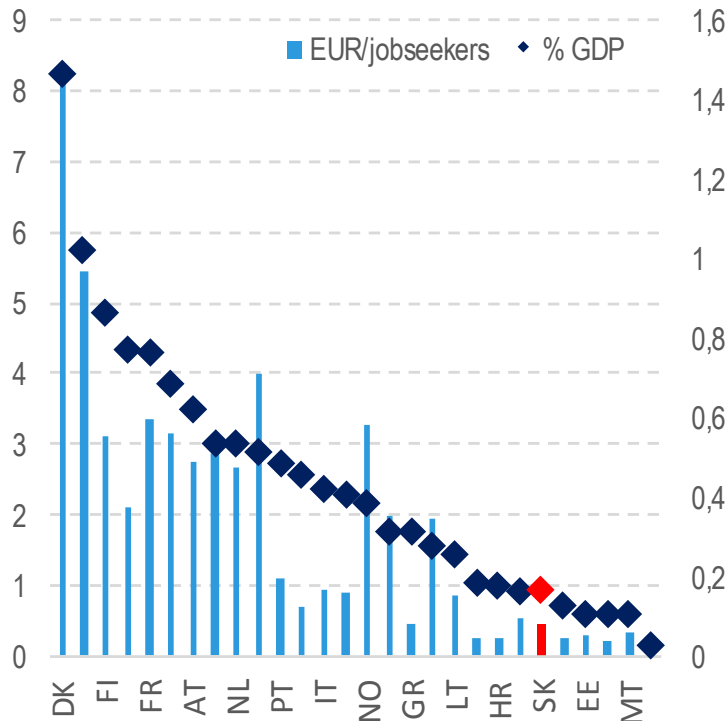
- Expenditure on ALMPs is among the lowest in the OECD
- Spending is dominated by demand-side programs

Spending on active labour market measures by measure type (% GDP)



Source: Value for Money Unit, Eurostat

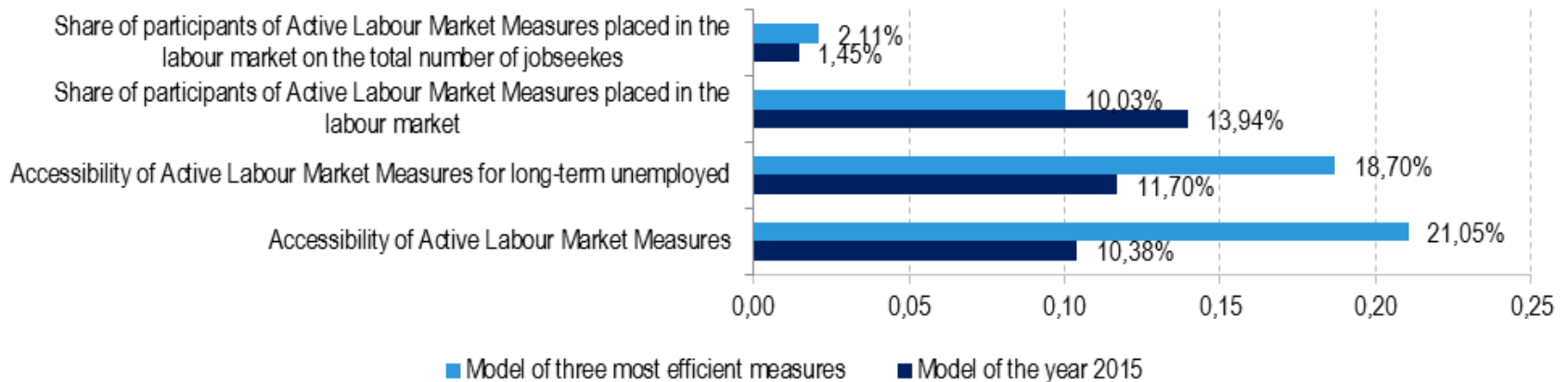
Spending on active labour market measures (2015)



Source: Value for Money Unit, Eurostat

Jobseekers profiling effects

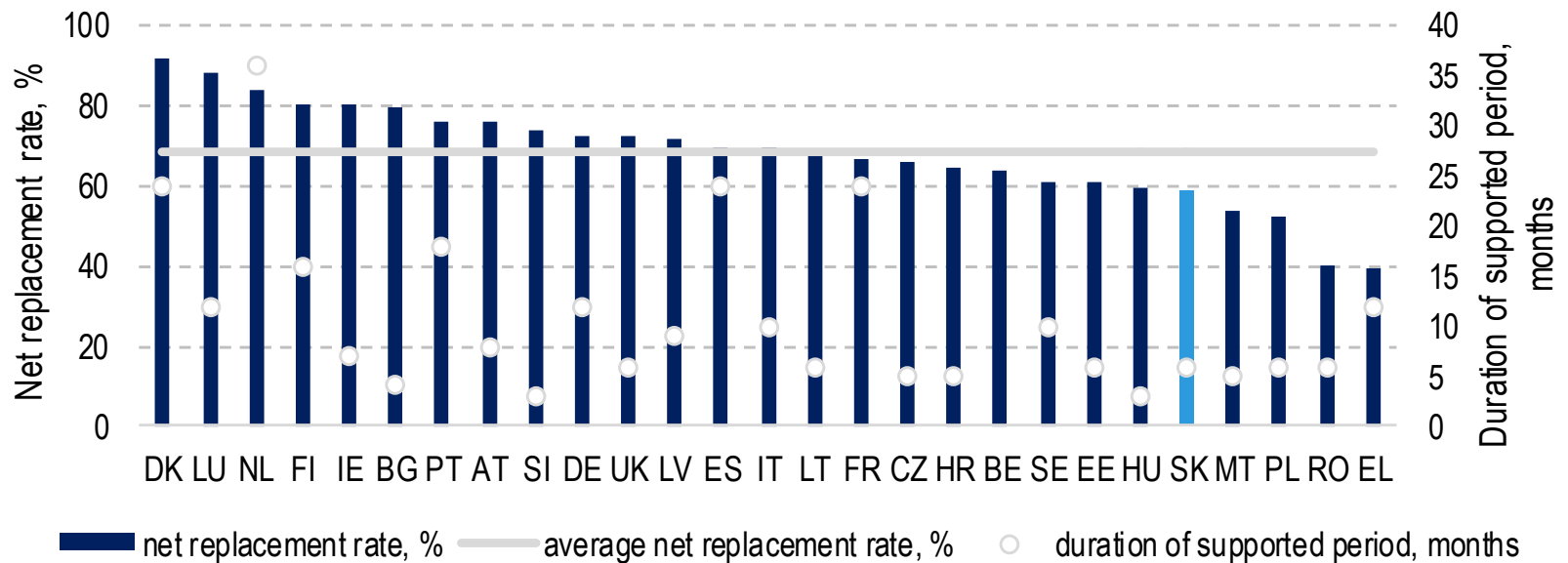
- Better targeting of ALMPs could increase the number of unemployed candidates successfully placed in the labour market by almost one half.
- Information on the candidates obtained when they are registered, their past unemployment records and employment history
- Job-seekers profiling proposal – divide into 3 groups according to their expected stay in the unemployment
 - Less than 6 months
 - 6 – 12 months
 - More than 12 months
- Improve current profiling



I Pathway to unemployment

- The conditions for entitlement to unemployment benefits in the Slovakia are among the most severe within OECD countries.
- The support period is shorter, the rate of compensation is average

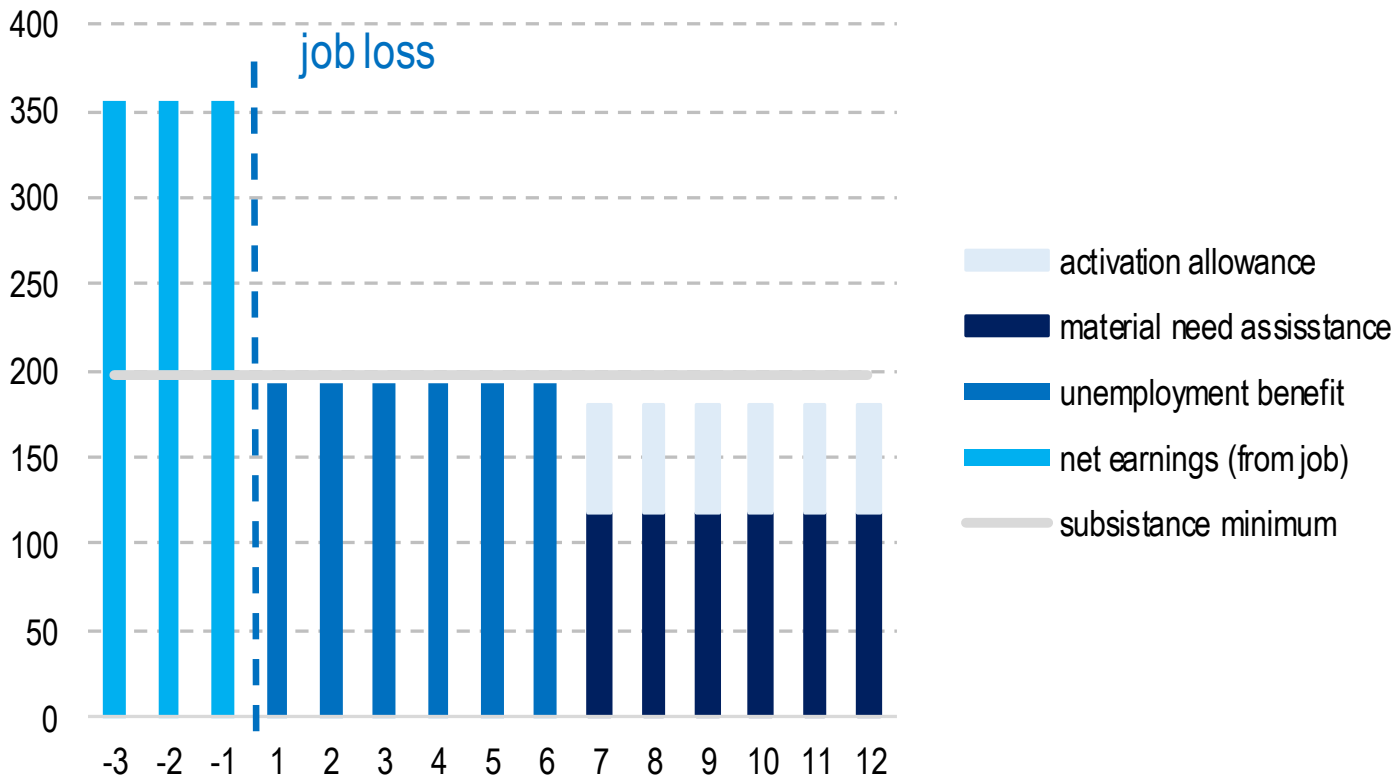
Net replacement rate (in %; 2014) and duration of unemployment benefits (in months; 2015)



