Gesellschaft für
Versicherungswissenschaft
und -gestaltung e.V.

Study on the Social Protection Systems in the 13 Applicant Countries

Slovak Republic
Country Report

January 2003

Study financed by the European Commission – Employment and Social Affairs DG

Authors:

Lubos Vagac, CPHR, Bratislava
Lucia Haulikova, Bratislava

Social Protection in the Slovak Republic

1. INTRODUCTION: ECONOMIC, FINANCIAL, SOCIAL AND DEMOGRAPHIC BACKGROUND

1.1 Main influencing factors for social protection

1.1.1 Economic and financial indicators

In the past decade, Slovakia, similarly as other countries of Central and Eastern Europe, has been undergoing a unique change. The country and its economy is affected by at least three overlapping and, in many cases, intertwining developments: socio-economic transformation, catching up and adjusting to the European Union, and the challenges of globalisation.[1]

In the early 1990s, economic reform was launched relatively aggressively in Slovakia and this enabled completion of its key components within several years. Macroeconomic results reached in 1994 and 1995 ranked Slovakia among the best performing transition economies. The development of GDP in 1994 and 1995 (4.9% and 6.9%, respectively), one-digit inflation (7.2 percent in 1995) and an active trade balance were the most visible indicators of the positive performance. However, the main question was whether this impressive growth performance could be sustained. Due to a variety of reasons, the economic and social reforms were slowed down or even brought to a halt in mid-90s. Delays in the restructuring of the economy, postponement of bankruptcies, restrictions to competitiveness, increasing non-transparency and corruption in the privatisation process, low inflow of foreign investment – all these aspects began to reflect in 1996 in the growing imbalance of the Slovak economy.

The current account deficit reached 11.2 percent on GDP in 1996. While in 1995 the general government deficit was maintained below 2 percent as a share on GDP, the consequences of a looser fiscal policy, in combination with problems of the entrepreneurial and banking sectors caused a deepening of the macroeconomic imbalance in the following years. Avoidance of any unpopular, though necessary measures, led to fiscal expansion and growing indebtedness. Consolidated government deficit grew

[1] As a result, in most cases, it is rather difficult or impossible to separate the effects of EU integration from other components of the process. Most of the effects of preparing for EU membership can be attributed to those of transformation or globalisation. They would have appeared, even if accession to the EU was not a priority task.

to 5.1% and 4.8% of GDP in 1997 and 1998, respectively. The gross foreign debt has reached almost 60 percent on GDP in 1998.

The blocking of reforms resulted not only in a strongly imbalanced state, but also a slow-down of growth rates. GDP growth slowed from over 6 percent in 1996-1997 to 4% in 1998 and less than 2% in 1999. The catching-up process to the EU ceased, which is evidenced by the stagnating GDP per head comparisons with the EU level: Slovak GDP per capita adjusted for purchasing power parity remained at 48% of EU average during 1997-2000.

Inflation was kept on a relatively low level during 1995-1998, which was mainly a result of the postponement of the liberalisation of regulated prices and a restrictive monetary policy.

The end of the decade therefore was marked by attempts to stabilise the economy, to complete the principal reforms, and to start new, more demanding reforms (education, health care, pensions). These efforts were clearly voiced in the 1998 program declaration of the new Government and became evident in its first steps to restore the balance of public finances.

In October 1998, the National Bank of Slovakia adopted a resolution to change the exchange regime of the Slovak currency from fixed to floating, which prevented further depletion of foreign exchange reserves. Price deregulation (mainly of energy, water, rent), tax increase, and the introduction of the import surcharge were the main components of the so-called "package of measures" adopted in May 1999.

After several years of real wages growth, the "package" caused a lowering of purchasing power in 1999. This was evidenced by data of the Statistical Office of the Slovak Republic.[2] GDP growth remained moderate at around 2 percent and increased to 3.3% in 2001. The level of inflation measured by the consumer price index reflected the gradually adopted administrative and economic measures, mainly deregulation of prices and tax range changes (VAT and excise taxes) and increased to an average of 10.6% and 12% in 1999 and 2000, respectively. Inflation fell significantly to 7.3 percent in 2001.

The aforementioned measures have helped to substantially reduce the trade balance deficit in 1999-2000. Increased inflow of FDI, particularly due to privatisation of important utilities and banking institutions to foreign partners, have reduced the balance of payments deficit to less than 4 percent of GDP in 2000. However, the year 2001 was marked by a repeated sharp increase in the trade balance deficit (10.7% of GDP), which may have implications for the monetary policy.

---

[2] Differing from Eurostat, national sources show a decrease in GDP per capita in PPP in 1999 (in US$ at current prices): 1995 = 7 783, 1996 = 8 530, 1997 = 9 387, 1998 = 10 615, 1999 = 9 843, 2000 = 10 270.

The dynamics of reforms were gradually slowed down by the growing political strains between the government coalition parties as well as by the growing problems associated with the implementation of reforms. The launching of important reforms in the social sector was delayed and caused further growth of the internal debt of these sectors.

Annual public spending on social sectors has accounted for over 50% of total government expenditures and around 22% of GDP in the years between 1996 and 2000. As percentage of total government spending, public expenditures on social sectors were the highest in 1999, accounting for 55.4% of total government expenditures. In all other years between 1996 and 2000, public expenditures on social sectors have remained steady at around 52% of total government spending.

As percentage of GDP, public expenditures on social sectors were the highest in 1996, accounting for 23.3% of GDP. Since then, public spending in social sectors has been gradually declining to 21.7% of GDP in 2000, a decline of about 7% in the last five years. (Social sector expenditure review, 2002)

1.1.2 Demographic indicators

The average population of Slovakia is currently around 5.4 million. The female share of the overall population has been consistently at the same level (i.e., around 51 percent) throughout the second half of the 20th century, with a slight increase during the most recent 30 years (by 0.7 percent since 1970). As in any standard population, slightly more males than females are born in Slovakia. Younger age groups therefore have a moderate prevalence of males. As populations age, this ratio shifts to the advantage of females. The ratio of both genders is equalised around the age of 45 years. Females then prevail in higher age groups and the prevalence increases with increasing age. Overall, there were 1,059 females per 1,000 males in 2001.[3] The share of women and men older than 60 years was 18.2% for females and 12.6% for males in 2000, the corresponding figures from 1996 were 17.7% and 12.5%. These facts show that ageing of the population is connected with the feminisation of old age.[4]

The natural movement of the population witnessed dramatic changes during the last 25 years. Natural increments keep permanently decreasing as the overall mortality remains almost constant (being around 10 deaths per 1,000), and birth rates on the other hand pronouncedly decrease. The numbers of livebirths reached historically the lowest level in 2001: 9.5 per

---

3 Population and housing census, May 2001.

4 Women make up 66 percent of the post-productive population which is also caused by the lower retirement age of women at 57 years or less, depending on the number of children, while men retire at 60.

1,000 inhabitants. For the first time in history, more deaths have been reported than livebirths in 2001. The natural increase of 4 individuals per 1,000 in 1993 dropped to a decrease of -0.2 in 2001.

The contribution of women to natural increment has been higher over longer periods of time, and reached as much as 97.2% in 2000. This was due to high death rates of men that could not be overweighed by higher numbers of liveborn boys either. Due to natural movement, the population increased in 2000 in three regions (Zilina, Presov and Kosice), the numbers of deaths were higher than the numbers of livebirths for the other 5 regions of Slovakia.

Due to the reduction of the population of children and to the growth of the numbers of productive and post-productive age individuals, the average age of the population increases. In 2000, the mean age of males and females was 34.4 and 37.5 years, respectively. The ageing index defined as the ratio of post-productive population (men over 60 and women over 55 years of age) to pre-production age population (ages 0-14 years) keeps dramatically increasing in Slovakia, and showed an increase from 74.0 to 98.5 within 1993-2001. Worries are justified as to who will be supporting the subsistence of the elderly portion of the population.

In Slovakia, this trend may have a specific social impact with respect to the ethnic structure of the population. The demographic behaviour of the Roma population, the majority of which lives in poor socio-economic conditions, differs markedly from that of the majority population. With its reproductive behaviour, the Roma population fills a certain demographic gap. As a result, many regions of Slovakia would be unable to sustain its population at a constant level if there were no growth of the Roma population. Children below the age of 14 make up 43.4% of the Roma in Slovakia, compared to 25.5% for the Slovak population (Census, 1991). There are 4.2 children per one Roma woman in Slovakia, i.e. more than three times the average fertility rate for the entire population of women in Slovakia (1.2 child per mother in 2001).[5]

The wide base of the Roma population pyramid becomes rapidly narrowed with the increasing age, due to high death rates of the Roma at relatively young age. The width of the age pyramid for the whole population of Slovakia therefore permanently exceeds the Roma pyramid since the age of 35 years. The top of the pyramid for Roma virtually ends at the age of 75 years since the Roma have a very short average life expectancy. Slovak Roma have been estimated to live 13 years (men) and even 17 years (women) in average shorter than the overall population of Slovakia. Only

[5] The backward Roma colonies in Slovakia show as many as almost 8 children per family. According to WHO records, similar fertility rates are uncommon even in developing countries.

3.6% of the total Roma population were individuals aged more than 60, the corresponding figure for the Slovak average being 14.8%. (Census, 1991)

The higher male mortality results in shorter life expectancy of men in Slovakia. The most recent data from 2001 show the values of 69.5 and 77.6 years for the whole male and female population of the Slovak Republic, respectively. Compared to 1996, a decent increase of 0.8 years for women and 0.6 years for men occurred (see Table 1.4 in the annex to this chapter). In spite of the small territory, considerable regional disparities in life expectancy ranging from 4 years (females) to 6 years (males) can be observed in Slovakia. Life expectancy tends to be higher in urban areas (districts of Bratislava, Trencin), while it is shortest in the southern agricultural districts (Rimavska Sobota, Trebisov).

There have been no substantial changes in the structure of causes of death in Slovakia during the recent years. The most frequent cause of death are diseases of the circulatory system, followed by malignant tumours, external causes, diseases of the digestive system and diseases of the respiratory system. The five most frequent causes of death accounted for 93.4% of all deaths in Slovakia in 2000.

After the split of Czechoslovakia in 1993, strong migration flows between the Czech Republic and Slovakia, which were part of the internal migration, have appeared in international migration statistics. The immigrants from the Czech Republic (CR) to the Slovak Republic represented 80% of total immigrants to Slovakia and nearly the whole emigration wave from Slovakia (7 276 people, i.e. 99%) was directed to the CR in 1993. This exchange has gradually weakened. The number of emigrants from Slovakia to the CR oscillated around 90-300 persons annually during 1996-2000.

Among the immigrants to Slovakia, the immigrants from Europe prevail, they represent 83-90% from the total immigrants; the share of immigrants from America increases (8,4%); the share of immigrants from Asia had been increasing until 1999 up to nearly 8%, however, in 2000 it decreased down to 3%. The numbers of immigrants from Africa, Australia and Pacific Area are negligible.

From the candidate countries the majority of immigrants is from the CR and other immigrants are basically from 4 countries – Bulgaria, Hungary, Poland and Romania. The immigrants from the EU member countries represent currently only around 2% of immigrants from Europe; immigrants from Germany and Austria prevail, following by immigrants from Italy and Great Britain. However, the numbers of immigrants from particular countries reach currently only several tenths of people. Slovakia recorded the highest numbers of immigrants (except for the Czech Republic) from Ukraine and Russia (from Ukraine there were 180-400 people, from Russia around 100 persons). Unlike other countries, women prevail in the structure of immigrants from Ukraine and Russia. However, the number of

immigrants from these countries had started to fall already in 1999 and after the denouncing of non-visa contacts with Ukraine in the half of 2000, the number of immigrants from Ukraine decreased to 161 people during the whole year.

The problem of migration statistics, similarly as in many other countries, is held in the data on emigrants that are significantly undervalued.[6] The largest part of emigration from Slovakia is still targeted to the CR. In 1995 only approximately 50 people annually were oriented to the EU member countries, since 1997 this number had gradually increased; in 1999 it reached the level of 247 people, in 2000 it was even higher – 348 persons what was more than the number of Slovak emigrants targeted to the candidate countries. The emigrants to Europe represent 80-90% of total emigrants from Slovakia. Women prevail in the structure of emigrants.

During 1992-2001, 13 275 people applied for asylum in Slovakia, 516 persons received the grant of refugee status, 720 were not entitled to this status and the procedure was ceased in 8 883 cases. 3 156 applications remained as the subject of resolution. 43 persons being entitled to a refugee status were later recognised as citizens of the Slovak Republic. Most asylum applicants were from Afghanistan; these applicants represented more than a half of all applicants during this period. Another large group was formed from the applicants from India, Iraq and Bangladesh.

In recent years, Slovakia experienced a massive migration of Slovak Roma asylum applicants to western Europe. In 1998, according to IOM[7] data, 467 Roma asked for asylum in Germany and Netherlands, in Great Britain this number was 1 256. In 1999 this number increased up to 4 836 and the target countries were mainly Finland, Belgium and Denmark. Recently, the target countries of Roma were Denmark, Belgium and Norway. The response of some countries was held in the introduction of visa for the citizens of Slovakia; these policies were later partially revised.

Roma from Slovakia belong to economic migrants – asylum applicants. The number of these applicants in target countries decreased after these countries had restricted their assistance to "food and shelter" and/or the visas had been introduced. Whereas these applicants did not receive the grant of refugee status, their duty was to return back to Slovakia.

An ongoing pressure of illegal migrants, especially from the east and south, marks the borders of the Slovak Republic. This pressure is currently related to the unstable situation in some Asian countries, mainly in Afghanistan, from which the pressure of illegal migrants is the highest one.

---

6 It will be more advantageous (as it has been several times proposed also in international meetings on migration) if the number of emigrants from the country A to the country B is considered as the number of immigrants to the country B from the country A (according to the statistics of the country B) and vice versa.

7 International Organisation for Migration.

The internationally organised smuggling organisations very often participate in their illegal transportation.

In 2000, more than 6 000 illegal migrants tried to cross the Slovak borders. However, from the standpoint of a target for the illegal migration Slovakia is a transiting country. Illegal migrants come prevailingly from economically weaker countries and their targets are the countries of Western Europe, mainly Germany, Netherlands and Belgium, thus, their destination from Slovakia is either Austria or the Czech Republic (Sirak – Jurcova, 2002).

1.1.3 Social indicators

The Slovak Republic ranked 36th among 173 countries of the world in the international ranking of human development in 2002.[8] This rank confirmed the long-term position among the countries with high levels of human development. Based on indicators reflecting the three most important dimensions of human life – healthy and long life, education and standard of living – quality of life in Slovakia is moderately improving.

Despite the relatively positive human development trends, several indicators of the social status of the population show an unfavourable development. During the recent period, unemployment became the most vulnerable issue of the socio-economic development in Slovakia. Unemployment rates surprisingly showed a long-term growth despite the slow, but still existing GDP growth.

Unemployment grew steadily from 12.7 percent in 1996 to 18.8 percent in 2001. The number of registered unemployed – applicants for jobs registered in labour offices – reached an average of 520 642 individuals in 2001, as compared to 349 821 persons in 1995. The share of unemployed women varied slightly during the respective period, from 52.5% in 1996 to 45.3% in 2001. The comparison of male and female unemployment rates shows no significant gender-related deviations, however, the proportion of men among unemployed is moderately increasing. Women, on the other hand, prevail among the long-term unemployed.

Young people are among the most affected by unemployment. Youth unemployment rate for those aged 15-24 was almost double the average rate for all age groups at 37.3% in 2001. A growing concern is the increasing number of long-term unemployed: the share of unemployed for more than 12 months reached 57.8 percent of all unemployed in December 2001, which is an increase by 5% as compared to 2000.[9] A temporary decrease of the number of long-term unemployed was evidenced in the 2nd half of 2000 as a result of the introduction of 65 000 public works.

---

8 Based on UNDP's Human development index HDI, using comparable data from 2000.

9 Labour force surveys.

The numbers of economically active individuals kept growing in Slovakia due to the growing proportion of productive age population. Economic activity rates of the population have stabilised at 60 percent.[10] For all Slovak citizens aged 15 and above, 6 in 10 are economically active. Male economic activity rate is approximately 16 percent higher than the rate of the female population.

As large portion of the labour force shifted towards unemployment, the number of employed decreased by 4.6% in the period 1996-2001. Women accounted for 44.5% on total employment in 1996, while their share increased by 1.5 points to 46.0% in 2001. Employment gradually decreased in the public sector (by 23.6%); the private sector recorded an increase by 12.6% during the surveyed period.

The sectoral structure of employment is undergoing changes, of which the reduction of employed in agriculture and manufacturing industry and the growth of employment in the service sector are among the most significant.

The Slovak labour market is marked by strong regional disparities which are most vivid in unemployment rates. The gaps between the levels of registered unemployment between individual districts grow steadily and ranged as much as 30 percent in December 2001, as compared to 25% in January 1997. Traditionally, unemployment rate is lowest in the districts of the capital city Bratislava (3.7%-6.2% as of December 2001), while it is the highest in the district of Rimavska Sobota (35.5%). Regions with higher proportion of educated labour force usually report lower unemployment rates.

Exclusion from the labour market and low level of education are among the most significant indicators of poverty in Slovakia. The term poverty is not defined in the Slovak legislation and not included in official statistics. Slovakia has typically used synonyms for poverty, of which "material distress" is generally considered as the most appropriate. The term *material distress* has been used in legislation and it refers to a condition characterised by an individual's income that is below the level of subsistence minimum specified by separate legislation.

The number of individuals in material distress is constantly growing, along with rising unemployment. In 2001, 11.7 percent of Slovakia's population was reported to be in material distress, an increase by 4.7 percent since 1996. Unemployed made up as much as 91.7 percent of all recipients of social assistance benefits in material distress in 2001. This number of unemployed recipients of social assistance represented more than 57% of all registered unemployed.

---

[10] Economic activity rate represents the share of economically active population (employed including women on maternity leave, and registered unemployed) on total population in productive and post-productive age.

There is no explicit definition of the poverty line in Slovakia. The *subsistence minimum* may be considered as the unofficial poverty line since it reflects the implicit definition of poverty. The subsistence minimum is defined as a socially recognised minimum level of income below which material distress occurs. It is set using the relative method based on income of individuals. Income characteristics were determined for households with the lowest 10 percent of income, based on subsistence minimum standards for individual components of food, other basic personal needs, and housing expenditures. Households with income below the subsistence minimum level calculated for that family are considered to be poor.

The World Bank has recently undertaken the task of calculating poverty in Slovakia based on four poverty lines: 1. subsistence minimum level; 2. 50 percent of median per equivalent adult income (using the Luxembourg Income Study); 3. and 4. two absolute poverty lines based on purchasing power parity to allow comparison of real values between countries: US$ 2.15 PPP per capita per day and US$ 4.30 PPP per capita per day. The results confirm that absolute poverty is relatively low in Slovakia.

International comparisons reveal that although poverty in Slovakia does not appear to be widespread, there is a large portion of people at the very bottom of the income distribution: the share of population living on less than US$ 2.15 PPP per person per day is higher than in most countries of the region (see Table 1.7 in the annex to this chapter).

The population group at the highest risk of poverty is the unemployed, in particular the long-term unemployed, whose exclusion from the labour market often arises from insufficient education and qualification. Other groups traditionally at risk of poverty include children, incomplete families, and families with multiple children. Due to lower average income and pensions, women are more susceptible to poverty than men. All the aforementioned characteristics, particularly the low level of education and exclusion from the labour market, affect most markedly the Roma population. A significant portion of the Roma population suffers from poverty or even misery.

Despite the trend of moderately growing income disparities, Slovakia remains a country with lowest levels of income inequality. Latest available comparable data show that the share of the poorest 20 percent of households on income is 11.9 percent, while being 31.4 percent for the richest 20 percent of households. Measures of income inequality (e.g. Gini index[11]) confirm that income inequality in Slovakia was the lowest world-wide in

[11] Gini index measures the extent to which the distribution of income (or consumption) among individuals or households within a country deviates from a perfectly equal distribution. A value of 0 represents perfect equality, a value of 100 perfect inequality. The latest available figure for Slovakia is 0.250 (Luxembourg Income Study, 1995).

1987-98.[12] The ratio of incomes of the richest decile and the poorest decile of the population oscillates around 4.5.

The weaker position of women in the labour market mostly shows as smaller average income and predominance of women in lower job positions and less remunerated sectors of the economy (health care, education, social welfare). On the average, women earn three quarters of what man receive, and their share on leading and managerial positions less than one third (2001). Female wage accounted for an average of 78.5% of male wage in 1997, while it decreased to 75% in 1999 and remained at this level in 2000 and 2001. Women have a marked share on unpaid work in the households. In this way, many women become financially dependent on men.

A marital family is considered the universal way for one's life career, as shown by more than 90 percent of people marrying at least once in their lives. The age of the mothers at delivery time gradually increased, shifting from the critical level of 21 years during the 1980s towards 23.9 for primiparas and 26.2 years for mothers in general during 2000.

Over many years, Slovakia has been among the countries with highest marriage rates and smallest divorce rates. Since the mid-1990s, marriage rates have stabilised at approximately 5 marriages per 1 000 inhabitants. There were 1.7 divorces per 1 000 inhabitants in 2000. A total of 9 273 marriages ended in divorce, of which 70 percent included dependent children. After a divorce, children mostly remain with their mothers. This long-term trend has influenced the structure of single-parent families. The mother headed almost 90 percent of 190 000 such families in 1991, and the remaining 10 percent were headed by the father. The term single-parent family in Slovakia means a lonely woman with a dependent child or children in 9 out of 10 cases (more than 60 percent with a single child, almost 30 percent with 2 children, and about 10 percent with three or more children).[13]

1.2 How does the described background affect social protection?

1.2.1 Forecasts and projections

The Slovak Republic may be characterised as a market economy in an advanced stage of transition. It can be stated that "simple" reforms are basically completed. Slovakia stands at the beginning of a new stage of changes, characterised by more sophisticated policies, a slower course, and demands put on know-how. The most important necessary changes include the restructuring of the banking sector, the reform of the business environment, changes in the education and health sectors, pension system,

---

[12] UNDP: *Human Development Report 2000*. p. 172. World Bank data for individual countries refer to the most recent year available during the period 1987-1998.

[13] Data refer to the 1991 Population and housing census. Results of the 2001 census shall be available shortly.

the public State administration, improvement of transparency, harmonisation with the OECD system, and integration into the EU and NATO.

The expected development of main economic parameters in the short-term may be summarised as follows: GDP is expected to cross the SKK 1 000 billion threshold in 2002. Real growth of the economy should moderately increase in the next years. Inflow of foreign direct investment is expected to peek in 2002 due to the privatisation of the Slovak Gas Company. However, it may not be sufficient to cover the extensive current account deficit. In connection with the growing value of the currency, the trade deficit is raising concerns about the expected depreciation of the Slovak crown. Delays in price deregulation may, in short-term, improve the real wage growth and purchasing power, however, the new cabinet will have to initiate further deregulation of administered prices in the energy sector. Inflation may therefore experience a repeated growth after historically low values in 2002. Recent analyses show that budget deficit may well exceed the expected 4.2% of GDP in 2002.

Unemployment grew constantly in Slovakia during the second half of the past decade, in spite of decent economic growth. No substantial reduction of unemployment rates can be expected if avoidance of long-term measures aimed at business environment improvement, creation of effective links between the education system and labour market, removal of disincentives to work in the social system etc., will persist.

Apart of the numerous socio-economic factors, which impact on the quality and quantity of job opportunities, it is also the increase in productive age population, which due to the shortage of jobs shifted into the growth of unemployment. The main demographic trends include a continuing ageing of the population, decreasing birth rates and population increments. The population growth in Slovakia may therefore be expected to completely stop in early 21st century. Due to higher fertility and birth rates within the Roma community, the share of this largely socially handicapped group is expected to grow further.[14]

1.2.2 Influences of economic, demographic and social developments on the social protection system

Alleviation of poverty and social exclusion requires a sound development of the economy. Thus, if the social protection system goes beyond the economic potential of the country, it may in the long run create pressure on public sources and reduce active approach of those covered by the system.

---

[14] The majority of Roma in Slovakia live in a poor socio-economic situation and this raises the question whether Roma are not a social rather than an ethnic minority. (UNDP, 2000)

Economic performance directly influences the wealth of the society and of the individual. It is the major determinant of the number of those who become part of the social schemes, while it also provides for means to cover their costs. A good macro- and microeconomic framework reduces the overall size of the social protection system and hence allows for a more effective allocation of resources for development. The role of the State in economy is an indicator of the nature of the social protection system.

Unemployment became the weakest point in socio-economic development. The increasing unemployment, particularly long-term unemployment, represents a burden on resources of the National Labour Office and also on State Budget funds allocated for social assistance. Unemployment is currently the main factor influencing the structure of social protection.

This effect is fortified by demographic developments, especially by the reduction of the pre-productive population and the associated growth of the productive and post-productive cohorts of population. The ageing of the population brings along at least a twofold effect on the Slovak social system: firstly, it displays in the increasing labour force, which is due to insufficient job creation shifting towards unemployment and social welfare; and secondly, it creates a growing imbalance between the economically active and inactive population groups as to who will be supporting the subsistence of the ageing population. In an economy whose pension system is mostly based on reciprocity, economically active individuals must generate income not only for themselves, but also for the pre- and post-productive age populations.

The shape of the social protection system in candidate countries is also influenced by the EU accession process. Adoption of the Acquis Communautaire in the social sphere brings new norms and criteria for the indigenous legislative and institutional social framework.

Lastly, the socio-economic development is largely dependent on the domestic political framework and the attitude of policy makers towards the reform process. The outcomes of the parliamentary elections in autumn 2002 will be an important factor in this regard.

1.3 Annex to Chapter 1

Table 1.1: Basic macroeconomic indicators

Indicator	1996	1997	1998	1999	2000	2001
GDP at current prices (EUR billion)	15.6	18.0	19.0	18.5	20.9	
Annual growth of GDP at constant prices (%)	6.2	6.2	4.1	1.9	2.2	3.3
GDP per capita in PPS	8 500	9 300	9 800	10 200	10 800	12 380
GDP per capita in PPS (% of EU 15 average)	46	48	48	48	48	
Average inflation CPI (%, YoY)	5.8	6.1	6.7	10.6	12.0	7.3
Foreign trade balance (% of GDP)	-12.2	-10.6	-11.3	-5.5	-4.8	-10.7
Current account balance (% of GDP)	-11.2	-9.9	-10.1	-5.8	-3.7	-8.8
Net FDI inflow (% of GDP)	1.1	0.5	2.1	3.7	10.7	5.8
Gross foreign debt (% of GDP)	41.5	48.5	55.9	53.4	56.3	55.0

Note: CPI – consumer price index, YoY – year on year comparison.

Source: Eurostat, Statistical Office of the Slovak Republic, National Bank of Slovakia.

Table 1.2: Public social expenditures (as % of GDP)

Indicator	1996	1997	1998	1999	2000	2001
Social expenditures	23.28	22.70	21.88	21.91	21.70	
of which:						
Health care	8.23	7.72	7.04	6.99	7.10	
Education	4.59	4.34	4.10	4.00	3.89	
Social security and welfare [1]	10.46	10.64	10.73	10.92	10.70	

Note: Including pension and sickness fund, passive and active labour market expenditures, state social allowances, social assistance benefits including care for disabled.

Source: World Bank estimates.

Table 1.3: Public social expenditures (as % of total government expenditures)

Indicator	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Social expenditures	52.09	52.13	52.27	55.38	51.93	
of which:						
Health care	18.42	17.74	16.83	17.68	17.00	
Education	10.26	9.96	9.80	10.12	9.32	
Social security and welfare [1]	23.41	24.44	25.64	27.59	25.61	

Note: Including pension and sickness fund, passive and active labour market expenditures, state social allowances, social assistance benefits including care for disabled.

Source: World Bank estimates.

Table 1.4: Demographic profile

Indicator	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Total population (in 1,000s)	5 379	5 388	5 393	5 399	5 403	5 379 [2]
of which:						
Males	2 618	2 622	2 624	2 625	2 626	2 612 [2]
Females	2 761	2 766	2 769	2 774	2 777	2 767 [2]
Population aged less than 15 years (%)	21.7	21.1	20.4	19.8	19.2	18.6
Population aged more than 60 (%)	15.2	15.2	15.3	15.4	15.5	15.7
Dependency ratio [1]	64.7	63.3	61.9	60.6	59.4	58.4
Net population increase	2.1	1.6	1.0	1.0	0.7	-0.2
Birth rate per 1000 inhabitants	11.2	11.0	10.7	10.4	10.2	9.5
Fertility rate	1.47	1.43	1.38	1.33	1.30	1.20
Net reproduction rate	0.70	0.69	0.66	0.64	0.63	
Life expectancy at birth (years)	72.84	72.81	72.66	72.99	73.18	73.40
of which:						
Males	68.9	68.9	68.6	69.0	69.1	69.5
Females	76.8	76.7	76.7	77.0	77.1	77.6
Life expectancy at age 60 (years)						
Males	15.8	15.9	15.8	18.8	15.9	16.5

Table 1.4 continued

Indicator	1996	1997	1998	1999	2000	2001
Females	20.4	20.3	20.3	20.5	20.4	21.2
Life expectancy at age 65 (years)						
Males	12.9	12.9	12.8	12.9	12.9	
Females	16.4	16.4	16.3	16.5	16.4	
Net migration	2 255	1 731	1 306	1 454	1 463	

Note: 1. Ratio of the population defined as dependent – pre-productive and post-productive population – to productive population (in %). 2. Data from the national population and housing census, as of May 2001.

Source: Eurostat, Statistical Office of the Slovak Republic

Table 1.5: Immigrants to Slovakia by country of origin

Region	1996	1997	1998	1999	2000	2001
European Union	272	223	199	218	170	
EFTA countries	48	54	51	30	41	
Candidate countries to the EU	1 320	1 075	965	1 048	1 408	
Ukraine and Russia	357	455	359	266	217	
Continents:						
Africa	31	29	25	37	33	
Asia	112	133	133	163	70	
America	173	141	137	127	192	
Australia and Oceania	45	36	46	18	16	
Europe	2 115	1 964	1 709	1 716	1 963	
Total	2 477	2 303	2 052	2 072	2 274	

Source: Statistical Office of the Slovak Republic

Table 1.6: Poverty measures in the Slovak Republic

Poverty line	% of households	% of individuals
Subsistence minimum	7.9	10.1
50% median equivalent income	5.9	5.8
US$2.15 PPP per person per day	2.1	2.6
US$4.30 PPP per person per day	6.3	8.6

Note: Poverty measure based on total income, including social transfers.

Source: World Bank (2001) based on Microcensus 1996 data.

Table 1.7: Absolute poverty rates (selected transition economies, % of individuals)

Country	**Year**	**At US$2.15 ppp/person/day**	**At US$4.30 ppp/person/day**	**GNP per capita**
Slovenia	1998	0.0	0.7	14 399
Czech Republic	1996	0.0	0.8	12 197
Croatia	1998	0.2	4.0	6 698
Slovak Republic	*1996*	*2.6*	*8.6*	*9 624*
Hungary	1997	1.3	15.4	9 832
Poland	1998	1.2	18.4	7 543
Estonia	1998	2.1	19.3	7 563
Lithuania	1999	3.1	22.5	6 283
Ukraine	1999	2.7	24.6	3 130
Latvia	1998	6.6	34.8	5 777
Russia	1998	18.8	50.3	6 186

Notes: Headcount Index. Data for the Czech Republic and the Slovak Republic based on income measures, all other countries are consumption measures. GNP per capita is from 1998 and is measured at purchasing power parity (PPP). Gross Domestic Product (GDP) per capita (first half 1999) is used for Ukraine.

Source: World Bank (2000) and Microcensus.

Table 1.8: Labour market a social indicators

Indicator	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Unemployment rate (%)	11.3	11.8	12.5	16.2	18.6	19.2
Unemployment rate of women (%)	12.7	12.8	13.2	16.4	18.6	18.7
Economic activity rate (%)	60.1	59.9	59.9	60.0	60.3	60.7
of which:						
Men	68.7	68.6	68.9	68.7	68.6	69.2
Women	52.3	51.8	51.5	52.0	52.6	53.0
Labour force participation rate (%)	70.7	67.6	66.8	66.3	66.6	
Age specific labour force participation (age group 55-60)	40.0	37.8	39.5	39.6	39.4	41.8
Age specific labour force participation (age group 60-65)	8.2	6.8	7.7	7.1	6.5	6.5

Table 1.8 continued

Indicator	1996	1997	1998	1999	2000	2001
Structure of labour force (as % of total employed)						
Employees	93.6	93.7	93.2	92.3	92.0	91.6
of which: civil servants [1]	7.1	7.3	7.0	7.1	7.5	7.4
Self-employed	6.4	6.3	6.8	7.7	8.0	8.4
Recipients of social assistance in material distress (% of total population) [2]	7.0	7.3	9.4	10.8	11.3	11.7

Note: 1. Employees in public administration, defence and compulsory social security. 2. Figures include dependent persons on recipients of social assistance benefits (until 1998, social care benefits).

Source: Statistical Office of the Slovak Republic, Eurostat, IMF

Table 1.9: Income distribution

Indicator	1996	1997	1998	1999	2000	2001
Net monthly income per capita in the poorest 10% households (SKK)	2 308	2 830	2 768	2 893	3 098	
Net monthly income per capita in the richest 10% households (SKK)	10 964	12 459	13 448	12 934	14 335	
Ratio of highest decile to lowest decile	4.75	4.40	4.86	4.47	4.62	

Source: Statistical Office of the Slovak Republic.

Table 1.10: Key economic forecasts

Indicator	2001	2002F	2003F
Real GDP (%)	3.3	4.1	4.2
Unemployment rate (year-end, %)	18.7	17.2	16.5
CPI inflation (%)	7.3	4.0	6.5
Consolidated government balance (% of GDP)	-4.2	-4.2	-3.4
Trade balance (% of GDP)	-10.7	-9.5	-7.2
FDI (% of GDP)	7.4	15.9	1.4

Source: National sources, ING estimates

2. OVERVIEW OF THE SOCIAL PROTECTION SYSTEM

The social protection system in Slovakia prior to 1990 was part of a comprehensive social policy that was conceived in the 1950s and 1960s. Up to 1993, it was funded from the state budget. The existing system of benefits catered to the needs of the citizen from cradle to grave and supplemented equalised and poorly differentiated wages.

