



Child-rearing leave in Romania: an effective instrument for increasing the birth rate and improving child care?

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The new law on child-rearing leave, adopted in April 2016, increases the scope, duration and level of this benefit. Romania already provides among the most generous child-rearing leaves and indemnities in the EU. Adopted with broad public and political support, as a tool to increase the birth rate and reduce poverty risks among young parents and their children, its effects on employment may outstrip its expected positive effects on the birth rate.

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Description

The Romanian parliament adopted in April 2016 a new law that relaxes eligibility conditions for child-rearing leave and that significantly increases the duration and level of benefits associated with it (L66/2016). In a country where early childhood education and care is underdeveloped and scarce, and almost non-existent in small cities and rural areas, this initiative received broad support across the political spectrum. The new regulations are supposed to take effect from July 1st, 2016.

Child-rearing leave (following 42 to 63 days of maternity leave) was initially introduced as a social insurance benefit, but transformed in 2010 into a social assistance benefit. Despite this, it continued to be conditional upon gainful employment. In terms of eligibility, the new law increases the period before the birth of the child during which the parents can accumulate 12 months of gainful employment from one year to two years. In addition, a few other occupational groups (i.e. workers in forestry and fishery) become eligible under the new law.

Under the former law, the maximum child-rearing leave covered the time span until the child turned two or until the age of three for children with disabilities. Parents had two options:

a) Child-rearing leave until the child turned two, with a monthly indemnity of

85% of the average monthly income of the last 12 months worked; the minimum indemnity amount was set at 600 RON (133 Euros) and the maximum at 1200 RON (265 Euros).

b) Child-rearing leave until the child turned one, with a monthly indemnity of 85% of the average previous net earnings, varying between a minimum of 600 RON (133 Euros) and a maximum of 3400 RON (755 Euros), followed by a monthly insertion stimulus after re-entering the labour market of 1 “social reference index” (500 RON [111 Euros]) for the next 12 months.

The new law does not change the length of the maximum child-rearing leave, but withdraws the 2-option system; the child-rearing leave can be taken until the child turns two, and the upper cap for the benefit – of 85% of the average previous monthly earnings – is lifted entirely. In addition, while parents may still choose to return to work before the child turns two, the duration of the insertion stimulus (granted after re-entering the labour market) increases by one year, i.e. until the child turns three (or four for disabled children). The only condition is that parents take up work at least 60 days before the child’s second birthday.

Under the previous law, the minimum/maximum monthly child-rearing indemnity and the insertion stimulus

were expressed in social reference index (initially intended to increase the correlation between labour market policy and social benefits but its value did not change for over 8 years). With the new law, the minimum monthly indemnity and the insertion stimulus are linked to the minimum gross wage. This represents a substantial increase of the minimum level of the indemnity, from a constant 600 RON value, to 85% of the minimum gross wage, which from May 2016 is 1250 RON (i.e. a minimum benefit of 235 Euros, compared to 133 Euros previously). The level of the insertion stimulus is now expressed as 50% of the minimum child-rearing indemnity; in July 2016, it will increase from 500 RON (111 Euros) to 531.25 RON (118 Euros). In addition, the upper caps are removed, thus leaving the benefit to vary, unrestricted, as 85% of the former monthly average net income.

Outlook & Commentary

Due to the economic crisis and to the constantly increasing pressure on the social insurance budget, many attempts have been made to change the nature of the benefit and to decrease its value/duration. Most attempts failed due to strong public resistance. The new law (L66/2016) increases the generosity of the benefits and proves, once again, the public support for the benefit. Yet, a series of concerns arise.

A first concern is the financial capacity of the government to afford the increased levels of benefits. The prime minister made implementation of the law conditional upon the identification of feasible financing sources. A second concern is its effectiveness as a way of increasing the birth rate - one argument for promoting

this legislative initiative. The prime-minister is indeed rather cautious about its effects – especially in the absence of appropriate support services - but declared himself ready to assume responsibility for its implementation if financing sources are identified. In fact, there is a serious concern about the work disincentives the new law creates. In order to counter-balance the high and unconditional level of the indemnity and to ensure a smooth transition to work, the insertion stimulus increased in value and duration. Yet this might not be enough to motivate parents to return to work before it becomes necessary to do so.

At this stage, the impact of the new law is difficult to predict. While the benefit is restricted to parents who were previously gainfully employed, about half of the beneficiaries received the minimum level of the indemnity, suggesting that a significant proportion of these parents were at risk of poverty. Alongside with the universal child allowance, its generosity helped gainfully employed families with children less than 2 years to stay out of poverty. And expanding the scope of the benefit will definitely help more families with infants cope with poverty. Yet, the benefit cannot be used as a panacea for combating poverty and increasing birth rate. Its effects on women's formal employment, in a country with a high proportion of contributing family members especially among women (in 2015, 10.3% of employed women aged 24 to 49 years are contributing family members compared to 1.3% at EU level [Eurostat, Ifsa_eftpt]), might even outstrip the positive impact on the birth rate. It will therefore be essential to carefully monitor the actual impact of the new law, especially on child poverty.

Further reading

Law 66/2016, available at:

http://www.cdep.ro/pls/legis/legis_pck.frame

WallStreetRo, Mult asteptata modificare a legii indemnizatiilor pentru mame: ce efecte ar putea genera, April 19th, 2016:

<http://www.wall-street.ro/articol/Social/197539/ce-impact-ar-putea-avea-modificarea-legii-indemnizatiilor-pentru-mame.html?gclid=CMzosOfpmcOCFYI9gQodhtgEoA>

6 am news, Ciolos acuza Parlamentul de decizii electorale: Vom cauta solutii pentru indemnizatia mamelor:

<http://www.9am.ro/stiri/Politica/290621/ciolos-acuza-parlamentul-de-decizii-electorale-vom-cauta-solutii-pentru-indemnizatia-mamelor.html>

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