Source: OECD, MISSOC

I Pathway to unemployment

Income after job loss, minimal wage earner, single, without children

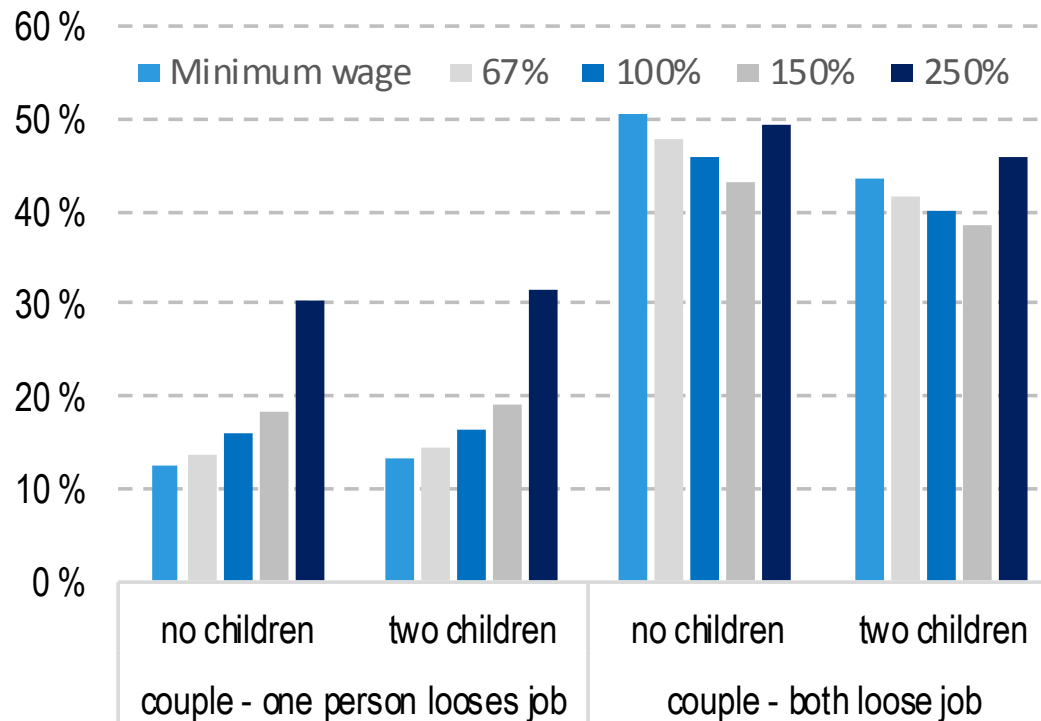


Source: Value for Money Unit

I Pathway to unemployment

- The decline in income after the loss of employment is most significant for low-income employees.

Decline of disposable income after job loss (2016)

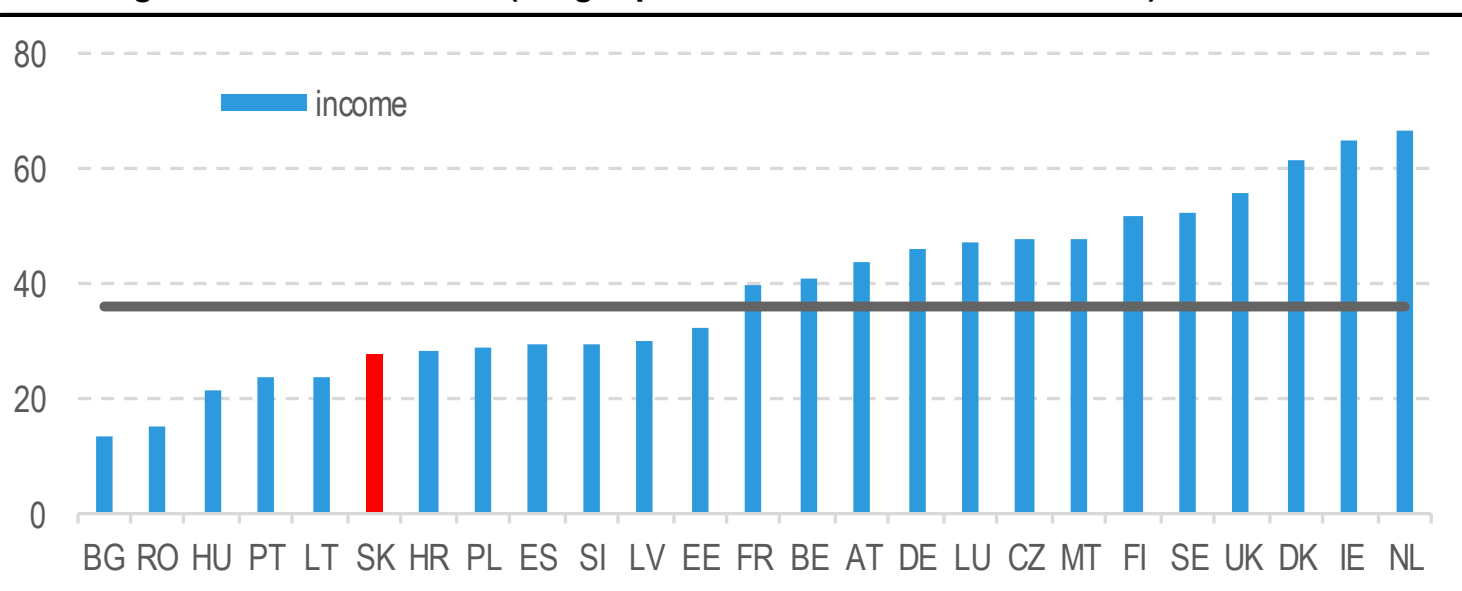


Source: Value for Money Unit

Social protection

- Assistance in material need represents a safety net for situations when the income of a household drops below the subsistence level.
- Slovak system of assistance in material need belongs among the less generous in Europe (in terms of minimum income benefits).
- An important element of the Slovak system is the effort to increase motivations to be active on the labour market, especially to find employment.

Net income of a person receiving material need benefits as % of median income, housing allowance included (single person without children, 2014)

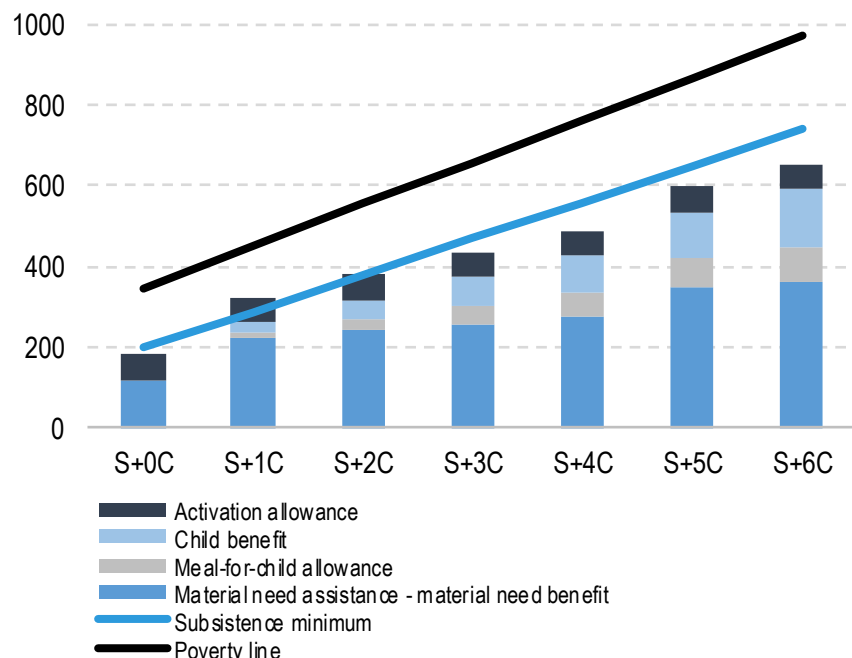


Source: OECD

Social assistance in poverty

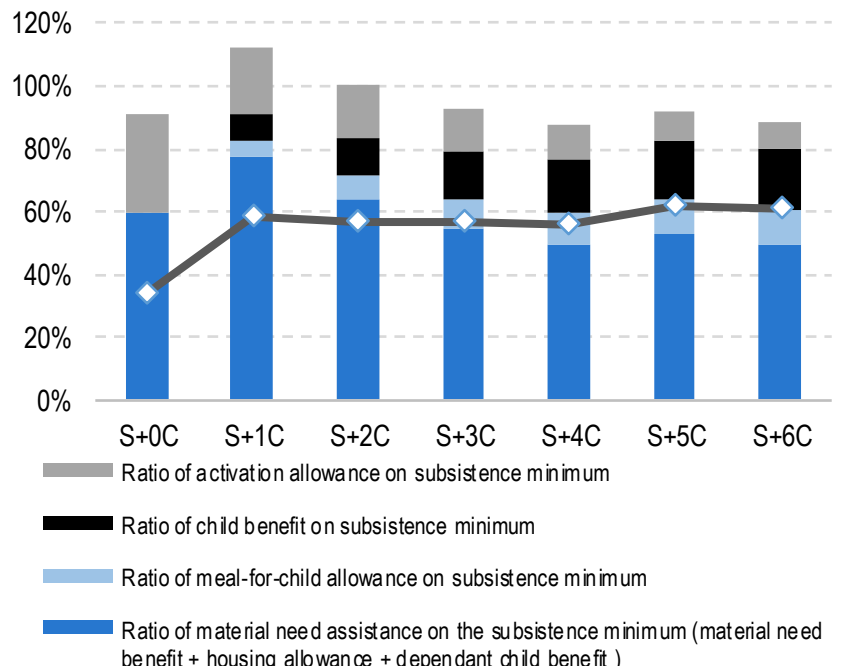
- The ratio of assistance in material need and the subsistence level varies depending on the household composition and the number of children.