The 1990s were a time of dramatic social and economic changes. A new economic situation meant that new social phenomena had to be addressed (e.g., unemployment). In addition to dealing with these new phenomena, it was also necessary to draft and implement systemic changes in a social sector that was increasingly a burden to the economy in transition. Among the earliest changes in the system was the introduction of benefit targeting.

The first comprehensive concept of the welfare system transformation was drafted in 1996. The social security system was to rest on three pillars: social insurance, social support, and social assistance. Significant delays accompanied the implementation of the individual reform steps and a number of acts were never put into effect. Among the greatest influences on this concept was a change in the state-citizen relationship, which had focused on increased personal responsibility

The health sector is in the Slovak environment detached from the social sector. The social sector is within the competence of Ministry of Labour, Social Affairs and Family of the Slovak Republic (MOLSAF). The health issues are governed mostly on central level – at the Ministry of Health of the Slovak Republic. Despite the numerous changes in society and economy since the start of transition, the health delivery system has remained virtually untouched. Even the introduction of multiple insurance companies has not brought the desired client-orientation and service focus, and most of the actors continue to follow the roles and patterns that were prevalent in the previous system. Still, it is noteworthy that the health care system manages to provide reasonable quality of care, even if consumer dissatisfaction is on the rise. This is no easy task considering that the available financial resources are not sufficient to manage the existing infrastructure. The system still lacks systemic reform steps and suffers from many crises (managerial, financial, moral, etc.)

2.1 Organisational structure

2.1.1 Overview of the system

The Slovak social protection system is based on three pillars:

- Social insurance
- State social benefits

- Social assistance.

Social insurance consist of

- *Sickness insurance*[15], which consists of a system of benefits of short-term nature that are funded continuously from the insurance premium. Individual types of benefits compensate persons for lost income due to sickness, maternity, and partially for increased costs due to the care of dependent children.

The fundamental condition enabling persons to claim and receive sickness benefits is the participation of the citizen in the sickness insurance system, or maintenance of claims for a specified period of time based on the duration of the protection period, or the receipt of financial benefits supplementing wages, salaries or compensation for work. A special group of recipients includes persons who, although not participating in the sickness insurance system, are qualified to claim sickness benefits directly by law; such qualification primarily applies to registered unemployed and persons on alternate (civil) military service duties.

- *Pension security*[16] which is composed of a system of benefits of long-term nature funded in the same way as sickness insurance; qualification criteria for awarding any pension security benefits are similar to the sickness insurance criteria;
- Voluntary *Supplementary pension insurance*[17] tied to pension insurance and regulated by the state; this is funded from contributions remitted to the individual accounts of insured persons by employers and employees;
- Indemnification for *work injuries and occupational diseases*[18] is based on the employers' obligatory liability insurance. Since 1 April 2002, it has been transferred from the commercial Slovak Insurance Co. Inc., and currently is ensured by the Social Insurance Agency.

State Social Benefits are direct financial contributions by the state to aid in overcoming an undesirable fall in the population's standards of living due to the occurrence or lasting of certain events in the lives of families (dependent children) and citizens.

The term *Social assistance* (SA) expresses the approach of the state to the citizen in need, where the role of the state is only to assist the citizen in overcoming his/her crisis situation and it is expected that the citizen will actively seek out his/her own solutions. Hence, the granting of SA is conditioned by the state of material and social distress an individual is

---

15 The Act of NC SR No. 54/1956 Coll. on sickness insurance as amended.

16 The Act of NC SR No. 100/1988 Coll. on social security as amended.

17 The Act of NC SR No. 123/1996 Coll. on supplementary pension insurance as amended.

18 The Act of NC SR No. 311/2001 Coll. Labour Code, as amended.

incapable of coping with by himself/herself or with the help of his/her family.

The act[19] stipulates the types of benefits. The benefits include: social counselling, legal protection, social services, social assistance benefit, and monetary benefits to offset the social consequences of severe disabilities. These benefits are based on the minimum subsistence level. Eligibility determinations for SA are made at district state administration offices but financial support for associated cash benefits and services is provided through the state budget.

Health insurance[20] and *Unemployment insurance*[21] are in the Slovak concept not considered as a part of social protection sector, however, this report includes also these two systems.

Institutional Responsibilities

Slovak social protection provides a broad scope of cash benefits and support services to many individuals and families through its programs. The largest share of these payments is made by the *Social Insurance Agency*[22] (SIA), which administers two payroll tax-supported trust funds: the pension fund and the sickness fund. Recently SIA has inherited also the administration of accident insurance. The pension fund makes payments to old age, survivor and invalidity (permanent disability) beneficiaries while the sickness fund provides payments for short-term illnesses and maternity leave. The SIA also administers the state social benefits, but for this purpose receives a special budget from the MOLSAF. The SIA is structured as a largely self-governing entity within the MOLSAF with a tripartite decision-making structure. Despite being completely separated from the state budget, pursuant to law, the state ensures the Agency's solvency through returnable financial subsidy up to the amount of 100% of the SIA insolvency.

The *National Labour Office*[23] (NLO), a second self-governing body within MOLSAF, administers labour market programmes in Slovakia. Its responsibilities include job matching, payment of unemployment insurance benefits and the oversight of active labour market programs such as training and public works.

District state administration offices (established under the umbrella of Ministry of Interior) administer and decide on awarding of social assistance benefits. These offices also oversee services to the severely handicapped and

---

19 The Act of NC SR No. 195/1998 Coll. on social assistance.
20 Described in chapter 2.3.1.
21 Described in chapter 2.3.8.
22 Established by the Act of NC SR No. 274/1994 Coll. on Social Insurance Agency, as amended.
23 Established by the Act of NC SR No. 387/1996 Coll. on employment, as amended.

long-term care for persons residing in institutions and at home. Financial support for associated cash benefits and services is provided through the state budget.

Ministry of Labour, Social Affairs and Family SR acts as an umbrella institution with competencies in the field of employment, labour market and all other social protection programs. The ministry is primarily responsible for policy making process, however it also carries out controlling, consultative and advisory activities. Ministry representatives are members of the administrative board both of SIA and NLO.

The management of health care in Slovakia is highly centralised in terms of decision-making and regulation. Hospitals have very little discretional power over their own resources, and are directly accountable to the *Ministry of Health SR* (MOH). The MOH practically runs all the health facilities in the country. The Minister appoints the hospital directors, which underscores dependence and guarantees high levels of control. The MOH issues guidelines on the construction of health care facilities, approves the use of expensive medical technology and equipment and is responsible for capital investments in the health care facilities owned by the State. In addition, the MOH controls and finances public health programs through public health institutions.

The Act on *Health Insurance*[24] establishes two health insurance agencies, which solvency is guaranteed by the state, and stipulates conditions for founding other sectoral insurance agencies. At present, there are five health insurance agencies operating in Slovakia. Generally speaking, health insurance agencies are responsible for collecting health premiums from their insurees and also negotiate with providers the amount of services the insurance will purchase.

2.1.2 Centralisation/ De-centralisation of the system

Slovakia is currently in the process of consecutive decentralisation. Respective transfer of competencies will give some responsibilities in providing social services and health care to the municipalities and higher territorial areas (VUC). Scope of competencies detached to lower levels of public administration will be subject of decision taken by the respective ministries. However it is laid down in the Public Administration Reform that competencies should be decentralised extensively, providing for both effective institutional and fiscal transfer. For instance, self-governments will license majority of private ambulances and some hospitals, decide on appeals and operate secondary health care schools.

---

[24] The Act of NC SR No. 273/1994 Coll., Act on Health Insurance, Health Insurance Funding, on Establishment of General Health Insurance Company and on Establishment of Departmental, Sectional, Company and Civil Health Insurance Companies.

2.1.3 Supervision

As for citizen/patient claims and rights the Ministry of Labour, Social Affair and Family SR and/or Ministry of Health are the key supervisory authorities, which have the right to review the decision made by respective agency.

As for financial issues, audits of expenditures, there are several supervising institutions: Ministry of Finance, Supreme Audit Office, Office for Financial Market, etc.

2.2 Financing of social protection

Up to January 1994, social protection was funded from the state budget. With the introduction of social insurance, the funding of selected social programs was separated from the state budget and transferred to the Social Insurance Agency. The major objective of this separation from the state budget was to reduce the dependence of social protection on political decision-making and to increase the transparency of its management. At the same time, health insurance was separated from the state budget for similar reasons. However, despite this separation, social insurance, as well as health insurance, continue to be dependent on the state budget. This is largely due to the insufficient payment of contributions by the state for selected groups of citizens (economically inactive population - children, students, etc.).

Selected social sector's programs[25], are funded through statutory insurance premiums administered by Social Insurance Agency and National Labour Office.

As for the Social Insurance Agency, premium collected from employees, employers and self-employed and their fellows are the fundamental fund of the Company's income. The National Labour Office pays the premium for registered unemployed and the state for selected persons (without economic activity). Contribution premium for pension security equals to 28% of assessment base and 4.8% for the sickness fund. Insurance premiums are paid jointly by the employer and employee. The upper income limit for the payment of insurance premium contributions (maximum assessment base) equals to SKK 32 000. The amount of state payments is determined each year by the State Budget Act. The pension security currently operates as pay-as-you-go system.

Similar mechanism applies to unemployment insurance premium collection administered by National Labour Office, where the premium equals to 3.75 percent of the assessment base. The upper income limit for the payment of insurance premium contributions equals to SKK 32 000.

---

[25] As pension security, sickness insurance and unemployment insurance.

Other social protection programs like social assistance and state social benefits are financed directly from the state budget, through the budget of MOLSAF.

Health care in Slovakia is funded by a mix of public and private sources. Public expenditure on health includes spending from the national budget and premium contributions[26] to the statutory health insurance. Private expenditure on health takes three forms: (i) formal (or authorised by law) payments in the form of payments for services provided by private physicians and facilities, and co-payments for drugs, some dental services, visual aids, and medical aids and prosthesis; (ii) informal (or unauthorised) payments for health services made to providers who are not authorised by law to be the recipients of such monies[27]. In addition, external donors fund certain aspects of health care.

2.3 Overview of allowances

2.3.1 Health care

Health care is provided on the base of health insurance[28], under which persons[29] are obliged to pay insurance premium.

Health insurance covers the following services:

a. Ambulatory and clinical health care including rehabilitation and care for chronically sick persons,

b. Prevention of disease pursuant to particular regulations,[30]

c. Providing of drugs, medical aids, and medical utilities,

d. Transport of the ill persons to the nearest medical facility that is authorised to provide the medical care if it is inevitably required by their health condition,

---

26 Contribution premium for health insurance equals to 14% of assessment base.

27 Health insurance premiums are by far the most important source of funding, accounting for over 68% of total expenditures on health. Budgetary transfers account for almost 24% of health expenditures, followed by out-of-pocket formal expenditures (7%) and external funding (1%). Out-of-pocket informal payments for health services are presumably substantial, and accurate numbers are not available, though some estimates show that over 60% of all users of health services pay some informal payments.

28 The Act of NC SR No. 273/1994 Coll., Act on Health Insurance, Health Insurance Funding, on Establishment of General Health Insurance Company and on Establishment of Departmental, Sectional, Company and Civil Health Insurance Companies.

29 Employees and employers are obliged to pay health insurance premiums. State pays for the economically population (children, students, pensioners, etc.).

30 E.g., Decree of the Ministry of Health of the Slovak Republic No. 79/1997 Coll. on Measures Against Infective Diseases.

e. Spa treatment and particular health care provided on the base of recommendation by a physician as a necessary part of therapy.

Details on the terms of health care provision are provided in Therapeutic order[31]. Therapeutic order provides:

a. Provision of health care and particular health care,

b. Treatment by specialist physicians including provision of medicaments, medical aids and medical utilities,

c. Methods of recognition of inability to work,

d. Transport of sick persons and reimbursement of costs of travel and costs of medical utilities,

e. Terms and method of reimbursement of costs of health care provided abroad,

f. Control of compliance with therapeutic regime by sick persons.

A person qualifies for health insurance by birth, in case of a person with permanent residence in the Slovak Republic. Persons without permanent residence in the Slovak Republic are eligible for health insurance:

a. on the starting date of employment or similar work relationship with an employer, which has domicile in the Slovak Republic,

b. on the effective date of self-employment license in the Slovak Republic,

c. on the date of being granted permanent residence in the Slovak Republic,

d. on the date of being granted refugee status.

Spa treatment is non-obligatory sickness insurance benefit provided on the basis of a recommendation from the attending medical specialist. It extends over 21 or 28 calendar days.

2.3.2 Sickness

Sickness benefits (part of sickness insurance) compensate persons for lost income due to sickness. A precondition for entitlement to sickness benefits is the duration of the temporary disability and loss of earnings. The benefit rate is 70% of the net daily income for the first three days of sickness and 90% from the fourth day of disability onwards; however this is up to a maximum value of SKK 350 per working day (self employed person is awarded maximum of SKK 250 per calendar day). Sickness benefit ends after one year.

---

[31] The Act of NC SR No. 98/1995 Coll. on Therapeutic Order, as amended.

Benefits to support care of a family member (part of sickness insurance)

Such benefits may be claimed when carrying for a child under age 10 for reasons of his/her sickness or for other reasons specified by law, or for the care of another sick member of the family if care by another person is inevitably necessary as a result of the state of health of the member concerned. Domicile in a common household is a conditional for the claim, with the exemption of care for a child under age of 10 by one of the parents.

A further condition is that there is no other household member who is able to take care of sick child or family member, and the attending person loses his/her income. The rate is identical to sickness benefit; however, it is paid for a maximum of first seven working days to an employee who takes permanent care of at least one child of compulsory school age and for a maximum period of 13 days to a single parent.

2.3.3 Maternity

Compensatory allowance in pregnancy and maternity equaliser (part of sickness insurance) is paid to a woman who is transferred to another job because she was undertaking work declared by law as dangerous for pregnant woman, or which in her attending doctor's judgement has adverse effect on her pregnancy or maternity. The allowance is paid during pregnancy and to the end of the ninth month after delivery if, due to a transfer to another line job, the woman's income decreases. The rate is equal to the difference between the incomes before and her transfer.

Financial assistance in maternity (part of sickness insurance)

The precondition for qualifying for financial assistance in maternity is that during the last two years the employee has paid sickness insurance contribution for at least 270 days, that her pregnancy ended with delivery and she loses her earnings or income. The benefit rate is 90% of the net daily income; however, equal to SKK 350 at most (SKK 250 for self-employed person per calendar day) paid for 28 weeks, or 37 weeks in case of an employee who is single or unemployed, who has given birth to two or more children and is caring for at least two of these.

2.3.4 Invalidity, long-term care

Disability is defined as a long-term adverse state of health of a person unable to perform permanent work.

The *disability pension* (is part of pension security benefits) is payable to anybody incapable of work who fails to meet the conditions for qualifying for a retirement pension and who has worked for a specified minimum

number of years. If the disability was caused by an industrial injury, the condition for the required minimum years of work is waived. Disability usually starts as a sick leave that after one year duration is examined and permanent disability might be awarded. The extent (level) of disability is assessed by a special medical committee at the Social Insurance Agency.

Length of employment necessary for awarding disability pension depends on the age of the disabled person:

- less than 20 years of age - less than 1 year of employment
- between 20 and 22 years of age - one year of employment
- between 22 and 24 years of age - two years of employment
- between 24 and 26 years of age - three years of employment
- between 26 and 28 years of age - four years of employment
- over 28 years of age - five years of employment

Calculation of disability pensions follows very similar formulas as old age pension calculation. The pension of a disabled, who didn't perform any type of preferable job, is equal to 50% of average monthly wage. The maximum disability pension is SKK 6 389 and minimum equals to SKK 550.

The *partial disability pension* (is part of pension security benefits) is given on the basis of partial disability and the required employment duration. A disability related to a work injury qualifies the person for the pension regardless of the length of employment. A person is considered partially disabled if, due to his/her long-term adverse state of health, his/her physical or mental capability is only about half the ability to perform continuous work compared with a healthy person, or the person is able to perform previous work only under specific modified working conditions. The required employment limits are similar to that of disabled pension.

The disabled person qualifies for a payment of a partial disability pension twelve months after its allotment if his/her income substantially decrease. This condition does not apply to the partial disability pension due to the generally aggravated conditions in life. Calculation of the amount of partial disability pension is based on disability pension and usually equals to half of the disability pension.

Services like long-term inpatient care, day care centres and social services for the chronically ill, the elderly and other groups with special needs such as the mentally ill, mentally handicapped and the physically handicapped are part of Community care. Previously some of them were run by the Ministry of Health (8 institutions for infants, 12 children's homes and twenty bed-crèches), but later they were all shifted to the MOLSAF. Non-governmental and private institutions supplement the network of these facilities.

2.3.5 Old age

A person is entitled to an *old age pension* after a minimum of 25 years work and attaining a minimum age (men 60 years, woman 53-57 years of age related to the number of raised children). For the purpose of computing the pension amount complicated formulas are being used, which basically take into account three criteria; the length of employment, the working category (miners, etc.) and average income. The pension of a common employee who worked for 25 years is a 50% sum of average monthly salary. The maximum old age pension is SKK 6 389, despite the upper income limit for the payment of insurance premium contributions[32] equals SKK 32 000. The lowest level of old age pension equals to SKK 550 per month.

Pension schemes also recognise a *spousal pension* (is part of pension security benefits), which may be claimed by married women who are fully disabled or who have attained 65 years of age without being able to claim other types of pension from their own pension schemes and who do not work for wages (not more that 60 working days per calendar year). Important qualification criteria is that her husband has been awarded/ has the right to be awarded an old age pension or disability pension or pension for extended employment. The claim for such benefits ends with the death of the husband or divorce.

2.3.6 Survivors

Widow pension (is part of pension security benefits) is provided to a wife – widow in order to help her to overcome economical situation after the death of her husband. Widow is eligible for a widow pension if her husband was awarded or would be eligible to old age pension or disability pension or pension for extended employment. Pension is paid for a period of one year and can be extended under the following circumstances, when the widow is:

a. disabled,

b. taking care of dependent child,

c. raised at least three children,

d. reached the age of 45 and raised two children,

e. reached the age of 50.

The claim for widow pension expires by entering into a new marriage. The amount of benefit equals to 60% of the husband's old age pension or disability or pension for extended employment. The minimum amount of benefit is SKK 450 per month, but can not exceed the husband's pension based on which the benefit was calculated. The maximum amount of widow pension is not set.

---

[32] Contribution premium for pension security equals to 28% of a assessment base – income; premium is paid jointly by the employer and employee.

If a widow is wage earner, the benefit is reduced. The widow pension can not be reduced:

a. in the first year after a husband's death or,

b. if the widow is taking care for at least one dependant child,

c. if the widow is also receiving old age pension,

d. if the widow reached the age of 65.

Widower is eligible for a *widower pension* (is part of pension security benefits) if he cares for at least one dependent child. The pension claim is however based on the death of the wife, but the amount of benefit is not based on benefits the wife would be eligible to. Therefore, there is no need to examine wife's eligibility to any pension benefits. The amount of widower pension is set by law at the level of SKK 2 116 per month. Basic qualifying conditions for this benefit are:

a. marriage lasted to the wife's death, and

b. care for at least one dependent child.

For the purpose of awarding the benefit, the widower's age doesn't matter, number of raised children, nor his employment or earnings. Widower pension can not be reduced. The qualifying conditions don't change after one year of wife's death. The right to widower pension expires:

- if the condition of taking care of dependent child is not met, (dependant reaches certain age or graduate school), or
- by entering a new marriage.

Orphan's pension (is part of pension security benefits) is granted to a dependent child in death of his/her parent or adopted parent. Eligibility to orphan's pension is not based on departed's right to old age pension, disability pension or pension for extended employment, nor is examined departed's permanent residence in SR.

For the purpose of awarding this benefit, dependent child is a child which is permanently trained, but not exceeding the age of 25 years. Dependent child is also considered a school graduate who is registered as an unemployed, not eligible for unemployment benefit.

The amount of benefit:

a. for a child who lost one parent, equals to 30% of old age pension/disability pension/pension for extended employment to which the dead parent was (would be) eligible in the time of death,

b. or 50% for child who lost both parents.

The minimum level of the benefit is SKK 400 per month for orphan who lost one parent and SKK 600 if he/she lost both parents. The maximum amount of orphan pension is not set.

2.3.7 Employment injuries and occupational diseases

An employer employing at least one employee must be insured for the case of being liable for damages incurred by accident at work or occupational disease.

If in the discharge of work tasks or in direct relation to it, an employee sustains damage to his/her health or occupational disease suffers death by way of accident, accountability for damages arising from it shall fall to the employer with whom he/she was in an employment relationship at the time of the accident. An employer is accountable for damages even when he/she adhered to obligations arising from special regulations and other regulations for securing safety and protection of health at work. Unless exempted from such accountability if the damage was caused in such a way that the affected employee by his/her own fault was in violation of legal regulations or other regulations for securing safety and protection of health at work.

An employee who sustained an accident at work or in whom an occupational disease was ascertained shall have the right to provision of compensation for:

a. loss of earnings,

b. pain and impeded social involvement,

c. purposeful costs incurred in connection with treatment,

d. material damage.

Compensation for loss of earnings for a period of incapacity to work and compensation for loss of earnings upon the end of a period of incapacity to work for the same reason are independent claims.

Compensation for loss of earnings during an employee's incapacity to work is the difference between average earnings of the employee prior to the occurrence of damage caused by accident at work or occupational disease and the full rate of sickness pension.

Compensation for loss of earnings upon a period of incapacity to work or with acknowledgement of invalidity or partial invalidity is provided to the employee in such an amount that, together with earnings upon accident at work or ascertaining of occupational disease, with addition of possible invalidity pension or partial invalidity pension provided for the same reason, equals the average earnings of the employee prior to the occurrence of damages. However, no account shall be taken of employee's earnings attained by an increased work effort.

Compensation for pain and for impeded social involvement that arose for an employee as a result of accident at work or occupational disease is provided as a one-time payment. The maximum amount of compensation for pain and constrained self-assertion is stipulated by a generally binding legal regulation issued by the Ministry of Health SR.

If an employee dies as a result of accident at work or occupational disease, the employer is obliged within the scope of his/her accountability to provide:

a. compensation for purposeful outlay of costs in connection with his/her treatment,

b. compensation for appropriate costs in connection with the funeral,

c. compensation for costs for maintenance of survivors,

d. one-time compensation to survivors,

e. compensation for material damages.

Lump sum compensation shall be applicable to a spouse and a child who is entitled to orphans' pension. The child shall be entitled to an amount of at least SKK 24 000 and the spouse at least SKK 15 000. In justified cases, lump sum compensation in the total amount of at least SKK 15 000 shall also be provided to the parents of the deceased.

Insurance of employer's accountability for damages is executed by the Social Insurance Agency.

2.3.8 Family benefits

Parental benefits[33] (part of state social benefits) are paid to families with children up to three years of age and with disabled children up to seven years of age. A parent qualifies for the allowance if he/she takes all day personal care of at least one child. If he/she works, eligibility is conferred only if earnings are less than half the monthly minimum wage (SKK 2 200). Unmarried women with small children can have unlimited earnings and still receive child allowances.

Another condition is that both child and parent have permanent residence in the territory of the Slovak Republic. The allowance sum needed to provide the food and other basic personal needs of the parent, i.e. SKK 2 740.

---

[33] Regulated by the Act of NC SR No: 382/ 1992 Coll. on parental benefit, as amended.

Child allowances[34] (part of state social benefits) are paid to eligible families with children under 15 years, to families with students aged 15 to 25 and families with severely handicapped children through age of 18.

The amount of child allowance is set universally at SKK 270 independent on income of the applicants and the age of the relevant child.

If the income of the authorised person and that of other related persons does not exceed the sums set for the purpose of state social benefits by 1.37 times, the dependent child is awarded a contribution to the child allowance equalling to:

- SKK 410 /month…….up to 6 years of age
- SKK 560 /month…….up to 15 years of age
- SKK 620 /month…….over 15 years of age

With the income not exceeding 2.2 times the sums set for the purpose of state social benefits (1.37-2.2), dependent child is awarded a contribution of:

- SKK 210 /month …….up to 6 years of age
- SKK 320 /month ...……..up to 15 years of age
- SKK 350 /month …….over 15 years of age

2.3.9 Unemployment

A job seeker[35] qualifies for *unemployment benefit* if he/she has paid the unemployment insurance for at least 24 months in the course of the last 3 years before registration with the local Labour Office. The registered unemployed shall co-operate with the local Labour Office in the mediation of employment or retraining. The reason for terminating last employment has no impact on registering an employee into the Registry. The registered unemployed person is excluded from unemployment register when he/she has failed to co-operate with the District Labour Office without serious personal or family reasons. In such cases he/she may be re-registered by personally submitted application but not before the lapse of six months from the date of such erasure.

---

[34] Regulated by the Act of NC SR No: 193/1994 Coll. on child allowance, as amended. As of 1 July 2002, child allowances will be granted universally to all families with children, independent of income. (Note: this section will be supplemented.)

[35] According to the NC SR Employment Act No. 387/1996 Coll. as amended by later legislation a job seeker is defined as a citizen currently without employment or in related position, does not perform jobs under commission contract, does not hold a post of a company with limited liability partners, nor is the member of co-operative paid work in the form classified as an income, is not self-employed, a member of a team of authors, does not study or train for a job, and has placed a written job application with his/her local Labour Office.

The value of unemployment benefit, which can be claimed by a registered unemployed person in one calendar month, are as follows: 50% of the determined unemployment benefit base[36] over the first three months; 45% of the determined unemployment benefit base for the remaining time.

Unemployment benefits are paid at minimum wage value multiplied by a factor of 1.5 at most. The minimum wage is SKK 5 570 (as from 1 October 2002).

The duration of payments of unemployment benefits shall be reduced by one half if the registered unemployed person has terminated the last employment without serious reasons or termination of the last employment by the employer for violation of labour discipline, unsatisfactory performance in work or for reasons which may be sanctioned by immediate discharge. In case of self-employed, the duration of payments of unemployment benefits shall be reduced by one half if the operation or performance of self-employment or of collaborator activities was terminated without serious reasons.

The registered unemployed person is paid unemployment benefits over a period depending on the total duration of his/her payments of unemployment insurance contributions in the respective calendar year: up to 15 years for 6 months, and above 15 years for 9 months.

Unemployed not eligible for unemployment benefits may receive payments from the Social Assistance program. Social assistance makes payments to persons who have exhausted unemployment benefits and sometimes to the unemployed never eligible for unemployment benefits. Payments are made when the person or family with unemployment satisfies a means test.

2.3.10 Minimum resources/ social assistance

Social assistance (SA) cash benefits are paid to those deemed to have material distress. The Subsistence Minimum Act[37], and the subsequently adopted Social Assistance Act[38], specifies the application of two formerly defined levels of material distress, and thereby also the differentiation of social benefits. The differentiation criterion is based on whether or not the individual caused his/her unfavourable situation himself/herself because of subjective reasons. Individuals that are in material distress due to subjective reasons receive social assistance benefits to supplement their income in the given month to reach 50% of the subsistence minimum, as set forth by the

---

[36] Unemployment benefit base is the average monthly assessment base.

[37] The Act of NC SR No. 125/1998 Coll. on Subsistence Minimum, as amended.

[38] The Act of NC SR No. 195/1998 Coll. on Social Assistance, as amended.

Subsistence Minimum Act. [39] On the other hand, those who are in material distress due to objective reasons receive benefits to supplement their income in the given month to reach a fixed level, as set forth by the Act on Social Assistance. [40] The previous regulation of this Act, valid till 1 January 2001, specified two levels of social assistance benefits in material distress due objective reasons: at 100% and at 120% of the subsistence minimum, depending on the existence of an income from dependent activity. The latter level has been abolished and the 100% level was replaced by the fixed sum, as described above.

The newly approved amendment to the Act on social assistance, valid from 1 January 2003, has lowered the benefits as follows: Individuals in material distress from subjective reasons receive benefits to supplement their monthly income up to a fixed sum of SKK 1,450; those in distress from objective reasons receive benefits to supplement their income up to SKK 2,900. The respective benefit for a minor child is SKK 1,000 (SKK 1,600 for a dependent child). The maximum social assistance benefit for a family, whose income is considered jointly, is limited by a maximum sum of SKK 10,500.

Mainly social departments of district offices undertake administration of these benefits, make determinations about the income adequacy of families and individuals[41] who apply for benefits. Those deemed to have material distress are eligible for monthly cash payments. Material distress can arise among persons who are elderly, physically handicapped, socially maladjusted or unemployed.

The *social pension* is another non-obligatory pension benefit granted to citizens without subsistence, disabled or having reached 65 years of age.

2.4 Summary

The Slovak social protection system is considered as extensive. The scopes of social programs as well as their coverage are broad and generous, even for European standards. Like other safety nets, the role of the Slovak system is twofold. It provides income for those who are not employed and whose income falls below the ”poverty” level, and it aims to stimulate these individuals to find a job and obtain their own means of subsistence. The safety net has been effective in achieving the first goal. Poverty in Slovakia would be significantly higher if its social assistance/support and

---

[39] SKK 1,965 for an adult person at subsistence minimum SKK 3,930 (from 1 July 2002).

[40] SKK 3,490 for an adult person, SKK 5,930 for a childless couple, SKK 5,070 for a single adult with child, SKK 7,510 for a couple with one child, SKK 9,090 for a couple with two children, and SKK 1,580 for every additional child (from 1 July 2002). Source: Daily Pravda. 1 July 2002

[41] For the purpose of means testing is also considered income of other members of a household and the monetary limit is set according to a household composition.

unemployment insurance programs were to disappear. However, such a generous social safety net can also have negative effects. It can reduce incentives of workers and individuals to actively look for a job and pull themselves out of poverty. (World Bank, 2001)

A new approach to social protection is inevitable, especially for the reasons specified below:

- The current system does not respond to demographic, economic and social developments. It is costly, demotivating, and inequitable. Hence, there is a need for a diversified system of multi-source funding. The current system, and especially the pension system, will become insolvent in coming years and incapable of ensuring entitlements enshrined in law.
- The social system is dominated by passive measures. In general, policy responses are more focused on redistribution of sources rather than their generation.
- The current system is discriminatory, because for the same insurance premium different benefits and allowances are granted to different categories of citizens. There is no adequate relation between contributions and benefits, and taxation is mixed with obligatory insurance, which conceals the high tax burden in the Slovak Republic.

In light of the appointment of the new cabinet (October 2002), expected reforms in the social system are envisaged to address the shortcomings in a wide range of areas including state social support, social assistance, labour market policies, health care and pensions.

3. PENSIONS

3.1 Evaluation of current structures

3.1.1 Public-private mix

The pension system in Slovakia is characterised by a dominant public pillar, supplemented by a relatively new and underdeveloped private supplementary pillar. The obligatory public pension scheme operates as a pay-as-you-go (PAYG) system with defined statutory insurance premiums administered by the Social Insurance Agency (SIA). This pension scheme covers old age, invalidity and survivor risks. The Act on Social Insurance, as described in chapter 2, defines who is obliged to contribute to this system and under which conditions benefits can be awarded. Table 3.1 shows the development of numbers of pensioners and the ratio to those who contribute to the system, the economically active. There are approximately three contributors per one old age pension recipient in Slovakia.

Table 3.1 Public pension system dependency ratio

Indicator	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Total number of pensioners [1]	1 143 235	1 150 255	1 159 527	1 175 834	1 181 472	1 176 335
of which:						
old age [2]	749 044	760 303	762 854	788 845	795 515	789 665
disability [3]	279 456	280 993	284 216	287 409	289 987	292 367
Total number of contributors [4]	2509.1	2521.9	2544.8	2573.0	2608.2	2652.5
Dependency ratio [5]	45.6	45.6	45.6	45.7	45.3	44.4
Old age dependency ratio [6]	29.9	30.1	30.0	30.7	30.5	29.8

Note: 1. As of 31 December of respective year. 2. Includes old age and supplementary old age pensions. 3. Includes disability and partial disability pensions. 4. Economically active population (in thousands). 5. Ratio of total number of pensioners to total number of contributors. 6. Old age pensioners to total number of contributors.

Dependency ratio in the pension system is not officially monitored.

Source: Report on the Social Situation of the Population of the SR 2001. Ministry of Labour, Social Affairs and Family of the SR

Certain groups of professionals (army, police corps, etc.) do not participate in the public system administered by SIA; they are covered by special occupational pension schemes. Their employer (Ministry of Defence, Ministry of Interior) pays contributions to special funds associated with ministerial budget chapters.

The supplementary pension funds (SPF) have been operating in Slovakia since 1996.[42] Since the introduction of the supplementary pillar, the system has undergone several changes associated mainly with enlarging the scope of clients. Initially, the legislation enabled the participation of employees working for private enterprises. Effective from 1 January 2001, the amended law on supplementary pension insurance made it available to all economically active citizens, including employees of contributory and budgetary organisations[43] and self-employed persons. The number of contributors has therefore significantly increased in 2001. At the end of 2001, the four operating SPFs registered 281,088 insurees, representing 10.42 percent of the economically active population. SPFs' cumulative revenues for 1996-2001 have reached SKK 5.49 billion. The average monthly contribution in 2001 was SKK 834 (contribution of employer SKK 431, contribution of employee SKK 402).

SPF schemes cover old age, disability, survivor. Due to the short history of supplementary pension insurance, an evaluation of its role in comparison with the public pension system is not comprehensive. The importance of SPFs grew very recently over the last two years. Data show that average supplementary pension paid from the SPFs accounted for 29.11% of the average old age pension and 13.43% of average wage. In 2000, there were 1, 932 old age pensioners receiving supplementary pension, the respective number for 2001 was 2,978 pensioners. The average supplementary old age pension amounted SKK 1,084 monthly. Proportion of the most frequently paid benefits suggest that the majority of contributors prefer to receive one-off payments (see Table 3.2).

