

# Improving the efficiency of social protection

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## Summary

Under the current global context of international economic and financial crisis, the Lithuanian economy is also being affected by the disadvantageous impact of the crisis. Cash social assistance is one of the measures which affect the reduction of poverty and social exclusion. Effective provision of cash social assistance to persons is one of the key actions which are essential in order to control the crisis. In this context, some budgetary consolidation measures have been taken seeking to reduce the growth of public expenditure. Moreover the system of cash social assistance for poor persons was reformed seeking to establish more effective mechanism of this system.

## 1. Means-Tested benefits

In Lithuania the state non-contributory support system comprises of two main parts: categorical benefits and means-tested benefits. The latter system (means-tested benefits) includes social assistance benefit for poor residents, child benefit and social assistance to pupils (free meals and assistance for the acquisition of school supplies). Besides of the above mentioned cash benefits, compensations for heating costs, hot and cold water costs are provided on means-testing basis.

### 1.1 Social assistance benefit for poor families and single residents

The main support for persons who lack economic resources or whose resources are insufficient to satisfy their basic needs is **Social assistance benefit** (*Socialinė Pasaupa*). It is means-tested social assistance cash benefit laid down in the Law on Cash Social Assistance to Poor Families and Single Residents<sup>1</sup>. The principle of granting social assistance benefit is based on property and income testing.

Social assistance benefit is provided to families and single residents. According to the before-mentioned Law family includes spouses or an adult man and woman living together but not legally married, one of the parents, their children under 18 years of age. The family shall also include adult children between the ages of 18 and 24 who do not work, are unmarried and not living together with another person if they study. So a family unit is not a wide concept and cannot be compared with household concept. For example, if adult daughter with her child lives in the same house with her parents social assistance benefit will be paid for two families separately.

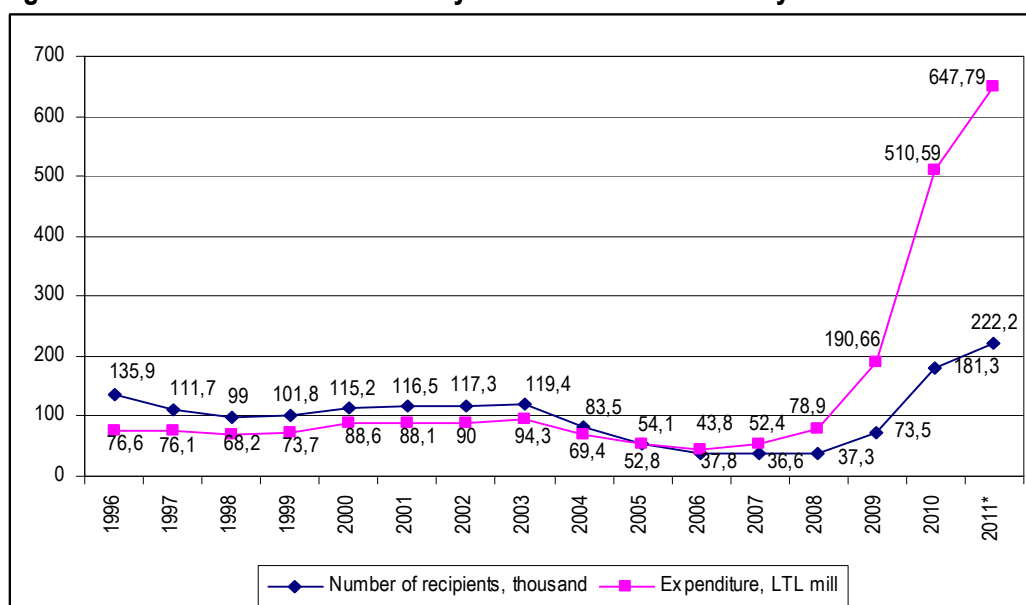
<sup>1</sup> Since 1 January 2012 – Law on Cash Social Assistance for Poor Residents.  
29-30 November 2011

Social assistance benefit is granted upon assessment both the income received and the value of the property possessed. When granting social assistance benefit, all income received by all family members or a single resident shall be included with some exceptions, for example income of social nature (lump sum, targeted compensations for nursing or attendance (assistance) expenses for family with disabled member, compensations for transportation expenses to the disabled, child benefit<sup>2</sup>, compensations to blood donors, assistance in cash paid pursuant to the Law on Social Services, social stipends for students<sup>3</sup>), as well as work-related income of pupils and cash donations. There is no disregarded income from employment of adult members of family.

Moreover families or single residents shall be entitled to social assistance benefit only if family members or single resident meet at least one of the requirements set in the Law, for example they are employed or unemployed because of objective reasons (persons attend general education schools or other institutions of formal education until they reach the age of 24, persons are of the retirement age, a family member is nursing a family member, a mother (a father) raises at home a child under 3 years of age, etc.). It should be mentioned that unemployed people have to be registered at the labour exchange and to follow its requirements (for example, accept suitable job, participate in training of public works, etc.).