Subsistence minimum, poverty line and social allowances for single person without income, with different number of children, 2015



Source: Value for Money Unit

Ratio of allowances on subsistence minimum and poverty line, single person with different number of people, 2015

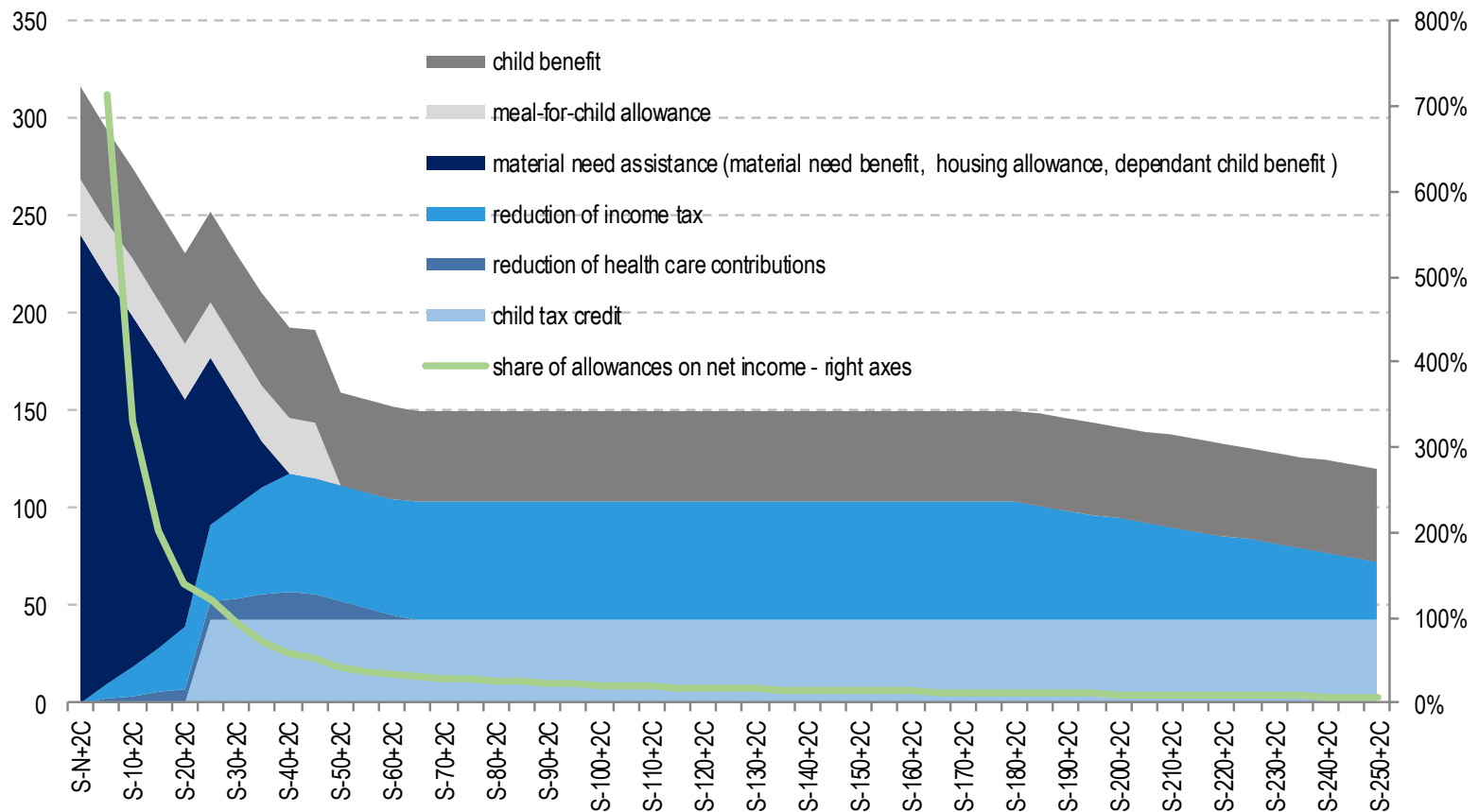


Source: Value for Money Unit

Impact of social system on households

- Family benefits improve the financial situation of households. They are provided to all families regardless of their income. For high-income households they represent a negligible portion of the family budget.

Allowances by income level (% of 2015 average income) - Single person with two children

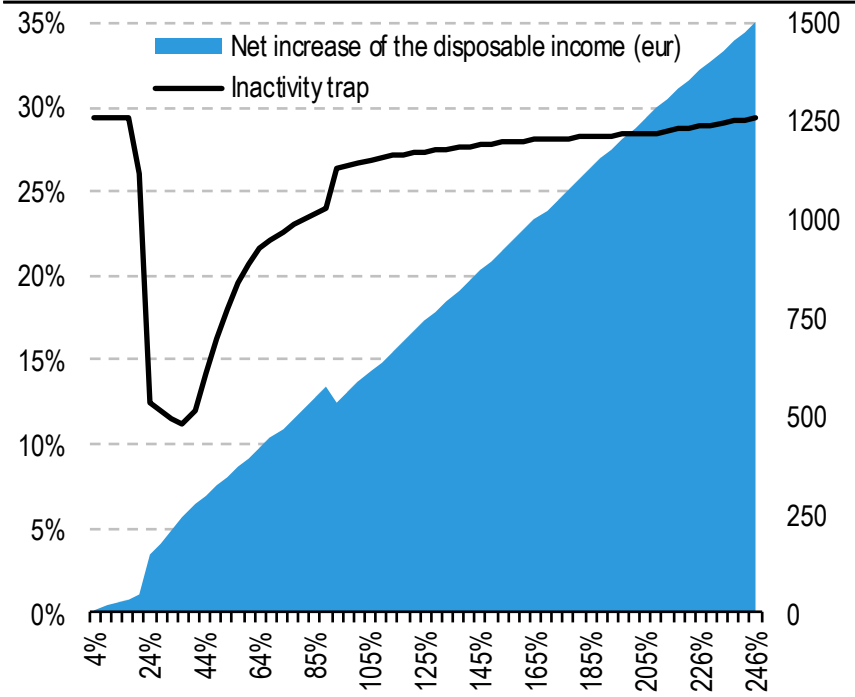


Source: Value for Money Unit

Social system and motivation to find a job

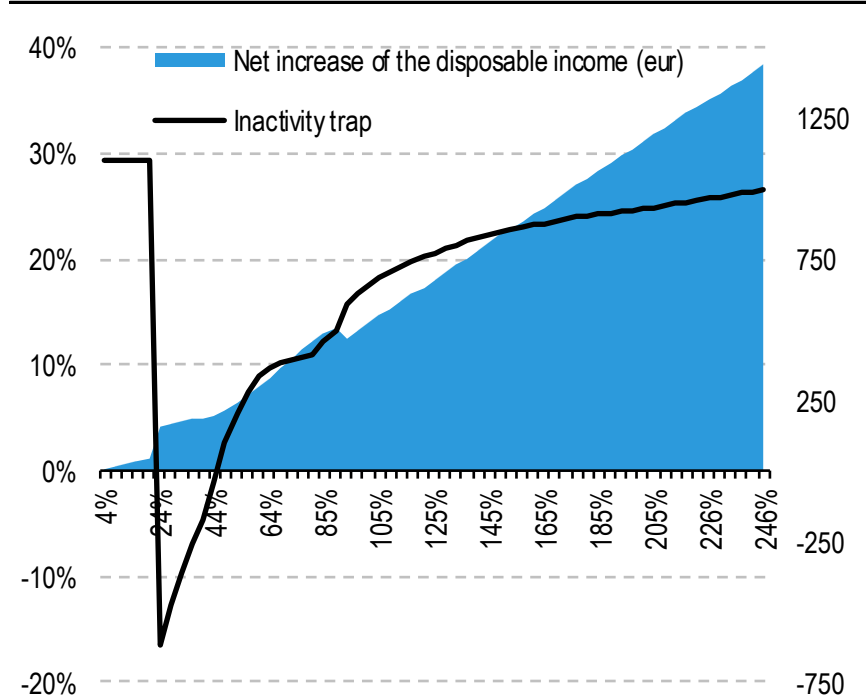
- The special allowance successfully increases the motivation to work for a lower wage. However, this does not apply to low-wage work who work less than part-time, where motivation remains low.

Inactivity trap, single person without children, 2016



Source: Value for Money Unit

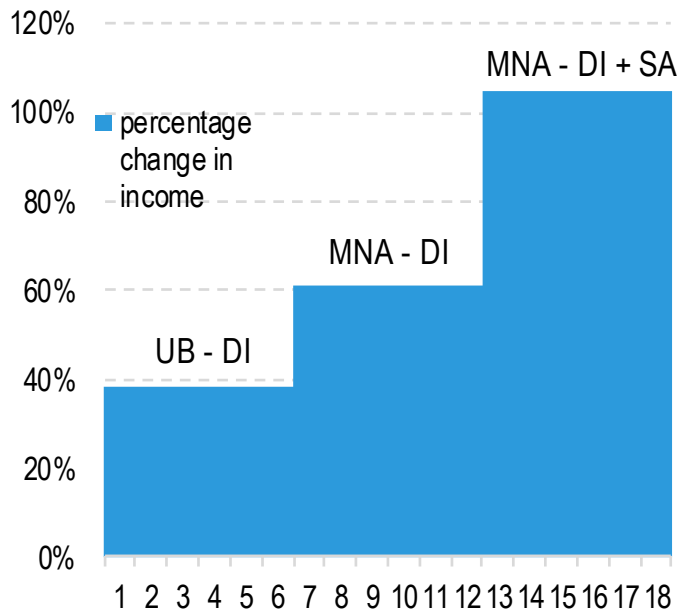
Inactivity trap, couple with 2 children, 2016



Inactive couple: one starts a job, the other starts to be a job-seeker

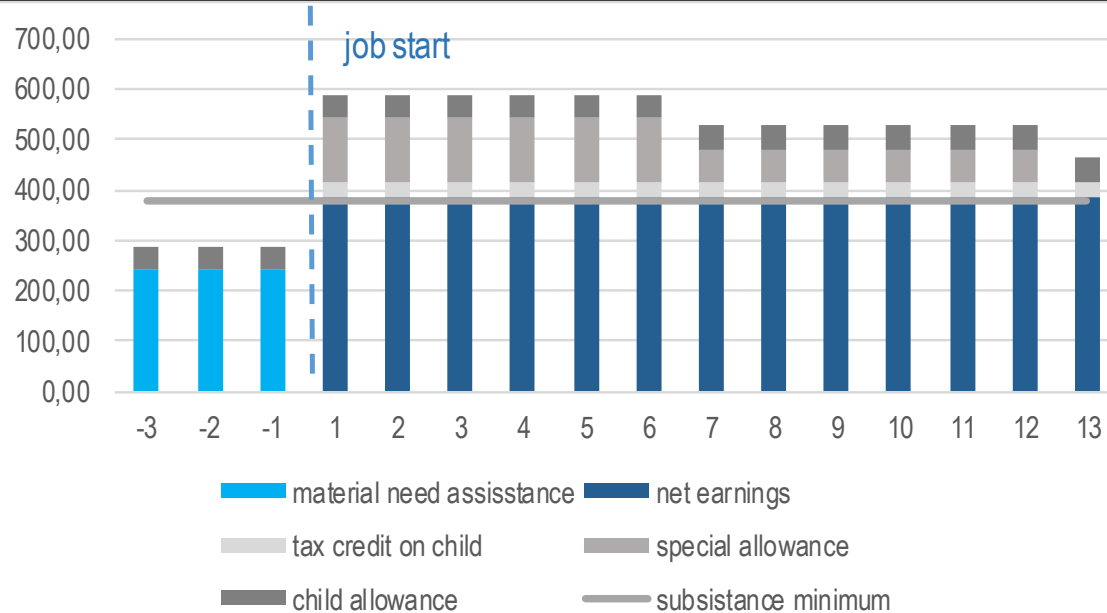
Social system and motivation to find a job