The collected contributions of the four SPFs have reached 7.7% of the total insurance premium collection for basic pension security by the SIA. The volume of paid benefits by SPFs was equal to 0.5% of SIA's expenditures on pensions.[44]

The entrepreneur, who decides to contribute to SPF scheme for his/her employees, is qualified to deduct as much as 3 percent of the total amount of paid wages. Insurees can deduct 10% of annual income from the tax base

---

42 The Act of NC SR No: 123/1996 Coll. on Supplementary pension funds, as amended.

43 Contributory and budgetary organisations are state (public) institutions, budgetary are those financed solely from the State Budget, e.g., primary schools, while contributory may have also other (supplementary) sources of income – for example the Slovak Academy of Sciences or the Slovak National Theatre.

44 Data for supplementary pension funds are cumulative for 1996-2001, data for SIA refer to 2001.

(maximum of SKK 24,000 per year). Paid benefits are subject to a favourable 10% taxation. Statistical figures show a growing interest in SPFs despite the still insufficient legal incentives. One of the incentives for entrepreneurs to join SPF could be the possibility to receive favourable loans from SPF.

Table 3.2 Supplementary pension funds

Indicator	Tatry – Sympatia			Stabilita			Pokoj			Lipa			TOTAL		
	increase in 2000	increase in 2001	since operating till Dec. 2001	increase in 2000	increase in 2001	since operating till Dec. 2001	increase in 2000	increase in 2001	since operating till Dec. 2001	increase in 2000	increase in 2001	since operating till Dec. 2001	increase in 2000	increase in 2001	since operating till Dec. 2001
Number of insurees	20 000	52 928	157 954	22 130	20 242	73 671	3 243	16 518	26 753	9 915	9 066	22 710	55 288	98 754	281 088
Number of employers contracts	390	976	2 230	224	657	1 050	65	739	897	177	380	707	856	2 752	4 884
Premiums collected from employers (SKK 1,000s)	377 609	557 717	1 527 411	174 187	265 558	624 865	50 377	98 363	195 296	48 785	90 595	140 866	650 958	1 012 233	2 488 438
Premiums collected from employees (SKK 1,000s)	354 393	471 308	1 348 746	162 017	228 997	514 477	35 776	130 390	201 361	46 834	108 439	175 552	599 020	939 134	2 240 136
Total premiums collected (SKK 1,000s)	732 002	1 257 641	3 400 227	336 204	569 822	1 317 104	86 153	250 394	437 902	95 619	214 745	338 012	1 249 978	2 292 602	5 493 246
Average contribution, total (SKK)	720		751	657		690	791		905	937		990	776		834
of employer	378		397	373		379	459		525	473		424	421		431
of employee	342		352	284		311	332		380	464		566	356		402
Number of paid pensions	3 258	6 745	14 266	1 315	1 662	3 938	201	248	593	49	500	551	4 823	9 155	19 348
of which:		933	2 637		72	288		45	50		3	3		1 053	2 978
supplem. old age pension	777			213			5			0			995		

Table 3.2 continued

Indicator	Tatry – Sympatia			Stabilita			Pokoj			Lipa			TOTAL		
	increase in 2000	increase in 2001	since operating till Dec. 2001	increase in 2000	increase in 2001	since operating till Dec. 2001	increase in 2000	increase in 2001	since operating till Dec. 2001	increase in 2000	increase in 2001	since operating till Dec. 2001	increase in 2000	increase in 2001	since operating till Dec. 2001
suppl. Invalidity pension	19	32	62	0	2	2	0	0	0	0	0	0	19	34	64
Superannuation		2 756	2 797		2	2		0	0		8	8		2 766	2 807
survivor's pension	0	45	101	20	18	26	2	5	7	0	1	1	23	69	135
one-off settlement	1 354	2 026	4 968	740	988	2 285	0	80	80	27	386	412	2 121	3 480	7 745
severance pay	1 095	953	3 701	341	445	1 335	194	118	456	22	102	127	1 652	1 618	5 619

Source: Social Policy in the Slovak Republic. Ministry of Labour, Social Affairs and Family of the SR, 200

Social situation of the elderly

Apart of mostly isolated academic studies, there is no systematic research undertaken on the social situation of the elderly in Slovakia. Statistical data on the income situation in old age can be derived from two major data sources, the Microcensus and the monthly household budget surveys (HBS). Both data sets contain detailed information about income in relation to social and demographic variables.[45]

The number of pensioners who work is constantly decreasing. The labour market deterioration, particularly growing unemployment and insufficient job creation, reduces job opportunities not only for elderly. In 1999, only 8.7% of old age pensioners worked, a significant drop compared to 27.7% in 1990. The recently adopted new Labour Code (effective since 1 April 2002) introduced stricter regulation on repetitive temporary work contracts. This amendment, adopted in compliance with EU directives, will affect many pensioners who have concurrently worked and received pensions.

Microcensus 1996 data show that the composition of income in old age is dominated by social transfers (pensions), followed by natural incomes and labour incomes (see Table 3.3). A more recent picture of the income structure in old age is not available due to insufficient data. The HBS confirm that pensions are the decisive source of income in economic inactivity due old age (see Table 3.4). In 2000, 79.9% of post-productive individuals received old age pensions.

Table 3.3: Income structure of households of pensioners (yearly per capita income in households headed by a pensioner)

Household headed by pensioner	**Income**						
	Social	Natural	Sale of agricultural products	Labour	From abroad	Other	Total
Single (monomial) household	95.9	2.0	0.1	1.3	0.3	0.4	100.0
Binomial household	94.7	3.6	0.2	0.8	0.1	0.6	100.0

Source: Data from Microcensus 1996. In: Bodnarova (2001)

[45] See also chapter 4.1.3 for a brief summary of strengths and weaknesses of the Microcensus and HBS. For a detailed discussion, see e.g. Papps et al. (2001).

Table 3.4: Structure of net money income and expenditure in households of non-working pensioners

Indicator	1996	1997	1998	1999	2000
Net money income	47 403	54 685	56 340	60 341	65 340
of which: social income (%)	94.0	88.8	93.2	93.1	93.9
of which: pensions (%)	93.7	88.3	92.7	92.7	93.4

Source: Statistical Office of the Slovak Republic.

Family structures play an important role in the social framework in Slovakia. Solidarity and assistance from the family, including informal transfers, help to overcome problems related to financial matters, housing and care. More than half of all Slovak households receive assistance from the family and relatives (UNDP, 2000). Such family support is of particular importance for households with economically inactive members. The 1994/95 labour force survey contained questions aimed at the subjective evaluation of a household's income position. The results show that an increasing number of households perceive their income to be insufficient to allow support of parents (57.2% in 1st quarter of 1994, while 63.5% of households in 4th quarter of 1995).

The transition from socialism to democracy and market-oriented economy has proved more difficult and costly than expected for the majority of the population. Pensioners can hardly be considered as winners of transition. Although the relative income situation may have not experienced dramatic changes (the pension-wage ratio fell from 49% in 1989 to 47% in 2000), the well-being of pensioners is marked also by psychological factors such as disillusion from lost securities, inability to adjust to the new social and economic reality, few chances to make use of the new freedoms, decreasing opportunities in the labour market, etc. Public opinion polls show that pensioners have highest shares of critical attitudes towards market economy, and at the same time highest numbers of those who think that life before 1989 was better than at present.

Capital market

The capital market is usually a reflection of the state of economy in a given country. In comparison with the neighbouring countries, Slovakia's capital market is relatively under-developed and small in terms of market capitalisation and number of traded titles. The Slovak capital market is

dominated by trading in treasury bonds, while trading in shares remains low (9.7% of total trading volumes in 2000). Market capitalisation of shares (market value of shares which were traded in price making trades) reached 6.6% of GDP in 2000. There are two organised markets, the Bratislava Stock Exchange (87% share) and the RM-System, which operates mainly with bonds issued by the National Property Fund (NPF) as a substitution for shares from the cancelled second wave of coupon privatisation.[46] Due to the low capacity of the capital market and the decreasing trade with the NPF bonds, repeated efforts were undertaken to merge the two competing markets. Positive changes should follow after the amended Act on bankruptcy and settlement[47] and the Act on collective investment[48] came into effect. The establishment of the Financial Market Authority replaced the Ministry of Finance as the supervisory body in the area of capital market and insurance industry. The authority is expected to perform also supervision over banks and non-banking entities. The capital market requires a stable macroeconomic environment, revision of the respective legislation, improvement of small shareholder protection, and a sound business environment.

Under-developed capital markets are one of the main impediments to a proper pension reform in transition economies. There is almost no tradition of long-term investment in Slovakia. This is evidenced by the operation of pension funds which began to emerge after 1996. As at the end of 2001, the four supplementary pension insurance companies registered 10.5 percent of the economically active population. As compared to 2000, however, this was an increase by more than 54 percent. Adoption of legislation on pension funds is inevitable for launching the second pillar of the pension reform.

The banking sector underwent dramatic changes in the past three years. The government decided about a massive restructuring plan which included stabilisation and privatisation of three major banking institutions (Slovenska Sporitelna, Vseobecna Uverova Banka, Investicna a Rozvojova Banka). The stabilisation included increase of the basic stock of the banks and transfer of problem loans amounting SKK 102 billion to the state-owned Consolidation Bank and Consolidation Agency. With a total of SKK 105 billion (in the form of bonds issued by the consolidation agencies), the sanitation of banks became the most demanding plan financed from public sources in the transition period. Subsequently, the three banks were privatised and majority shares sold to foreign investors in 2000-2001. The privatisation of other state-owned and/or partially owned financial institutions followed. The

---

46 More than 3.3 million inhabitants were registered for the second wave of coupon privatisation in 1994. The wave of mass privatisation was eventually cancelled in December 1995 by the V. Meciar cabinet and registered owners of coupon books received instead a non-trading bond amounting approximately SKK 10,000.

47 The Act of NC SR No. 328/1991 Coll. on bankruptcy and settlement, as amended.

48 The Act of NC SR No. 395/1999 Coll. on collective investment, as amended.

banking sector experienced also the collapse of several commercial banks due to non-transparent ownership and shareholder behaviour.

As of March 2002, 21 banks were operating in the Slovak Republic, including the Central Bank (National Bank of Slovakia). Only four banks had no foreign capital participation. The total volume of credits granted by commercial banks decreased at the turn of 2000/2001 and recorded a moderate growth until another drop in March 2002 (a positive sign is the increase of credits granted to private persons/households). The volume of deposits grew steadily during 2001 and reached almost 60 percent of GDP.

The insurance market is dominated by foreign capital participation.

3.1.2 Benefits

A person is entitled to an *old age pension* after a minimum of 25 years work and attaining a minimum age (men 60 years, women 53-57 years of age depending on the number of raised children). The period of employment includes also school years, compulsory military service, maternity leave, etc. For the purpose of computing the pension amount, complicated formulas are being used, which basically take into account three criteria: duration of employment, occupational category (miners, etc.) and average income[49]. Average income is calculated as an average monthly income earned in the ”best” five years during the last ten years prior to claiming an old age pension.[50]

The average monthly income is adjusted in the following way: SKK 2,500 is accounted completely, amount between SKK 2,501 and SKK 6,000 is accounted as one third; amount between SKK 6,001 and SKK 10,000 one tenth. The amount above SKK 10,000 is not taken into calculation. *For instance, adjusted average monthly income of a person earning during five years SKK 10,000 monthly on average would be 2,500 + 1,167 + 400 = SKK 4,067, which is also the maximum sum.* Old age pension is then accounted as a 50% – 60% share of adjusted monthly average income, where 60% and 55% are awarded to 1st and 2nd occupational categories (miners) and 50 percent to the 3rd category, i.e. regular jobs. *Old age pension in the above given example would be SKK 2,034*. In order to balance newly awarded pensions and several-times indexed pensions, the newly awarded pensions are multiplied by 103.5% and added a fixed amount of SKK 1,240.[51] The same law that specifies pension indexation defines this percentage and fixed amount. *The final amount of old age pension in the*

---

[49] The Act of NC SR No: 100/1988 Coll. on Social Security, as amended.

[50] The new Act on social insurance will introduce several changes, including the formula for calculating old age pensions. The amended formula will comprise the average income from the ”best” five years of the entire employment period. See also chapter 3.3.1.

[51] The Act of NC SR No: 385/2001 Coll. as amended.

example would be 2,034 + 2,106 + 1,240 = SKK 5,380. Awarded pensions are indexed when certain conditions are met.[52]

The pension amount can be increased, if a person at the time of reaching retirement age has worked for more than 25 years (or 20 years under conditions defined by law). Every additional year of employment adds 1% to the pension amount (2% or 1.5% in 1st and 2nd category jobs). If a person, after reaching retirement age, decides to work longer without obtaining an old age pension, every additional 90 days of employment would add 1.5% increase to the pension amount.

The public pension scheme includes also:

- proportional old age pension
- disability pension
- partial disability pension
- widow pension
- widower pension
- orphan pension
- spousal pension
- social pension
- benefits for resistance fighters, rehabilitation.

The *proportional old age pension* is granted to a citizen who has reached higher age than specified for an old age pension, but his/her employment duration is shorter. A person who has been employed for at least 10 years and has reached age 65 is entitled to receive a proportional old age pension; women are in addition eligible at age 60 and a minimum of 20 worked.

A *widow pension* is granted to a wife – widow after the death of her husband. The widow is eligible for a the benefit if her husband was awarded or would be eligible to old age pension or disability pension or pension for extended employment. Pension is paid for a period of one year and may be extended when the widow is:

- disabled,

---

[52] If the cost-of-living index, measured by the Statistical Office from monthly household budget surveys based on the COICOP methodology used in the EU, increases by more than 10 percent, or, the average wage in the economy grows by more than 5 percent, not earlier than three months after the date of the last pension increase, the government is obliged to submit the Act on valorisation to the parliament. Legislation does not specify a fixed percentage of increase and no deadlines for valorisation. The pension increase has to be approved by the government and parliament. However, the financial situation of the Social Insurance Agency is usually not taken into account and therefore transfers from the state budget are necessary.

- taking care of dependent child,
- raised at least three children,
- reached the age of 45 and raised two children,
- reached the age of 50.

The eligibility for other allowances falling under the public pension scheme is described in chapter 2.3.

Table 3.5: Review of pensions paid by SIA from Basic Pension Fund

Type of pension	**1999**	**2000**	**2001**
Old age	771 323	778 030	772 341
Proportional old age	17 522	17 485	17 324
Disability	225 018	224 751	223 661
Partial disability	62 391	65 236	68 706
Widow's	298 244	299 714	300 235
Widower's	3 113	3 135	3 157
Orphan's	33 674	32 963	33 811
Other	5 707	6 205	-

Note: Number of other pensions paid in 2001 is not available.

Source: Social Insurance Agency, Annual Reports 2000, 2001

As already mentioned, legislation specifies retirement age for the purpose of benefit eligibility at the age of 60 for men[53] and 53-57 for women, according to the number of raised children. Social Insurance Agency data shows that in 2000, the average age of a pensioner, who has been newly awarded and old age pension, was 56.6 years (59.9 for men and 54.8 for women). The earlier average retirement age of men compared to the legal retirement age is caused by the current economic situation, where the government decided to allow earlier retirement (2 years earlier) in cases where the person would otherwise become unemployed.

Due to natural exclusion from the labour market, the elderly population is usually facing higher risk of poverty than the working-age population. The role of the pension system is to adequately provide for the living subsistence

[53] This applies to 3rd occupational category – regular employees.

of the post-productive population. Article 39 of the Constitution of the Slovak Republic states that ”Citizens shall be entitled to adequate material provision in their old age, as well as in cases of disability, and death of the family’s principal provider”.

The World Bank (2000) analysis (see chapter 4.1.2) concluded that poverty rates in Slovakia would be much higher if households were not helped by social transfers. The most striking finding concerns the role of pensions. The overall incidence of poverty in the absence of pensions would jump from 10.1 to 38.3 percent. Not surprisingly, poverty among pensioners would be very high (nearly 80 percent).

The amount of the average monthly old-age pension shows relatively small difference to the implicit poverty line – the subsistence minimum. This fact implies that even though pensions play an important role in preventing absolute poverty among the elderly, a considerable part of the old age pensioners lives fairly close, i.e. just above the poverty line.[54] Women tend to be more prone to the old-age poverty risk due to lower pensions; average female pension being 82 percent of the average male pension. The development of pensions, wages, and subsistence minimum is shown in Tables 3.6 and 3.7.

Table 3.6: Development of average wage, old age pension, subsistence minimum

Year	Old age pension (SKK)	Monthly gross wage (SKK)	Subsistence minimum SM (SKK)	Ratio of pension to wage (%)	Ratio of pension to SM (%)
1998	4 490	10 003	3 000	44.9	149.7
1999	4 878	10 728	3 230	45.5	151.0
2000	5 382	11 430	3 490	47.1	154.2
2001	5 782	12 365	3 790	46.8	152.6
2002[1]	6 071	13 052	3 930	46.5	154.5

Note: 1. Estimate.

Source: Social Insurance Agency, Ministry of Labour, Social Affairs and Family of the SR, author’s calculation.

[54] The proportion of poverty-threatened elderly would even rise if alternative poverty lines were taken into consideration (e.g., 50% median income).

Table 3.7: Trends in the real value of old age pensions and wages

Year	**Real value of old- age pension**	**Growth index of pension value**		**Average nominal wage**	**Wage growth index**	
		Nominal	Real		Nominal	Real
	SKK	%	%	SKK	%	%
1989	1 432	100	100	3 142	100.0	100.0
1991	1 884	131.6	84.5	3 770	120.0	69.6
1993	2 367	165.3	66.5	5 379	171.2	72.8
1995	3 102	216.6	73.0	7 195	229.0	78.2
1996	3 479	242.9	78.2	8 154	259.6	83.8
1997	3 846	268.6	81.0	9 226	298.6	89.2
1998	4 181	292.0	83.4	10 003	321.8	91.8
1999	4 550	317.7	78.3	10 728	341.4	88.2
2000	5 037	351.7	78.6	11 430	363.8	84.2

Source: Social Policy. Ministry of Labour, Social Affairs and Family of the SR, 2001.

The Act on valorisation of pensions (act No. 46/1991 Coll.) specifies the increase of pensions in case of growing living costs and wage growth. In August 2000 pensions were indexed 5 percent, in autumn 2001 by 7 percent. In 2002 the parliament approved a pension increase prior to fulfilling the legal conditions; the reason for this decision was the termination of the parliamentary sessions because of the upcoming September parliamentary elections. The pension was indexed by 5 percent from July 2002. SIA's data show that a one-percent increase of pensions accounts for SKK 60 million increase of monthly expenditures.

Valorisation of pensions is frequently used as a powerful tool in the political struggle for an important cohort of voters. This became apparent when recurrent populist bidding about pension indexation was taking place in the parliament, criticised by economists as irresponsible. The Act on social insurance, approved by the Slovak Parliament on 29 May 2002, should increase the economy and transparency of valorisation. According to

the new law, pensions will be valorised automatically on an annual basis (falling on July). The increment will be derived from the inflation rate and/or the index of wage growth of the preceding year; the lower growth index of the two parameters shall be considered. The Act is perceived as the first step towards the long expected general reform of the pension system (see also chapter 3.3.1).

3.1.3 Financing of the pension system

Financial sustainability of the pension system is determined by the developments on the revenue and expenditure side. The pension system in Slovakia is facing a gradually deepening financial imbalance.[55] The level of collected insurance premium is perceived as high by the contributors, however, even the high payroll tax burden is not sufficient to fill the fund for old age pensions and related benefits. Moreover, pensions are relatively low and their real value compared to the average wage is decreasing.

The basic pension system is financed through the PAYG scheme and administered by the Social Insurance Agency (SIA) in the form of the Basic Pension Fund. Sources of financing are generated by collected insurance premium (payroll taxes) from employees, employers, self-employed and their co-workers. Employees and employers contribute jointly 28 percent of the gross nominal wage (6.4% and 21.6%, respectively). Self-employed persons pay the same percentage (28%) from the half of their tax base. Economically inactive persons are covered by contributions of the State (university students, soldiers in compulsory military service, women/men on maternity leave, persons taking care of handicapped, etc.) and the National Labour Office (unemployed); contributions on behalf of inactive and unemployed are set annually by the State Budget Act. The flat rate of contributions by the State remains at a significantly lower level than that of the economically active.

Due to growing numbers of unemployed, NLO is primarily administering payments of unemployment insurance benefits. This passive measure includes also social security contributions made by the NLO on behalf of the registered unemployed.[56] On average, NLO spending for social insurance contributions represents nearly 40 percent of spending for unemployment insurance benefits. (Social sector expenditure review, 2002)

Other sources of income include due premiums and sanctions. SIA's funds are also supplemented with interests on current accounts and time

---

[55] This part refers mainly to the public pension pillar. Financing of private supplementary pension funds is briefly outlined in chapter 3.1.1.

[56] Eligibility for receipt of unemployment benefits including social contributions lasts usually for six months (in case the unemployed was contributing to the employment fund for less than 15 years) and/or nine months (in case the unemployed was contributing to the employment fund for more than 15 years).

deposit accounts registered within other income and resources accumulated in previous years (mostly from Sickness Fund). One-off sources of income, intended to alleviate the transition to a combined funded/unfunded pension system shall include revenues from privatisation of utilities (Slovak Gas Company).

In 2000, SIA administered SKK 77.6 billion, out of which SKK 64.9 billion were allocated in the Basic Pension Fund. The proportion of pension fund revenues was following: 84.7% collected from employers, employees and self-employed; state contributed with 1.1% and National Labour Office with 1.6%. The remaining 12.6% came from successful receivables recovery (due premiums and sanctions). The respective structure in 2001 was 87.2% from employers, employees and self-employed, 5.1% from State Budget (including one-off settlement of due premiums for health care facilities), 1.1% from NLO.

SIA paid 1 427 519 pensions in 2000, which is a slight increase compared to the previous year (by 10 527 pensions). Old age pensions and proportional old age pensions made up 55.7% of the total number of paid pensions, disability and partial disability accounted for 20.3% and the remaining 23.5% were survivors pensions.

Spending on age and invalidity (permanent disability) benefits combined accounts for about 84-85 percent of total expenditures in each year. Spending on age benefits increased relative to total spending in recent years while other long-term benefits have experienced slower growth.

In financial means, SIA paid SKK 68 313.7 million in 2000 from the pension fund, out of which old age and proportional old age pensions accounted for 66.5%, disability and partial disability 20.8% and pensions paid out to survivors made 12.7% of all paid pensions. In 2001, the proportion remained similar with 66.4% on old age, 21% on disability, and 12.6% on survivors; the total amount of benefits reached 73 378.6 million.

Table 3.8: Pension expenditures as a share of GDP (%)

Year	Pension expenditures on GDP (%)
1989	6.7
1993	8.9
1995	8.3
1996	8.2
1997	8.0
1998	8.2
1999	8.1
2000	7.9

Source: Social Policy. Ministry of Labour, Social Affairs and Family of the SR, 2001.

The collected premium is insufficient to cover current expenditures of SIA (see Table 3.9). The Pension Fund is struggling with a long-term deficit; the fund required repeated short-run budgetary infusions.[57] In order to balance the fund, SIA's Administrative Board has attempted to transfer funds from the Sickness Fund.[58] This is viewed as a non-systemic step.

The growing deficit of the pension system is caused by several interrelating factors, including:

- insufficient collection of insurance premium;
- high tax and especially payroll burden for employees and employers;
- high unemployment rate;
- demographic trends, mainly ageing of the population.

Similarly as in the health sector, the State is paying premiums for certain groups of population. The amount is set every year by the State Budget Act. The payments by the state decreased dramatically in 1995-1997 (see Table 3.9); the decrease being a consequence of lowering the percentage of assessment base for the contributions. Payments for economically inactive remain at a very low level compared to payments made by economically

[57] According to Act on Social Insurance, the State guarantees solvency of the Social Insurance Agency.

[58] In 2001, the transfer from the Sickness Insurance Fund to the Pension Insurance Fund made up SKK 3.5 billion.

active. In 2001, they were set at 28% of 100 percent assessment base of SKK 2 400. For comparison, the average gross wage in the economy equalled SKK 12 365, which results in state contributions per inactive individual being fivefold lower than those paid by economically active individuals/employers in 2001. The NLO budget for social security contributions is prepared ad hoc for each year and thus may not meet the actual requirements.

The following tables provide a picture of the changing structure of revenues of the pension fund (Table 3.9) and show that the steep increase of expenditures resulted in a deficit as early as 1999 (Table 3.10).

Table 3.9: Structure of revenues of the Pension security fund (in SKK million)

Indicator	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Revenues								
Premium collected	29 972.8	39 447.8	46 906.2	50 255.0	54 388.5	54 416.0	56 453.6	62 807.3
Transfer from state budget	5268.0	4730.7	3329.9	539.1	980.1	962.2	733.6	3681.7
Transfer from NLO	0	424.2	696.1	708.8	930.1	1167.5	1056.5	801.7

Note: Revenues serve for the creation of the Administrative fund in the amount of maximum 3.5 percent.

Source: Ministry of Finance of the SR; Social Insurance Agency, Annual Report, 2000, 2001

Compliance of premium collection has been declining as state-owned enterprises accumulated arrears and the private sector has natural incentives to avoid all taxes. Total receivables within the Agency's fundamental funds reached SKK 46.81 billion towards the end of December 2000; the pension security fund representing SKK 40.06 billion out of the stated amount. Significant increments in receivables were observed in 1997, 1998 and 1999 (see Table 3.11). The increase was caused mainly due to overall adverse economic situation of premium payers, their insolvency and lack of discipline, which resulted in failure of premium obligations.

Table 3.10: Revenues and expenditures of the Pension security fund (in SKK million)

Indicator	1997	1998	1999	2000	2001
Revenues reduced by transfers to the Administrative and Reserve Funds	50 104.6	55 360	55 728.2	64 609.2	69 501.3
Transfers from previous years	6 651.4	5 760	4 237.0	263.6	768.6
Pension fund – total	56 756.0	61 120	59 965.2	64 872.8	70 269.9
Expenditures [1]	51 000.4	56 883.5	61 869.7	68 313.7	73 378.6
Balance	+5 755.6	+4 236.5	-1 904.5	-3 440.9	-3 108.7

Note: 1. Expenses excluding increased pensions due to sole source of income, participation in resistance and rehabilitation.

Table 3.11: Amount of the Social Insurance Agency receivables

Year	Total receivables (in SKK billion)	Proportion of levied sanctions to subscribed receivables (in %)
1995	2.70	-
1996	9.86	33.02
1997	20.76	50.40
1998	31.83	56.23
1999	43.44	58.14
2000	46.81	64.31

Source: Social Insurance Agency, 2001

Receivables on the basis of sanctions showed the most dynamic increase. The proportion of penalties and other sanctions to due premiums in December 2000 was 64.31%. In 1999, this proportion was 58.14%, while in 1996 only 33.02%. The Slovak Railways, health care facilities, former state-

owned machinery enterprises and agricultural enterprises were among those with the highest debts.[59]

Slovak enterprises face relatively high taxation, combined with a very high burden of social security contributions (equalling to 50.8 percent of the wage).[60] The high contributions increase labour costs and create a wedge between labour costs and wages. The situation is particularly burdensome for employers (contributing with 38 percent), who bear also the administrative costs. High social security burden indirectly supports activities in the informal economy and impacts on the level of tax and payroll collection. Eventually, extensive labour costs discourage employers from job creation and contribute to growing unemployment.

Although the number of economically active was on the rise during the previous years, it was the unemployed, which recorded a dramatic increase due to the shortage of job creation. With the decreasing stock of employed individuals, the ratio is also on the decline between those who actively contribute to the pension fund and those who receive benefits. The demographic trends, most importantly the ageing of the population, just underline the fragile financial future of the current public pension system.

Expenditures on social protection have also increased as a consequence of indexed benefits. This is not to say that pension benefits are high; on contrary, their real value is relatively low compared to neighbouring countries and to the pre-transition period. Nevertheless, the indexation of pensions under the difficult financial condition of the pension fund added to the financing problems of the entire social protection system.

3.1.4 Incentives

The pension system should be designed to secure a decent standard of living in old age, while it should correspond with the invested value by the beneficiary during his/her productive age. Basically it means that the system should motivate the productive individual to occupational activity.

The public pension pillar in Slovakia is based on principles of extensive solidarity and redistribution. The individual merit is subordinated to these principles; the connection between the contribution into the system (insurance premium) and the benefit (pension) is reduced to a minimum. The system is particularly demotivating for higher income groups, which are not adequately rewarded for the invested security payments. Contributions into the fund are deemed high to be a stimulus for employees and mainly

---

59 Source: Social Insurance Company.

60 Social security contributions in Slovakia are high by international standards; OECD and ILO comparisons show Slovakia on top of the payroll burden rankings (World Bank, 2001)

employers to act actively in the formal labour market, at the same time, benefits are deemed low to provide for a moderate subsistence in old age.

The basic incentive set by the pension system is to work a minimum of 25 years to become eligible for an old age pension. One of the few pro-active incentives set by the system is the temporary character of NLO's payment of contributions to the pension fund on behalf of registered unemployed. After termination of eligibility for unemployment benefits (usually 6 or 9 months), the unemployed becomes responsible for his/her contributions to the pension fund.[61] However, the development of unemployment rates suggests that lacking motivation to active job search due to the generous social system is only one of the multiple causes of labour market deterioration.

The critics of the current pension system point to the missing links between the insurance premium, duration of contributing to the fund, and the pension amount. The legislation specifies maximum levels of pensions and the calculation of pensions ignores monthly incomes above SKK 10 000. Thus, pre-retirement employed with salaries over the specified amount experience lower replacement rates. For every year worked beyond the extent defined by law (25 years), the pensioner is entitled for a 1% increase of the old age pension. If a person after reaching retirement age decides to continue working without obtaining an old age pension, every additional 90 days of employment would add 1.5% increase to pension amount. However, the increase is limited by the maximum level of pension (currently at SKK 6 389)[62].

A major disincentive of the pension system is the high level of contributions to the pension fund; particularly, the amount paid by the employer is of concern (21.6% of gross wage). The payroll burden increases labour costs to a level, which not only drains corporate finances but also negatively impacts on employers' motivation to contract new labour and reduces discipline of payments into the fund.

Women receive on average lower pensions than men do. This is a consequence of lower economic activity rates and lower average salaries of women during productive age. The earlier retirement age (53-57 years) and higher life expectancy (77 years) imply that women receive old age pensions over a significantly longer period than men do (average male life expectancy 69 years, retirement age 60 years). Thus, the share of men on collected premium is higher than that of women, while women are dominant in the group of old age pension recipients. The real value of the old age benefit is one of the incentives for a part of the pensioners to remain in the working process after retirement. As Table 3.12 shows, the number of working

---

61 The contributions to the pension fund by unemployed are voluntary, however, periods not covered with pension security payments are not included in the sum of years in the calculation of pension.

62 The maximum sum for occupational categories of miners is set at max SKK 8 282.

pensioners is decreasing, which is caused mainly by overall unemployment growth and changes in labour legislation.

In general, the Slovak public pension system contains many disincentives, which clearly prevail over the few built-in positive features. The extensive solidarity within the public pillar creates pressure on its sustainability. The system is insufficiently motivating for productive individuals as it makes little difference between those who work for minimum wage and those who invest in qualification and professional career. The replacement rate of pensions to wages is relatively low; furthermore, the demographic ageing and its impact on the old age dependency ratio will increase the deficit in the pension fund. There is no space for adjusting the pensions through increases in collected premiums as these are already exceeding the capacity of the entrepreneurial sector. The elderly are thus dependent on additional income and family assistance.

The private supplementary pension system includes certain tax incentives, which lie in the preferential taxation of benefits and the possibility to deduct a certain amount from the tax base.

Table 3.12: Working persons receiving pensions (1 000s persons)

Indicator	**1984**	**1987**	**1990**	**1992**	**1994**	**1996**	**1998**	**1999**	**2000**
Employees receiving pensions, total	237	256	238	93	91	76	-	77	65
of which: recipients of old age and proportional old age pensions	172	188	172	56	50	42	71	69	57
Ratio of pensioners still at work in the total number of recipients (in %):									
- all categories of pensions	24.8	25.5	22.9	8.1	7.8	6.5	6.0	5.4	5.4
- old age pensions	33.3	32.7	27.7	13.1	12.6	10.4	9.2	8.7	8.1

Note: Total data for 1998 not available.

Source: Social Policy, Ministry of Labour, Social Affairs and Family of the SR, 2001.

3.1.5 Coverage of the system

Participation in the public pension security system[63] is mandatory for:

- employees participating in sickness insurance (persons in employment relationship or similar working relationship, limited partners and associates of co-operatives)
- professional soldiers which are not claimants of superannuation and invalidity superannuation
- policemen, servicemen, secret police men
- self-employed, whose annual income is above SKK 100 000

is voluntary for:

- co-workers of self-employed who are participating in pension security
- persons gainfully employed abroad
- persons which participated at least one year in pension security and continue voluntarily

The Slovak pension system is based on statutory insurance for certain groups of population (see above). There is no possibility for them to opt out of the existing public pillar.

Economically inactive persons are included in the pension system under assistance of the State and the NLO. Registered unemployed are covered by NLO contributions for the period of receiving unemployment benefits. They can also participate voluntarily after the termination of NLO assistance. The group of voluntary contributors includes also housewives and self-employed with income below SKK 100 000.[64]

The main gender-related difference of the current system is the earlier retirement age of females. Males retire at age 60, women at age 53-57 depending on the number of raised children. This difference is subject to consideration whether the system is equitable for both genders. The main issue in the discussion is whether earlier retirement age of women is morally and economically reasonable. Women on maternity leave receive financial assistance, state covers social security on their behalf, and it is both parents who bring up children. In connection with higher longevity, earlier retirement age causes women to prevail in the number of pensioners and

---

63 Regulated by Act of NC SR No. 100/1988 Coll. on social security, as amended.

64 Possible problems may arise as a result of the general unawareness of certain legislative changes in pension security. An example may be the termination of state contributions to the pension security fund for unemployed receiving social assistance benefits due to subjective reasons (effective from 1 January 2001).

awarded old age pensions. As at 31 December 2000, women received 69.9% of all pensions; the female share on old age pensions (including proportional) was 64.4%. The average female old age pension made up 82.6% of the average male pension. The reason for lower female pensions is the gender wage gap and lower activity rate during employment. Feminisation of old age is thus accompanied by another phenomenon, feminisation of poverty.