In the context of increasing unemployment rates and decreasing personal incomes, the number of recipients of social assistance benefits as well as expenditure on financing of this type of assistance has been increasing since 2009. According to the statistical data of the Ministry of Social Security and Labour on average 37,300 persons (1.1 per cent of permanent residents of Lithuania) received social assistance benefits per month in 2008, while 181,300 persons (5.4 per cent of permanent residents of Lithuania) received social assistance benefits per month in 2010. The number of beneficiaries is still rising in 2011 (see Figure 1).

**Figure 1: Social assistance benefit by statistical indicator and year<sup>4</sup>**



\* - Calculated on the basis of the data of ten months of the year  
Source: Statistics Lithuania; Ministry of Social Security and Labour

<sup>2</sup> Since 1 January 2012 child benefit will be included in family income.

<sup>3</sup> Since 1 January 2012 all stipends for students will not be included in family income.

<sup>4</sup> Romas Lazutka and Arunas Poviliunas . *LITHUANIA. Assessment of policy developments in 2011. A Study of National Policies*. Vilnius. October 2011. P. 14-15.  
29-30 November 2011

## 1.2 Intended reforms of social assistance benefit

Huge increase in number of beneficiaries and expenditures on social assistance benefit on one side and high State budget deficit on another side recalled raise demand to reform the scheme. Third factor is incredulity on targeting of benefit. There is no system of monitoring and assessment of non take-up off social assistance benefit. However, there is wide spread opinion in mass media and among groups of interest about poor targeting of social assistance. Representatives of Social support departments of municipalities noticed that social assistance benefit is paid not only for those who due to apparent reasons are unable to secure adequate resources for a living or paying for the main utilities. So the reform was needed and the Law Amending the Law on Cash Social Assistance for Poor Families and Single Residents (referred to as the new Law) was prepared. It should be noticed that this draft Law was approved by the Parliament of Lithuania on 1<sup>st</sup> of December 2011 and will come into force since 1<sup>st</sup> of January 2012.

The goals of this new Law are the following:

- to strengthen efficiency and accuracy when granting social assistance benefit;
- to save incentives to work and to reduce poverty trap;
- to reduce abuse of social assistance benefit;
- to strengthen cooperation between municipal administration and local community members;
- to seek more effective use of state budget funds.

The new measures according to this new Law are the following:

- **Changes in the principles of social assistance benefit payment.** Before the reform all family members were entitled to the same amount of social assistance benefit, i.e. the amount of social assistance benefit equals to 90 per cent of the difference between the amount of the state supported income (referred to as the SSI) (it equals LTL 350 or EUR 101) per family and the average monthly income per family. Thus, every family member (as well as a single resident) possessing no property exceeding the norms set and not receiving any income is entitled to a social assistance benefit equaling to 90 per cent of the amount of the SSI, i.e. LTL 315 (EUR 91). Considering distribution of family members general expenses in the new Law it is proposed to pay different amount of social assistance benefit subject to the number of family members, i.e. 100 per cent of the difference between the amount of the SSI per family and the average monthly income per family for the first family member (as well as for single resident), 80 per cent for the second family member and 70 per cent for the third and later family members. So, Lithuania is going to introduce equivalent scales in social assistance.
- **Motivation of integration in the labour market.** It is proposed to pay additional social assistance benefit when beneficiary leaves social assistance and gets employment, i.e. the additional social assistance benefit would be equal to the 50 per cent of the average of previously paid social assistance benefit and would be paid for six month even if a family has no right to get social assistance benefit after employment. One of the main objectives of this

regulation is to promote the beneficiaries independence from benefits, to save incentives to work as well as to reduce poverty trap.

- **Strengthening incentives to work.** It is proposed to reduce social assistance benefit to those beneficiaries who are entitled to social assistance benefit for a long time. One of the main objectives of this regulation is to reduce abuse of social assistance benefit as well as to reduce potential work disincentives.
- **More strict measures in granting of social assistance benefit.** It is proposed several measures for false statements and behaviours that result in unlawful and undue payment of such social assistance benefit. For example, it is proposed to pay social assistance benefit only to children if the information about illegal employment of adult members of family was got. The main objective of this regulation is to introduce more accuracy in granting social assistance benefits and to reduce abuse of social assistance benefits.
- **Municipal and local community empowerment.** Before the reform municipalities paid social assistance benefits to residents from targeted subsidies allocated to them from the national budget. With a view to making social assistance benefit more targeted so that this state support could be accessible to all poor persons who really need state support it is proposed to transfer social assistance benefit providing function to municipalities' discretion and fund it from their budgets in some municipalities. Thus, after the assessment of specific local conditions and circumstances these municipalities will have more power in granting social assistance benefit (for example, to pay additional social assistance benefit, to reduce the amount of social assistance benefit, etc.).

### 1.3 Other means tested benefits

Due to the difficult economic situation in the country and lack of financial resources since 2009 the payment of child benefit became means-tested and only pupils from low-income families have been entitled to social assistance for pupils. These measures were aimed to strengthen efficiency of social expenditure, by providing social protection to the most vulnerable groups of society.