Growth of disposable income after employment by duration of unemployment (in months) - S + 2



UB - unemployment benefit, DI - disposable income,
MNA - material need assistance, SA - special allowance

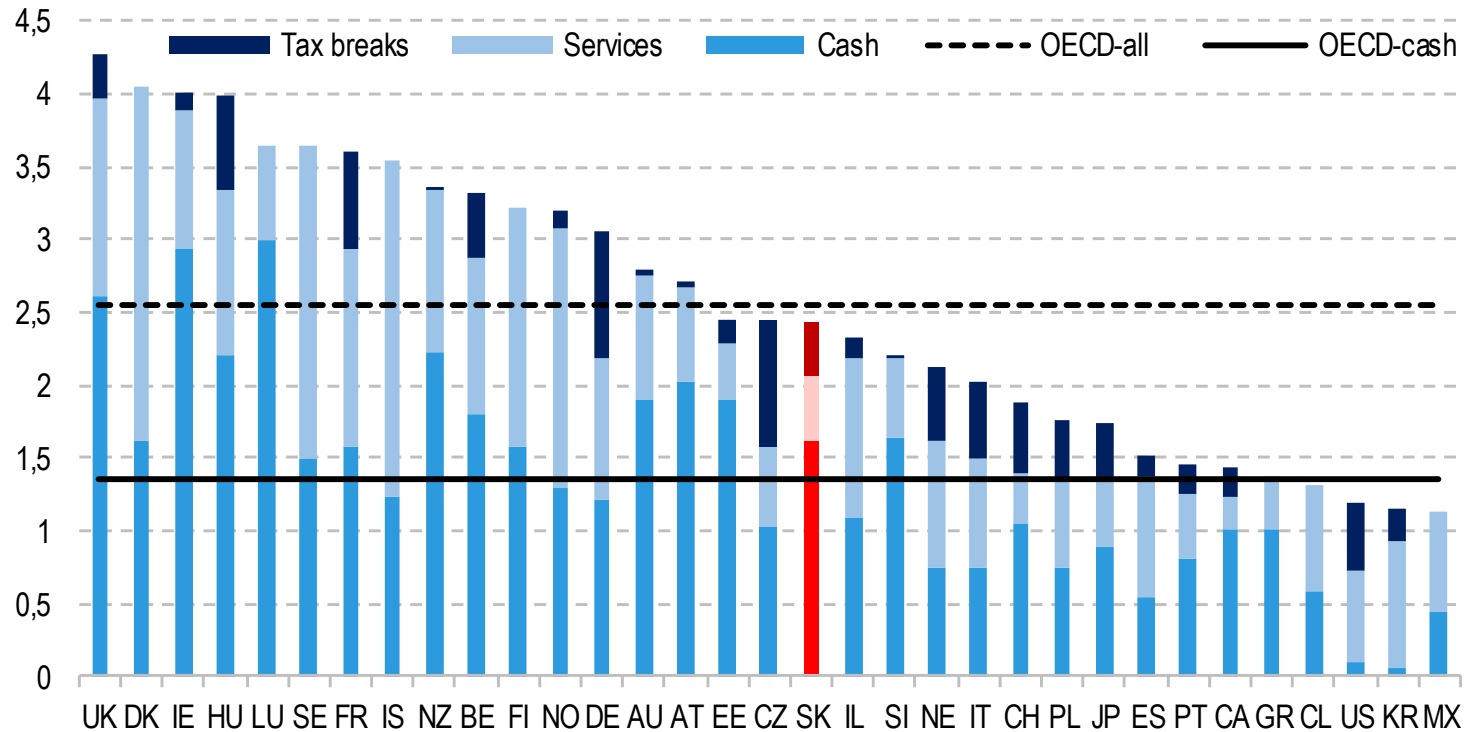
Income after job start, minimal wage earner, single, with two children



Source: Value for Money Unit

Family support

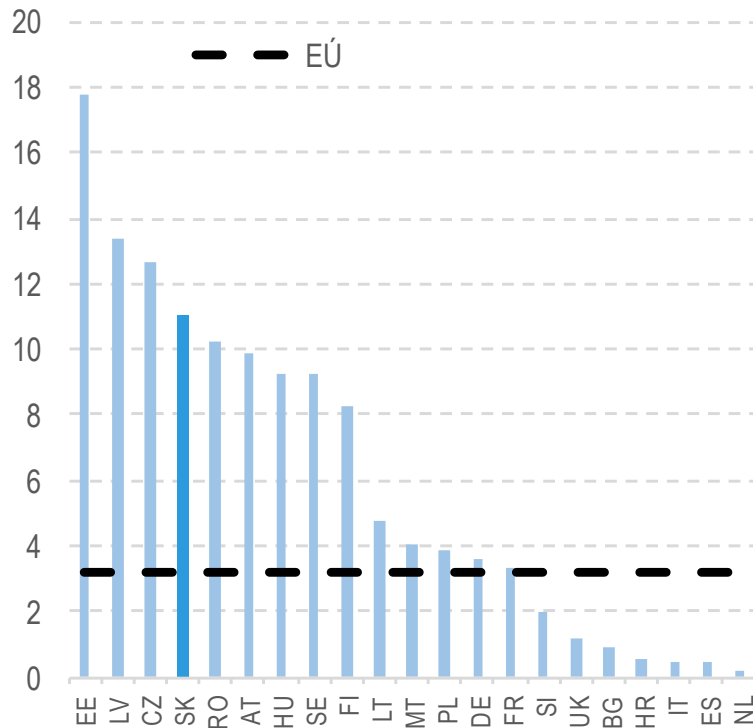
Public spending on family policies in the OECD countries, % GDP, 2011



Source: OECD

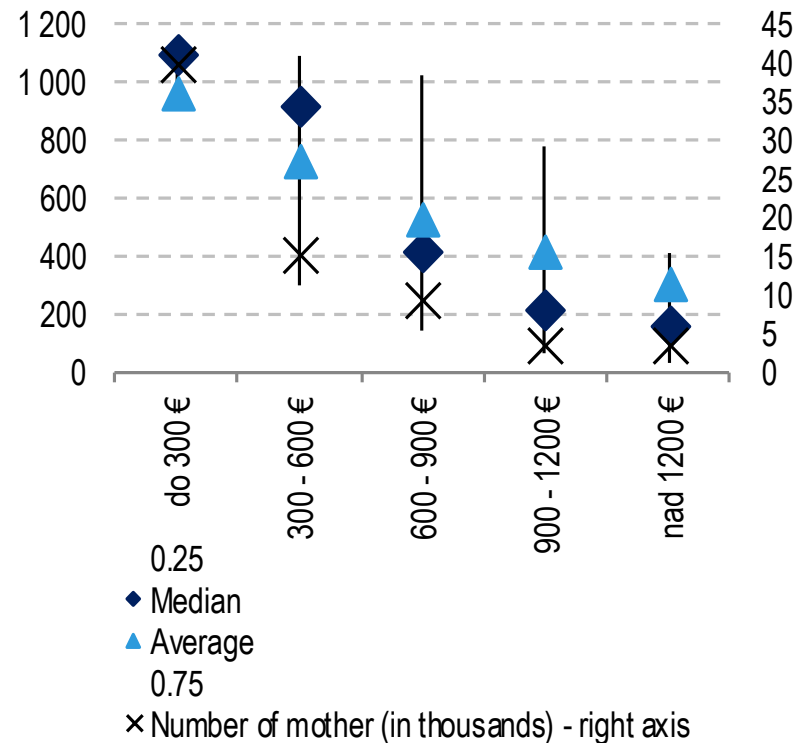
I Supported parental leave

Share of women on maternity leave of 12 months and more (% of all employed women, 2010)



Source: Eurostat

Number of days spent at supported parental leave (by income in previous employment)

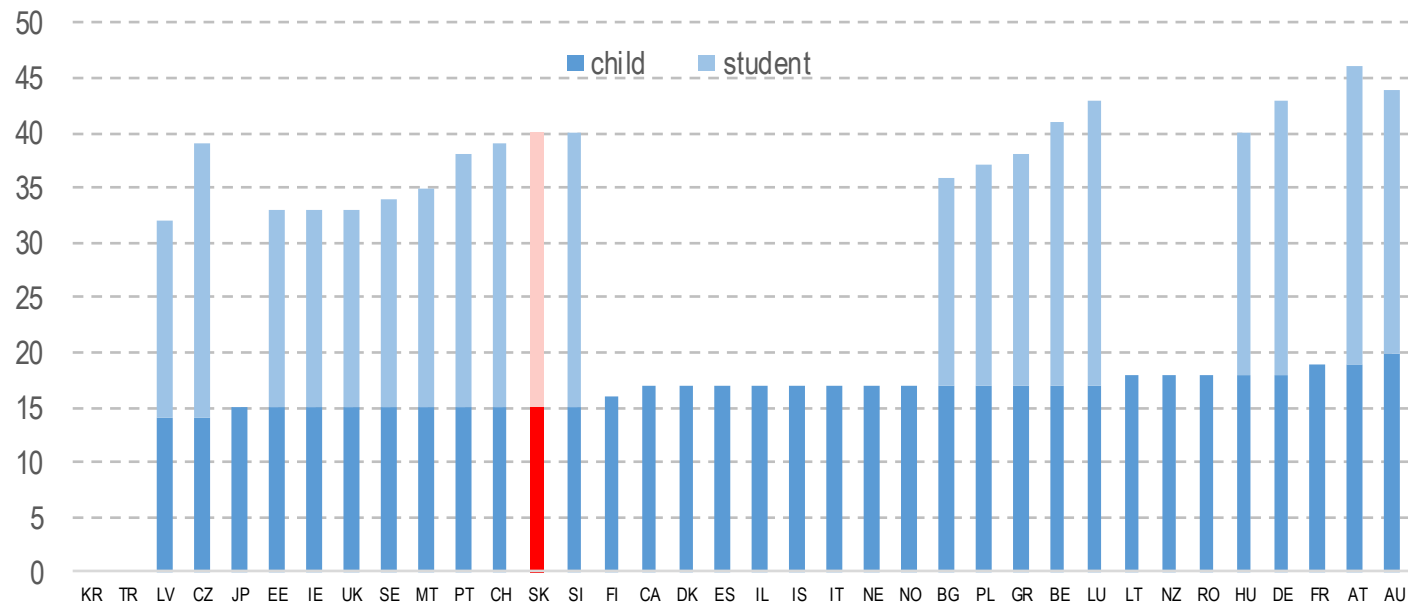


Source: Eurostat

Child allowance

- The length (according to his or her age) of financial support to the family of a child in formal education in Slovakia is the third longest in OECD.