3.1.6 Public acceptance of the system

There is general understanding that the current pension system with the single PAYG scheme is unsustainable in an environment as illustrated in the previous chapters. This perception is almost uniform when it comes to economic background, political affiliation, advocacy or criticism of the PAYG system by different layers of society. It should be stressed that there is virtually no information about the extent of public knowledge of the pension system. Thus, it is difficult to assess public acceptance of the system and/or awareness of its pros and cons. The need of a pension reform is not receiving as much public attention as is health care and education. A rare representative surveys of the MVK agency contained the category ”pensions and care for elderly” among society’s most acute problems; this issue was assigned by respondents the sixth rank among pressing problems to be solved (1. unemployment, 2. growing inequality between rich and poor, 3. high living costs, 4. crime and personal safety, 5. health care, 6. pensions and care for elderly, 7. bribery and clientelism, 8. education and school system, 9. housing). One of the reasons for the supposed low awareness is perhaps the complicated and unclear structure of the pension system.

The Union of Pensioners in Slovakia, a voluntary non-governmental organisation, which associates and represents pensioners, is focused on protection of rights of old age pensioners. The Union monitors and analyses the development of indicators decisive for valorisation of pensions.

3.2 Evaluation of future challenges

3.2.1 Main challenges

The pension system in Slovakia is on the threshold of a substantial reform. The single-pillar PAYG system proves to be unsustainable with a growing deficit in the pension fund. There exists a broad consensus about the need to initiate reform steps, which would gradually adjust the pension system to the changing economic, demographic and social environment.

Economic environment

The main challenge lies in the introduction of a private component in the pension system. Regardless of the selected public-private mix of the future

pension system, the creation of a capitalisation (funded) pillar will impose certain tasks, most importantly tasks related to the transition of a single public system into a mixed system. The transition costs will include sources needed for launching of the private component (completion of legislation, setting up of personal accounts, regulatory and supervisory framework for the new pillar, partial transfer of contributions – previously directed to the public pension fund – to private funds, etc.) but also sources for maintaining the public PAYG pillar (provisions to current pensioners, valorisation of pensions, etc.). The transition costs should be, nevertheless, lower than the costs of maintaining the current system.

The financial sustainability of the pension system is an important precondition for the overall stability of public finances in Slovakia. The pension system will face the challenge of improving the collection of pension security contributions. Authors of the pension reform will have to consider both a carefully designed reduction of social security contributions (including a reassessment of the employee-employer mix) and tighten the conditions of premium collection. At the same time, an assessment should take place of the institutional role and capacity of existing actors (State, SIA, NLO) and potential new actors (e.g., private funds, supervision). The mechanisms of the pension system will have to cope with factors of the external economic environment such as economic cycles, inflation, instability of financial and capital markets.

A unique challenge for the pension system will arise from Slovakia's integration into the European Union. Namely, to ensure effective mobility of persons, tax and benefits systems will need to be compatible and co-ordinated to facilitate the portability of pension schemes.

Demographic development

With respect to demographic trends, particularly ageing of the population, the major challenge for the pension system will be how to cope with the decreasing ratio of contributors and recipients of benefits. This is mainly a concern for the PAYG pillar and the transition period. Therefore, "resistance" of the pension system to growing dependency ratios will be a matter of creating a suitable public-private mix, but also conditions for a pro-labour oriented business environment and legislation. The equalisation of retirement age for men and women should mitigate the financial imbalance and ultimately support the equitable nature of the system.

Social environment

A key element of the pension reform is the strengthening of personal involvement, responsibility, and also merit. The main challenge faced here is a balanced system that provides for both stimulation of individual involvement and the maintaining of an appropriate level of solidarity and

assistance. It is again a question of proper mix of the funded and unfunded pillars. Also, a reassessment of the legitimacy of claims for public support by different groups of the society will help to answer this question. The challenge for the authors of the reform will be to raise public demand for the reform, i.e. to achieve its political ”clearance”. Reforms involving such substantial changes need public acceptance, which can only be achieved through intensive and focused public education.

3.2.2 Financial sustainability

The need of a multi-pillar pension system, i.e. the change of the exclusive public PAYG scheme to a combined public-private scheme stems mainly from the financial crisis of the current model. Since 1997, the increments in expenditures are markedly exceeding the increments in revenues. In the past three years the pension fund struggled with a growing deficit. The one-off special purpose payments by the state to pay off debts for evading state establishments could not hide the financial crisis and unsustainability. According to MOLSAF projections, under preservation of current parameters of the pension system the deficit would cumulatively grow to astounding SKK 1 289 billion in 2040 (see Table 3.13).

Table 3.13: Projected deficit of the PAYG pillar under different scenarios (SKK billion)

Scenario	2005	2010	2015	2020	2025	2030	2035	2040	Total
A	45	75	130	171	196	205	226	241	1 289
B	38	54	106	139	159	167	187	200	1 050
C	26	-	-	-	73	96	107	123	425
D	40	43	47	81	104	109	113	122	659

Note: Deficits presented in the table refer to the first pillar only and do not account for the assets generated by the second pillar. The socio-economic and demographic developments used in this model are considered as pessimistic.

Scenarios

1. No change of the current social security system.
2. Act on social insurance will come into force on 1 July 2002, without change of retirement age.
3. Retirement age will be adjusted during 2003-2014 to 63 years for males and 60 years for females.
4. In addition, the double-pillar system of compulsory pension insurance will come into force on 1 July 2003, with the following reallocation of contributions between the 1st and the 2nd pillars:

- 24.5% : 3.0% in 2003,
- linear continuation to 22.5% : 5.0% till 2015,
- linear continuation to 18.5% : 9.0% till 2025,
- maintaining of this ratio in the following period.

Source: *Concept of Social Insurance Reform.* Ministry of Labour, Social Affairs and Family of the SR (2000)

The deficit increase in scenario D as compared to scenario C is caused by the reallocation of contributions in favour of the 2nd pillar. On the other hand, the introduction of the capitalisation pillar should bring considerable assets (see Table 3.14 for the same model).

Table 3.14: Cumulative assets generated by the capitalisation pillar (SKK billion)

Year	2005	2010	2015	2020	2025	2030	2035	2040
Assets	18	62	148	290	492	759	1 099	1 510

Source: *Concept of Social Insurance Reform.* Ministry of Labour, Social Affairs and Family of the SR (2000)

The unsustainability of the current scheme is evidenced also by Table 3.15, which shows the estimated replacement ratio between average pension and wage under which the PAYG system would report a positive balance.

Table 3.15: Development of replacement ratio needed to sustain the current pension system (in %)

Year	2000	2010	2020	2030	2040
Pessimistic scenario	37.6	33.1	26.6	22.1	18.0
Optimistic scenario	39.2	34.4	27.7	23.3	19.1

Note: The pessimistic/optimistic scenarios refer to the overall socio-economic and demographic development.

Source: *Concept of Social Insurance Reform.* Ministry of Labour, Social Affairs and Family of the SR (2000)

The MOLSAF has initiated the elaboration of a study entitled *Financing of the pension system in the time period 1996 – 2015 with and outlook till 2040.* The study makes use of a model, which can be inserted in different legislative frameworks in terms of reform of the social insurance system. The model is set in a basic socio-economic and demographic environment and operates basically in two modes – optimistic and pessimistic. The study contains a fair amount of information, calculations, and projections; however, it examines the second pillar and its financial links with the PAYG pillar only marginally.

The financial stability of the pension system is given by its ability to sustain operational and balanced in a changing external environment. In a combined public-private system this requirement applies to each of the pillars. A mix of personal motivation and participation on one side and social solidarity and legitimate guarantee on the other implies that both compulsory pillars become financially sustainable in the long run. Table 3.16 shows a brief assessment of main factors influencing the overall financial situation and stability of the 1st and 2nd pension pillars – the compulsory public PAYG (unfunded) pillar and the compulsory private capitalisation (funded) pillar.

Table 3.16: Determinants of financial sustainability of the compulsory pension system

Factors	**PAYG pillar**	**Capitalisation pillar**
Demographic		
Old age dependency ratio	xx	
Equalisation of retirement age	xx	x
Socio-economic		
Unemployment	xx	x
Macroeconomic situation	xx	xx
Tax and payroll burden	xx	x
Compliance of premium collection	xx	xx
Administration of funds	xx	xx
Stability of financial and capital markets	x	xx
Valorisation of pensions	xx	
Capitalisation of assets	x	xx
Other		
Launching of the pension reform	xx	x
Selected public-private mix	xx	xx

Table 3.16 continued

Factors	**PAYG pillar**	**Capitalisation pillar**
Transition costs	xx	xx
State involvement	xx	xx
EU accession	x	x
Public acceptance	x	xx
Reform of other social policies	xx	x

Note: xx – decisive factor.

Source: Author's estimation. Inspired by MESA10 (2001).

As indicated in chapter 3.2.1, the financial sustainability of the *first pillar* is contingent mainly on the decreasing ratio between those who contribute to the system and those who benefit from it. This is caused
on the *revenue side* by:

- socio-economic factors (growing unemployment, insufficient generation of sources by enterprises, high payroll burden, low compliance of premium collection, lower contributions by the state for economically inactive),
- demographic factors (increasing dependency ratio, low retirement age of women),

and on the expenditure side by:

- socio-economic factors (wage growth, inflation, guaranteed valorisation of pensions),
- demographic factors (ageing of the population).

With respect to the above factors it can be stated that a balance in the first pillar could be achieved only if the scheme would include

- increase in retirement age for all,
- decreased pension/wage replacement ratio, lower valorisation,
- increased level of pension security contributions.

Since these measures are not realistic and/or acceptable, and neither would they guarantee financial sustainability, the only possibility for long-term balance is the split of the PAYG system and the introduction of the second (funded) pillar.

The estimated demographic development in Slovakia indicates a further ageing of the population, which will become reflected in the decreasing ratio of productive to post-productive population, and more specifically a decreasing ratio of economically active contributors and inactive beneficiaries (see Table 3.17). While 169 economically active individuals financed 100 pension benefits in 1998, in 2040 there will be only 77 economically active persons per 100 pensions.

Table 3.17: Financial ratio (average monthly number of economically active contributors/average monthly number of pension recipients)

Year	**1998**	**2000**	**2010**	**2020**	**2030**	**2040**
Pessimistic scenario	169	138	125	100	86	71
Optimistic scenario	169	140	130	105	90	77

Source: Financing of the Pension System in the Time Period 1996 – 2015 with and Outlook till 2040. Ministry of Labour, Social Affairs and Family of the SR (2000)

Labour market trends show that there is no ground for substantial reductions in unemployment rates in the short-run; i.e., continuous burden on public finances is expected. Although prospects of economic development are not pessimistic in overall, expectations of outstanding economic performance that would boost labour productivity and employment are not in place.

The outlined trends endorse the fact that a stabilisation of the first pillar requires an immediate switch to a combined public-private system. Furthermore, the weight of the private funded pillar should become relatively promptly equivalent to the public unfunded pillar. In addition, the continuing and reduced PAYG pillar should focus on:

- carefully designed reduction of pension security contributions to a motivating level,
- stricter collection of insurance premium, creation of automatic and integrated system of collection,
- increase of per capita contributions quaranteed by the state and NLO,
- reassessment of entitlement for State (NLO) support.

The financial assessment of the *private capitalisation pillar* is in local conditions, naturally, mostly hypothetical as there is no recent history of pension funds and private pension accounts. It is expected that the capitalisation pillar will support individual involvement and participation by creating links between invested funds, capitalisation of funds, and paid benefits. The commercial nature of the funded pillar implies that apart from the external determinants the system is financially profitable. Projection of

the financial situation unwinds from the selected mix, which is yet not definitely decided about.

The development and sustainability of the second pillar will depend on numerous variables. As Table 3.16 suggests, the most important factors include:

- *Transition phase.* The launching of the second pillar and the reduction of the PAYG pillar is associated with high costs, uncertain public acceptance of the system, and an unclear division between the two compulsory pillars.
- *Economic situation.* The capitalisation of funds on private accounts is the core of the system. The underdeveloped capital and financial markets, unstable economic environment and insufficient law enforcement may infringe the financial stability of the system.
- *State involvement.* The role of the state will significantly determine the financial setting of the pillar. State involvement in minimum standard guarantee, operation of funds, regulation, supervision, etc., will be a key factor of credibility but also transparency. The government can alleviate these concerns by setting out a clear strategy of involvement.

3.2.3 Pension policy and EU accession

Despite the considerable diversity within the European Union, Member States face common challenges with regard to pension systems. They also share common objectives and are committed to a number of principles, amongst which are equity and social cohesion which characterise the European social model.

The modernisation of pension systems in the EU is made urgent mainly by demographic ageing and its impact on the old age dependency ratio. Although the reform of pension systems remains the responsibility of the Member States, co-operation at EU level has intensified – in particular through the Social Protection Committee – and has benefited from the work undertaken by the Economic Policy Committee and its analysis of the projected budgetary impact of ageing.[65]

The common objectives for sustainable pension systems stress the need to maintain adequate pension provision and solidarity in pension systems, to secure financial sustainability through a high level of employment, sound management of public finances and appropriate pension reforms, and to modernise pension systems to reflect changing needs of society and individuals.

---

[65] The Future Evolution of Social Protection from a Long-Term Point of View: Safe and Sustainable Pensions (2000)

The old age dependency ratio in most developed economies will be substantially higher in the future. In many Member States, funded pension provision will be expected to play a greater role.

The mobility of workers and citizens in general will strongly depend on the portability of the social security and pension schemes. This is an important incentive for the Slovak pension reform. One of the key features of the reforming pension system in Slovakia should be therefore its compatibility with Member States' schemes. Slovakia should further invest in forecasting of future trends, which should improve the predictability of developments in the pension system and assist pension scheme participants in decisions. Slovakia may also face competition from other pension systems: if there are strong financial incentives built into the various retirement income systems, these could induce people to move to other countries.

3.3 Evaluation of recent and planned reforms

3.3.1 Recent reforms and their objectives

The Government presented the Concept of Social Insurance Reform in 2000. The reform is designed as an ongoing process with several phases exceeding the term of several governments. The main objective of the reform is to prepare a new social insurance system within the time horizon of 20-25 years.[66]

The goals of the social insurance reform are:

- to build up a socially fair insurance system based on citizen's personal motivation and participation, necessary social solidarity and state guarantee in compulsory parts of the system,
- to carry out the transition from the benefit system to insurance,
- to set up a social insurance system based not only on delayed consumption in time but also on solidarity in space,
- to solve the existing internal debt caused by the current system,
- to solve links to other state social systems (social support, social assistance, employment).

The basic concept of the social security transformation is preserved in building up systems of:

- social insurance, including supplementary insurance with a possible additional insurance protection in the form of commercial individual insurance,
- state social support,

[66] This concept will be replaced by a new Concept of pension reform in March 2003.

- social assistance.

Social insurance will be composed of the following parts:

1. *sickness insurance* created by the compulsory 1st pillar of short-term benefits (at present sickness insurance benefits) and voluntary 2nd pillar of supplementary short-term benefits (does not exist now),
2. *pension insurance* created by a compulsory system of long-term benefits, composed of the compulsory 1st pillar financed by the PAYG scheme (pension security benefits now) and the compulsory capitalisation 2nd pillar (does not exist now),
3. *supplementary pension insurance* composed of the voluntary 3rd pillar of long-term benefits (supplementary pension insurance benefits now),
4. *injury insurance* composed of the compulsory system of injury benefits (today it exists only partly in the indemnification of occupational injuries and diseases).

The double-pillar system of compulsory pension insurance should come into force on 1 July 2003, with the following reallocation of contributions between the 1st and the 2nd pillars:

- 24.5% : 3.0% in 2003,
- linear continuation to 22.5% : 5.0% till 2015,
- linear continuation to 18.5% : 9.0% till 2025,
- maintaining of this ratio in the following period.

The two compulsory pillars are expected to cover pension entitlements in the amount of 50-60% of the lifelong real gross monthly salary. The upper limit of the amount in the currently PAYG-financed scheme shall be roughly 3 times the average wage in the economy. The supplementary 3rd pillar should reach 20-25% of the lifelong gross monthly salary, without limits.

The social insurance reform shall be based on following principles:

- obligatory character,
- universality,
- uniformity,
- non-profit character of organisations which will perform social insurance,
- public character of the institution performing compulsory parts of social insurance and its administration by a tripartite model (SIA),
- state guarantee of a certain level of participant's entitlement in the compulsory part of the social insurance system,

- functional independent state supervision over social insurance performance.

The recently approved Act on Social Insurance is a delayed part of the reform process.[67] It is perceived as the first step of the complex pension reform. The law introduces several changes in social insurance, of which the following have the most important effect on the current pension system:

- Gradual increase of female retirement age up to level of male retirement age of 60 years (time horizon 2003-2019). This measure is in accordance with the equal treatment principle.
- Change in the calculation of old age pensions and subsequently other benefits. The amount of old age pension will be derived from the multiplication of the so-called *personal wage point* (reflecting the level of paid contributions), duration of pension insurance (as at time of retirement) and the so-called *pension value* (reflecting the changing average wage in the economy).
- Automatic valorisation of pension. According to the new law, pensions will be valorised annually in July. The increment will be derived from the inflation rate and/or the index of wage growth of the preceding year; the lower growth index of the two parameters shall be considered. This measure should increase the economy and transparency of valorisation.
- Registered unemployed receiving unemployment benefits will become compulsory participants in the pension insurance system.
- SIA will become the single administrative institution for social insurance. This measure shall improve the integrated collection of insurance contributions. SIA is envisaged to administer the future funds generated by the capitalisation pillar. This intention will most likely be subject to discussions about the transparency, mutual inter-connection of the individual pillars, and independence.
- Transition costs related to the introduction of the 2nd pillar shall be partially covered by 25% of income from the privatised 49% share of the Slovak Gas Company. This decision was subject to long-lasting political bargaining.

The draft act included also an increase in social contributions, which would have affected mainly high-income employees and mainly their employers; this proposal was rejected by the parliament.

A separate law shall regulate the 2nd pillar. However, the preparation of the law is delayed and will not be completed before the September 2002 parliamentary election. The legislative plan (intention) on creation of the

[67] The Act was approved by the National Council of the Slovak Republic on 29 May 2002. Its is supposed to come into force on 1 July 2003. According to the most recent information (as of October 2002), the date of coming into force was postponed to 1 January 2004.

capitalisation pillar prepared by MOLSAF was criticised for being rigid; namely, the issues of split between the unfunded and funded pillars, the position of SIA in administering the funded pillar, conditions of capitalisation of funds. It should be stressed that without the relevant second step the Act on social insurance remains isolated.

Recent political developments – following the appointment of the new government in October 2002 – reopen the debate about the Concept of Social Insurance Reform and the pension reform in general. One of the first changes brought a postponement of the coming into effect of the Act on Social Insurance to 1 January 2004. It is possible that the Act will be amended and co-ordinated with the preparation of the 2nd pillar legislation. A new Concept of pension reform is being elaborated at MOLSAF and shall be presented in March 2003. The Programme Declaration of the new cabinet from 5 November 2002 provides an outlook on the new concept. The main messages include:

- the new pension system shall be based on three pillars, and shall be universal for all economically active citizens;
- the objective of the reform is to halt the demographically conditioned growth of the internal debt of the PAYG system and to raise the personal engagement of the citizen with respect to their living standards in old age;
- the payroll tax paid to the PAYG system shall be reduced as much as the solvency of the Social Insurance Agency allows;
- the government intends to accelerate the creation of a compulsory capitalisation (funded) pillar; the administration of assets shall be provided by private entities, which will be chosen by the citizens;
- a special regulatory body shall supervise the security of the deposits
- the creation of voluntary pension saving and insurance schemes will be supported; tax incentives shall motivate the citizen to participate
- a minimum amount of old age pension will be guaranteed to persons belonging to socially vulnerable groups, which will not be able to participate in the funded pillar.

3.3.2 Political directions of future reforms

The question for Slovakia is not whether to reform but when and how to reform the pension system. The deepening crisis of the current system and experience from developed economies with functioning social systems suggest that the reform of the pension system in Slovakia should start immediately and be based on the optimal split of the PAYG system to a multi-pillar system.

In their election campaign, most political parties and movements promised an early launching of the pension reform; however, these promises were not made for the first time in recent Slovak history. Reforming essential social schemes such as pension system is a long-term process exceeding the term of a cabinet. It requires continuity and commitment to reform steps regardless of political representation.

Apart of the general consensus about the necessity of a reform, there is an ongoing discussion about the nature, scope and pace of the reform steps. The main topics of political and expert debates include the split between the unfunded and funded pillars, the extent of social solidarity and redistribution, the retirement age, the institutional coverage of the reformed system, the expected value of pensions. It is usually the political subjects of the right spectrum that push on the immediate launching of the pension reform. These entities are in support of a clear shift in favour of private capitalised funds, which should, based on foreign examples, support individual participation and reduce state involvement. Leftist groupings support the introduction of the capitalised pillar, though with tighter state control, broader legal quarantees and non-profit character of funds.

The pension reform requires general acceptance – by political representatives, experts, and most importantly by the public. Given the value orientation of the Slovak population, no extreme reform scenarios are envisaged. A ”passable” scenario will thus most likely include a combined public-private system with a relatively strong role of the State. Nevertheless, the political set-up of the new cabinet may influence the future mix of the pension system. With respect to the urgency of the reform, political bargaining should be subordinated to the main task of the day – the commitment to launch the reform.

3.3.3 Conclusions

The system of social protection in the Slovak Republic faces several challenges. Collection of social insurance contributions is on the decrease, State fails to fulfil its legal obligations on behalf of a growing number of economically inactive, the number of beneficiaries and pensions grows beyond the economic potential of the economically active. The result is a growing burden on public finances and a collapsing social system.

The solution of the accumulated problems requires a conceptual change. This change lies in a consensus between and within generations. An optimal balance between social (and intergenerational) solidarity and individual participation is the key element of the reform. Such agreement should lead to more fairness and adequacy of the social system. Strengthening the link between contributions and benefits does not necessarily weaken solidarity. The redistributive element in the scheme shall guarantee assistance to those in real need.

The reform of the Slovak pension system is on the threshold of substantial changes. The approval of the Act on Social Insurance was the first step towards an insurance-based pension system. The Concept of Social Insurance Reform envisaged the introduction of the private pension pillar as the next step. The completion of relevant 2nd pillar legislation is delayed. Furthermore, there is no clear vision of the different settings of the second capitalisation pillar (employer-employee mix, state guaranteed minimum standard, conditions of assets capitalisation, etc.). The envisaged division of contributions between the two compulsory pillars[68] bears signs of insufficient political courage to reallocate more funds towards the private pillar. Despite the lack of experience, there is an evident deficit of forecasting of future developments with respect to the private pillar.

The position of the Social Insurance Agency as the administrative and financial centre of social insurance was specified in the Act on Social Insurance. It is yet not clear, whether SIA will perform a decisive role in the second pillar (as proposed by MOLSAF), how investing of accumulated assets will be regulated, whether private pension funds will be allowed to participate, etc.

The costs of transition to the double-pillar compulsory system will be considerable; they should be in the long-term however lower than the preservation of the current system. The one-off transfers from privatisation will cover the transition costs only partially and temporarily. Further financing of transition should be discussed as this will directly concern all taxpayers. Financing of the reform will place an immense burden on the entire economy (estimated at more than SKK 1,000 billion). The question of how these costs will be covered is often neglected in the debate.

The pension system should be able to adjust to foreseeable changes in the socio-economic and demographic environment. The recent reform documents refer to this condition. In general, though, there is no strategy of a reassessment of the high payroll burden which is a crucial economic factor on the revenue side of the system. High contribution rates are a burden placed mainly on employers with direct impact on economic performance and financial solvency, job creation, and payment discipline.

Most of the developed economies are in the process of reforming their pension systems. A common feature of the reforms is the encouragement of the development of private, funded pension schemes. Authors of the Slovak pension reform can make use of the existing foreign know-how and adjust it to local conditions.

[68] As presented in the Concept of Social Insurance Reform, see chapter 3.2.1.

4. POVERTY AND SOCIAL EXCLUSION

4.1 Evaluation of current profiles of poverty and social exclusion

4.1.1 Social exclusion and poverty within the overall social protection system

The issue of poverty and social exclusion is rather new in Slovakia, although these phenomena have been present in the Slovak society for long and in many forms. The public in Slovakia gradually became aware of poverty after November 1989. Due to ideological reasons, poverty was absent from the official dictionary of socialist Czechoslovakia.[69] The research on this topic has been neglected for decades.

Slovakia's current society is transforming itself into a modern society. It is becoming a society understood to have social stratification, which includes poverty as the lower pole of the stratification bipolarity of poverty and wealth. In viewing the Slovak society, it should be stressed that the term "poverty" has not been acknowledged in legislation and that official statistics do not record numbers of the poor, as is the case in EU countries and most of the candidate countries. Slovakia has typically used synonyms for poverty, such as "socially underprivileged population", "low-income households", and "material distress". The latter term has been used in legislation, and in fact refers to poverty.

Although poverty as a category is not included in the numerous public opinion surveys that attempt to identify the problems worrying Slovakia's population, it is well represented by the multiple causes of poverty. Issues such as standard of living, unemployment, unfavourable condition of the health sector, insufficient quality of education, inadequate housing, appear among the most pressing problems to be resolved in Slovakia.[70]

The 1990s brought the start of poverty analysis in Slovakia and the basic outlines of the problem have gradually become clear. However, much remains to be done. In particular, although there is wide recognition that current money incomes do not sufficiently capture the nature of poverty, most of the analysis is still based on such a comparison, although there have been some attempts to undertake more sophisticated analysis. However, many of the analyses are based on outdated data and, therefore, tend to provide a picture which is primarily of historical value.

---

[69] In looking further at the past, we can state that poverty was a standard component of Slovak life under the 19th and early 20th century Hungarian Empire, and that its existence was caused mainly by retarded industrialisation.

[70] Public opinion pools suggest that people tend to perceive the situation in the society, as well as that of the households (particularly the financial conditions), from a negative perspective. A negative assessment prevails regardless of whether the actual situation worsens or improves.

There are several research studies on poverty and social exclusion in Slovakia. However, very little of this research has impacted on the process of policy-making. The research community is only marginally involved in the limited policy debate. The lack of relevant definitions of these phenomena in legislation directly impacts on the policy debate particularly with respect to the importance of addressing poverty in an integrated form. Moreover, the absence of continuity and comparability of research undertaken on poverty and social exclusion does not allow for a clear picture of developments.

A substantial portion of the research has been carried out by foreign institutions and individual researchers. The work by foreign researchers, be it institutions or individuals, becomes usually more accentuated in the policy debate than that of their indigenous colleagues. This has perhaps several causes: 1. foreign researchers have a detached approach to issues which hinder the domestic research community (e.g., handling of problems with data gathering), 2. they make use of more elaborated methods and scientific know-how which positively impacts on the quality of their output, and 3. foreign research projects, mainly those managed by international organisations (World Bank, EC, DFID, OECD, UNDP, etc.), are usually connected with larger budgets, broader awareness activities, higher media coverage, and greater attention of policy makers.

The debate on how to give recognition to poverty as an issue, as a prerequisite to developing a policy to address poverty and social exclusion, is still in its infancy. The resolution of the Government of the SR No. 1154/2001 commissioned the Ministry of Labour, Social Affairs and the Family (MOLSAF) with the elaboration of a national strategy of participation in the European Social Inclusion Strategy. This strategy should result in two main tasks: 1. the preparation of a National Action Plan to Combat Poverty and Social Exclusion (NAP) and a National Programme of Social Protection (NPSP). Under the auspices of MOLSAF, first concrete steps have been taken in the second half of 2002 to set up a Working Group of representatives of all relevant Ministries and non-governmental organisations to take a co-ordinated approach. The first issue on the agenda of the Working Group is the preparation of a Joint Inclusion Memorandum (JIM), a document of understanding between the European Commission and respective candidate countries, which shall reflect both EU's social inclusion policies and national priorities within this framework for a full-fledged participation in the inclusion strategy after EU accession (see also chapter 4.3.5).

Due to the missing acceptance of poverty and social exclusion in the social framework, these were until recently not explicitly considered as national priority issues. Instead, a fragmented approach of addressing particular causes of poverty persisted. In line with the EU Commission's steps forward in the fight against poverty and social exclusion, Slovakia is

committed to develop an integrated strategy for poverty alleviation. Thus, the main task lies in putting together a wide range of stakeholders from governmental, non-governmental, research and academic institutions who will pull at the same end of the rope.

4.1.2 National definitions of poverty and social exclusion

Although not integrated in legislation and policies, the phenomena of poverty and social exclusion are present in the Slovak society in several forms. Official statistics do not record the numbers of poor as it is the case in most OECD countries. Alternative and supplementary data however allow to track the developments of these phenomena. The most important indicators include unemployment rates and the share of population living in human distress. The picture is supplemented with World Bank data on poverty in Slovakia and UNDP's Human Development Index (see Table 4.1.)

Table 4.1 Development of key factors of poverty

Indicator	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Unemployment rate (%)	11.3	11.8	12.5	16.2	18.6	19.2
Real wage (year-to-year change in %)	10.6	6.6	1.7	-2.8	-3.1	1.0
Recipients of social assistance in material distress (% of total population)	7.0	7.3	9.4	10.8	11.3	11.7
Ratio of richest 10% to poorest 10%	4.75	4.40	4.86	4.47	4.62	4.65
Human development index [1] of which life expectancy school enrolment ratio GDP per capita (in PPP$)		0.813 73.0 75 7,910	0.825 73.1 75 9,699	0.831 73.1 76 10,591	0.835 73.3 76 11,243	-

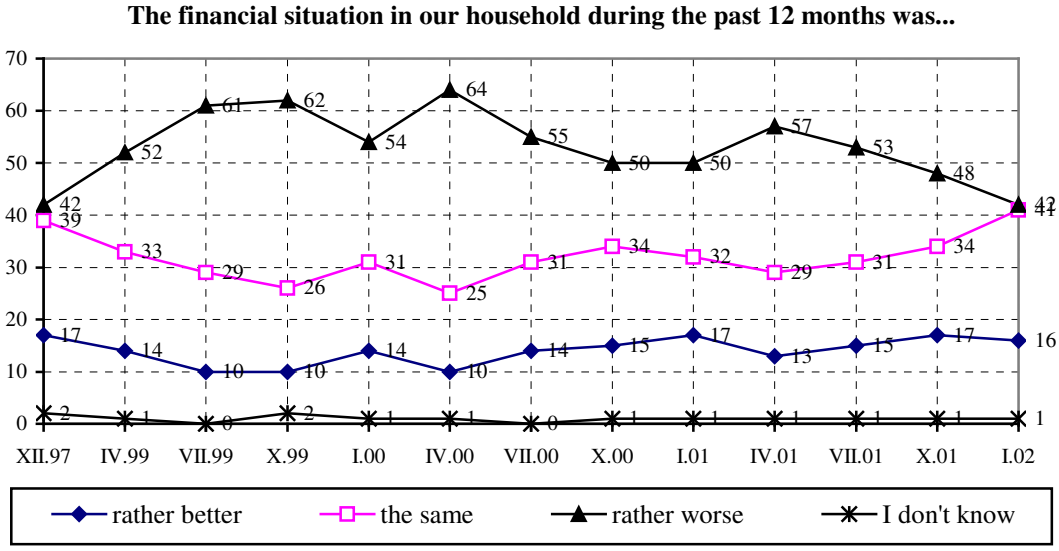
Note: UNDP prepares annual HDI rankings based on most recent data. Due to availability and comparability, the data is usually 2-3 years "old". For example, UNDP's 2001 HDI ranking uses data from 1999, the 2002 ranking makes use of mainly 2000 data. In this table, HDI and partial indicators refer to the respective years.

Source: Eurostat, Statistical Office of the SR, MOLSAF, UNDP.

Despite the lack of clear-cut statistical evidence, the general opinion of the expert community is that poverty was on the rise in the past ten years. A comparison of the 1992 and 1996 Microcensus results shows an increase of the proportion of poor from 3.9 to 8.6 percent (World Bank, 2001). While a more recent comparison is not available, the development of the main factors affecting poverty and social exclusion supports the above expressed notion. The number of unemployed grew dramatically during the past five years. A similar development occurred in the number of inhabitants dependent on social assistance of which the majority is comprised of unemployed. Nevertheless, there are certain aspects which should be taken into consideration when assessing the extent and nature of poverty in Slovakia:

- Poverty measures based on income data (such as the Microcensus) usually do not capture other dimensions of poverty (e.g., education, health, housing). Several of these indicators show, contrariwise, positive trends.
- Apart of its great value for the research of poverty in Slovakia, the Microcensus has several weak points stemming from methodological imperfection, negatively impacting on the accuracy of data (long recall periods, underrepresented Roma households).
- The current social system is virtually encouraging black market activities. Inspections by the state (labour offices, social departments, labour inspectorate) proved to be unable to solve the problem. There are no doubts even at official places that a high portion of unemployed registered with labour offices and social departments for benefits, i.e. those who would logically fall into the category of poor or poverty-threatened cohorts, in fact do not belong to the list due to informal income.
- There is little knowledge of subjective assessment of poverty by the citizens themselves. However, public opinion polls suggest that people in Slovakia perceive the situation in the society as well as that in their households traditionally pessimistic. A negative assessment prevails regardless of whether the actual situation worsens or improves (UNDP, 2000). This is particularly evident in financial matters, which are one of the main determinants of present-day poverty (see Graph 4.1). Public opinion is hence in contrast with the positive assessment by international institutions (see for example Table 4.1 for the HDI development).