**A child benefit** in the amount of 0.4 basic social benefit (referred to as the BSB – it equals LTL 130 or EUR 37,7) shall be paid to children from two to seven years of age, and until 18 years of age in large families, if the average family's income per person per month of the previous calendar year does not exceed 1.5 amounts of SSI, i.e. LTL 525 or EUR 152. For children from birth to the age of two years shall be paid a monthly benefit in the amount of 0.75 BSB, if parents do not receive a social insurance maternity (paternity) benefit or this benefit does not exceed LTL 525 or EUR 152.

Having in regard family income (if the average income per family member per month does not exceed the amount of 1.5 SSI (LTL 525 or EUR 152)), pupils are entitled to **social assistance for pupils** (free meals and assistance for the acquisition of school supplies).

Besides of the above mentioned cash benefits, **compensations for heating costs, hot and cold water costs** are provided. It should be mentioned that in the new Law it is proposed to provide different ratios for calculating these compensations subject to the number of family members as well as for social assistance benefit. For example, before the reform all family members were entitled to the same amount of assistance for cold water, i.e. for 2 cubic meters of cold water

consumed. In the new Law it is proposed to provide different ratios subject to the number of family members, i.e. 2 cubic meters for the first family member, 1.5 cubic meters for the second family member and 1 cubic meter for the third and later family members.

## 2. Issues for debate

### ▪ Possible trade-off between efficiency and effectiveness

An evaluation of social protection should therefore take into consideration both the efficiency and effectiveness of social benefits. Although social assistance benefit is provided for poor families and single residents in Lithuania but social assistance benefits does not guarantee adequate income to leave poverty because of low income criterion for eligibility. It is especially insufficient for single person.

### ▪ Horizontal equity and methods to set the implied social assistance equivalence scales

Before the reform all family members (as well as a single resident) were entitled to the same amount of social assistance benefit, i.e. the amount of social assistance benefit equals to 90 per cent of the difference between the amount of the SSI per family or single resident and the average monthly income per family or single resident.

The principles of social assistance benefit payment are changed in the new Law seeking to ensure that every eligible family receives financial support according to their needs. Considering distribution of family members general expenses in the new Law it is proposed to pay different amount of social assistance benefit subject to number of family members, i.e. 100 per cent of the difference between the amount of the SSI per family and the average monthly income per family for the first family member (as well as for a single resident), 80 per cent for the second family member and 70 per cent for the third and later family members. So equivalence scales is introduced in the new Law.

### ▪ Means-testing and the appropriateness of introducing tapers on work income which define how much of earnings are exempt from the means-test for social assistance

Some countries introduce so-called tapers on work income, which allow beneficiaries to retain parts of work income. Lithuania had chosen a different way to reduce potential work disincentives. In the new Law it is proposed to pay additional social assistance benefit when beneficiary leaves social assistance and gets employment, i.e. the additional social assistance benefit would be equal to the 50 per cent of the average of previously paid social assistance benefit and would be paid for six month even if a family have no right to get social assistance benefit after employment. It is expected that this regulation will encourage people to leave social assistance and get back into employment.

### ▪ Relationship between active approaches to social protection and benefit levels

The activation of beneficiaries of social assistance benefits is an important aspect of social assistance frameworks. Lithuania is no exception in this regard, where unemployed people

have to be registered at the labour exchange and to follow its requirements. Moreover employable unemployed person who receive social assistance benefit and who do not participate in active measures of labour market policy has the obligation to participate in community work. Furthermore seeing that occasions when person prefers to receive social assistance benefits rather than to look for a new job still remains major, the new Law provides a reduction of benefit levels seeking to increase work incentives for those beneficiaries who are entitled to social assistance benefit for a long time. According to the statistical data there are a number of persons who receive social assistance benefit for more than ten years, i.e. beneficiaries became passive social assistance benefit users. So it is proposed to provide this measure for people capable for work but who don't work and who get social assistance benefit for more than three year. It should be mentioned that this social assistance benefit will not be reduced for those beneficiaries who do not work for objective reasons, for example for people who are raising a child, for persons who are of the retirement age, etc. One of the main objectives of this regulation is to reduce abuse of social assistance benefit as well as to encourage transition from the dependency of social assistance system to employment.

▪ **Relationship between the efficiency of social protection and benefit non take-up**

It should be noted that there is no relevant information about non take-up of benefits in Lithuania. However it obvious that there is a potential social assistance clientele who do not receive benefits to which they could be entitled. The reasons why persons who are entitled for means-tested state benefits are not taking up these benefits' are only suppositional. For example, the expected duration of the payment of benefit is too short or the amount of the benefit is too low, the tight requirements, lack of information how to apply for social assistance, administrative delays and errors. Moreover investigations into the family relations of beneficiaries may also cause the non take-up of benefits as well as integration into labour market (for example, one of the obligations of employable unemployed social assistance benefit recipients who do not participate in active measures of labour market policy is to participate in community work). Seeking to improve the efficiency of social assistance benefit more strict measures in granting of social assistance benefit (for example, measures for false statements) is proposed in the new Law. However some measures that have been used to improve the efficiency of social protection may have negative consequences for benefit take-up.

The transfer of social assistance providing function to municipalities' discretion in some municipalities may increase divergence of non take-up at different municipalities.