Duration of provision of family support allowance by age of child, 2010

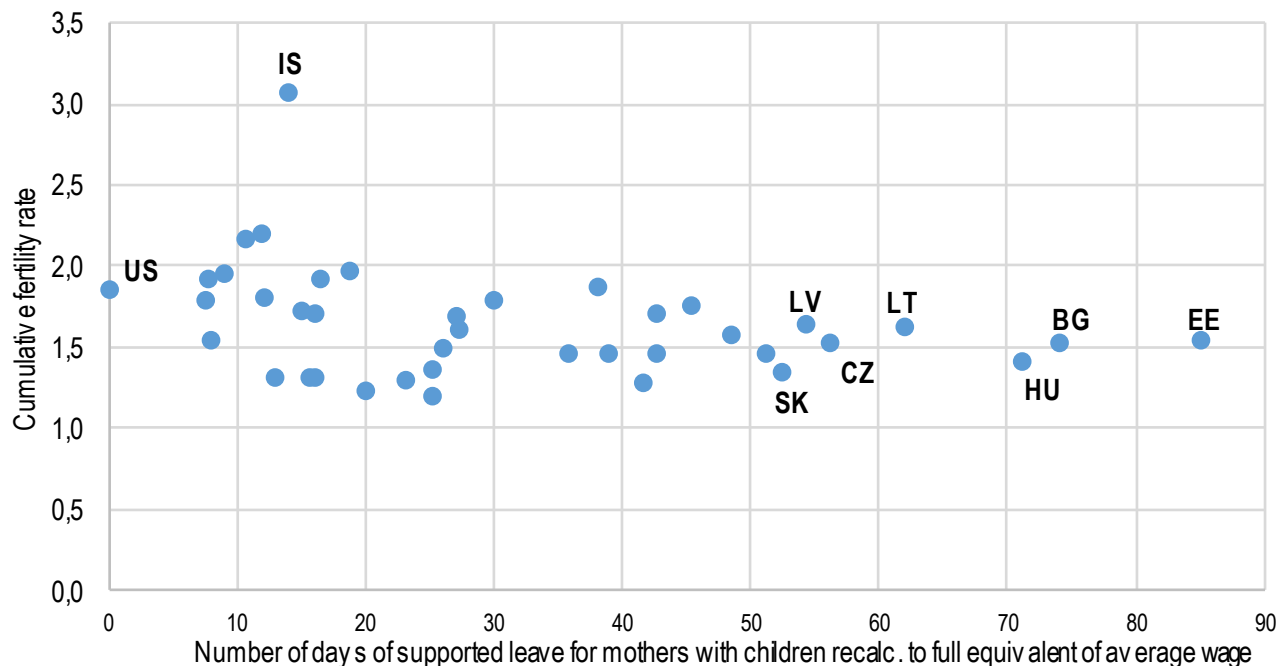


Source: OECD

Fertility and supported parental leave

- Decisions about on the number of children a family has can be influenced by policies that simplify career and family life.
- Length of paid parental leave or cash benefits for the parents of children do not significantly affect birth rates.

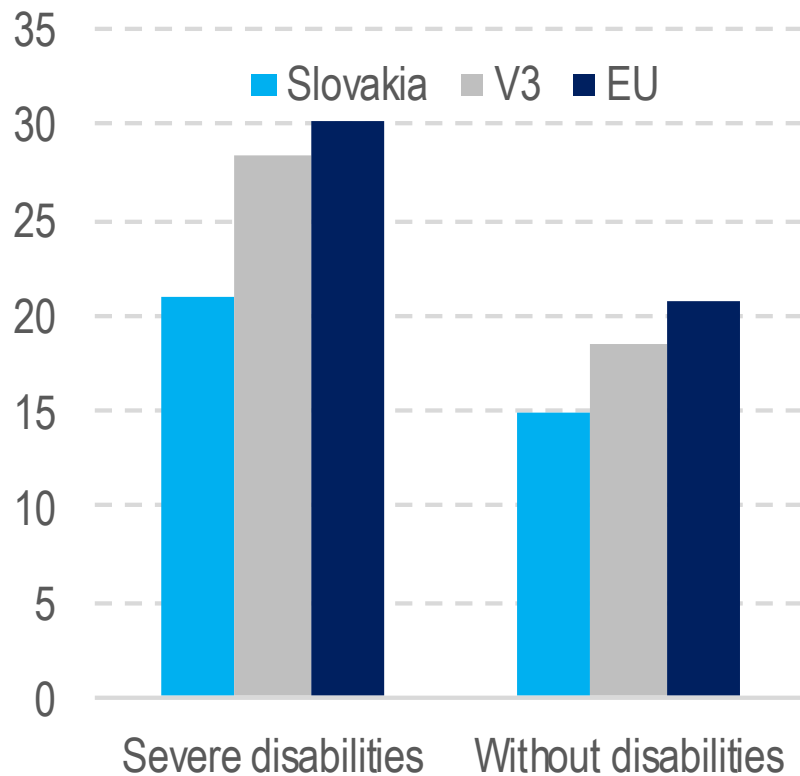
Relation between fertility and supported leave for mothers with children in the OECD countries (2014)



Source: OECD

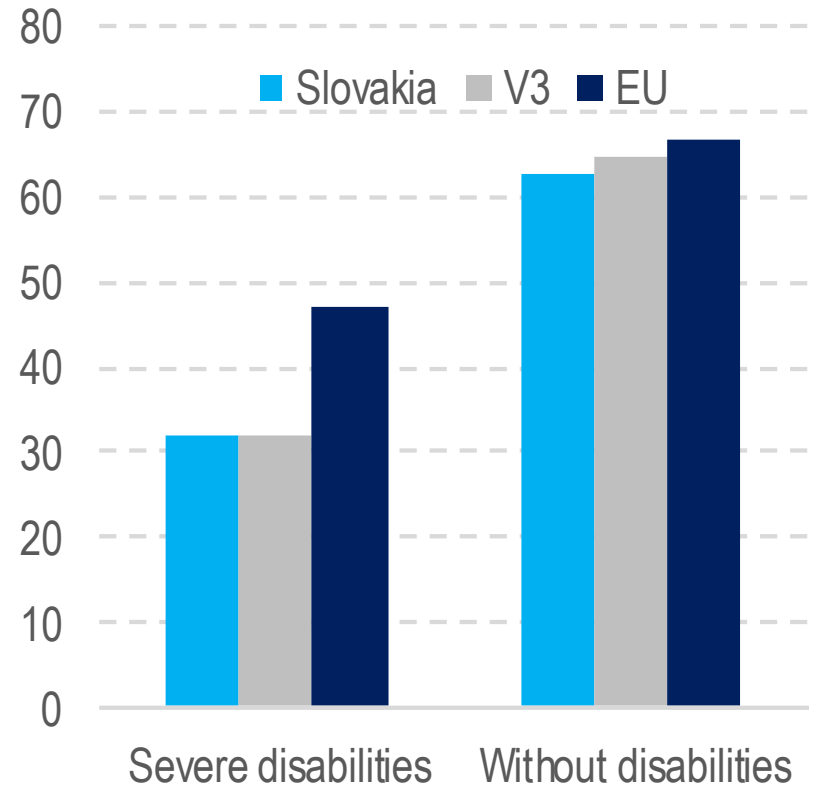
I Support for people with severe disabilities

Risk of poverty rate (% , 2015)



Source: Eurostat - SILC

Employment rate (% , 2011)

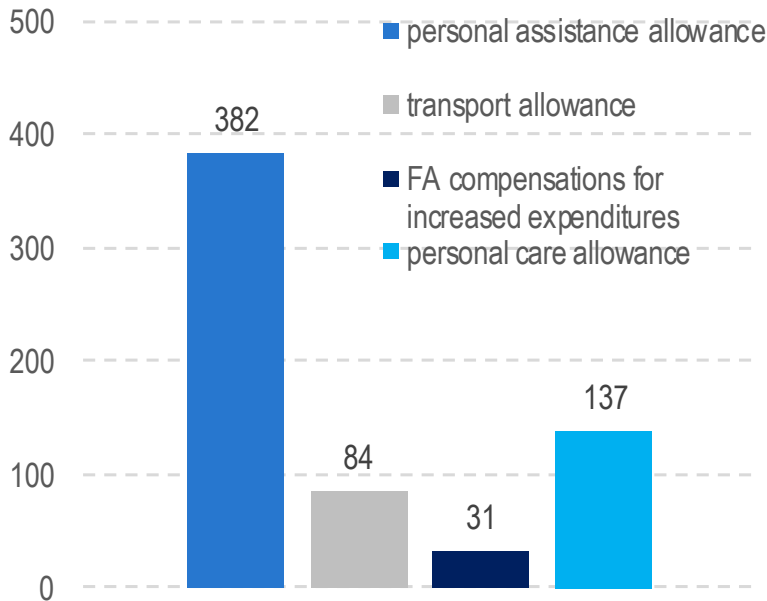


Source: Eurostat - LFS

Support for people with severe disabilities

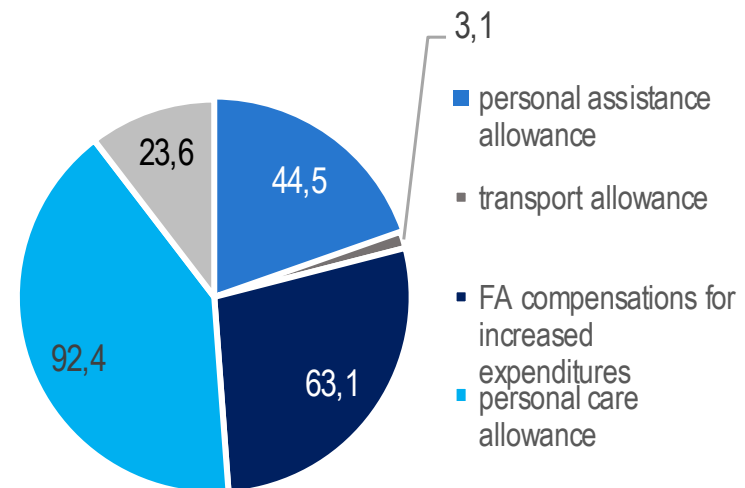
- Budget of 226 mil. eur in 2016, increase in 2017 by 30 mil. eur
- Large number of financial and non-financial benefits that are provided to all people with severe health disabilities without regard to their actual health needs.