Graph 4.1 Subjective perception of financial situation of households (in %)



Note: "Rather better" sums answers "much better" and "slightly better". "Rather worse" sums answers "slightly worse" and "much worse".

Source: Statistical Office of the SR

The trends can be summarised as follows: The development of indicators – such as the numbers of unemployed and those requesting social assistance – would suggest that poverty has grown since 1996. Given the strong correlation between poverty and the employment status of the household head, the fact that unemployment among the latter is growing is a reason for concern. There is, however, no practical evidence of a sharp increase in the proportion of poor. The reason for this is not the missing comparable data, but primarily the generosity of the social system. Apart of reducing absolute poverty by ample social transfers (see e.g. Table 4.2), the social system also allows for an expansion of informal "shadow" activities, which eventually help a fairly-sized part of the population to improve their financial situation, though on the account of the employed.

It is expected that the adoption of poverty-related policies will include a definition of poverty, which will both meet the international standards and indigenous conditions. For the time being, material distress – a state of insufficient income – is referred to as a synonym of poverty in Slovakia. However, it is inquiring whether this category is a convenient indicator of poverty. The Slovak legislation refers to material distress to define persons eligible for social assistance. The data relates only to successful claimants and depends on current eligibility criteria.

Material distress is characterised as a condition occurring when an individual's income is below the subsistence minimum level, specified by separate legislation. The subsistence minimum is thus perceived as an

unofficial poverty line. It corresponds to the minimum income level below which a family will find itself in the condition of material distress. It includes amounts considered necessary to cover food, clothing, housing and energy, and other needs, and is calculated at the household level based on the composition of the family.

Until 1 January 2001, social assistance benefits were granted at three different levels of subsistence minimum based on cause of material distress and the existence of recipient's income from dependent activity. From 1 January 2001 to 31 December 2002, benefits were granted at two levels. A person in material distress due to subjective reasons was eligible for a benefit that supplemented his/her income up to 50% of the subsistence minimum. The purpose of this "existence minimum" was to secure the basic conditions of life, including one warm meal daily, necessary clothing, and shelter. A person in material distress due to objective reasons was eligible for a benefit that supplemented his/her income up to a fixed sum specified by the Act on Social Assistance. Valid from 1 January 2003, the social assistance benefits in both objectively and subjectively caused material distress are to supplement the income up to fixed sums. The link between material distress and subsistence minimum as a threshold is no longer maintained (see also chapter 2.3.10).

The determination of the poverty line is of principal importance for the definition of poverty. In most countries, the poverty line is based on median income; the poverty line usually representing 50 percent of the median equivalent income in the given country. Households with incomes lower than the set poverty line are defined as being poor. Low income itself does not reflect cultural and social aspects, however, it generally does express poverty.

Social exclusion is broader in scope than poverty. It includes the risk of marginalization and exclusion of individuals and groups in several areas of life, and usually includes poverty. Three types of exclusion are dominant in Europe: (a) exclusion from the labour market, as reflected in rising numbers of long-term unemployed and increasing difficulty of initial labour market entry; (b) exclusion from regular work, as reflected in the growth of precarious and part-time employment; and (c) exclusion from decent housing and community services, reflected in the expansion of deprived areas, often on the margins of large towns. (Papps et al., 2001) As high unemployment rates suggest, exclusion from the labour market is the most critical type of exclusion with respect to Slovakia. It becomes also evident that a part of the population suffers seriously from exclusion from proper housing; this type of exclusion is apparently a problem of numerous Roma settlements (see chapter 4.2.5).

Although there are no official statistics concerning the poor, it is obvious that the unemployed are highly represented among the poor or poverty threatened population segments. Long-term unemployed represent the

majority of recipients of social assistance benefits. The labour market status of the household head is the most important poverty risk indicator.

Individuals with low levels or missing education usually enjoy less opportunities in the labour market and/or receive lower remuneration for their work. Even if intellectual work does not prevent monetary poverty, people with low educational attainment are among the groups with highest risk of poverty.

Poverty is a significant threat to families with children and especially single-parent families (divorced families or unmarried parents). Children are very likely to be at risk of poverty, as suggested by both domestic and foreign surveys. However, child poverty is not sufficiently visible because statistics primarily present ”poverty” that affects families or households, leaving child poverty as an undocumented problem. There is a additional threat of reproduction of poverty as the children from families currently experiencing social exclusion are less likely to achieve higher quality of life; this may transmit poverty and social exclusion to the next generation.

Elderly and disabled belong to traditional poverty risk groups, however, analyses suggest that they are relatively well off due to the generous social safety net.

In addition to recognised groups at risk, there are also poor groups of population that are not included in the statistics because they cannot be counted. They include homeless people that are poor in the very sense of a definition of poverty, both from the aspect of income and from social exclusion (including also offenders serving time in prisons, drug addicts, etc.). There is no exact data on homeless people, however, state authorities and non-governmental organisations agree in estimates of a gradual increase of their numbers and their concentration in the capital city.[71] The main causes for the increasing number of homeless is the socio-demographic trends and the unfavourable housing situation.

Although national statistics do not record the ethnic origin of the poor, it is evident that factors determining poverty in Slovakia culminate most markedly in the Roma minority. The prominent poverty risk of Roma in Slovakia lies both in historical and recent factors, which are subject of a more in-depth analysis in chapter 4.2.6. The status of a significant portion of the Roma population bears all typical features of ”Slovak” poverty, including high unemployment rates, high incidence of long-term unemployment, opportunities only in the secondary and/or informal labour market, dependence on social assistance, insufficient education, low incomes, and certain forms of discrimination. Poverty features that are commonly found in third world countries aggravate the situation in

[71] See, e.g. *Report on the State of the Family in the Slovak Republic*, Ministry of Labour, Social Affairs and Family of the SR (2000).

segregated Roma settlements, including unsatisfactory conditions of housing, insufficient hygiene, poor health conditions, low life expectancy, illiteracy, etc.

The number of those in absolute poverty in Slovakia is rather low and the extent of poverty bears comparison with most developed countries. However, we can observe the so-called pockets or islands of poverty, which are thought to significantly overlap with the backward Roma colonies.

Table 4.2 shows an overview of poverty data for the most vulnerable groups, as calculated by the World Bank team from 1996 Microcensus data. It confirms also that poverty among those at risk would increase significantly if the social transfers were non-existent.

Table 4.2: Poverty profile of vulnerable groups (poverty 1996)

Characteristic	**With social transfers**	**Without transfers, with pensions**	**Without transfers, without pensions**
Unemployed household head	44.7	79.7	82.9
Household head with elementary education	14.3	24.5	64.1
Pensioner as household head	6.0	10.5	78.8
Female household head	11.1	20.2	49.3
Single parent with children	27.8	-	-
Other families with children	17.7	-	-
Total	*10.1*	*18.7*	*38.3*

Note: Poverty based on total income less than subsistence minimum.

Source: World Bank (2001)

Summing up, households in Slovakia are more likely to be poor if the household head:

- is heading a large or incomplete family;
- is unemployed;
- is employed in a low income occupation;
- has relatively low or missing education;
- is disabled or in poor health;

- is female;
- is of the Roma ethnic;
- is living in a rural area.

4.1.3 18 EU indicators of social exclusion

With the aim to improve monitoring of poverty and social exclusion, the EU is seeking to develop a set of commonly agreed indicators. To properly assess the multidimensional nature of social exclusion, a fairly wide range of indicators is needed. The Social Protection Committee agreed 18 indicators of social exclusion (Laeken indicators). Table 4.3 shows an overview of the indicators and the respective data availability for Slovakia.

Table 4.3: EU indicators of social exclusion

Indicator		**Respective data for Slovakia**	**Source**	**Year/Note**
	Primary indicators			
1	Low income rate after transfers with low-income threshold set at 60% of median income	Not available [1]	-	-
2	Distribution of income (income quintile ratio)	Not available [1]	-	-
3	Persistence of low income	Not available [1]	-	-
4	Median low income gap	Not available [1]	-	-
5	Regional cohesion	Not available	-	-
6	Long term unemployment rate	10.8% total 10.5% males 11.1% females	LFS	4. quarter 2001
7	People living in jobless households	Not available	-	Note: Should be surveyed in LFS.

Table 4.3 continued

Indicator		**Respective data for Slovakia**	**Source**	**Year/Note**
8	Early school leavers not in further education or training	5.9%	LFS	2001 Note: See Table 4.4 for trends.
9	Life expectancy at birth	73.4 years total 69.5 years males 77.6 years females	Statistical Office of the SR	2001 Note: See Table 1.4 for trends.
10	Self perceived health status	Not available	-	-
	Secondary indicators			
11	Dispersion around the 60% median low income threshold	Not available	-	Note: Persons below the 50% median equivalent income: 5.8% (Microcensus, 1996)
12	Low income rate anchored at a point in time	Not available	-	-
13	Low income rate before transfers	Not available	-	Note: Persons below subsistence minimum (low income) before social transfers and pensions: 38.3% (Microcensus, 1996)

Table 4.3 continued

Indicator		Respective data for Slovakia	Source	Year/Note
14	Distribution of income (Gini coefficient)	0.250	LIS	1995
15	Persistence of low income (based on 50% of median income)	Not available	-	-
16	Long term unemployment share	57.8% total 56.4% males 59.4% females	LFS	4. quarter 2001 Note: See Table 4.5
17	Very long term unemployment rate	7.1% total 6.9% males 7.3% females	LFS	4. quarter 2001 Note: See Table 4.5
18	Persons with low educational attainment	Not available	-	-

Note: 1. The Statistical Office of the SR has undertaken the calculation of income-related indicators using Eurostat methodology. However, in consultation with Eurostat, these data were not published because of the small sample size used – the household budget survey. The expected Microcensus (April-May 2003) should provide usable data for the computation of these indicators.

LFS – Labour Force Survey, LIS – Luxembourg Income Study.

Source: See Table for sources of data.

Table 4.4: Early school leavers not in education or training (in thousands)

Indicator	Total				Men				Women			
	1998	1999	2000	2001	1998	1999	2000	2001	1998	1999	2000	2001
Population aged 18-24	657,2	660,0	656,7	652,3	334,4	336,1	334,2	332,5	332,8	323,9	322,4	319,8
Persons aged 18-24 with ISCED 0-2 not attending further education	44,1	39,0	32,7	38,8	24,0	20,7	17,8	22,3	20,2	18,6	14,9	16,5
of which												
employed	8,2	7,6	5,7	5,1	5,9	5,0	3,1	2,8	2,3	2,6	2,7	2,2
unemployed	17,5	15,6	14,1	18,9	11,6	10,5	9,8	13,7	5,9	5,0	4,4	5,2
in military service	1,1	0,4	0,9	1,3	1,1	0,4	0,9	1,3	-	-	-	-
economically inactive	17,4	15,5	12,1	13,6	5,4	4,8	4,2	4,5	12,1	11,0	7,9	9,1

Source: Labour Force Survey, in: Report on the Implementation of conclusions and priorities of the document of the Joint Assessment of Employment Priorities in the SR for 2001, Ministry of Labour, Social Affairs and Family of the SR

Table 4.5: Long-term unemployment (as % of total number of registered unemployed, as of 31 Dec of the respective year)

Indicator	1996	1997	1998	1999	2000	2001
Unemployed for more than 12 months	42.0	37.9	38.2	43.2	43.6	41.2
Men	37.8	33.4	35.0	41.5	41.3	37.5
Women	45.8	42.1	41.9	45.4	46.3	45.7
Unemployed for more than 24 months	25.8	22.1	20.6	21.9	21.6	20.6
Men	23.7	18.9	17.7	19.7	19.2	17.4
Women	27.7	25.1	23.9	24.8	24.5	24.7

Source: National Labour Office data in: *Report on the Social Situation of the Population of the SR*, editions 1998-2001, Ministry of Labour, Social Affairs and Family of the SR

The EU indicators reflect the general perception of poverty and social exclusion being the result of a variety of causal factors. By putting emphasis on insufficient income, unemployment, and poor education, the focus of the set becomes suitable presumably for all EU candidate countries. Table 4.3 suggests that monitoring of poverty and social exclusion in Slovakia must virtually start from scratch. Key national issues with respect to the expected adoption of indicators and their relevance for national monitoring of poverty and social exclusion are:

- *Experience with measuring poverty.* The factor of insufficient experience has much to do with the missing acceptance and definition of these phenomena and their absent application outside the research community, namely in the policy process. As a result, the institutional responsibilities and personal capacities for measuring poverty are underdeveloped. A clear evidence of ”unpreparedness” for measuring poverty, particularly of its monetary aspects, is the non-existence of appropriate and internationally comparable data sources. It is, however, to be expected that the currently commenced process of recognition of poverty as a priority policy issue will be accompanied by positive changes in the area of its monitoring and measuring. The close co-operation between the Slovak Statistical Office and international statistical authorities (such as Eurostat) is a good signal.
- *Importance of indicators for the policy process.* Demand for statistical monitoring is given by the value of surveyed data. Apart of the indisputable importance for researchers and statisticians, the purpose of data monitoring and measuring should lie in serving as a tool for policy

making. Thus, the set of poverty indicators should be coherent with policies aimed at these areas. To avoid ”monitoring for monitoring”, a clear definition of how the indicators will be utilised for concrete policy measures should be prepared, in connection with other aspects of the process, namely the definition of poverty measures and poverty lines.

- *General relevance of indicators.* The applicability of the indicators for anti-poverty strategies is an issue which should be discussed among all relevant actors involved in their preparation. In general, the relevance of the indicators in terms of complying with Slovakia's current socio-economic reality is more or less due. However, certain questions remain opened. The most important is the magnitude of relative measures of income-based poverty which dominate the set. Slovakia must solve the question of keeping the existing single absolute ”poverty” measure – the subsistence minimum – as the midpoint of social policy interventions, or switching to other absolute or relative measures for this purpose. The main advantages of relative measures consist in ”relativising” the negative perception of poverty by comparing the situation with that of others, of the past, etc. and also in allowing for international comparisons. The most frequently criticised fact is that relative measures are largely influenced by the distribution of income; in a society with large proportions of the population earning low incomes this leads to relatively low poverty rates (Górniak, 2001).[72] This fact may not be as disturbing in case of Slovakia as it is in other transition countries since Slovakia is by various measures one of the most egalitarian societies world-wide in terms of income distribution. A different example of uncertain relevance for Slovakia is the coefficient of variation of unemployment rates at NUTS 2 level. Data referring to this territorial division (Bratislava, Western Slovakia, Central Slovakia and Eastern Slovakia) are generally not applicable in Slovakia and may be considered as irrelevant with respect to their practical value. Instead, NUTS 3 and 4 (regional and district) level data are commonly used and accepted.

Out of the existing data sources eligible for research of poverty and related issues in Slovakia, two data sets have the greatest potential – Microcensus and the Household Budget Survey (HBS), both produced by the Statistical Office of the Slovak Republic.

The DFID supported project *Institutional Development to Address Poverty and Social Exclusion* (2001-2003) included a component focused on the assessment of the national capacity to analyse the extent and nature of poverty. The analysis concluded that:

- The HBS is a potentially very valuable data set for poverty research. Its main weakness at present is its relatively small sample size and the way

[72] Even the absolute measures include a “relative” aspect: e.g., the fixed threshold of elegibility for social assistance benefits is being determined in relation to a minimum basket of goods and services.

the sample is selected. Both weaknesses should be redressed in the near future.

- The Microcensus is currently the only comprehensive data set for assessing monetary poverty. Its value is limited by the irregular and insufficient periodicity of enumeration.
- HBS and Microcensus data on the Roma are very weak. There is little reason to be confident that households in Roma settlements – particularly in the segregated settlements – are adequately represented.
- The Labour Force Survey provides useful contextual information but could not be the primary source for analysis for policy purposes. Other national data, such as National Labour Office data and Social Assistance data, which are generated as a result of the operation of the social safety net provide also useful background material and could be used to support targeting of services at District and Municipal levels. However, the information could not be used for the purposes of policy analysis because it is partial, relating only to successful claimants, and dependent on current eligibility criteria.

The recommendation of the project are relevant for Slovakia's adoption of the EU indicators:

- A cost-benefit analysis should be undertaken comparing the two options of: (a) increasing the coverage of the HBS and improving the representativeness of its sample together with measures to improve the reliability of the data; and (b) increasing the frequency of the Microcensus and addressing the issue of recall error. Such an analysis will allow Slovakia to choose which data set to improve in order to obtain data suitable for the development and monitoring of a coherent policy on poverty.
- A Data Users' Group should be established to guide the collection of official statistics for the analysis of poverty. The potential for the establishment of a national social data archive should be reviewed. Data lodged in such an archive would be available for use by researchers in government, academic institutions and NGOs.
- The Statistical Office of the Slovak Republic should take steps to address the poor quality of data on the Roma and other vulnerable groups in both the HBS and the Microcensus.
- The possibilities of inter-connecting data sources should be considered. The future funding of data collection needs to be assessed with respect to available budgets, capacity of particular agencies, and the process of decentralisation.
- An institutional review of the organisation and work practices of the Statistical Office of the Slovak Republic and its relationship with the both governmental and other users of the data it collects could reveal

opportunities for both increased efficiency at the institutional level and professional development of its staff.

It is expected that the candidate countries will soon adopt the EU indicators of poverty and social exclusion. The main challenges for Slovakia lie in finding a consensus about the determination of poverty, about institutional, personal and financial capacities to monitor and measure poverty, and the interlinking of data with social policies. On the national level, the EU indicators should be supplemented by other country-relevant indicators. Particularly, the indicator of the share of population dependent on social assistance supplements the domestic understanding of the poor. Consideration should be given also to the inclusion of additional variables of poverty and social exclusion covering other aspects of poverty.[73]

4.2 Evaluation of policy challenges and policy responses

4.2.1 Inclusive labour markets

To achieve a decent standard of living, one of the basic dimensions of human life, the majority of the population needs to work and earn an income. Exclusion from the labour market may be considered the most serious form of social exclusion. It deprives the individual from income and welfare and often leads to poverty, being closely linked to exclusion from broader social rights.

An association between the unemployed and the group of people at the highest risk of poverty is given by the very definition of a modern society that is perceived as a working society. This means that the position in the labour market (or even exclusion from its framework) is the most significant poverty risk indicator. Dealing with the issue of poverty thus is now an issue of dealing with unemployment. During recent years, unemployment has become the sore point of the Slovak economy and has been viewed by the public as society's most pressing problem (see Table 4.6).

[73] For instance, indicators of quality of housing, functional literacy, healthy life expectancy.

Table 4.6: Most pressing problems to be solved in Slovakia (% of positive answers)

Problem areas	**1997**	**1998**	**2001**
Standard of living	65	65	64
Unemployment	60	65	82
Crime and personal safety	62	66	46
Health care	48	50	69
Ethics, quality of interpersonal relations	43	36	24
Housing	29	29	26
Environment	18	14	9
Ethnic and minority problems	6	7	5
EU and NATO integration	11	18	12

Source: Public Opinion Research Institute of the Statistical Office of the SR

The World Bank (2001) reveals that three variables are most strongly related to poverty in Slovakia: these are the *education* of the household head; the *employment status* of the household head; and the *location* of the household. Based on Microcensus 1996 data, poverty risks for the unemployed are almost six times those of the employed (41.6 percent poor and 7.8 percent poor, respectively). Tables 4.7 and 4.8 summarise available data on correlation between education, labour market status and poverty.

Table 4.7: Poverty by labour force status and education (Microcensus 1996)

Indicator	**Share of total population (%)**	**Share of poor population (%)**	**Poverty risk**
Labour force status			
Economically active	45.4	33.0	7.4
Unemployed	5.3	14.7	27.9
Not in labour force	49.3	52.4	10.7
Education			
Elementary	20.8	21.7	10.6
Apprenticeship	11.2	8.3	7.5
Middle vocational	13.0	10.9	8.5
Complete middle vocational	21.0	15.3	7.4
Complete middle general	5.6	5.5	10.0
Higher vocational	1.1	1.0	9.0
University	8.4	5.1	6.1

Note: Individuals. Poverty measured by total income less than the subsistence minimum level.

Source: Steele, D.: A Snapshot of Poverty and Living Conditions in the Slovak Republic. Background paper for World Bank (2001)

Table 4.8: Unemployment and poverty (Microcensus 1996)

Lowest decile	Characteristic	Highest decile
19%	Household headed by an unemployed individual	1%
36%	Headed by an individual with unclassified occupation	12%
23%	Headed by an individual with only elementary education	8%
54%	Percentage of total income from social transfers	9%
13%	Percentage of total income from pensions	8%
10%	Percentage from total income from unempl. benefits	0.2%

Note: Income deciles based on total household income.

Source: Steele, D.: A Snapshot of Poverty and Living Conditions in the Slovak Republic. Background paper for World Bank (2001)

Unemployed represented about twice as many of the poor as they did of the total population in 1996. The share of the poor who were unemployed was approximately 15 percent for the respective period (Table 4.7).

It is generally acknowledged that the unemployed account for the most prominent group among the poor or poverty threatened population segments. The unemployed (particularly, long-term unemployed) comprised the majority of social assistance benefit recipients during 1996-2001 in Slovakia. The proportion of the unemployed on social assistance has been constantly growing during the past years (see Table 4.9)

Table 4.9: Unemployed on social assistance (registered unemployed as % of recipients of social assistance benefits)

Indicator	1997	1998	1999	2000	2001
Share of unemployed on SAB recipients	86.8	88.1	91.1	91.3	91.7

Note: Average monthly data for respective years.

Source: *Report on the Social Situation of the Population of SR.* Editions 1997-2001. Ministry of Labour, Social Affairs and Family of the SR

Nevertheless, employment does not guarantee protection against poverty. The labour income of many households exceeds the unofficial poverty line

but minimal, creating a significant number of so-called working poor.[74] Generally, this group includes mainly unskilled labour, however, in Slovakia it may apply also to several occupations in low paid sectors such as social services, health care and education (see Tables 4.10 and 4.11).

Table 4.10: Average monthly wages in the Slovak economy

Branch of economic activity	**1999**	**2000**	**2001**
Economy of the SR	SKK 10,728	SKK 11,430	SKK 12,365
of which by branches (as % of average wage)			
Agriculture, hunting and forestry, fishing	78.1	78.9	78.9
Industry total	100.3	102.6	108.2
Construction	92.3	92.2	89.3
Wholesale and retail trade	107.5	110.8	108.3
Hotels and restaurants	75.7	77.0	76.4
Transport, storage and communication	107.8	109.0	110.2
Financial intermediation	186.0	193.8	197.4
Real estate, renting and business activities	122.2	123.3	125.7
Public administration and defence	121.7	120.6	118.6
Education	78.3	78.7	76.4
Health care and social work	84.8	81.5	83.9
Other community and social services	87.8	72.5	71.8

Source: Statistical Office of the SR

From the gender aspect, the development of unemployment rates in Slovakia does not show any serious deviations that could be characterised as inequality (see Tables 1.5 and 4.5). Unemployment of both sexes started from the same baseline and the developments were parallel during the early 90s. The second half of the 1990s produced a slight worsening of the

[74] By increasing the poverty line by 10 percent, poverty at both the household and individual levels increases approximately by 30 percent in Slovakia. (World Bank, 2001)

situation for women. It was towards the end of the decade that tendencies of a broader impact of male unemployment started to appear. Women remain the prevailing gender in long-term unemployment, which implies that the phenomenon of unemployability is more gender-based than that of unemployment.

A marked gender difference in employment is a different story. The greatest employment differences in Slovakia concern employment-related segregation, feminisation of some sectors and professions, male orientation of management positions, wage-related differences, or unequal division of unpaid work. Poverty as a result of poor employment conditions is increasingly feminised in Slovakia. Women earn on average three quarters of men's earning; the wage gap recorded a moderate increase in the past 5 years (see Tables 4.11 and 4.12).

The level of education is stronger as a general rule, rather than as gender-related factor. A comparison of the educational level of the employed with that of the unemployed suggests that unqualified labour is eliminated from employment regardless of sex.[75]

Table 4.11: Gender wage gap (average female wage as % of average male wage in the economy)

Indicator	**1997**	**1998**	**1999**	**2000**	**2001**
Female wage as % of male wage	78.5	77.0	75.0	75.0	75.0

Source: Statistical Office of the SR.

[75] See e.g. UNDP (2000).

Table 4.12: Distribution of hourly earnings by gender (3. quarter 2001)

Wage belt (SKK/hour)	**Men**		**Women**	
	Share (%) [1]	Avr. wage (SKK/hour)	Share (%) [1]	Avr. wage (SKK/hour)
Total	100.00	94.77	100.00	70.80
23.80 – 24.80	0.08	24.09	0.21	24.06
24.80 – 25.90	0.09	25.38	0.37	25.35
25.90 – 27.20	0.07	26.60	0.30	26.59
27.20 – 28.60	0.09	27.93	0.47	27.95
28.60 – 30.20	0.13	29.41	0.69	29.40
30.20 – 32.10	0.19	31.23	0.99	31.23
32.10 – 34.40	0.32	33.25	1.51	33.28
34.40 – 37.00	0.46	35.64	2.51	35.71
37.00 – 40.00	0.79	38.56	3.44	38.54
40.00 – 43.30	1.22	41.78	5.08	41.70
43.30 – 47.30	1.97	45.44	7.02	45.34
47.30 – 52.00	3.17	49.74	9.32	49.67
52.00 – 62.00	10.89	57.48	18.60	56.80
62.00 – 72.00	15.54	67.10	15.42	66.81
72.00 – 82.00	15.51	76.85	11.10	76.64
82.00 – 92.00	11.75	86.69	6.81	86.52
92.00 – 102.00	8.73	96.71	4.35	96.56
102.00 – 112.00	6.68	106.84	3.12	106.68
112.00 – 122.00	5.17	116.70	2.17	116.71
122.00 – 132.00	3.94	126.71	1.55	126.70
132.00 – 142.00	2.99	136.79	1.10	136.65
142.00 – 152.00	2.29	146.82	0.75	146.73
152.00 and more	7.93	231.18	3.13	230.19

Note: Share of employees in the wage belt.

Source: Information System on Average Earnings. Trexima, 2001

Due to cumulated handicaps, long-term and permanent unemployment is widespread among the Roma population (see Table 4.13). The result is poverty and the appearance of the so-called poverty cycle and the unemployment trap. Roma thus become dependent on social assistance

benefits. This results in extremely high rates of long-term unemployment, with intergenerational repetition of this condition. The number of families with long-term unemployed parents and children keeps growing, with the children never experiencing a permanent job. This also creates preconditions for the emergence and repetition of a subculture of unemployed Roma youth with features of pathological behaviour. (UNDP, 2000)

Table 4.13: Unemployment rate by ethnic group (15-64 age bracket, in %)

Indicator	**1998**	**1999**	**2000**	**2001**
Total	*12.5*	*16.2*	*18.6*	*19.2*
Slovak	10.9	14.9	17.5	17.9
Czech	7.6	11.5	13.3	23.9
Hungarian	18.1	22.4	25.5	27.1
German	11.4	-	-	-
Polish	2.0	5.5	23.9	19.9
Russian, Ukrainian, Ruthenian	15.1	21.6	22.0	17.6
Roma	83.2	77.5	73.5	72.6
Moravian	11.6	20.0	-	-
Other	8.1	17.5	2.4	16.5

Source: Labour Force Survey, Statistical Office of the SR

High unemployment has huge economic and social costs. First, it means people are idle, rather than gainfully and productively employed. Past investments in education and individuals' productive potential are not given the chance to bear fruit. Second, unemployment – and especially long-term unemployment – deprives people from a critical way to contribute to and integrate into society. It can also deprive them of access to key social networks, often necessary to getting a job and to otherwise participating in economic life. This can push people into an unemployment trap, and lead to growing social exclusion and marginalization. Third, unemployment greatly increases the risk of an individual and his or her family being poor. (World Bank, 2001)

The main strategic policy document on employment is the National Employment Plan (approved in November 1999, actualised regularly). It follows the four-pillar structure of the European Employment Strategy, while taking account of the specific conditions of the Slovak labour market[76]. The four pillars include concrete measures aimed at improvement of employability mainly through education and training, development of small and medium entrepreneurship in co-operation with local authorities, support of flexibility of enterprises and promotion of equal opportunities between men and women.

The government of the Slovak Republic has prepared in co-operation with the European Commission a Joint Assessment of Employment Priorities in the Slovak Republic. This document presents a set of employment and labour market measures necessary to advance the labour market transformation, to make progress in adapting the employment system so as to able to implement the Employment Strategy and to prepare it for EU accession.

The labour market policies in Slovakia traditionally include the passive component (payments of unemployment benefits and social insurance contributions) and the programmes of active labour market policy (ALMP). As the result of the increasing numbers of unemployed and a generous provision of unemployment benefits, ALMP programmes were reduced dramatically towards the end of the 1990s. Table 4.14 shows that since 2000 a redirection of measures in favour of active programmes (mainly public works and retraining) and a tightening of benefit schemes occurred.

Table 4.14: Proportion of GDP spending on labour market policies (in SKK billion at current prices)

Year	GDP	Labour market policies	% of GDP	PLMP	% of GDP	ALMP	% of GDP
1997	686.10	7.089	1.03	3.990	0.58	3.099	0.45
1998	750.80	7.774	1.04	5.485	0.73	2.289	0.31
1999	815.30	7.776	0.95	7.292	0.90	0.474	0.06
2000	887.20	7.753	0.88	6.182	0.70	1.571	0.18
2001	964.60	7.024	0.73	4.789	0.50	2.235	0.23

Note: PLMP – Passive labour market policy. ALMP – Active labour market policy.

Source: National Labour Office, in: Report on the Implementation of conclusions and priorities of the document of the Joint Assessment of Employment Priorities in the SR for 2001, Ministry of Labour, Social Affairs and Family of the SR

[76] Source: Joint Assessment of Employment Priorities in the Slovak Republic (2001).

Counselling services are the prevailing form of preventive approach of public employment services (PES) to the unemployed. Counselling services have been delivered mainly to individuals aged up to 29, though not limited to them, mainly through professional career advice, individual consultancy, and counselling programs. Although several steps have been implemented to increase the quality of services at labour offices (e.g., prolonged opening hours), the high ratio of unemployed per competent PES staff negatively affected the rate of availability of employment services for unemployed. There were 103 registered unemployed persons per 1 PES staff member in 2001, and an average of 268 registered unemployed were assigned per 1 first-contact staff. (Report on the Implementation..., 2002)

The most accentuated ALMP programme aimed at increasing opportunities for unemployed and socially excluded is the creation of public beneficial jobs, i.e. public works.

Insufficient job creation, growing long-term unemployment, and existence of the core of unemployed, resistant to applied general ALMP tools and highly dependent social benefits, induced the setting up of a special programme financed through the state budget in 2000 – the so-called ”Negotiated public beneficial jobs for long-term unemployed”. The main objective of the programme was to decrease the extent of long-term unemployment, but also to prevent devaluation of working capital represented by unemployed, to test their interest and willingness to work, and to offer them a possibility of finding stable employment through continuity of the job after expiration of employment benefit.

From the end of August until December 2000, 65 626 of negotiated public beneficial jobs were created for 67 301 long-term unemployed. Of the total number of economically active population in 2000, 2.5% participated in the programme. Of the total number of those who receive social assistance benefit due to material distress, a drop by 6.7% was recorded after completion of the programme in January 2001. Table 4.15 summarises the effects of the programme.

Table 4.15: Negotiated public beneficial jobs (August-December 2000)

Goals	Achieved state
Decrease in unemployment	Decrease in average annual number of registered unemployed by 4.3% Decrease in average annual rate of unemployment by 0.86% Decrease of annual disposable rate of unemployed by 1.26%
Decrease in range of long-term unemployment	The portion of long-term registered unemployed decreased during the year by 4.5% Portion of long-term registered unemployed of all registered unemployed decreased in the period July to December 2000 by 6.3%
Decrease in regional disproportion of unemployment	The highest portion of person employed in created job (more than 50%) in economically weak regions with large number of long-term registered unemployed (Rimavska Sobota, Sobrance, Roznava, Revuca, Velky Krtis, Kosice suburbs)
Preventing devaluation of working capital represented by unemployed	The number of long-term unemployed included in working process through public works was 67 301 persons (24.5% of long-term unemployed)
Seeking stable employment	Jobs terminated after conclusion of supported period
Testing interest and willingness to work	The Labour Office excluded 931 long-term unemployed from registration due to refusal to enter the programme
Priority inclusion (50%) of persons registered as unemployed for more than 48 months	19.9% of long-term unemployed who had been registered for more than 48 months joined the programme
Priority inclusion (50%) of persons with primary uncompleted education	46.9% of long-term unemployed with primary or incomplete education joined the program
Priority inclusion (50%) of persons above 40	42.2% of long-term unemployed over 40 joined the programme
To give preference to jobs offering higher added value	Ratio of jobs with higher added value to jobs with lower added value was 34: 66

Source: Kostolna (2002), National Labour Office data.

Among the critical aspects of the programme were the late coming into effect which resulted in the unpreparedness of employers and hence the use of only 64.3% of the originally allocated budget; the short-term character of the work contracts; the speculative participation in the programme to re-claim full social assistance benefits after 3 months of work; and also reluctance of employers to contract such labour force.

In 2001, 38,446 public works were created for 40,509 registered unemployed (65% men and 35% women) and 9,854 public works were prolonged from the year 2000. More than three quarters of these jobs have been created in the four regions with highest unemployment rates (Kosice, Banska Bystrica, Presov, and Nitra). The rate of return of the programme participants to unemployment/employment is not monitored at present. However, the empirical knowledge indicates that the return rate to unemployment in case of public works is very high, achieving 95% to 100% (Report on the Implementation..., 2002).

Young people, belonging to the groups most affected by unemployment, can use the ”Short-term programme supporting the employment of young people” to address their problems in the labour market. The programme has focused on improving young people's chances for employment through counselling, reskilling and job brokering activities of public employment services. In 2001, 14,773 registered unemployed aged 15-29 (55% males and 45% females) have been involved in the programme, which represented 6.7% of the average number of registered unemployed in the age bracket towards the end of 2001. More than one quarter (26.1%) of the total number of participants has found paid jobs after the programme completion. However, only one third of the allocated funds has been spent in 2001.

Among other traditional ALMP tools, re-training is the most important and perhaps also the most efficient. A total of 24,558 registered unemployed have entered retraining programmes in the year 2001, which is a fivefold increase compared to 2000. 18,504 registered unemployed completed the training, of which 41.4% were men and 58.6% were women. The programmes were aimed primarily at the disadvantaged segment, hence young people in the 15-29 age bracket (52.4%), persons with low education (39%) and the long-term unemployed (40.2%) were prevailing in the structure of re-training participants. The success rate of retraining programmes in the year 2001, measured by placement of participants in the labour market within 6 months of participation, was 37.1 percent. (Report on the Implementation..., 2002)

The support for employment of persons with altered work capacity has been implemented primarily through creating and maintaining jobs in sheltered workshops and sheltered workplaces. A total of 1,359 jobs have been created in the year 2001 for persons with disabilities, which is by 569 jobs more than in the previous year.

Table 4.16: Overview of labour market policy expenditures

Labour market policy	**1998**		**1999**		**2000**		**2001**	
	SKK thous.	%	SKK thous.	%	SKK thous.	%	SKK thous.	%
Total expenditures	7 773 826	100	7 766 302	100.	7 752 873	100	7 024 121	100
Passive LMP	*5 484 686*	*70.6*	*7 292 270*	*93.9*	*6 182 429*	*79.7*	*4 789 198*	*68.2*
- unempl. benefits	3 927 123	71.6	5 338 155	73.2	4 412 902	71.4	3 450 004	72.0
Active LMP	*2 289 140*	*29.5*	*474 032*	*6.1*	*1 570 444*	*20.3*	*2 234 923*	*31.8*
- retraining	166 955	7.3	73 658	15.5	62 059	4.0	196 840	8.8
- support for new jobs	1 996 583	87.2	296 580	62.6	1 356 458	86.4	1 737 386	77.7
- support for long-term unemployed	-	-	-	-	1 201 391	88.6	1 390 473	80.0
- disabled persons	125 602	5.5	103 794	21.9	151 927	9.7	229 913	10.3
Collection of contributions	8 030 103	-	7 936 818	-	8 446 088	-	8 965 867	-

Source: National Labour Office, in: Report on the Implementation of conclusions and priorities of the document of the Joint Assessment of Employment Priorities in the SR for 2001, Ministry of Labour, Social Affairs and Family of the SR

Measures to widen chances of unemployed and socially excluded to find their way into the labour market do not solely comprise traditional tools of labour market policies. Transparent and functional labour legislation, improvement of the business environment, simplified conditions for establishing and operating of enterprises, consistent enforcement of law, careful reduction of tax and payroll obligations, decentralisation of the social framework – these measures are among the necessary steps to reform the labour market. Mechanisms enabling schools to respond more flexibly to the changing needs of the labour market must be initiated. Last but not least, the disincentives of the social protection system have to be addressed.

4.2.2 Guaranteeing adequate incomes/resources

Water supply, electricity, sanitation and other basic necessities for living are commonly accessible for the population throughout the country. An exception to this state is probably the situation in spatially isolated and segregated Roma colonies. The number of the colonies has almost doubled, from 278 recorded in 1988 to 516 colonies in 1997. Twenty Roma colonies

do not have a source of potable water, 15 more than in 1988. A majority of the colonies also face problems of insufficient infrastructure – low quality drinking water and roads, absence of public lighting, no sewerage, gas supply, social establishments, unsatisfactory conditions of housing, no shops, post offices, schools, etc. The 15 Roma colonies in 1988 without public lighting had increased to 251 by 1997. The number of Roma colonies with no hard access road increased from 7 in 1988 to 34 by 1997. (UNDP, 2000) Along with the critical housing conditions, the access to basic subsistence in the segregated Roma colonies is insufficient and/or non-existent. The absence of basic necessities in the colonies is often caused by unsettled property relations in the segregated areas, resulting in many of them being illegally colonised. The social transfers by the State are unable to resolve the situation; it goes beyond the scope of the social system and requires an integrated approach.

In general, the Slovak Republic has an extensive social protection system that combines social insurance (sickness insurance, health insurance, pension insurance, etc.) with state social allowances (aid to families with children, etc.) and social assistance (assistance in material distress, disability, etc.). Article 39 paragraph 2 of the Constitution of the Slovak Republic refers mainly to social assistance when stating that "Each individual in material distress is entitled to such assistance that is inevitable to secure basic living conditions." Studies researching the coverage of the social system and its adequacy in reaching the needy agree that the extensive transfers make it possible for many households whose earned incomes would put them in poverty to reach a certain subsistence standard above the unspoken poverty line. The incidence of poverty would increase dramatically if social transfers were not granted (see Table 4.2). The social programmes thus seem to be targeted well.[77] Along with these findings, however, majority of the analyses conclude that the generosity of the system is associated with disincentive effects on the active approach of those covered by the system.

There are no solid data on those who would qualify for social transfers and do not claim them. Household budget data confirm the important role of social transfers in the income structure of Slovak households (see Table 4.17 for 2001 data). As Microcensus figures suggest (Table 4.8), social income is most imperative in the lowest income groups.

---

[77] See, e.g. Steele (2001).

Table 4.17: Structure of net monthly money incomes (2001)

Indicator	**Households of**				
	Total	Employees	Peasants	Self-employed	Pensioners
Net money income total (in SKK)	*6,389*	*6,500*	*5,951*	*6,698*	*5,909*
of which in %					
labour incomes	71.6	80.6	81.5	85.9	3.5
social incomes	18.4	8.1	9.2	7.7	92.0
other incomes	10.0	11.3	9.3	6.4	4.4

Source: Report on the Social Situation of the Population in the SR 2001. Ministry of Labour, Social Affairs and the Family of the SR.

Following the September 2002 parliamentary elections and the appointment of the new government, a substantial reform of the social system is to be expected (including pension system, social assistance, labour legislation, etc.). It is likely that a reduction of social transfers will be an important element of the reform process. Hence, the ability of the social system to prevent poverty and social exclusion from expanding will face new challenges. Key in this respect seems to be the decision about decentralisation of the social agenda (mainly of state social support and social assistance) from state administration to municipalities, which should be more efficient in targeting social policies.

4.2.3 Combating education disadvantage

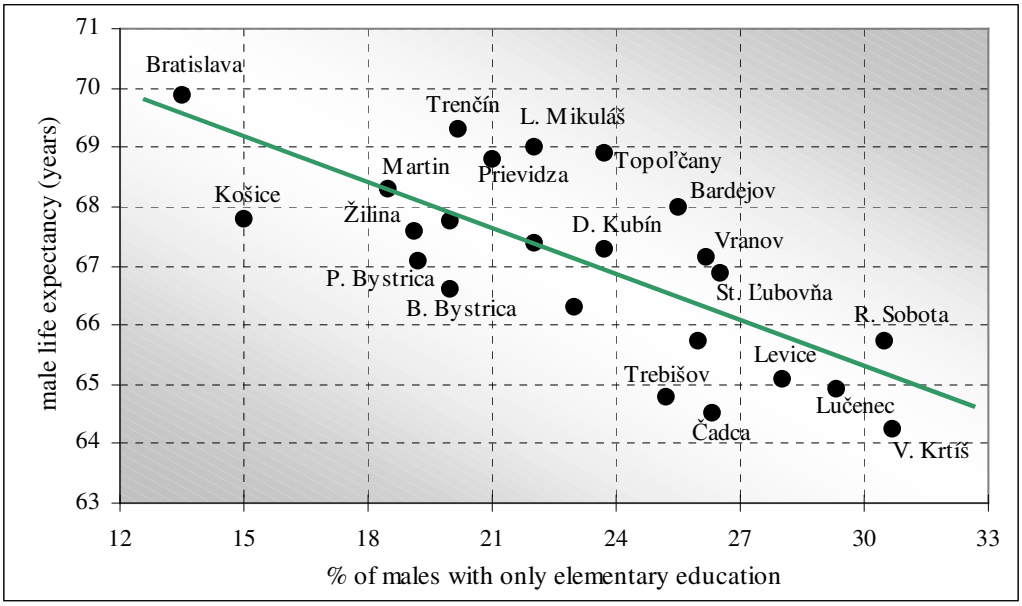
Education is perhaps the most efficient tool to achieve a higher quality of life. Higher levels of educational attainment usually widen opportunities of the individual in the labour market and tend to bring higher rates of return. Poverty as a consequence of insufficient education is often associated with long-term unemployment and exclusion from the labour market.[78]

[78] This correlation applies also to the situation in Slovakia, although the trend is less pronounced. The reason may be that unemployment became spread even among educated individuals. In addition, income inequality of the working population is relatively low and hence the differentiation of incomes by education completed is not substantial (perhaps with the exception of university education). Lastly, intellectual occupations such as teachers or social workers may well be found lower on the income list than manual workers. Nevertheless, it cannot be ignored that education is a precondition for success in the labour market.

The 1996 Microcensus has shown that the relative poverty risk of individuals with elementary education was by 41% higher than the average risk; on the contrary, being 22% lower than the average poverty risk for university educated persons (World Bank, 2001). The level of achieved education has a direct influence on the level of remuneration from employment. Wages tend to rise depending on the level of education completed. For primary education, the average earning is 75.4% of the average wage in the national economy. School leavers with secondary education without the school-leaving exam earn on average 87.1%, school leavers with the school-leaving exam reach 96.1% of the average wage. University graduates' pay is equal to 168.8% of the average wage. While returns to education at lower levels rise evenly, there is a significant difference between returns to secondary and university (higher) education. This fact confirms that in the today's information society only higher and superior education can provide sufficient preparation for a highly productive occupation with a high rate of return (National Report on Education Policy, 2001).

There is evidence of links between education and other dimensions of life which are decisive for the quality of life, such as health. Multifactorial analyses have shown that key with respect to life expectancy of men in the individual districts of Slovakia are proportions of men with only elementary education (see Graph 4.2). Among the main reasons for the short male life expectancy is unhealthy lifestyle (e.g., high alcohol consumption, unhealthy diet, disturbed social contacts) that a prevailing proportion of the male population has adopted, in particular population groups with low education level. (Ginter, 2001)

Graph 4.2: Education and life expectancy of males (1994)



Source: Demes, M. – Ginter, E.: Health care. In: Slovakia 1997. A Report on the State of the Society. Institute for Public Affairs (1997)

The education system in Slovakia is divided into local schools (primary and secondary education) and higher-education institutions (tertiary/university education).

Primary education is compulsory for all children. Education is free of charge, however, the costs related to education of children (school aids, transport, etc.) may place a serious financial burden on low-income households. The costs tend to grow with higher degrees of education. Surveys have shown that a significant part of the families with secondary school students spend monthly amounts for school aids (relevant for 95.6% of respondents), transportation (82.6%), catering (37.3%) and accommodation (10.5%), which add up close to the level of a subsistence minimum for dependent children[79]. These families can hardly afford university education and a prevailing motivation is to make children find employment as soon as possible after the completion of their studies, so they could begin to contribute financially to the family budget. (National Report on Education Policy, 2001)

Secondary education includes grammar schools, secondary vocational schools and secondary vocational establishments for apprentices. Each type of school has certain particularities in terms of acquired theoretical and practical skills. Grammar school graduates tend to be well prepared in overall for further studies at universities, however, their knowledge is rather insufficient for entering the labour market. This is evidenced by relatively high unemployment rates of grammar schools graduates (see also Table 4.7 for evidence of higher poverty risk). Vocational schools have a narrower focus of curricula than grammar schools; they are relatively sufficient in preparation for occupational activities and also for higher education. Students of apprenticeships commonly acquire qualification necessary for immediate placement in the labour market, particularly in blue-collar occupations. It is usually those who finish the studies with a school-leaving exam who enjoy better job opportunities. However, graduates from apprenticeships are seldom applying for university studies. The proportion of students in these three main types of secondary schools in the school year 1999/2000 was:[80]

- Grammar schools 24.8% (girls 27.6%)
- Secondary vocational schools (including
- health care schools and special schools) 42.0% (girls 47.8%)
- Apprenticeships 33.3% (girls 24.6%)

[79] SKK 1,780 as of September 2002.
[80] Source: Statistical Yearbook on Education of the SR (2000).

Approximately 26 percent of population aged 18-22 is enrolled in tertiary education, which is declared by law, for the time being, free of charge.[81] There is a general understanding, however, that provision of superior teaching to a growing number of students is conditioned by financial involvement of students and/or their families. Several universities charge fees for external studies through institutions associated with the school. The ratio between those who are interested in participating in higher education and those who are actually enrolled is difficult to assess since a large number of applicants submit applications for studies to several universities, ending up eventually in only one university. Enlargement of opportunities to participate in higher education is one of the main goals of the Development Concept of Education.

The education of physically, mentally and socially handicapped pupils and students is a special concern of the education sector. It is believed that special schools are the appropriate institutions providing for education of disadvantaged groups. This concerns mainly the socially (or culturally) disadvantaged children. The National Report on Education Policy states that the gap between education of urban children from well-off families and children from poorer rural areas is widening. Although they enjoy comparable access to schools, their experience of school is quite different. This is particularly an issue affecting education of Roma children. They are broadly placed into special classes/schools, although their situation may not require it.[82] This state is a result of both the 1. perception of the potential of Roma children by the majority population (they are often sent to special schools without psychological tests, or the tests are irrelevant with respect to skills and capabilities of Roma children, pressure of non-Roma parents for separation of their children from Roma, etc.) and the 2. perception of the school system by the Roma (they view the school as an unknown institution, they rather prefer special schools because of the looser teaching process which reflects more closer their nature and values). It is, however, apparent that this system is far from being inclusive, an attribute, which should be key with respect to education of the handicapped.

The quality of education has many factors. Experts agree that one of the greatest challenges for the Slovak education system is the change of its philosophy from emphasising theoretical knowledge to focusing on its application in daily life (in particular, in preparing for the labour market).[83]

---

[81] Surveys have found that the median costs for teaching aids for university students amount SKK 2,000 per year, being however more than SKK 5,000 per years for 16 percent of the students. Source: National Report on Education Policy (2001)

[82] The number and location of special schools across Slovakia show that most of these schools are located in regions with high concentration of Roma population.

[83] In a survey conducted by Trend Analyses, managers of companies defined three main problems related to the quality of school graduates in Slovakia: 80% think that graduates have *poor managerial capabilities*, about two thirds mention *insufficient knowledge of foreign languages*, and 61% point to *unpreparedness of graduates for*

This challenge comprises a complex of reform policies and measures. Slovakia's system of education suffers not only from a proclaimed shortage of funds, but also from gaps in the conceptual, legislative and methodological areas. The Millennium Project, comprising the National Programme of Educational and Training and the Development Concept of Education, is the main strategic tool introducing the reform of education in Slovakia. The project is ambitious in its goals and supports decentralisation of the school system towards municipalities, competition among schools of different founders, addresses the financing of education. Experts blame the project mainly for being inconcrete in defining priorities within the proposed steps as well as in their time sequence and concrete mechanisms for implementation; it also fails in taking into account the financial restrictions and the demographic trends.[84]

The National Employment Plan includes also specific measures focused on strengthening the co-operation between the school system and the business sphere in preparing teaching syllabuses and plans of practical preparation in secondary schools, as well as the co-operation of regional labour offices in deciding on the contents of curricula and number of school graduates based on the requirements and developments in the labour market.

4.2.4 Family solidarity and protection of children

In its analysis of the poverty profile in Slovakia, the World Bank (2001) has found the demographic composition of the household as a significant determinant of the poverty risk. Families with children appear to have a much higher risk of poverty than families without children, and the risk tends to increase significantly with the number of dependants. Families with three children or more, for example, represent only 6.3 percent of the population, but account for 18.1 percent of the poor. Single parents with children appear to be at a particular high risk (poverty rate of 27.8 percent). It also seems that female-headed households have a higher risk of poverty than male-headed ones.

Children are very likely to be at the highest risk of poverty; they face a risk of poverty that is two times that of adults and four times that of the elderly (World Bank, 2001). Households in the early stages of family formation, with a greater number of young dependants, will have lower per capita or per adult equivalent real incomes than households with the same level of money income but with fewer dependants. Thus, household size and structure are important determinants of a household's real income and poverty status (see Table 4.18).

---

day-to-day practice. Source: Report on the State of the Business Environment. Business Alliance of Slovakia, Bratislava (2002)

84 See National Report on Education Policy (2001).

Table 4.18: Poverty risk by family composition (%, 1996)

Indicator	**Poverty rate**	**Relative poverty risk**	**Share of all individuals**	**Share of poor individuals**
Gender of household head				
male	9.7	-4.0	81	78
female	11.1	+9.9	19	22
Family composition				
single parent with children	27.8	+175.3	1.6	4.4
other families with children	17.7	+75.3	42.9	62.2
single elderly male	0.1	-99.0	0.6	0.0
single elderly female	1.1	-89.1	2.6	0.3
multiple elderly only	3.2	-68.3	3.8	1.2
other families with no children	6.7	-33.7	48.6	32.0
Total	10.1	0	100	100

Source: World Bank (2001)

The UNICEF regional monitoring report (Children at Risk...., 1997) concluded that a rise in the overall poverty rate in Slovakia by 1 percent entails a 1.5 percent increase in poverty among children. The number of children living in incomplete families has also risen as a result of higher rates of family breakdown and increases in the proportion of births to unmarried mothers. The divorce rate has increased constantly during the first half of the 1990s, while oscillating around 1.7 divorces per 1,000. The number of non-marital births has increased to reach 18 percent of the total number of livebirths in 2000 (see Tables 4.19 and 4.20 and also chapter 1.1.3).

Table 4.19: Divorces in Slovakia

Indicator	**1996**	**1997**	**1998**	**1999**	**2000**
Number of approved divorces	9 402	9 138	9 312	9 664	9 273
of which in %					
Divorces with dependent children	74.5	73.0	72.5	70.7	70.2
- with 1 child	40.1	39.5	40.1	39.9	40.7
- with 2 children	27.8	27.3	26.4	25.0	24.1
- with 3 and more children	6.6	6.1	6.1	5.9	5.5
Average number of children in divorced marriages	1.6	1.6	1.6	1.5	1.5

Source: Report on the Social Situation of the Population in the SR 2001. Ministry of Labour, Social Affairs and the Family of the SR.

Table 4.20: Children born out of marriage

Year	**Non-marital births (as % of total births)**
1990	7.6
1995	12.6
1996	14.0
1997	15.1
1998	15.3
1999	16.9
2000	18.3

Source: Statistical Office of the SR

The outlined demographic trends should not be seen necessarily as negative in itself. However, evidence from many Western countries suggests that these demographic changes do represent a notable increase in risk for children's economic well-being and development (UNICEF, 1997).

A series of measures supporting the family is in place in Slovakia. Child allowances and specifically allocated parental allowances constitute the basis of direct State support to families with dependent children (see chapter 2.3 for overview of allowances). In the poorest 10% of households, family allowances in 1999 represented 18 percent of all income. (UNICEF, 2001). The indirect support to family includes many policies covering areas such as housing, education, health care, transportation, etc. and is not explicitly aimed at addressing poverty, rather at providing universal assistance to families and targeted support to families with low income.

Support from the family, both of a financial and non-monetary nature, plays a significant role in the prevention of poverty. Households who enjoy large and/or more intensive family ties (with, for example, parents, grandparents, children, relatives, etc.) have usually a greater chance to avoid poverty and enjoy a higher standard of living than households without family support. Although difficult to measure, family solidarity and assistance are among the most efficient mechanisms of protection against poverty in Slovakia. More than a half of all Slovak households accept assistance from relatives, parents, grandparents, children, and siblings.[85]

4.2.5 Accommodation

Homeless people are usually not included in statistics. They are poor in the very sense of the poverty definition, both from the aspect of income and from social exclusion.

There is no official definition of the homeless in Slovakia. They are referred to as ”socially inadaptable persons”. Under communism, homelessness was not allowed and was prosecuted under Penal Code sections on parasitism. The number of homeless people in Slovakia is currently estimated by police corps at about 2,000 persons (UNDP, 2000), but the actual number may be considerably higher. The most frequent causes of homelessness include divorce, family conflicts, completion of term in prison, etc. A homeless way of life is typically branded by social pathologies such as alcoholism and stealing.

Church unions and charity foundations play an irreplaceable role in mitigating the misery of the homeless by providing them with warm meals, clothing, and emergency shelters. They also encourage and support activities that involve the homeless in building their own dwellings.

The housing stock in Slovakia is relatively new, with two thirds of the dwellings build after W.W.II, however, its condition is dissatisfactory considering its age. About half of the units are family houses with a relatively decent standard of size and equipment, the other half is situated in

[85] Source: Filadelfiova, J. – Guran, P.: *Some Family Aspects of Poverty.* In: Poverty as a Social Problem: Theory and Practice. Bratislava (1995)

residential dwellings of uneven quality with a considerable proportion being subject to deterioration due to applied construction technologies and neglected maintenance.

According to results of the 2001 population and housing census, indicators of habitation and equipment of households show regional differences. Differences are even more pronounced on the district level. Part of the housing stock is yet not equipped with flush toilets (12%), 7% of the dwellings have no bathroom or shower, and 5.3% of dwellings are not connected to public water supply. Many dwellings do not meet basic sanitary standards. Although not appearing in official statistics, several field observations indicate that poor quality housing as a visible sign of poverty concerns mainly residences of Roma in colonies in the eastern and southern districts of Slovakia.[86]

The numbers of housing units in Roma colonies have increased by 12,361, from 1,973 units in Roma colonies in 1998 to 14,334 recorded in 1997. The number of families in Roma colonies increased from 2,543 in 1988 to 22,785 by 1997, an increase of 20,242. The number of Roma families living in shacks also grew, from 2,543 families in 1989 to 4,606 in 1997. The total population living in Roma colonies has grown by 108,046, from 14,988 people in 1988 to 123,034 in 1997.

The number of Roma families per 1 shack in the colony remained at 1.3, which is the same level as reported in 1988. Although huge numbers of Roma returned to the colonies, the number of families sharing one shack was maintained due to the construction of new shanties. In 1997, local State administration authorities recorded a total of 591 ”dwelling groupings at a low socio-cultural level” – i.e. Roma colonies. Of those Roma colonies, 41 lack a source of potable water and there are no access roads built to 50 colonies. 94 colonies have still no public lighting and 1,202 out of the total number of 13,882 dwellings have no electricity connection. Some colonies have no electricity at all. Of the number of dwellings mentioned (3,493), as many as 25.2 percent have been built as temporary shelter with randomly acquired materials (timber, sheets of iron) that do not meet basic national standards. In 1998, a total of 4,838 families lived in such dwellings. There are 1.4 families on average living in each such dwelling, which usually consist of a single room. (UNDP, 2000)

As a result, housing conditions of the Roma in colonies bear visible signs of poverty. Housing problems of the Roma in Slovakia were dealt with by several programmes and projects, including those financed by the State, self-governments, and the international community. The success of the projects was usually hampered by the lack of knowledge of the actual situation and

[86] See for instance *Poverty and Welfare of Roma in the Slovak Republic*. Joint report of the World Bank, Foundation S.P.A.C.E., Open Society Institute, INEKO. Bratislava (2002)

more often by fragmentation and missing continuity of activities in the particular settlements. A recently launched project financed by the PHARE programme and co-ordinated by the Office of the Plenipotentiary for Roma Minority Issues in collaboration with the Ministry of Construction and Regional Development of the SR and local municipalities, is aimed at improving the basic housing and infrastructure conditions in up to 30 settlements in the Banska Bystrica, Kosice, and Presov regions.

Housing construction underwent substantial changes in the previous decade. In trying to create a sound housing market, the responsibility for solving the housing needs was shifted almost exclusively to the citizen. Due to ongoing shaping of a real State housing policy and a slowly developing system of financing, housing became less affordable for the majority of the population than it was before 1989. The founding of the Housing Development State Fund was the first attempt to financially support low income households in building their own dwellings. The loose credit conditions and the subsequent lack of funds, however, lead to a reorganisation of the Fund and a more focused orientation towards low income applicants. Nevertheless, the Fund continues to struggle with insufficient sources and will most likely undergo substantial reorganisation in 2003.

The so-called social housing is provided for mainly by the municipalities and usually contains provision of temporary or stable accommodation for young and low-income families.

4.2.6 Ethnicity

Despite the lack of unambiguous evidence, it is generally acknowledged that poverty in Slovakia includes a marked ethnic aspect. The Roma population represents a specific minority. The majority of Roma in Slovakia live in a poor socio-economic situation which raises the question whether Roma are not a social rather than an ethnic minority. Discussions have been increasingly related to the ”underclass” issues that address the situation of Roma living in colonies. (UNDP, 2000)

The social and economic situation of the Roma in Slovakia has been subject of many research projects and qualitative studies. Most of this work concludes that Roma are among the socially and economically most deprived groups.[87] Existing evidence shows that Roma are poorer than other population groups and are worse off in terms of nearly all basic social indicators, including education and health status, housing conditions and access to opportunities in the labour market and within civil society (Poverty and welfare of Roma in the SR, 2002). The qualitative study *Poverty and Welfare of Roma in the Slovak Republic* found that poverty among Roma is

[87] For details about the historical reasons for wide-spread poverty among the Roma, see for instance Vasecka (2001) and Fraser (1995).

closely linked to four main factors: (i) regional economic conditions; (ii) the size and concentration of the Roma population in a settlement; (iii) the share of Roma in a settlement; and (iv) and the degree of geographic integration or segregation of the settlement and its proximity to a neighbouring village or town. The study

About one third of the estimated Roma population[88] in Slovakia lives in segregated settlements which bear signs of poverty common in the least developed countries. Unemployment rates as high as 100 percent create a situation that is referred to as ”visible islands of poverty”. There is a threat of total social disorganisation and a poverty culture as the only possible method to efficiently adjust the situation.

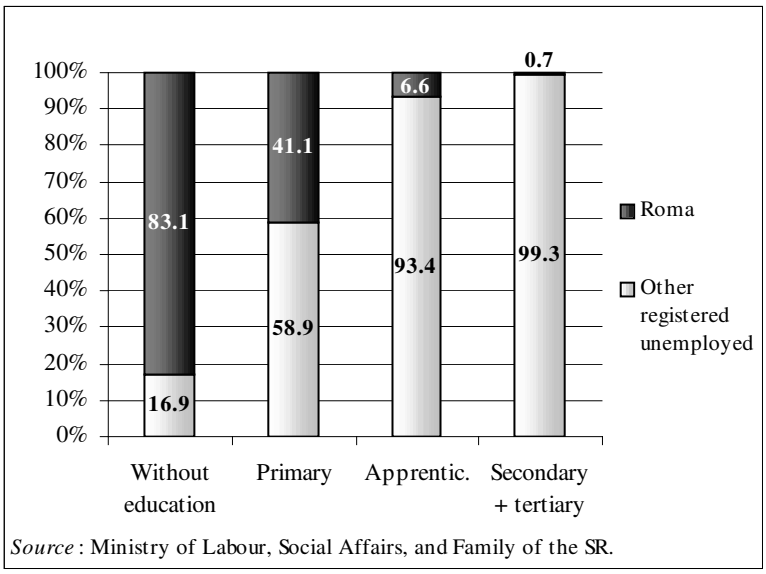
While there are no exact unemployment and social assistance statistics by ethnic breakdown since mid 1999 (due to equal opportunities legislation), latest available data suggest that up to 80 percent of the Roma population is dependent on the social protection system. Roma represent about 18 percent of the total number of unemployed (see Table 4.13 for LFS data). The educational attainment of Roma is very unfavourable; the 2001 population and housing census revealed that 76.7 percent of Roma aged over 16 have only elementary education and 3.7 percent are missing education at all.

A number of prejudices and lack of knowledge both within the Roma and non-Roma population has resulted in a stigmatisation of the ”Roma issue”. Roma are being perceived as a social category that caused its own poverty and is not motivated to improve the status. This leads to further marginalization and social exclusion. The cumulation of handicaps is being transferred from generation to generation. Another impediment to the situation is the diversification within the Roma community which together with the above-mentioned factors has impacted on the success of policies addressing the uneasy Roma situation.

---

[88] In the 2001 population census, 1.6 percent of the inhabitants declared Roma nationality. Expert estimations range between 380 000 – 520 000 Roma in Slovakia.

Graph 4.3 Share of Roma on registered unemployed by completed education (in %, as of June 1999)



Source : Ministry of Labour, Social Affairs, and Family of the SR.

Roma are a minority towards which the majority population shows extremely high social distance. Public opinion surveys from the mid-90s have shown that although as much as 80 percent of the population lean towards the generally understood statement ”all people living in Slovakia should have equal rights”, 52 percent agree with the statement that stricter laws and regulations should apply to the Roma (Public Opinion Research Institute, 1995). According to the survey, as much as four-fifths of the population would mind if Roma moved into their neighbourhood, and 66% agree that Roma should live in separate settlements. The survey conducted by FOCUS (1994) brought similar results. The declared social distance towards the Roma can be even higher at the local level, which could be explained by the negative experience of the majority population with concrete Roma communities. One of such non-representative surveys was carried out by the Documentation Centre for Research of Slovak Society in 1995 and refers to the municipality of Rudnany, where only 0.8% of the local majority population would be willing to allow the Roma live in their neighbourhood, 10% in their municipality and 1.7% would allow their child to marry a Roma.[89]

A large number of programmes and projects have been targeted on the Roma community.[90] However, as results of these measures show, no

[89] Source: National Human Development Report Slovakia 1998. UNDP, Center for Economic Development. Bratislava (1998)

[90] An comprehensive overview of the projects exceeds the scope of this study. A recent review by the European Union and the Open Society Foundation in Bratislava

uniform strategy can be efficiently adopted to resolve the poverty of the Roma.

In 1999, the Slovak Government adopted the Strategy to Solve Problems of the Roma Ethnic Minority and the Set of Implementation Measures. The Strategy is based on civil principles, and stresses a positive stimulation of the Roma population. The set of measures gives preference to issues such as human rights, training and education, unemployment, housing, the social area, as well as issues concerning the health condition. Some of the suggested steps were defined only in general terms and there was a missing link with the allocation of funds. Also, given the existence of previous strategies, it does not seem reasonable that a new Roma strategy be required every time a new government is formed.

An important step in addressing Roma affairs in an integrated way was the establishment of the Office of the Plenipotentiary for the Roma Minority in 1998. The office of the plenipotentiary is commissioned to implement the government policy regarding Roma. The new plenipotentiary recognises that deprivation has multiple factors. There are plans to establish a committee of all relevant sectoral Ministries to address Roma issues. A first example of a co-ordinated strategy, in co-operation with the EU Commission, is the aforementioned improvement of housing and living conditions in selected Roma colonies.

A number of specific and targeted measures have brought positive results with respect to reducing the impoverishment of the Roma (e.g., introduction of so-called zero classes for Roma pupils in elementary schools, provision of microcredits in regions with high concentration of Roma, preparation of social workers for field work in concrete settlements, etc.); new measures are planned (e.g., the introduction of compulsory pre-school education in kindergartens). A precondition for success of measures to assist the Roma is their acceptance by both the Roma and the majority population. It is important to involve the Roma themselves in the decision making process and in the implementation of the measures. It has to be recognised that dealing with the complex situation of the Roma goes beyond the scope of Slovakia alone and support from a whole community of countries will be necessary.

4.2.7 Regeneration of areas

The World Bank analysis of the 1996 Microcensus data shows that there are important differences in poverty risks both across regions, and between urban and rural households within the same region (see Table 4.21). The same data also suggest that despite regional differences in the poverty risk,

---

identified over 900 projects, implemented by NGOs, which had been targeted to Roma.[90]

the distribution of the poor households across regions is more or less comparable (Bratislava region showing higher or comparable shares of poor than Presov and Banska Bystrica). In the view of the authors of the study, policies to help the poor that are mainly geographically targeted would thus be unlikely to work well in as it would miss some important pockets of poverty.

Table 4.21: Poverty risk by region (%, 1996)

Region	**Urban**	**Rural**	**Total**	**Relative poverty risk**
Bratislava	9.0	20.8	9.4	-7.7
Trnava	7.0	8.6	7.6	-25.7
Trencin	13.0	8.6	12.2	20.3
Nitra	11.6	7.1	9.9	-2.2
Zilina	7.9	10.5	8.6	-15.7
Banska Bystrica	8.5	10.4	8.9	-12.7
Presov	10.1	7.6	9.7	-4.2
Kosice	13.5	16.4	14.3	40.7
Slovakia	*10.1*	*10.1*	*10.1*	*0*

Notes: The unit of observation is the individual. Poverty measured by total income and less than the minimum subsistence level. Relative poverty risks are relative to the national uncorrected poverty rate (10.1 percent).

Source: Microcensus 1996 in World Bank (2001).

A different picture is outlined by the regional distribution of unemployed and recipients of social assistance benefits. The overlapping high share of these characteristics in particularly the eastern and southern districts of the Presov, Kosice, and Banska Bystrica regions imply that the proportion of poor and those at risk of poverty is higher than in regions with lower unemployment and dependence on social assistance. A possible explanation of the discrepancy between the poverty and social assistance data could be the flat level of social transfers and the Microcensus methodology.

Table 4.22: Unemployment and material distress by region (2001)

Region	**Unemployment rate (%)** [1]	**Share of SAB recipients incl. dependants on total population in region (%)** [2]
Bratislava	6.5	2.69
Trnava	16.4	8.74
Trencin	13.7	6.94
Nitra	23.4	12.46
Zilina	17.3	9.10
Banska Bystrica	23.7	14.68
Presov	24.6	16.31
Kosice	26.6	19.13
Slovakia	*19.3*	*11.72*

Note: 1. Registration data. 2. SAB – social assistance benefits, data refer to December 2001.

Source: Report on the Social Situation of the Population in the SR 2001. Ministry of Labour, Social Affairs and the Family of the SR.

Table 4.23 comprises selected indicators of the living standards of households by regions. It shows that the highest money income per capita was reported in households from Bratislava, while households in the poorest region of Presov (in financial terms) had highest savings and also highest non-monetary income (e.g., from growing agricultural products).