Average monthly amount of financial allowance in 2016 (in euro)



Source: MSLAF SR, Note: FA - financial allowance

Expenditures for compensation of the social consequence of several disabilities (in million euro)

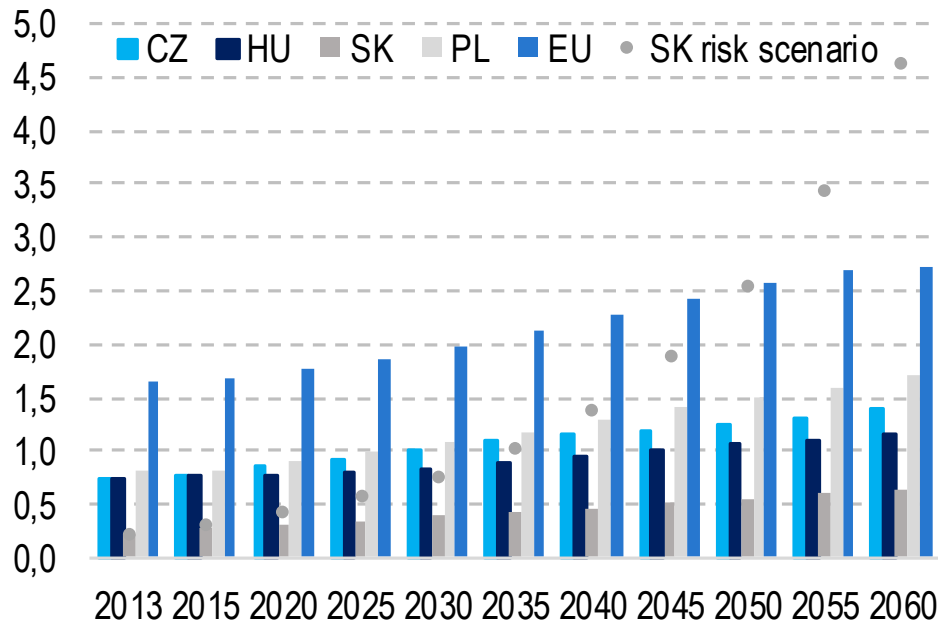


Source: MSLAF SR, Note: FA - financial allowance

Long-term care

- Public spending on long-term care is approximately 0.3% of GDP.
- By 2030, around 7 300 places will need to be added only in residential long-term care facilities. EC estimates, LTC expenditures are expected to double by 2060.
- The purpose of social services should be to ensure that people remain in their natural social or domestic environment.

Estimated LTC expenditure (% GDP)

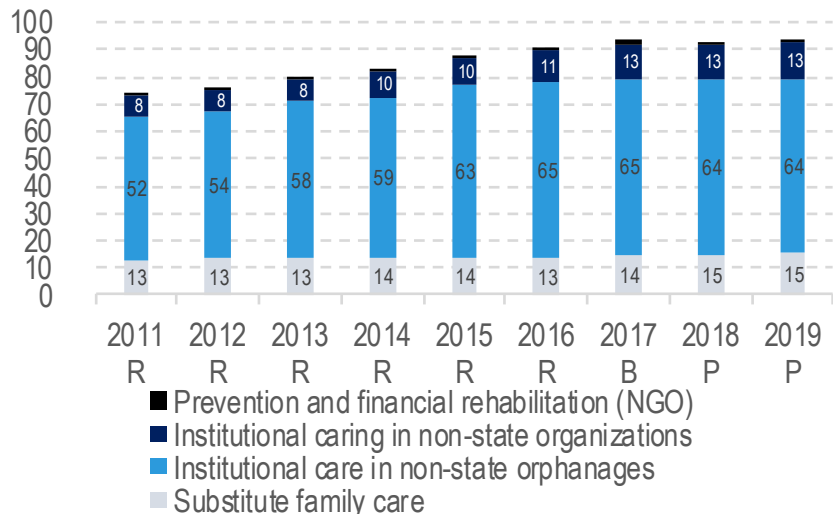


Source: AWG 2015 (The 2015 Ageing Report)

Care for children at risk

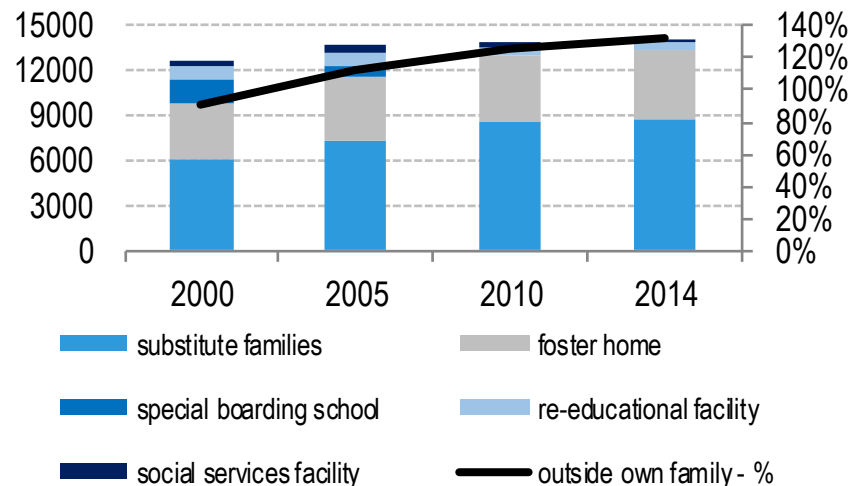
- Ratio of children raised outside their family has increased since 2000.
- At the same time, more children are placed in substitute families compared to institutional care.
- Monthly expenditures on each child placed in a child-care facility based on a court decision average 1020 euros, in substitute family care average monthly expenditures are 337 euros.

Spending on the Subprogram Care for children at risk



Source: MF SR

Substitute care of children (number of children)

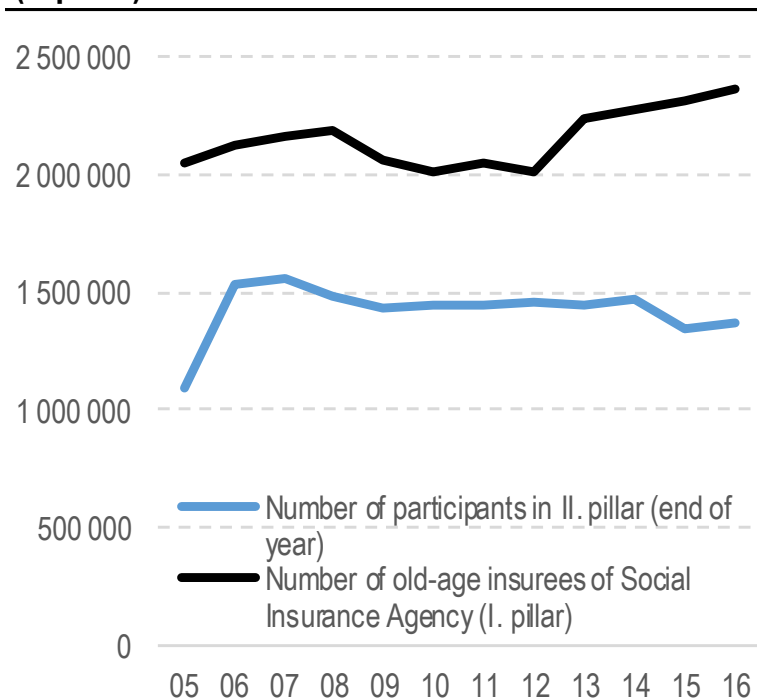


Source: Value for Money Unit

Pension saving schemes - participants

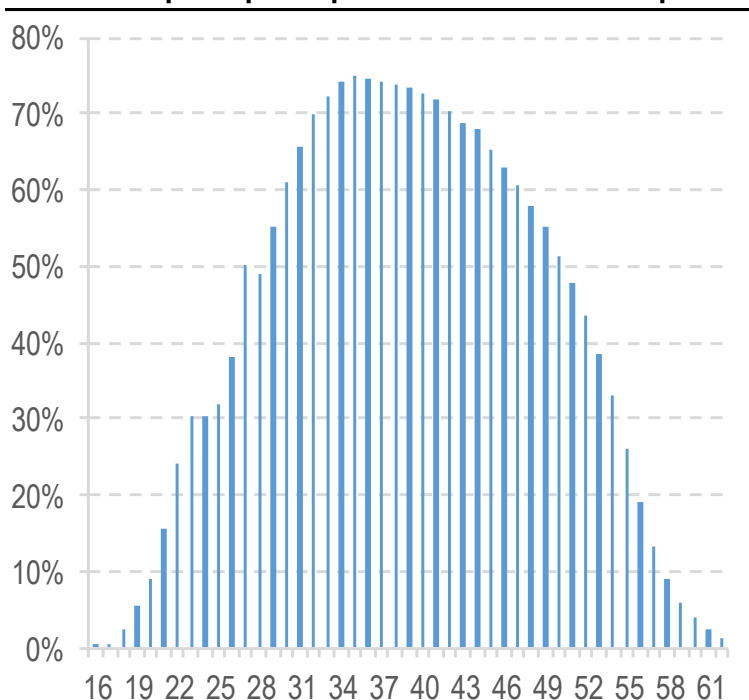
- The second pillar consists of mostly younger savers.
- Since the introduction of voluntary entry in 2008, only 30% of those entering the labour market have entered the second pillar.

Number of participants in II. pillar and number of old-age insurees of Social Insurance Agency (I. pillar)



Source: Social Insurance Agency

Ratio of II. pillar participants and insurees in I. pillar

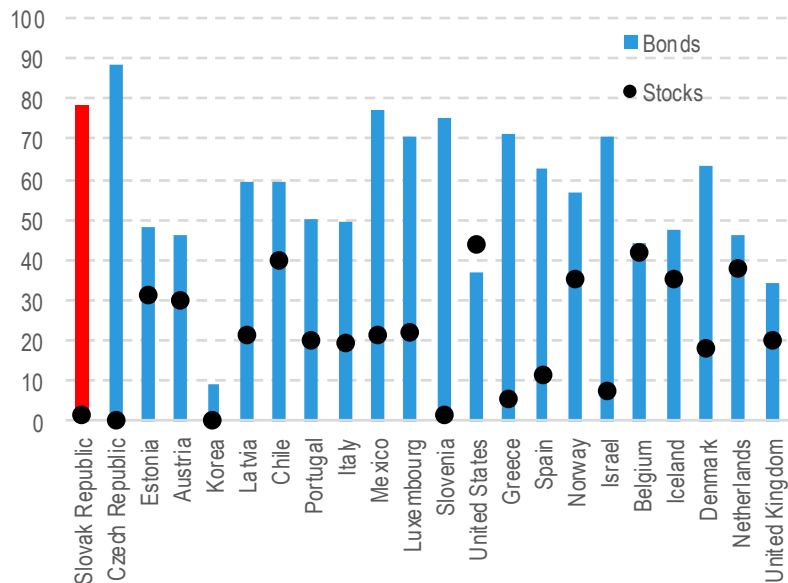


Source: Social Insurance Agency

Pension saving schemes – assets and yield

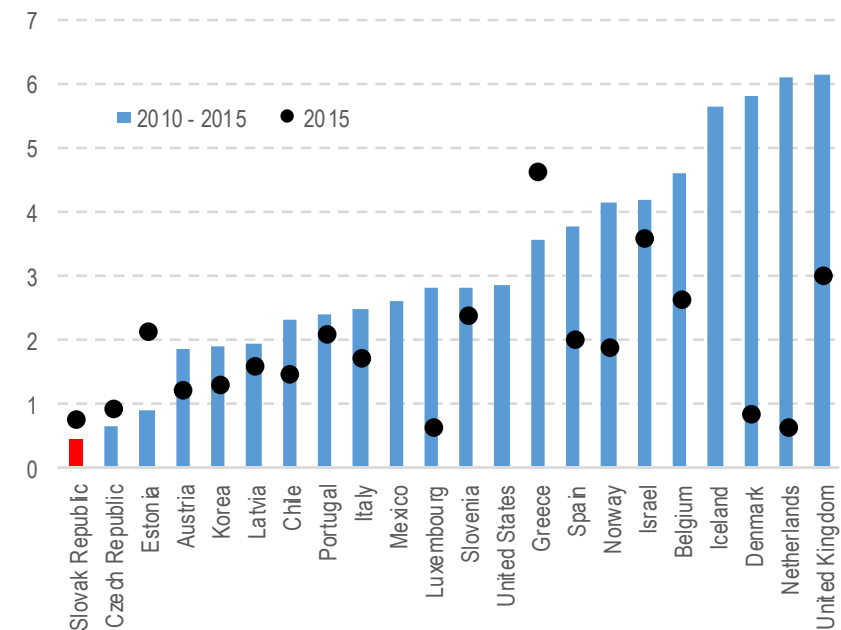
- The return-performance of funds in the 2nd and 3rd pillar is among the lowest in OECD. Majority of savers' assets are in the more conservative, guaranteed bonds funds, which achieve lower returns.

Pension funds assets composition (%)



Source: OECD

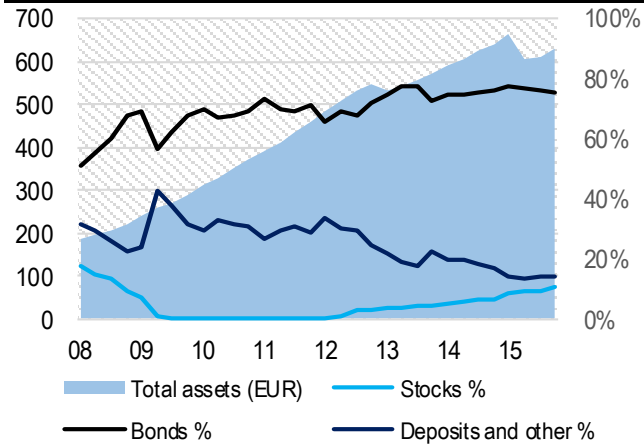
Real weighted yield of pension funds (%)



Source: OECD

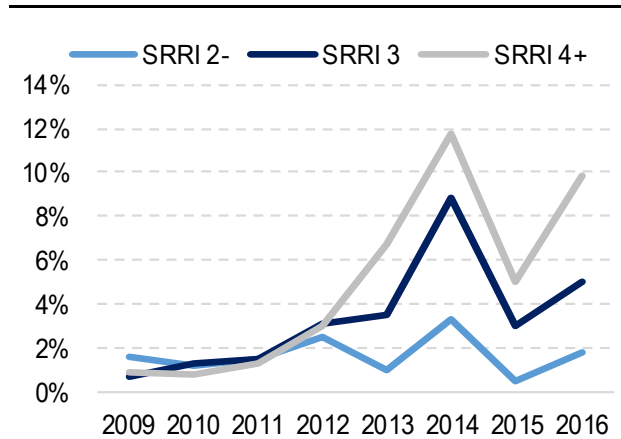
Pension saving schemes - Assets and yield

Assets in funds of pension savings funds (II. pillar)



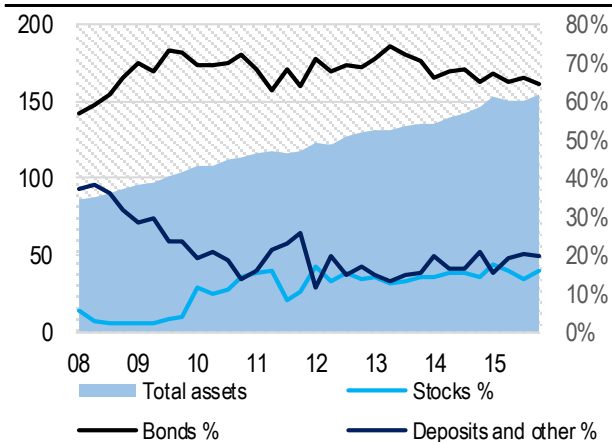
Source: NBS

Nominal performance of pension funds (II. pillar), p.a. (%)



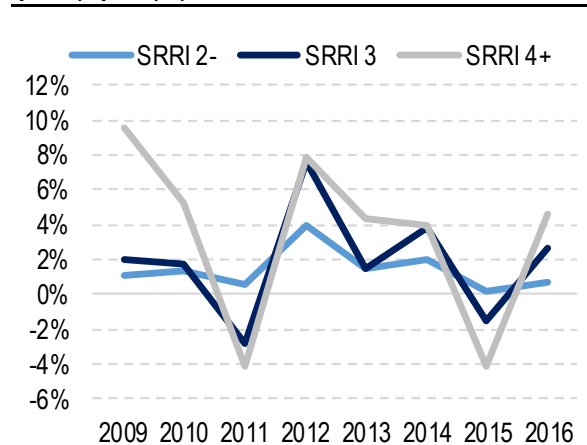
Source: NBS

Complementary pension funds assets (III. pillar)



Source: NBS

Nominal performance of pension funds (III. pillar), p.a. (%)

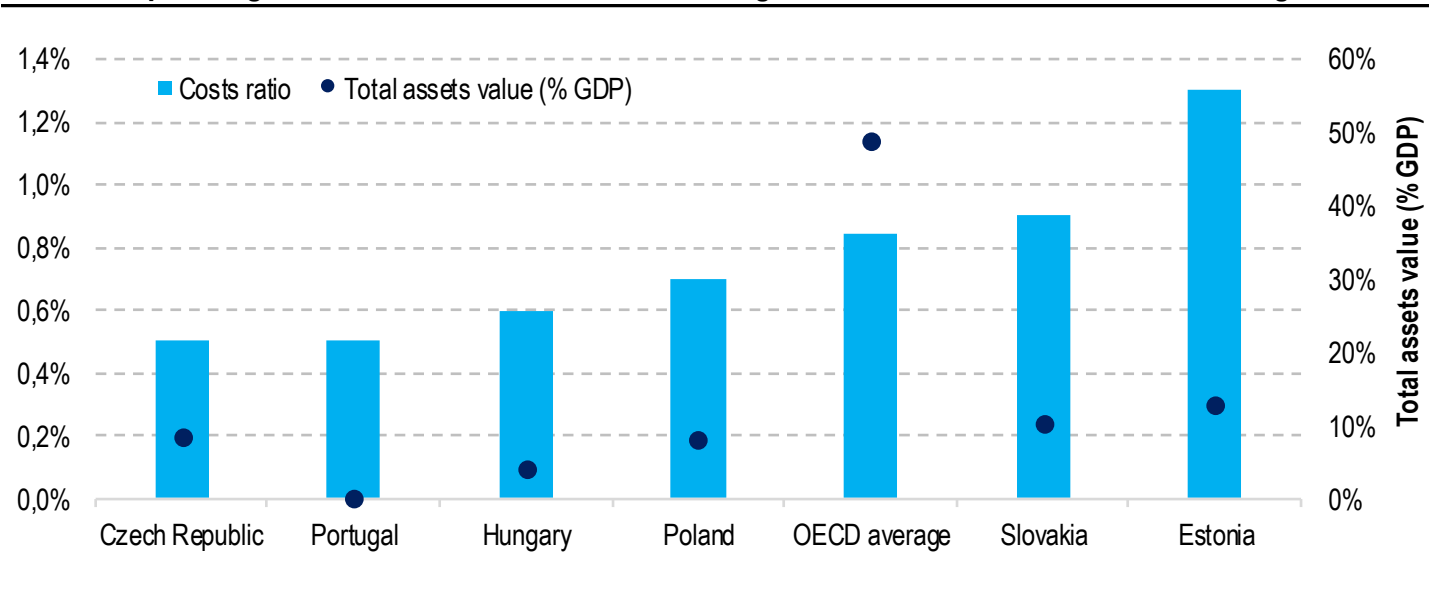


Source: NBS

Pension saving schemes - costs

- 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.