Table 4.23: Indicators of living standards of households by region (in SKK, monthly data, 2000)

Region	**Net money income per capita**	**Net money income per household**	**Balance of savings**	**Non-monetary consumption per household**
Bratislava	8,885	15,426	36	109
Trnava	7,139	16,259	254	409
Trencin	7,208	14,799	-293	354
Nitra	7,206	15,226	-8	447
Zilina	7,051	14,918	-254	420
Banska Bystrica	7,304	15,373	200	306
Presov	6,817	14,864	384	534
Kosice	7,445	15,987	174	475
Slovakia	*7,378*	*15,426*	*68*	*379*

Source: Household budget survey, in: Report on the Social Situation of the Population in the SR 2001. Ministry of Labour, Social Affairs and the Family of the SR.

4.2.8 Other factors influencing poverty and social exclusion

Health is a strong parameter of human development. The correlation between health and social conditions (and vice versa) is most significantly documented by the deteriorated health status and mortality in Roma settlements (see also chapter 1.1.2).

There is limited information on the socio-economic situation of disabled in Slovakia. They traditionally belong to the groups which are systematically excluded. Physically and mentally disabled persons in Slovakia may not be particularly threatened by monetary poverty, however, they face certain barriers to integration and inclusion into the society (mainly psychological barriers on both sides of the society – disabled and majority population – stemming from a general isolation of disabled from public life, but also physical barriers related to housing and general construction, etc.). There were a total of 109 617 recipients of special-purpose allowances for seriously disabled persons and 66 999 recipients of contributions for compensation of seriously disabled persons in 2001. In comparison with the

year 2000, the total number of recipients increased by 8 488 persons (5.1%) and the total expenditures for this purpose by 30 percent.

4.2.9 Administration, access to and delivery of services

As described in previous chapters, the cross-sectoral approach to tackle poverty and social exclusion is rather scarce in Slovakia. The causes of these phenomena are dealt with predominantly through individual policies, which often envisage co-operation but, eventually, end up isolated. There is a perceptible lack of knowledge and know-how in cross-sectoral co-operation. This is partially a result of the institutional development and the budgetary provisions.

Positive examples include the recent activities of the Office of the Plenipotentiary for Roma Minority issues addressing housing and infrastructure in Roma colonies in co-operation with the Ministry of Construction and Regional Development, the attempts of the MOLSAF to create a multilateral preparatory commission for drafting the National Action Plan to address poverty and social inclusion.

The personal capacities of agencies responsible for social protection policy at regional and local level – i.e. District Offices, Municipal Offices, District Labour Offices – are in most cases exhausted by paying social assistance and unemployment benefits. Activities such as prevention, consultancy, field-work or data collection are often supplemented by NGOs. In terms of targeting of social services, there appears to be no formal system of analysis and procedure. Several active and concerned officials obtain information on vulnerable individuals, households or communities from a variety of formal and informal sources (schools, doctors, NGOs) and use this information for their own day-to-day work to target vulnerable individuals and families. (Papps et al.)

Although data sources necessary for targeting social transfers do exist and/or require relatively modest adjustments, they are often not available, not interlinked, outdated, and rarely used for a more sophisticated analysis.[91]

Corruption is a widespread phenomenon in Slovakia. The 1999 World Bank survey included and examination of the extent of corruption at labour offices. Although the satisfaction expressed with the services provided by the labour offices was very low, only few of the respondents stated they made informal payments for obtaining assistance in job search (1.7% of respondents) or benefits (3.2%).

[91] See for example Papps et al. (2001)

4.3 Evaluation of future challenges

4.3.1 Main challenges

Social inclusion is about participation, widening opportunities, equal chances. With respect to this, the main challenges for social inclusion may be formulated as follows:

- How to make social inclusion and poverty alleviation a priority agenda?
- How to provide for inclusion policies with a limited budget and know-how?
- How to avoid that social inclusion happens at the expense/exclusion of others?
- How to make social inclusion policies targeted, but integrated?
- How to balance participation and solidarity, assistance and active approach?

and particularly:

- How to cope with ageing of the population and its subsistence?
- How to deal with unemployment?
- How to stop and reduce the deprivation of Roma?

4.3.2 Links to other social protection policies

Reforms in areas such as health care, social welfare, education, and pension system are usually unpopular, since they require initial high costs and tend to bring effects yet with a time delay. Avoidance and postponement of the reforms (which is the case of Slovakia), however, aggravates the situation and causes the internal debt to grow.

The mission of the above reforms is to adjust the social system to the demographic and especially economic reality and to make it sustainable. By eliminating the disincentives in the particular systems, the individual becomes more actively involved in the solving of his/her situation and targeted assistance can be allocated to those who are in need.

Unemployment benefits and social assistance benefits, in particular, have high disincentive effects on active job search of their recipients, particularly those with potentially low income. The difference between the minimum wage level and the average social income, which is not taxed, is negligible. Employment implies also other costs such as transport, clothing, etc. As a result, the benefit scheme is indirectly supporting the participation of the unemployed in the grey economy. Disincentive effects in large families with low income are increased by child and parental allowances, since these cause the total income to climb up close to or even above the potential

income from work. The administrative increase of the minimum wage level, which we are witnessing, is unable to solve the disincentives to find jobs. A properly designed decentralisation of the provision of social transfers to the municipal level could help to target services and react to regional differences. It may eventually display in a reduction of the number of recipients and/or of the level of social transfers (particularly of social assistance benefits), but also in a better targeting of public support and assistance to those in real need.

A similar disincentive effect is caused by the high tax and payroll burden. Carefully designed reduction of social security contributions could help boost job creation and reduce ”shadow” employment. Such reductions would diminish the wedge between gross and net salaries, increasing both labour demand and incentives to work (World Bank, 2001). Such measures can not remain isolated from other reform steps, mainly the reform of the pension system, business environment improvement, labour market reforms.

MOLSAF is in the process of drafting a new Strategy of promoting employment through the reform of the social system and the labour market. The main principles of the strategy will consist of:

- lowering of disincentive effects caused by the tax and payroll burden
- strengthening the motivation of the individual to find and maintain a job
- supporting economic and social activity of the individual
- more flexibility of the labour market
- more effective state administration and services in areas of labour market and social affairs
- reducing the misuse of the social system

The outlined objectives shall include a wide range of measures addressing the overall shortcomings of the social system. There is a strong impetus to link the strategy with the Joint Inclusion Memorandum, the National Action Plan addressing poverty and social exclusion and the National Employment Plan. It shall not be forgotten that policy intervention to address one dimension of social inclusion must recognise the numerous interrelationships with the other dimensions. This is a major challenge of the reform process.

4.3.3 Political directions of future reform

The political necessity to establish a broad left-right coalition in 1998, which significantly contributed towards the political and economic stabilisation in Slovakia, brought also a rather complicated situation with respect to the

need to implement reforms of public health, education and the whole social security system (in particular the launching of the pension reform and public service reform).

The outcome of the September 2002 parliamentary elections formed a new coalition of parties, which belong to the mid-right centre of the political spectrum (based on their proclaimed values and/or the assessment of their programmes). The outline of the programme declaration of the new government communicates two main messages: the government will pursue reforms of key social sectors – pension system, health care, and social assistance/support, and, the reforms will be extensive, firm, and restrictive. The ideological intent is strengthened by personal determination – the key position with respect to social policies – the post of the Minister of labour, social affairs and family was filled by a reform-oriented right wing politician. The outlined concepts of upcoming reforms suggest that a growing mobilisation of the left wing political spectrum, including trade unions, can be expected.[92] It is, however, difficult to assess a clear political direction of the reforms in terms of left-right partition, since most of the measures are compatible and inevitable regardless of political preferences.

4.3.4 Social exclusion, poverty and EU accession

The effects of EU accession on the social system, similarly as on the country as a whole, are difficult to separate from the effects of transformation and from other components of development. This becomes obvious already in the preparatory stage for EU membership.

EU accession is expected to bring further opening of the Slovak economy towards the members, while it may raise protection against third countries. Domestic markets will become a part of the common market and will thus react to the new supply-demand conditions. Slovak enterprises will be facing tougher competition, including competition from other accession countries, which in turn will require further structural changes. The regional disparities in Slovakia will be addressed by structural support from EU.

Basically, the opportunities for acquiring education and jobs are expected to improve for Slovak citizens. Free movement of labour may cause a certain portion of the population to migrate to the more advanced economies, however, surveys suggest a relatively low number of those who would permanently settle abroad.

The Slovak society will be facing another important event in its short history. Integration into the group of developed countries will further shape the stratification of the society. It may be expected that inequality in the

[92] What may be seen behind the behaviour of the political elites are effects of reforms on different social layers of the population, on the various regions, as well as responses of Trade Unions, associations of business people and other interest groups.

population will grow. The social framework will become largely dependent on the common legislation, which will create pressure on further adjustment of institutions and policies. As a part of the global economy, however, the EU will not remain isolated and will have to implement reforms covering also the social sphere.

The extent and nature of poverty and social exclusion should not dramatically change due to accession. Economic and demographic developments show relatively stable trends. The early adoption of EU legislation is expected to smooth the entry process, though it is not designed to ignore the indigenous stage of development. The transfer of EU know-how and experience in addressing poverty and social exclusion shall assist in the creation of a sound social inclusion policy.

4.3.5 Conclusions

Slovakia is a country with widely spread egalitarian feelings. This is clearly reflected in the nature of its social protection system. It is characterised by a high redistribution level and generosity. Nevertheless, the current system lacks an integrated approach to tackle multifaceted phenomena such as social exclusion and poverty.

The development of a policy addressing poverty must be on the national agenda in the near future. The involved institutions should become aware of its necessity not only because EU accession is a constant topic. The currently fragmented approach of dealing with particular causes of poverty and social exclusion in isolation must be replaced by a co-ordinated strategy, which will address these phenomena as a complex of problems.

The relevant state authorities, mainly MOLSAF, are taking first steps to draft a concept of social inclusion. This includes in the first stage the preparation of a Joint Inclusion Memorandum (JIM) – a policy statement identifying main priorities and challenges for social inclusion which Slovakia will elaborate into the National Action Plan to Address Poverty and Social Exclusion and the National Strategy of Social Protection.

The concept should be developed in co-operation with other relevant sectoral ministries and capacities from the research, non-profit and academic communities. This is perhaps the most important aspect of the process. There is a general notion that state authorities have insufficient experience in co-operation on joint activities, a problem which is likely associated with responsibility, motivation, human resource issues, etc. To secure that the concept of social inclusion is a process of top priority and top quality, foreign know-how of not only contents but also of experience in co-operation within the State administration and between State administration and other sectors (NGO, academia, research) would support the process.

Structural funds offer opportunities for financing programmes and projects which come under social protection (European Social Fund, European Regional Development Fund). The restructuring of the state budget, on the principles of programme budgeting over a number of years, could support this process. If the government were to recognise poverty as a national priority issue, the sectoral Ministries could identify items of expenditure required to implement programmes and interventions to address poverty. By discussion of these items, a co-ordinated medium-term policy on poverty could be developed. Thus, the restructuring of the budget offers a great opportunity.

A better co-ordination of activities is necessary also in the donor community. Efforts to achieve greater exchange of information and co-ordination of activities in the social sphere should be supported. By merging capacities of different sponsors, projects and actors (indigenous and foreign), the positive impact of their activity should grow.

Policy intervention to address particular dimensions of exclusion/inclusion must recognise the numerous interrelationships with the other dimensions. Measures to support inclusion of one component (group, region, etc.) may not sustain in the long-term if realised at the expense of a different component.

It is important that the policy provides for equality on both poles, i.e., that the rules of the social system enable individuals living in poverty to escape this condition and vice versa, that they motivate other people to eliminate behaviours that lead to poverty and exclusion. The inclusion policy must be well designed and targeted, however, it should be a process of continuing discussion reflecting the actual development.

5. HEALTH CARE

5.1 Evaluation of current structures

5.1.1 Organisation of the health care system

The current structure of health care providers becomes rather fragmented comparing to the previous socialist health care system. The integrated three-tier hierarchical structure consisting of local, district and regional institutions was abolished. The links between primary health care providers and specialists have been weakened. The organisation of the health care system is a mixture of decentralised and centralised structures.

Primary health care includes all first contact ambulatory care, both preventive and curative, including home visits. The four types of the first contact doctors – internists, paediatricians, gynaecologists-obstetricians and dentists – have been preserved from the socialist health system. Following the health care reforms in the 1990s, primary health care services have been separated from public health services. Primary health care physicians carry out basic examinations, diagnosis, interventions and treatment, and are supposed to act as gatekeepers, making referrals to specialist outpatient and inpatient care. In some cases patients may self-refer to specialists (ophthalmologists, psychiatrists, geneticists and specialists for sexually transmitted diseases); also, chronically ill patients registered at a specialist's clinic can access the appropriate specialist physicians directly. However, there is a general tendency by patients to bypass the primary care level.

Policlinics – a form of outpatient centre, which were pervasive in socialist period, were abolished. The ownership of these facilities has been largely transferred to towns and municipalities, who in many cases have rented these spaces to private physicians.

Almost all primary and majority of secondary health care providers have become private, operating alone. In order to open private praxes, physicians have to obtain a licence from the regional state physician and sign a contract with a health insurance company (HIC).

Despite that HICs have been trying to introduce purchaser-provider relations since their launching, the system and especially the relation is not balanced. The reimbursement mechanism[93] has been changed several times since the introduction of the health insurance system. Currently, general practitioners are reimbursed by capitation (fixed amount per patient), regardless of patient's visit or consultation. Specialists are paid for

[93] The Ministry of Health defines the reimbursement rules and the Ministry of Finance sets the financial terms of health insurance provision and prices for health care delivery.

performed services; they receive fees. Due to budget reasons, insurance companies are restricting the amount of examined patients per specialist; therefore, the specialists have to create virtual waiting list in some cases.

Hospitals are categorised according to the previous three-tier hierarchical structure. First category hospitals are regional and include four departments. Second category hospitals are established at the district level and contain a greater range of departmental specialities. Third category hospitals include highly specialised institutions and facilities associated with medical schools. There are 92 hospitals, including 7 faculty hospitals, 4 specialised hospitals, 75 general hospitals and 6 psychiatric hospitals in Slovakia (2000). Hospitals remained under the aegis of the state, however, the public administration reform includes the transfer of hospital ownership to municipalities. The private sector is represented by only three operating private hospitals. There were 567 beds in private hospitals and private maternity hospitals compared to 35,557 beds in public hospitals in 2000.

The provision of inpatient care suffers from many problems, caused by insufficient financing and oversupply, and inappropriately structured network of inpatient facilities. The reimbursement by HICs was several times changed and the current reimbursement mechanism, prospective budget based on historical costs, has been introduced in order to cap expenditures at a certain level.

As stated in chapter 2.1.1, the Ministry of Health (MOH) maintains a wide scope of competence: development of policy and drafting of legislation on health care and health protection, but also wide competencies over health care provision, especially over public inpatient facilities. MOH is responsible for hospital investment planning.

Community care services include long-term inpatient care, day care centres and social services for the chronically ill, the elderly and other groups with special needs such as the mentally ill, mentally handicapped, and the physically handicapped. In 1994, the Ministry of Health ran 8 institutions for infants, 12 children's homes and twenty-bed crèches. The facilities were later shifted to the Ministry of Labour, Social Affairs and the Family.

Many institutes for community care were transferred to municipalities and are under mixed ownership. Community care has improved with the creation of agencies for home nursing care. Community and home care for the elderly and disabled are supported also by legislation, which entitles persons who care for the disabled to social benefits.

Public health and hygiene services are carried out by a network of 37 state health institutes financed from the state budget and headed by the chief hygienist. MOH, through its chief hygienist, develops and implements measures and activities to ensure control and surveillance of communicable

diseases, safety of food, safe and sound working and living conditions, and other public health functions regulated by the Act on Health Protection. The network of 37 state health institutes implements measures and activities to ensure health protection of the Slovak population.

MOH also runs the National Centre for Health Promotion responsible for development of public health policy and its implementation. The Centre co-ordinates and supports health promotion activities in the state health institutes.

Immunisation services are carried out by primary care paediatricians in close co-operation with the state health institutes in accordance with the National Immunisation Program.

5.1.2 Benefits

Health care benefits are very comprehensive and the scope of services covered is very generous. Health insurance, apart from covering acute health care, covers also services like rehabilitation following illness, spa treatment, spectacles and most basis dental procedures. Only few treatments are excluded – acupuncture, sterilisation, abortion, cosmetic surgery, experimental treatment, and psychoanalysis (if there is threat to health, these are covered as well).

This wide scope of covered benefits is a heritage from the previous socialist regime where universal coverage and free-of-charge access to health care services was guaranteed in the Constitution. Despite the move from general tax to health insurance financing, the scope of services provided free of charge to patients have not significantly reduced. The Act on Therapeutical Order[94] defines the services fully covered by the health insurance schemes as well as the services which are co-paid by patients. It comprises four appendices: the List of Health Care Procedures, the List of Drugs, the List of Medical Aids and the Indication List for Spa Care. Several years of experience have shown that for flexibility reasons, it would be more appropriate to exclude the lists from the act and introduce a regulation of lower legal force. This has not happened yet. This Act has not provided an adequate basis for the regulation of health care provision, despite the fact that several amendments have been adopted in the last ten years.

Due to lack of political will, the Ministry of Health has attempted to constrain only coverage of some drugs and medical aids. However, the restrictions have not been sufficient to cap the growing costs of drugs. In order to ascertain the appropriate use of available resources – including non-public sources such as private out-of-pocket payments and private insurance premiums – and in order to structure the system to effective use of these

[94] The Act of NC SR N o. 98/1956 Coll. on the Therapeutical Order, as amended. The Act was drafted by MOH.

resources, it is necessary for the government to restrict the extend of covered services and set a basic benefit package. Without redefining the scope of publicly covered services, it is also difficult to ascertain the role that might be played by private supplemental insurance and other non-public resources.

5.1.3 Financing of the health care system

The Slovak health care finance system based on general taxation and implemented through the annual budget was replaced by the compulsory health insurance system in 1993. The current health care system is funded by a mix of public and private sources. Public expenditure covers about 95 percent of all health expenditures and includes spending from the state budget and premium contributions to the statutory health insurance. Health insurance premiums are by far the most important form source of funding, accounting for over 68% of total expenditures on health. Budgetary transfers account for almost 24% of health expenditures, followed by out-of-pocket formal expenditures (7%) and external funding (1%). Out-of-pocket informal payments for health services are presumably substantial. Accurate numbers are not available, although some estimates show that over 60% of all users of health services pay some informal payments.[95] (see also chapter 5.2.2)

Health insurance companies revenues are drawn from insurance premium paid in the form of payroll tax on wages and equals to 14% of assessment base. Employers contribute 10 percent and employees make a 4 percent contribution, which is deducted from their paycheque by the employer. The same 14 percent contribution is collected from self-employed. There is, however, an upper limit on individual contribution (maximum assessment base SKK 32 000). Supplementary payments are made to insurance agencies by the National Labour Office (NLO) on behalf of unemployed persons and by the State Budget on behalf of the economically inactive persons.[96]

The contribution of the state should basically equal to 14% of the minimum wage. However, when approving the Act on the state budget, the amount of contribution is changed and since introduction of health insurance system, the allocated amount has never been sufficient. In 1994, while the contribution rate was 13.7% from the assessment base 10% of the minimum wage. In 1995, the contribution was calculated from 54% of the minimum wage, in 1996, from 75% and this state has preserved until now. In practice, it means that the state pays significantly lower amounts than economically active persons.

Table 5.1: Health insurance budget (in SKK million)

[95] World Bank (1999).

[96] State pays contribution on behalf of children, pensioners, persons caring for children or disabled person, soldiers in military service, prisoners, refugees, and other inactive persons – approximately 3.2 million individuals (almost 60% of the population).

Indicator	1994	1995	1996	1997	1998	1999	2000	2001
Revenues [1]	16 880.7	26 002.4	34 449.2	37 581.4	39 737.1	40 959.0	43 432.6	48 223.1
Premium collection from working population	15 518.7	18 726.9	23 732.9	26 799.5	28 547.7	29 321.1	31 756.4	34 628.8
State Budget	1 362.0	7 131.8	10 380.4	10 425.3	10 545.9	11 056.6	11 150.2	13 193.8
NLO	0	143.7	335.9	356.6	643.5	581.3	526.0	400.5
Total expenditures [2]	19 281.6	26 702.1	36 215.5	39 993.2	39 245.1	43 635.9	45 840.1	49 634.0
of which:								
Basic Fund Expenditures [3]	18 866.4	25 263.7	33 303.3	34 492.8	35 824.1	40 788.9	42 786.9	46 975.2

Note: 1. Data in table on creation of health insurance budget do not include funds from state budget allocated for Ministry of Health (e.g. investment costs). 2. Total expenditures include basic, reserve, administrative and special-purpose funds. 3. Basic fund expenditures represent the funds, which are actually spend on health care provision.

Source: Ministry of Health of the SR, Ministry of Finance of the SR.

Table 5.1 shows the composition of the health insurance budget. State contributes only about 25% of total health insurance revenues, while paying for approximately 60% of the population (see Table 5.2). Without any doubts, working population and their employers bear the costs of health insurance. As it can be also seen from the table, since its introduction, the health insurance system is not balanced and creates debts, which are discussed in chapter 5.2.2.

Table 5.2: Insured under the health insurance agencies (in '000 persons, as of 31 December)

Indicator	**1996**	**1997**	**1998**	**1999**	**2000**
Total insured	5 372	5 638	5 613	5 563	5 546
of which:					
Gainfully employed – total	2 093	2 216	2 321	2 211	2 265
Registered unemployed [1]	80	105	128	147	142
State insurees [2]	3 200	3 278	3 131	3 195	3 130

Note: 1. NLO pays contributions for registered unemployed receiving unemployment benefits. 2. State pays contribution on behalf of children, pensioners, persons caring for children or disabled person, soldiers in military service, prisoners, refugees, and other inactive persons.

Source: Statistical Office of the SR (2001)

The number of HICs has reached a maximum in 1996 – 12 performing companies. Since then the number has decreased, mainly due to imposed restriction regarding minimum number of insurees, assets, etc. Currently there are five operating health insurance companies (see Table 5.3), out of which two are established by law[97] and their solvency is guaranteed by state (VsZP and SZP – covering army, police and railway employees). On contrary, the remaining three health insurance companies are fully responsible for their financial solvency.

Table 5.3: Number of insurees (as of December in respective year)

Company	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
VsZP	4 417 889	2 816 066	2 752 297	3 294 663	3 531 038	3 695 000
SZP	0	0	0	693 051	703 514	
Apollo	191 771	596 764	519 765	483 609	456 044	
Sideria – Istota	0	0	0	461 163	393 745	384 914
VZP Dovera	0	0	18 099	400 467	342 290	319 823
Population	5 367 790	5 378 932	5 387 650	5 393 382	5 398 657	5 402 547

Note: The total number of insurees is not in compliance with the number of population, which is mostly due to inaccurate data resulting from non-functioning insurees' registry.

The change in the number of insurees is associated with the merger of health insurance companies (there were 12 companies initially); in some cases the merger was followed by rename of the insurance company (e.g., Sideria Istota is not Sideria from 1995).

Source: Statistical Office of the SR, Ministry of Finance of the SR

In order to suppress the evidence of adverse selection among health insurance companies[98], redistribution mechanism was introduced. Basically it means that revenues are collected by each of the health insurance companies individually and then redistributed according to insuree's age and

[97] The Act of NC SR No. 273/1994 Coll. on Health Insurance, as amended, defines the condition of establishment and operation of Health Insurance Companies and according to this law the HIC – VsZP is established. HICs are public, non profit and self-governed institutions. Self-government is carried out through the Board of Directors and Supervisory Board.

[98] Every insuree is allowed to choose among existing HICs, but not more often than once a six months.

sex structure. The redistribution mechanism has been several times changed, from redistribution of 60% of collected premiums according to the number of economically active and inactive insurees, to higher proportion of collected premiums (up to 80%) redistributed according to risk-structure criteria. Currently, 100% of contributions collected by all companies are redistributed according to age and sex of the insurees. In practice, this led to a redistribution of funds towards the VsZP, which has continuously the highest proportion of state insurees (pensioners and children). The redistribution mechanism remains to be a cause of tension among health insurance companies.

Table 5.4: Expenditures of health insurance companies (SKK million)

Indicator	**1996**	**1997**	**1998**	**1999**	**2000**	**% range**
Total expenditures on health care	33 812	36 859	39 442	41 156	43 576	100
of which:						
Primary care	4 704	4 993	4 442	4 585	5 006	11 – 14
- of which dental care	1 957	2 659	2 250	2 071	2 056	5 – 7
Specialised out-patient care	2 710	3 318	3 271	3 260	3 653	8 – 9
Joint examining and therapeutic units	2 915	3 331	3 709	2 888	4 154	7 – 10
Ambulance service	825	716	711	530	743	1 – 2
Drugs on prescription	9 223	10 048	11 379	12 638	14 488	27 – 33
Medical aids	948	1 364	1 094	1 250	1 328	3 – 4
Inpatient care total	10 929	10 974	12 032	14 563	13 186	30 – 35
- of which: hospitals	-	9 901	10 445	13 155	11 831	26 – 32
Spa	371	368	403	416	430	1

Source: Statistical Office of the SR (2001)

Only health care services specified in legislation may be reimbursed from compulsory insurance. The resources of the HICs are directed towards three main categories of expenditures: 1. health care institutions (hospitals and health care centres); 2. physicians and other providers; and 3. pharmaceuticals. According to aggregate data on health insurance spending (see Table 5.4), the biggest share of expenditures goes to inpatient facilities (30- 35%). The second largest expenditures are paid for pharmaceuticals, which account for 27-33% of total expenditures on health. The third position is shared by primary (11-14%) and secondary care physicians (8-9%).

According to the Annual report of the General Health Insurance Company (VsZP) which covers the substantial part of Slovak population – 3.695 million inhabitants (68% of total population), the agency has spent in 2000, 11.2% on primary care[99], 9.2% on specialised outpatient care, 10.9% on tests and screenings[100], and 26.9% on inpatient care. This distribution is similar to aggregate data on HICs' expenditures and the only noticeable difference lies in the proportion of drugs and medications, for which VsZP has spent the biggest part of expenditures accounting for 37.6% of all health care expenditures.

Expenditures on drugs have been significantly increasing during the last years. Growing was not only the total amount funds spent on prescribed drugs, but also the proportion of all funds spent on medication (from 27% in 1996 to 33% in 2000). For instance, while in 1996 VsZP has spent SKK 1 537 on drugs per insuree, in 2000 the amount has almost doubled to SKK 2 906. The following Table 5.5 shows another interesting fact on drug consumption: since 1998 the consumption of drugs by packages has decreased.

Table 5.5: Review of consumption of drugs

Consumption of drugs	**1996**	**1997**	**1998**	**1999**	**2000**
in thous. packs	161 340	168 549	166 194	162 728	151 449
in SKK million	9 402	11 888	12 936	13 584	15 238
Average price (SKK/pack)	58.30	70.50	77.80	83.50	100.60

Source: Statistical Office of the SR (2001)

Data, which would allow an analysis of the source of funds (social insurance, private insurance, out-of-pocket money) spent in each sector of

[99] Includes also ambulances and emergency.
[100] So called "common examination and treatment elements".

expenditures are not available. A look at the generation of funds shows that most of the funds come from working population contribution (see Table 5.1). In 2001, premium collected from the working economically active population was 2.5 times higher than state and NLO contributions despite working population accounting for 2 million and state and NLO jointly covering 3.4 million insurees.

5.1.4 Incentives

One of the features of the current health care system is lack of incentives leading to increased utilisation and restricting cost. The following factors are considered to be most critical:

- structure and size of health care providers,
- reimbursement mechanism.

Structure and size of health care providers

International evidence shows that there is strong correlation between the number of practices and health care costs. Since the introduction of health insurance system, there are ongoing debates about who should have the competence to decide about the network of health care establishments.[101] Currently, new practices that would widen the network are not permitted and MOH decided to freeze the current status. However, it is not clear with whom HICs can sign a contract and/or to whom the regional state physician is allowed to issue a license (these are the two most crucial conditions to open a private practice). So, there are no clear rules regarding the competence to determine the health care providers network.

There are 116 158 persons employed in the health sector. Of these, 19 171 are physicians (1999), equivalent to 377 physicians per 100 000 inhabitants, which is and significantly higher than in 1980s, when the ratio was 324 physicians per 100 000 inhabitants. These ratios are, however, in line with most EU countries (average 353 physicians per 100 000 population). What is noteworthy is that there are only 45 general practitioners per 100 000 inhabitants in Slovakia, which is very low compared to other countries in the region (73 in the Czech Republic, 57 in Hungary and 100 on average in EU countries). Like other countries in the region, Slovakia also has a large number of specialists, which is in line with the emphasis on hospital care. In 1999 there were 9 117 physicians employed in hospitals, representing 50 percent of all active physicians. Slovakia has 723.3 nurses per 100 000 inhabitants, significantly higher than Hungary (385 per 100 000) and Austria (555 nurses per 100 000) – see Table 5.6.

---

[101] Network of health establishment is defined by Law No. 277/1974 Coll. on health care, as amended. Since 2000 this law has defined the new structure of network. The whole network is characterised by number of establishments, number of beds and physicians posts.

Table 5.6: Development of health care personnel (absolute data, 1980-1998)

Personnel	1980	1985	1990	1995	1996	1997	1998
Active physicians	14 107	16 205	17 347	16 565	16 333	17 228	18 508
Active dentists	2 252	2540	2 574	2 136	2 118	2 347	2 610
Certified nurses	29 760	34 878	37 127	37 655	-	-	39 862
Midwives	2 272	2 386	2 567	2 098	-	-	2 258
Active pharmacists	1 638	1 893	2 050	496	-	-	1 792
Physicians graduating	683	462	404	699	938	678	625
Nurses graduating	1 973	2 335	2 171	4 115	3 494	2 682	2 684

Source: Institute of Health Information and Statistics, 1999.

Enrolment in the medical faculties is not co-ordinated with the health sector needs. For instance, in 1997, 3 785 students attended the three medical faculties. Their number has been continually decreasing (4 304 in 1994). In 1998, 625 students graduated in general medicine, which represented 11.66 graduates per 100 000 inhabitants. According to WHO data, this is slightly less than in Germany (13.68), but higher than in many other western European countries, such as the Netherlands (8.86), France (9.38) and the United Kingdom (6.34).

There are 92 hospitals, including 7 faculty hospitals, 4 specialised hospitals, 75 general hospitals and 6 psychiatric hospitals in Slovakia (2000). The reform of public administration includes the transfer of hospitals to municipalities. The process is slowed down by the unsolved financial aspect of the transfer. There are only three private hospitals operating in Slovakia.

Table 5.7: Number of beds in health care establishments

Indicator	**1996**	**1997**	**1998**	**1999**	**2000**
Total number of beds	61 698	61 288	60 929	60 169	56 261
of which in:					
Hospitals and maternity hospitals	41 634	40 413	39 588	39 303	36 124
Special therapeutic institutes	7 919	7 843	7 921	7 473	2 364
Spa	12 145	13 032	13 420	13 393	12 819

Source: Statistical Office of the SR (2001)

The total number of available beds in health establishments has been decreasing since 1996 (as indicated in Table 5.7). There were 56 261 beds in 2000, of which 36 124 beds were in hospitals, while the remaining in the 9 tuberculosis institutes, the 6 psychiatric institutes and in other long-term care facilities. Per 1 000 persons there were 10.4 beds, a decrease by one bed compared to 1996 (11.5). The statistics report separately the number of hospital beds per 1 000 inhabitants, which has also decreased from 7.8 beds in 1996 to 6.7 hospital beds in 2000. By international standards, Slovakia has an excessive number of hospital beds. As the Slovak Republic is a middle-income country, bed availability at higher than OECD rates is surely too expensive. Further, the supply of hospital beds is likely to create its own demand in a health care system in which costs are not constrained.

Hospitals in Slovakia continue to be under-utilised and most operate at less than 70% of the bed capacity compared to 80% and more in OECD countries. Average length of stay in acute hospitals is 8.9 days (in 2000), which is relatively high compared to other countries of the region, like Hungary (7.0), Czech Republic (8.7), and Austria (6.8).

The efficiency in the hospital sector can be examined by measuring the operations of hospitals across two parameters: (a) annual bed-occupancy rate; and (b) average length of hospital stay (ALOS). Available evidence indicates that while the hospital sector made some efficiency gains in terms of reducing the average length of hospital stay from 11.7 in 1995 to 9.1 in 1999, bulk of the gains have been neutralised by the drop in hospital bed-occupancy rate from 79.2% in 1995 to 69.5% in 1999. The only way to consolidate the efficiency gains in this situation is to rationalise the number of hospitals and hospital beds by closing a number of hospitals and consolidating the rest.

Slovakia does not perform well by international comparisons on these counts as well. With the exception of Germany (ALOS: 11 in 1998) most other countries in Western Europe have average hospital stays of 9 days or less (in 1998), significantly lower than the 10.2 days in the Slovak Republic. At the same time, most countries had bed-occupancy rates of 80% or more (e.g., Netherlands: 86.7%, Ireland: 84.7%, Austria: 80%), significantly higher than the Slovak rate of 78% (all figures of 1998).

As mentioned above, the increased utilisation and restricting cost is also influenced by reimbursement mechanism. During the health care reforms, the appropriate system of reimbursement has not been found to motivate the health personnel to provide better quality, more efficient and cost-effective.

Physicians are paid on the basis of a capitation fee per enrolee for outpatient care and receive a fixed amount per enrolee regardless of the type and extent of treatment sought. Capitation rates are set by the Ministry of Health and are issued by the Ministry of Finance.[102] The maximum rates are set differently for general practitioners (GP) for children and adolescents, for GPs for adults and for gynaecologists. Apart from that, they do not yet differ by age, region or any other variable. Usually, all HICs pay the maximum rate, so the capitation rates do not differ between insurers. Physicians participating in this scheme bear all the risk of treating a patient, except providing drugs, and thus have all the incentives to be conservative in the amount of health care they provide. The principle that the health care provider who provides better care and has more patients receives more money is not true at the current time. Physicians are thus more likely to err on the side of over-referring patients to specialists. This often becomes a beneficial arrangement for both, the physician – who reduces his work load with no financial penalty payment – as well as for the patient – who have a strong preference for specialist care over primary care. (World Bank, 2002)

For private office-based specialists, outpatient care services are reimbursed according to a fee-for service principle (on point basis).[103] Through limits placed on the providers on the volume and types of services they can provide in a month, total reimbursement is limited. On the other hand, state employed specialists are salaried in accordance with national pay scales. In this case, the health care facilities receive payment as a points-related lump sum from HICs.

The provision of inpatient care suffers from many problems, caused by insufficient financing and oversupply, and inappropriately structured network of inpatient facilities. All hospitals are still owned and operated by

---

[102] All prices and charges in Slovak health care system are set by the MOF based on the MOH proposal. Subsequently, these are issued in a Law on prices (Act No. 18/1996 Coll.).

[103] Number of points for a service is set by the MOH and the MOF defines the value of one point.

the MOH, and the employees remain civil servants. There are few strong administrative imperatives to manage these facilities effectively and efficiently. No hospitals have been closed or liquidated for debts and no directors sacked for financial mismanagement. There is no practice of significant reductions in the staffing levels. Also, there is little to no scope for private sector intervention in the provision of in-patient services.

Within hospitals, management positions are predominantly occupied by medical professionals with little to no management training. Rational allocation of resources, in accordance with costs and benefits, is further hampered by an absence of good information on inputs, costs and health service outcomes. Also, health practice norms and protocols are neither well standardised nor reflect contemporary cost-effectiveness considerations.

The reimbursement by HICs was several times changed. Last time it was changed in 1998 from retrospective system of payment to prospective budget payments accounted by MOH based on historical costs and other indicators. The prospective budget is divided among different insurance companies based on the number of insured persons treated in the appropriate hospital in previous months and on the volume of services provided. The reason for its introduction was mostly to cap expenditures at a certain level.

The current system of reimbursing hospitals also provides perverse incentives for providers. By reimbursing hospitals on the basis of historical costs provides little incentive to the facility administration to control costs and limit the use of various inputs in the short-run. Even though the reimbursement system is called ”prospective”, it is basically retrospective payment based on a one-year lag, and to this extent has few desirable elements of either system.

The insurance companies must passively transfer resources to the hospitals in the proportion of number of insured persons treated in the appropriate hospital in previous months and on the volume of services provided. All insurance companies have contracts with all hospitals. There is little scope for selectivity or outcomes-based payments. The insurance companies have little scope to control or influence the practices of health providers. Although the introduction of prospective global budgets for hospitals has contained overall spending by hospitals, service pricing signals are weak and generally not connected to the real cost of services.

The government of Slovakia has not provided insurers with many meaningful powers in connection with budgeting and provider payment. In fact, these entities do not have some of the more typical powers associated with an insurance function, including: risk analysis, identification and quantification, claims processing and monitoring of costs and revenues, reserves, solvency criteria, the requirement to pay off its outstanding balances by deducting from its profit. Furthermore, the solvency of the entity is not subject to government supervision nor verified by an independent

auditing, monitoring or supervisory authority. The absence of clear definitions of the scope of governmentally guaranteed benefits also makes it difficult for insurers to define legitimate claims. As a result, the health insurance companies behave like collection agencies only, with little or no actuarial functions. The role of multiple insurance companies is been reassessed, while there is no real competition among the insurance companies.

Of similar importance as the structure and size of medical personnel and reimbursement mechanism is the factor of covered scope of services, which is perceived as very generous in the Slovak health insurance system. This issue is described in more detail in chapter 5.1.2.

5.1.5 Coverage of the system and access to care

The Constitution of the Slovak Republic, which came in force in 1993, guarantees universal coverage of comprehensive free-of-charge health care services to every citizen through the means of compulsory health insurance build upon the principles of solidarity, non-profitability and plurality, and the right for protection of individual health. Basically, all permanent residents in Slovakia are covered by the system. Only those who are abroad for more than twelve months and are insured in their country of temporary residence are excluded. Persons temporary resident for less than 12 months are obliged to pay two health insurance premium: compulsory for Slovak territory and commercial health insurance for abroad.

Contractual health insurance is used by persons excluded from the compulsory health insurance (persons without permanent residence and employment in Slovakia, as well as those with permanent residence in Slovakia but having foreign health insurance.

Access to health care services is assured by the existing network of health care providers described in chapter 5.1.4.

5.1.6 Public acceptance of the system

The crisis of the health care system is perceived very sensitively by the public. Surveys examining the most acute problems in the society show health care ranking among the top three problems, which need to be solved in Slovakia (see Table 4.6).

In May 2001, the private agency Markant asked citizens about their trust to health institutions. Not surprising was the fact that the Ministry of Health was viewed as the most criticised stakeholder (achieving the majority of voices expressing distrust, 67.3%). Interestingly, the insurance company VsZP was evaluated the most trusted institution (59.1% of respondents); at

the same time was heavily criticised for its performance. Ranking of health institutions is shown in Table 5.8.

Table 5.8: "To which extent do you have confidence in following institutions?" (% of positive answers)

Institution	Confidence in	Disbelieve	Do not know
General Health Insurance Company (VsZP)	59.1	32.1	8.8
Slovak Chamber of Paramedical Personnel	27.6	25.1	47.3
Slovak Pharmaceutical Chamber	25.7	32.1	42.2
Slovak Medical Chamber	25.7	32.5	41.8
Slovak Association of Pharmacists	25.0	31.5	43.5
Ministry of Health of SR	24.4	67.3	8.3
Joint Health Insurance Company (SZP)	22.7	24.7	52.6
Slovak Association of Hospitals	22.7	32.0	45.3
Slovak Association of Private Physicians	21.7	34.9	43.4
Chemical Health Insurance Company (Apollo)	19.9	34.1	46.0
Mutual Health Insurance Company (VZP Dovera)	15.3	34.9	49.8
Associated Health Ins. Company Sideria Istota	13.0	34.7	52.3

Source: Agency Markant, May 2001

5.2 Evaluation of future challenges

5.2.1 Main challenges

The Slovak health care system is characterised by a severe and growing gap between revenues and expenditures. Financial sustainability of health care

will be discussed in the following chapter, here we intend to focus on related issues that have to be addressed in order to balance the system. Some of these issues have been already analysed in chapter 5.1.4.

The importance of reform steps differs among health policy experts. Usually the opinion on most needed reform steps varies because of different understanding of cause and effect of the current status. Generally, without emphasising any particular step, these are the issues and concerns most often discussed:

Generous and unsustainable scope of covered services, which needs to be revised. It has become clear that such a comprehensive system with services free of charge at the point of delivery is no longer sustainable with the existing resources. Therefore changes in legal norms such as the Slovak Constitution and the Act on Therapeutical order need to undertaken. Depending on the rigorousity of implemented restrictions, this step would consequently decrease the total amount of health expenditures and supplementary health insurance could be introduced. Supplementary health insurance would not only bring additional sources of financing of health care services, but also more competitiveness, better quality of services, etc.

This is one of the examples where solution can be achieved rather easily, depending ”only” on the most crucial factor – political will. The other issues are perhaps more complex and require inter-sectoral approach.

State insurees. As already mentioned, State and NLO pay for the inactive population and registered unemployed, which equals approximately to 3.3 million (out of 5.4 million inhabitants). These contributions are however not sufficient, especially when considering the average contribution of the working population. One solution might be the introduction of a family insurance (as it is already happening in the new draft health insurance law). This measure requires particular inter-sectoral approach and adjustments in the tax system.

Provider payment mechanisms. It is evident that frequent changes of reimbursement mechanisms have been dictated mainly by ad hoc decisions conditioned by emergency situations, rather than by planned deliberate long-term policies. Moreover, the changes have not been able to stimulate health care providers to the provision of more efficient and cost-effective, high quality services.

New payment mechanisms should be designed to ensure that appropriate self-enforcing incentives are present in the health system. Despite the term being frequently used in Slovakia, the present arrangement of ”prospective budgeting” is based on a centralised planning mechanism that estimates the yearly budget based on historic performance, number of beds, staff, other input factors and inflation. In order to create appropriate incentives to consolidate services, increase efficiency in the utilisation of hospital

resources and provide incentives to reduce hospital over-capacity, it is necessary to develop and implement a performance based payment mechanism that creates incentives for hospital directors and staff. As Slovakia's resources for health care are limited, cost control should play an important role. Consequently, attention should be paid to feasible payment mechanisms in the medium run, such as global budgeting with performance targets using block contracts, case-mix payment systems based on Diagnosis Related Groups, etc.

Introducing financial measures, e.g. actual price. It is necessary to undertake a review and cost out existing services to facilitate financial planning and rationalisation**.** Currently there are no estimates of production and delivery costs of health interventions. In the absence of these numbers, contract negotiations between insurance companies and hospitals are based solely on historic performance. In order to facilitate strategic planning and financial discipline, it is necessary that systems be set in place to track down costs of health care, particularly in inpatient care that consumes majority of the available resources.

The Role of Health Insurance Companies. There is no justification for presence of multiplied health insurance companies, if:

- the system is characterised by 100% redistribution of collected premium,
- health insurance companies behave like collection agencies,
- there is neither scope for meaningful competition nor incentives for insurance companies to economise or be selective in their purchase of health service,
- there are no actuarial functions,
- there is absence of clear definitions of the scope of governmentally guaranteed benefits.

The current insurance system has also the following characteristics:

- high administrative costs,
- proceeded data are not unified and do not comply,
- Collection process results in lower collection compliance rates. This is due to a variety of reasons. First, while each insurance agency has to establish its own collection procedures, none of them have a very strong incentive to pursue those who are defaulting in their payments, as all of their revenues has to be delivered to the VsZP for redistribution. Moreover, in times of fiscal stress, the insurance agencies are not likely to have the resources to track down employers who are not making payments. Second, employees have little incentive to ensure that contributions are made on their behalf, since – by law – they cannot be denied a health insurance card if they have selected a plan and notified their employer.

- The solvency of the entity is not subject to government supervision nor verified by an independent auditing, monitoring or supervisory authority. Despite the amount of HICs assets administered, the financial control and supervision is rather low.

Health Care Providers

- Encouraging cost-containment and improving efficiency by introducing competition among providers (private and public) through selective contracting. Presently, all health insurance companies contract with all service providers. This practice does not induce competition among providers in terms of quality and cost control. Regardless of what type of financing scheme Slovakia chooses for the future, the insurance companies will have to purchase selectively to achieve better outcomes from public and private hospitals. If purchasing is done selectively, it can also contribute to restructuring the health care system, as insurance companies would only contract providers who can offer competitive price and guarantee good quality services.
- Improving efficiency in hospital management by granting greater autonomy and increasing accountability. Presently, the public hospitals are managed by the state through a centralised decision-making process. This arrangement is unsatisfactory for a variety of reasons, including the non-responsiveness to the changing demands of the user-population, and the lack of any accountability of the management of the hospital. Granting the facilities greater administrative, personnel, financial and operational autonomy is a necessary first step in improving efficiency and creating a basis for accountability.

Ministry of Health

- *Enhancing administrative capacity by restructuring the MOH to emphasise the regulatory and advisory functions*. The Ministry of Health currently runs the day-to-day operations of the hospital system. This is an impossible and unnecessary task. In the medium term, the MOH should get rid of these management functions and transfer them to the hospital management. Instead the MOH must be responsible for policy making, priority setting, and regulation while focusing on establishing strategic directions for the sector, monitoring overall sector performance and holding other actors accountable for meeting policy objectives. The MOH should also promote an appropriate legislative agenda to support public health priorities and build consensus for political action. Several key elements would need to be developed as policy instruments, including data management for decision-making and the development of human resources specialised in public health and health management. The government should place considerable emphasis on establishing a regulatory framework, creating institutional capacity to regulate the

insurance sector and health care providers, defining national health priorities and translating health priorities into purchasing strategies for health insurance plans. (World Bank, 2002)

5.2.2 Financial sustainability

The primary problem in health care financing is the imbalance between revenues and expenditures. In effect, revenues are fixed while expenditures are open-ended.

On the revenues side, the Slovak health insurance contribution rate of 14% is relatively high, and further increases would impose a greater burden on employers/employees. There also exists the additional risk that wage taxes of this magnitude entail, particularly in terms of discouraging the expansion of formal employment and/or encouraging the growth of the grey economy in which taxes are evaded. In fact, it is more a problem of resource utilisation (allocation) than resource availability (mobilisation).

There are several factors that affect the expenditure side. Most importantly, provider payment mechanisms in both outpatient and inpatient care create incentives for rapid growth in the volume of care, which, coupled with a very generous package of health services covered by health insurance, contributes to high health care expenditures. Moreover, the network of health care facilities and providers is large and inefficiently organised, contributing to high costs of health care delivery (see chapter 5.1.4).

The outcomes of a system that provides a fixed budget and unconstrained service provision are manifold. A viscous circle is created, since health insurance companies have not yet received all contributions they are entitled to. Second, the health insurance companies have not yet completely paid the providers. Third, the health care providers owe money to suppliers of good and services.

Receivables of HICs have been steadily growing and at the end of 2001 have reached SKK 26.146 billion (see Table 5.9). The largest part of receivables has resulted from unsuccessful premium collection. Due premium is SKK 11 billion, while sanction and penalties make up SKK 8.444 billion. The remaining sum of receivables is unsettled advance payments to health care providers. In its recent report from May 2002, the Ministry of Health has admitted that one third of reported receivables are not enforceable. One of the reasons lies in the rigid accounting procedures of HICs, which don't allow them to amortise such receivables and artificially overestimate the HICs assets.

Table 5.9: Health Insurance Companies Receivables (in million SKK)

Indicator	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Due premiums	1 089	1 705	4 708	6 977	9 203	9 871	11 046
Other (including penalties)	176	1 058	2 069	5 993	7 102	10 312	15 100
Total receivables	1 265	2 763	6 777	12 970	16 305	20 183	26 146

Source: Ministry of Health of the SR, May 2002

The following Table 5.10 shows the steadily increase in the amount of health insurance companies liabilities. The highest year to year increase was recorded in 1997 when the total amount of debts has tripled. Proportion of debts after due date on total amount of liabilities is significant (more than 50 percent). The total amount of HICs debts has reached SKK 17 billion at the end of 2001. Significant portion of the debt are debts towards pharmacies and pharmaceutical companies, which have increased in 2001 by 45 percent compared to previous year and reached SKK 5 billion.

Table 5.10: Debts of health insurance companies (SKK million)

Indicator	**1995**	**1996**	**1997**	**1998**	**1999**	**2000** [1]	**2001** [1]
Total liabilities	2 496	2 199	6 619	10 120	8 916	15 316	17 173
of which liabilities after due date:							
- for drugs and medical material		773	2 138	3 839	3 582	3 360	5 315
- for performing health services		1 426	4 481	6 281	5 334	4 783	3 587

Note: 1. Data from Ministry of Health of the SR, May 2002
Source: Ministry of Health of the SR, Ministry of Finance of the SR

In a market environment, private pharmacies and pharmaceutical companies would be able to enforce the collection of their receivables from HICs, which would in Slovak health system cause serious problems. Especially due to the fact that the biggest debtor is the General Health Insurance Company (VsZP), whose solvency is guaranteed by the state (se Table 5.11). However, politicians have put restriction on enforcing any health financing claim by introducing a legal norm, which does not allow to declare bankruptcy of any health care company or state health facility.

Table 5.11: Debts of health insurance companies, 2001 (in SKK thousand)

	VsZP	**SZP**	**Apollo**	**VZP Dovera**	**Sideria-Istota**
Liabilities	9 780 816	4 730 811	1 012 416	465 762	1 183 315
As % of total	57	28	6	3	7

Source: Ministry of Health of the SR

As stated above, VsZP has the highest debts, 57 percent of total HICs debts, while it covers 68 percent of the population. The second highest debt was reported by SZP, accounting for 28% of all HICs liabilities, while covering 13% insurees.

According to recent data, state health facilities are the biggest creditor of health insurance companies, while HICs owed them SKK 4.02 billion in 2000 and SKK 2.8 billion in 2001 for performed health services.

On the other hand, health care facilities owe money to their suppliers. Major causes of increased debts are obligation to pay premium for employees (including increased proportion of penalties and sanctions for due premiums) and increased price of energy (since 1998, see Table 5.12).

Table 5.12: Structure of health care facilities debts (in SKK thousand)

	1994	1995	1996	1997	1998	1999	2000	2001
Health care facilities								
Fuel	58 778	73 003	80 367	124 044	198 200	207 290	294 976	379 970
Energy	270 031	313 011	287 906	429 237	916 860	949 708	1 271 653	1 838 199
Foodstuff	67 664	78 233	84 133	137 759	196 043	212 582	178 558	195 037
Drugs and SMM	1 195 141	1 333 811	1 494 013	2 569 422	3 548 357	3 728 280	3 788 765	3 844 395
Contribution premiums	0	504 868	395 146	670 274	1 772 256	3 058 841	4 355 859	5 075 509
Other	398 496	552 802	581 053	846 265	1 791 795	2 431 254	2 135 619	2 840 165
Total	1 990 110	2 855 728	2 922 618	4 777 001	8 423 511	10 587 955	12 025 430	14 173 275

Note: SMM = special medical material. Contribution premiums include social security, unemployment and health insurance contributions.

Source: Ministry of Health of the SR, May 2002

Ministry of Health as a main stakeholder was not able to solve the causes of growing indebtedness and was inserting more funds in the unbalanced system. In 2000, the Ministry of Finance provided a loan to HICs amounting SKK 4.4 billion; in 2001, SKK 3.4 billion loan. Government has also decided to allocate financial means from privatisation in order to decrease health care debts. In 2001 the MOH has received the funds in two transfers, SKK 543 million and SKK 1.6 billion. Health insurance companies received SKK 818 million out of the second transfer.

In such unbalanced system, as a consequence, quality of care is compromised or the market seeks other ways for resource allocation.

Accurate data on informal payments is lacking and the only source of information is the World Bank/USAID survey that was carried out in 1999. According to the survey, it is estimated that three in ten hospital patients made informal payments (or gifts), the size of which ranged from a paltry SKK 20 to a huge SKK 100 000 per hospital admission (see Tables 5.13 and 5.14).[104]

Table 5.13: Magnitude of gifts (in SKK)

	Average	**Median**	**Min**	**Max**	**P**	**Percentages of those who refused to reply**
Total	*1 100*	*200*	*20*	*100 000*	*197*	*27.4*
GPs	227	100	20	1 000	71	20.5
Specialists	806	300	20	5 000	59	29.8
Dentists	463	300	30	2 500	27	29.6
Hospital Stays	3 665	500	50	100 000	38	35.3

Source: World Bank, 1999.

Many gifts were ”small”, but we have to be aware of the fact that even small payments may become rather expensive for poor households upon repeated interactions.

[104] The informal payments ranged from a quarter of average hourly wage to a tenfold of the average monthly wage (SKK 10 728 in 1999, when the survey was conducted).

Patients made informal payments for several reasons, most importantly in expectation of better care and as gratuity payments. If proper policy steps are not implemented to suppress the causes of informal sector, we can assume that the ”shadow” economy will be growing and might have a serious negative impact on health care provision.

Table 5.14: Estimated size of the informal payments (1993-1998, in SKK)

Indicator	**1993**	**1995**	**1996**	**1997**	**1998**
Number of admissions	949 389	982 409	1 005 705	1 022 177	1 043 591
Estimated number of patients who paid	284 817	294 723	301 712	306 653	313 077
Total (if average gift is SKK 20)	5 696 340	5 894 460	6 034 240	6 133 060	6 261 540
Total (if average gift is SKK 100)	28 481 700	29 472 300	30 171 200	30 665 300	31 307 700
Total (if average gift is SKK 500)	142 408 500	147 361 500	150 856 000	153 326 500	156 538 500

Source: Estimates based on data from the Statistical Yearbook of the Slovak Republic 1999 and the World Bank/USAID report *Corruption in Slovakia*, according to which three in ten respondents who visited hospital paid a ”gift” in cash.

5.2.3 Health care policy and EU accession

Health systems in EU member states differ considerably as regards the methods of provision of services, the means of financing the overall system, and reimbursement mechanisms for provided services. However, the European Commission emphasises three objectives of modernisation reforms:[105]

- access to health care for all
- a high level of quality in health care and
- ensuring the financial viability of each health care system.

The Slovak Republic is in the process of EU integration, which obliges the government to adopt several policies related to health care. Until now, the Slovak Republic was dealing mostly with policies regulating health and safety at work (Phare and MATRA projects).

Looking at current development of health-related policies within the EU (namely recent judgements of the Court of Justice on obligation of national health insurance system to cover services performed within other member

[105] COM (2001) 723 final of 15 December 2001.

states), Slovakia definitely might experience serious problems in assuring reimbursement of services and goods obtained abroad. Presumably, there is no need to explain different price levels between Slovakia and EU countries, which is one of the reasons for excluding such reimbursement from legitimate claim. Current legislation allows HICs to reimburse services performed abroad only up to the amount, which equals to the cost of the very same service in Slovakia. The remaining costs shall bear the patient and, therefore, majority of Slovak citizens buys a commercial health insurance when travelling abroad.

There are no specific estimates of the emigration of health care personnel to EU countries after accession. Nurses and physicians, however, belong to the professions which experienced high migration and emigration rates due work to EU countries (mainly to Austria) after the collapse of communism.

5.3 Evaluation of recent and planned reforms

5.3.1 Recent reforms and their objectives

In the last ten years numerous fragmented reform steps in health care have been implemented, however, the system remains unconsolidated and indicates a serious crisis. The crisis lies not only in financial problems as described above, but also in managerial, moral crisis. In summary, the following major reform steps have been introduced:

- The previous system of financing was replaced by the compulsory health insurance system.
- The structure and organisation of the health care was changed.
- The primary health care providers and pharmacists became private. And many specialists working in outpatient care have also turned to private practice.
- Almost all spa facilities have become private.
- The state monopoly in health care provision was thus markedly reduced. However, majority of hospitals remains under state ownership with centralised management.
- The process of decentralisation has started and has not been fully accomplished regarding the state administration in health care and the municipalities.

The approval of the new law on medical profession, which will introduce mandatory membership for all active physicians (and also those currently not practising), can be considered as a reform step. Approval of this law was connected with serious discussion on its pros and cons. MOH and Medical chamber argue that the mandatory membership would solve the problem of legal intangibility of certain groups of physicians (especially those working in state health care facilities). The new legislation shall consequently protect

patients from malpractice. On the other hand, physicians unions point out the unconstitutionality of such legislation, because of conditioning the practising occupation with mandatory membership, and obviously with paying membership fees.

MOH is currently paying considerable attention to the preparation of ownership transfer of selected health care facilities to local authorities. Often is the transfer connected with reluctance from municipalities, which is caused mostly because of unclear financial transfer and significant indebtedness of the facilities.

In general, the partial improvements of health care delivery have been limited mainly to frequent changes in reimbursement of health care providers, categorisation of drugs, and the process of privatisation.

MOH has recently presented a draft law on health insurance, which was submitted to the parliament (May 2002). The act was expected to introduce major reform steps in order to solve the existing crisis. MOH has presented the following measures in the proposal:

- division of the current compulsory health insurance into basic and supplementary health insurance, where both components shall be obligatory; MOH proposed to keep the current 14% contribution rate and divide it into two, where 10% would go to basic insurance and remaining 4% would cover the supplementary health insurance.
- introduction of family insurance;
- introduction of clients' accounts;
- introduction of "medication books" with records on prescribed medication, with the objective to eliminate undesirable combination of drugs, over-consumption, etc.
- introduction of additional commercial health insurance.

Despite the current crisis in the health care system and the urgent need to stabilise the system, members of parliament refused to discuss this proposal due to several objections:

- The proposal has not attempted to re-evaluate the current scope of covered services, which is considered to be the most crucial step. Without defining a basic benefit package, supplementary health insurance and subsequently the additional commercial insurance can not be introduced.
- Division of current compulsory insurance will not bring additional source of funding.
- The objective to introduce family insurance was to decrease the amount of state insurees, by allowing parents to pay insurance contribution for their dependent child. However, in order to make such option reasonable,

several adjustments in tax mechanism are needed, which MOH has underestimated.

- Clients' accounts on the expenditure side are already in place, so the HICs can at any time monitor use of health care services by particular patient. However, HICs are not able to keep track on contributions of a particular client, while employer who is responsible for deducting contributions from employees' pay checks, report only aggregate data on total amount. Health insurance representatives have certain doubts about the gains on improved premium collection side and argue with high administrative costs.
- "Medical records books" have been also widely discussed among health insurance representatives, while MOH has not introduced a coherent idea about the books, especially about the form (paper form, memory chip, etc.).

Generally speaking, the proposed legislation could be blamed because of drafting partial solutions instead of an integrated inter-sectoral approach (for instance in the area of tax deduction, etc.).

5.3.2 Political directions of future reforms

There is a general understanding among public and various political entities about the urgent need of a conceptual health care reform in Slovakia. This is not only due to already mentioned general dissatisfaction with the existing system (access, quality of care and financial terms, etc.), but also due to growing public finance deficit.

The new government, which was formed after the recent parliamentary election in October 2002, consists of centre to right wing oriented parties, which declare readiness to implement consistent reform steps. In its Programme Declaration the government identifies the most urgent issues to be solved. The top priority is to stop the increasing indebtedness and balance health care financing. Other priorities include:

- raising the effective accessibility and flexibility of health care, based on the contractual relationship between health care facilities and insurance companies
- shifting the focus from hospital care to outpatient care, home nursing care and one-day surgery
- strengthening prevention in health care, mainly in early detection of cardiovascular and oncological diseases
- define the scope of health care services, drugs and health aids covered by the basic benefit package (solidarity package) and complementary health

care (voluntary package) – compulsory health insurance and complementary health insurance shall form the new insurance system

- resolve the problem of widespread corruption, among other through financial involvement of citizens (payment for certain services)

- creation of a Health Care Supervisory Office to strengthen the institutional control over health insurance companies, over purchase of health services falling under the solidarity package and services for individuals in material and social need due objective reasons

- continue the process of decentralisation and create legislative conditions for larger participation of regions in health care provision.

The newly appointed Minister of Health is one of the authors of a detailed reform plan[106]. This plan was the sole document introduced prior to the elections, which attempted not only to name causes and impacts of the existing crisis, but also to draw solutions.

Health care is a sector with many actors – interest groupings, professional associations, a strong central body, attentive public – patients. Thus, one of the key requirements with respect to the reform is a broad acceptance of the future reform steps by these different layers of the society. This requirement may be viewed as one of the most critical, since a part of the stakeholders would rather prefer to maintain the current state.

5.3.3 Conclusions

The health care sector in Slovakia suffers from a multifaceted crisis (financial, qualitative, managerial, human, etc.). The crisis has not been addressed up to now by an integrated approach. The major task is to assess the deformations of the current system and to join capacities for the elaboration of a coherent integrated concept of health care reform.

The health care sector in Slovakia suffers from a multifaceted crisis (financial, qualitative, managerial, human, etc.). Despite the fact that health care is in the long-run viewed by the public as one of the most problematic areas, its problems have not been addressed up to now with a integrated strategy. The major task for the reformers is to assess the deformations of the current system and to join capacities for the elaboration of a coherent integrated concept of health care reform.

---

[106] Pazitny, P. – Zajac, R.: *Health Care Reform – A Reform for the Citizen*. M.E.S.A.10, Bratislava (2001).

BIBLIOGRAPHY

Monography

Bodnarova, B.: *Elderly people in the society*. In: Meseznikov, G. – Kollar, M. (eds): Slovakia 2001. A Global Report on the State of Society. Institute for Public Affairs, Bratislava (2001)

Fraser, A.: *The Gypsies*, Blackwell, Oxford, 1995

Ginter, E.: *Health conditions of Slovakia's population.* Institute for Preventive and Clinical Medicine (ed.), Draft contribution to the National Human Development Report, Slovak Republic 2001-2002. (2001)

Jurcova, D.*: Schengen Agreement: Consequences for national migration policy in Slovakia.* INFOSTAT (ed.), OSI-LGI project, (2002)

Kostolna, Z.: *Analysis of the potential impact of community service work programme.* Research Institute of Labour, Social Affairs and Family, DFID project Institutional Development to Address Poverty and Social Exclusion, Bratislava (2002)

Papps, I.; House, B.; Vagac L.: *Assessing the nature and extent of poverty in Slovakia.,* Birks Sinclair & Associates Ltd. (ed.), DFID project Institutional Development to Address Poverty and Social Exclusion, Bratislava (2001)

Sirak, M.; Jurcova, D.: *Impact of EU enlargement and the implementation of Schengen in Slovakia.,* Center for Economic Development, INEKO, Bratislava (2002)

Steele, D.: *A Snapshot of Poverty and Living Conditions in the Slovak Republic.* Background paper for World Bank Report No. 22351-SK (2001)

Vasecka, M.: *Roma*. in: In: Meseznikov, G. – Kollar, M. (eds): Slovakia 2001. A Global Report on the State of Society. Institute for Public Affairs, Bratislava (2001)

Articles

"The State will pay more to families as from July". Daily Pravda, 1 July 2002

Reports/Documents

Business Alliance of Slovakia: *Report on the State of the Business Environment*, Bratislava (2002)

COM (2000) 622 final of 11 October 2000*: The Future Evolution of Social Protection from a Long-Term Point of View: Safe and Sustainable Pensions*. Brussels (2000)

COM (2001) 723 final of 15 December 2001: *The future of health care and care for the elderly: guaranteeing accessibility, quality and financial viability.* Brussels (2001)

EC: *Report on indicators in the field of poverty and social exclusion.* Social Protection Committee. Brussels (2001)

EU Commission, Government of the SR: *Joint Assessment of Employment Priorities in the Slovak Republic*. Bratislava (2001)

IMF: *Selected Issues and Statistical Appendix*, Slovak Republic, 2000

Statistical Office of the Slovak Republic: *Social trends in the Slovak Republic*, (2001)

ING: *Directional Economics 2002: Now we have bottomed*. (2002)

MESA 10: *Analysis of the pension system in Slovakia.* Bratislava (2002)

Ministry of Labour, Social Affairs and Family of the SR*: Report on the social situation of the population of the SR.* Editions 1997-2001

Ministry of Labour, Social Affairs and Family of the SR (ed.): *Social policy.* Editions 1997-2000

Ministry of Labour, Social Affairs and Family of the SR: *Report on the Implementation of conclusions and priorities of the document of the Joint Assessment of Employment Priorities in the SR for 2001*. Bratislava (2002)

Slovak Governance Institute: *National Report on Education Policy.* Bratislava (2001)

Statistical Office of the Slovak Republic: *Statistical yearbook of the Slovak Republic.* Editions 1996-2001

Statistical Office of the Slovak Republic: *Population and housing census 2001*. Basic data. Bratislava (2001)

Trexima: *Information system on average earnings*. Bratislava (2001)

UNDP, Center for Economic Development: *National Human Development Report Slovakia 1998.* Bratislava (1998)

UNDP, Center for Economic Development: *National Human Development Report Slovak Republic 2000*, Bratislava (2000)

UNICEF: *Children at risk in Central and Eastern Europe: Perils and promises.* The MONEE Project, regional monitoring report No. 4 – 1997, Florence (1997)

UNICEF: *A decade of transition.* The MONEE Project, regional monitoring report No. 8 – 2001, Florence (2001)

UZIS: *Statistical Yearbook on Education of the SR 2000*. Bratislava (2000)

World Bank: *Slovak Republic – Living Standards, Employment and Labor Market Study.* Report No. 22351-SK (2001)

World Bank, USAID: *Corruption in Slovakia. Results of diagnostic surveys.* (1999)

World Bank: Making transition work for everyone. *Poverty and inequality in Europe and Central Asia.* Washington, D.C. (2000)

World Bank: *Budgeting and Expenditure Management in Slovakia.* 2002.

World Bank: *Social sector expenditure review*. Manuscript (2002)

Websites, databases and interviews

Eurostat, selected statistics at

http://europa.eu.int/en/comm/eurostat/eurostat.html

Górniak, J.: Poverty in transition: *Lessons from Eastern Europe and central Asia.* In: Grinspun, A. (ed.): Choices for the poor. Lessons from national poverty strategies. UNDP, New York (2001) at

http://www.undp.org/dpa/publications/choicesforpoor/ENGLISH/index.html

Interviews with the Ministry of Labour, Social Affairs and Family of the SR; Research Institute of Labour, Social Affairs and Family; Statistical Office of the SR

Labour force survey. Statistical Office of the SR

National Labour Office database

Social Insurance Agency database

Appendix

Additional and alternative tables

Indicator	1996	1997	1998	1999	2000	2001
Total expenditures on health care (% of GDP)	6.6	7.2	6.9	7.1 [2]	-	-
Total expenditures on education (% of GDP)	5.1	4.8	4.5	4.5 [2]	-	-

Note: 1. Estimate based on inclusion of:
State Budget funds granted by means of budget chapters to the Ministry of Education of the SR, Ministry of Labour, Social Affairs and Family of the SR, and the Ministry of Health of the SR; expenditures of the Social Insurance Company, health insurance companies, and the National Labour Office.

2. Estimate by the Statistical Office of the SR.

Financial indicators 2	1996	1997	1998	1999	2000	2001
Public social expenditures [1] (% of State Budget)				37.5	37.9	40.0
of which						
Transfers to insurance companies				6.2	6.0	8.2
Social assistance benefits and state social benefits				5.3	5.0	5.7
Social insurance benefits				9.0	8.2	7.4
Establishments of social services, other social services and benefits to non-state subjects and municipalities				-	2.3	2.3
Subsidies to National Labour Office for creation of public works				-	1.0	0.7
Education and training				16.3	15.3	15.2
Health care [2]				0.7	0.6	0.6

Note: 1. Includes current expenditures on public consumption of the population. 2. Does not include expenditures by the Social Insurance Company, health insurance companies, National Labour Office.