Ratio of operating costs and total assets under management in defined contribution saving schemes

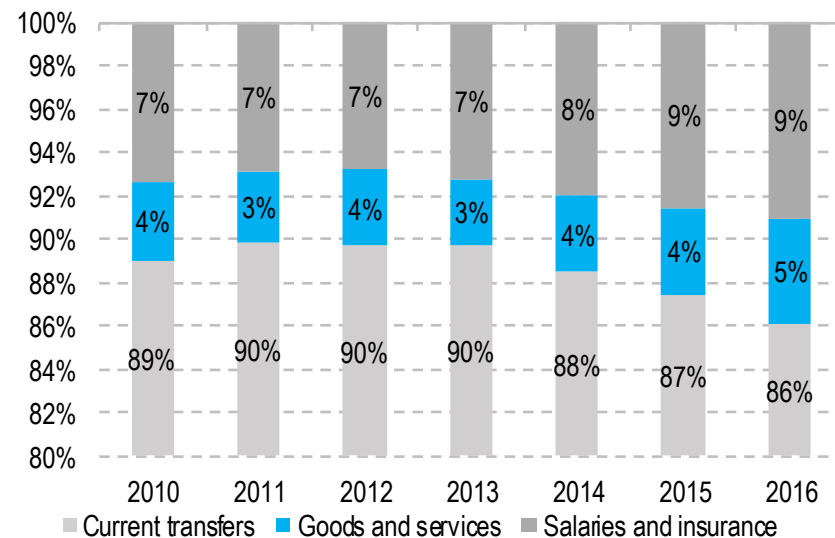


Source: OECD

Expenditure of organisations of MLSAF and SIA

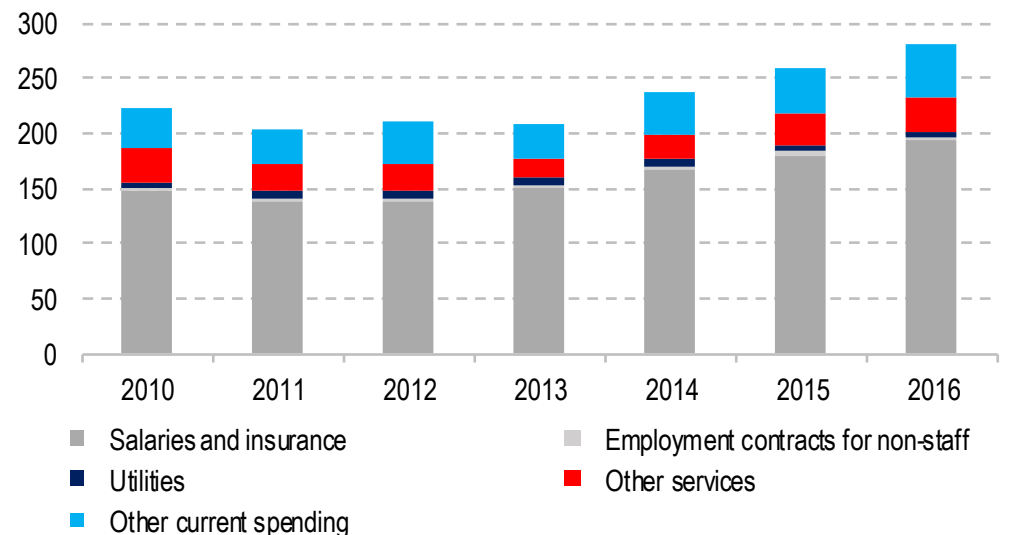
- Employment spending in MLSAF increased by an average of 9% per year from 2012 onwards.
- Employment in the chapter grew by an average of 3% per year since 2012, while wages grew by an average of 7% per year.

Main categories of current spending (%)



Source: RIS, Value for Money Unit

Composition of current spending of budget chapter, excluding transfers (mil. eur)

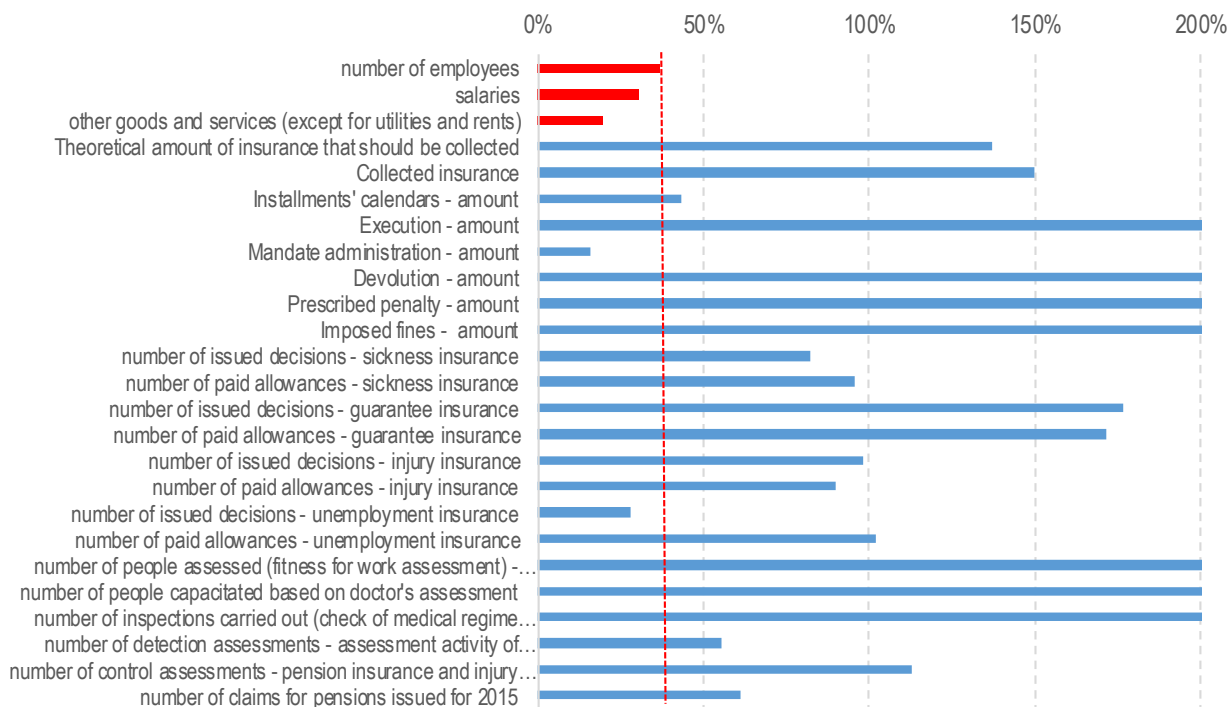


Source: RIS, Value for Money Unit

SIA subsidies efficiency analysis

- There are significant differences between the subsidiaries of the Social Insurance Agency in the transformation of inputs to outputs.
- The spending review will use a DEA analysis to evaluate the efficiency of the subsidiaries of the SIA. The analysis will estimate the achievable savings and opportunities to increase the performance of less efficient subsidiaries.

Ratio of inputs and outputs of two selected branches

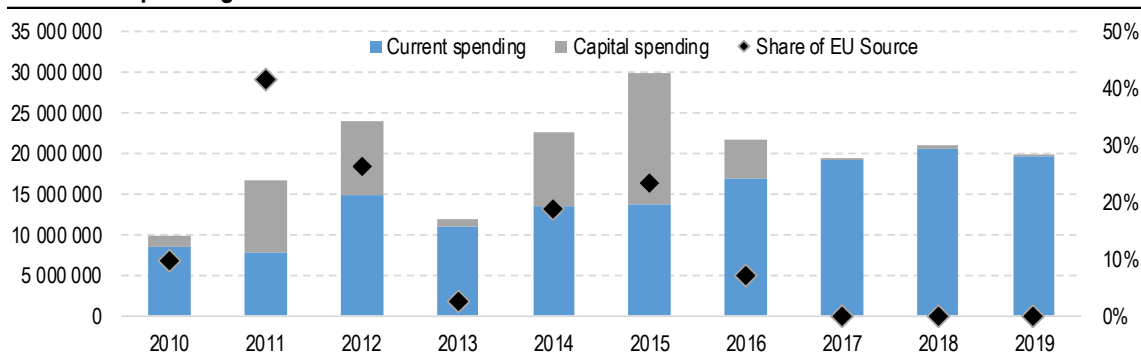


Source: SIA

IT expenditure of MLSAF and SIA

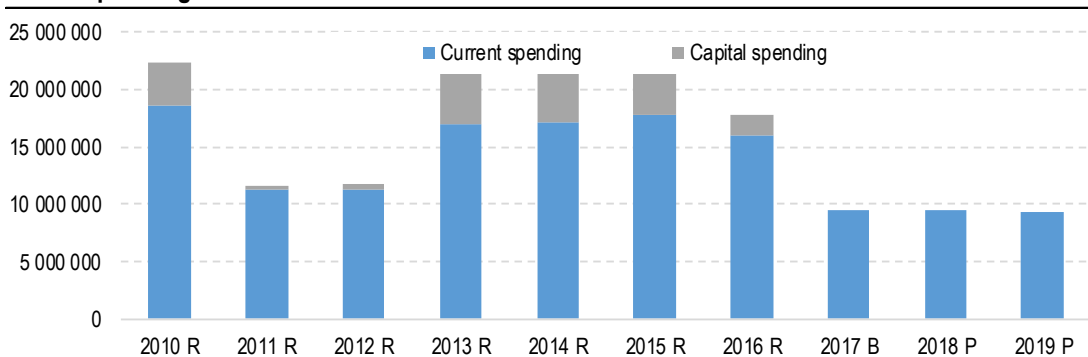
- Outcome indicators, to assess the performance and results of IT systems, have not been established nor monitored at the office of the ministry or of the SIA.
- An internal methodology for assessing IT spending could help identify the optimal set-up of purchased services.

MLSAF IT spending



Source: RIS

SIA IT spending



Source: SIA

I Proposed measures and analytical tasks

- Better ALMP targetting – improve jobseeker profiling
- Employment offices capacity reallocation – refresh last year pilot's DEA analysis (changes have taken place)
- Regular evaluation of ALMP tools – prepare methodology, establish ownership
- Unemployment benefit (anti-cyclical set-up, connection to the length of previous work)
- Increase motivation to find a short part-time job for low wage

I Proposed measures and analytical tasks

- Simplify the system of Material need assistance
- Connect family benefits to the earnings
- Extend affordable and quality formal childcare
- Review earning limits for support for people with disability
- Estimate future MLSAF spending on LTC
- Introduce index fund to complementary pension scheme (III.pillar)

- Various fragile target groups, with small expenditure envelope or unclear need - social housing, children in danger, support for families with temporary health problems, supplementary alimony

I Next steps

- Prepare, quantify and agree measures with the ministry
- High level discussions on measures before publication
- Some follow-up analysis
- Some topics possible as a separate SR
 - Socially excluded persons and communities
 - Long-term care



Thank you for your attention.

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