



Child-rearing indemnity in Romania: between social justice and financial feasibility

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Description

In May 2017, the Minister of Labour and Social Justice announced her intention to re-introduce an upper cap on the child-rearing indemnity. While the debate around the high-level child-rearing indemnities is dismissed by many because it only affects at most 3% of the beneficiaries, its importance exceeds the number of people affected, redirecting public attention to social justice.

In May 2017, the child-rearing indemnity found itself, again, under scrutiny when the Minister of Labour and Social Justice announced her intention to re-introduce an upper cap. According to her, the cap on the monthly indemnity should be set at around 8 thousand Lei (1,760 Euros) (digi24.ro, 9th May 2017). The announcement comes after a long series of anomalies and alleged abuses, which started when the revisited law took effect in July 2016: according to the Ministry of Labour and Social Justice, 0.17% of all beneficiaries (i.e. 242 persons in September 2016) received one third of the total monthly budget allocated to the child-rearing indemnity (hotnews.ro, 5th September 2016). Unlike any other European country, in Romania the top 10 beneficiaries of the child-rearing indemnity were receiving benefits of between 45 thousand and 158 thousand Lei (10 and 35 thousand Euros) per month (digi24.ro, 9th May 2017).

The child-rearing leave, and the associated indemnity/ insertion stimulus, was first introduced in 2006 as a social insurance, employment-related entitlement. From the very beginning, the benefits were extremely generous in duration and level (up to the child's age of 2, respectively 3 for children with disabilities, and with a level of 85% of the previous earnings of the parent taking the leave), compensating, according to some political actors, for the lack of child care services. The

benefit established itself as an important element of social justice, as well as a means to overcome the consequences of an underdeveloped social services system, especially in regard to child care.

In 2010, in the aftermath of the economic crisis, the nature of the child-rearing indemnity changed - from a social insurance benefit (dependent on social insurance contributions) to a social assistance benefit (paid from the state budget although still conditioned by previous gainful employment), and its level (still a percentage of the previous earnings) decreased, along with that of other social benefits, from 85% to 75%. The changes, mostly driven by the need to lift any possible burden from the social insurance budget and to limit social expenditure, have also been justified as a means of stimulating both natality (thus the social assistance nature of the benefit) and return to work (therefore the two options built into the benefit system, see ESPN Flash Report No 2016/29).

In July 2016, the child-rearing leave, and associated benefits, increased in scope, duration and level, re-emphasising its nature as a social right, and the amendment to the law found broad political and public support (Law 66/2016). After the adoption of the new law, the number of beneficiaries started to increase, for both the child-rearing indemnity and the insertion stimulus (granted until the child turns 3 if the parent who took the leave returns to

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work at least 60 days before the child turns 2). The new law not only increases the level and maximum duration of the insertion stimulus and the level of the minimum benefit, but also removes entirely – in the name of social justice – the upper cap on the child-rearing indemnity.

Less than two months after the law took effect, it became clear that some of these changes not only have an adverse effect on the budget, but also seem “less fair” than they were intended to be. Contrary to what the governing party promised in September 2016, i.e. to safeguard the levels and duration of the child-rearing indemnity, in May 2017 the Ministry of Labour and Social Justice announced its intention to cut back on benefit levels, by re-establishing an upper cap. Yet, there is no agreement, not even within the governing party (the Social Democrat Party, a moderate/ centre leftist political party) or within the current government, about how this should be done and what precisely the rationale behind it is. The Minister of Labour and Social Justice announced that, once the law regarding the salaries of public employees will have been finalised, the first thing on the agenda will be to establish an upper cap and put an end to an unsustainable and unfair system. The deputy prime minister has referred to the possibility of extending child-rearing leave up to when the child turns 4 (instead of 2, as currently) as a compensation for establishing an upper limit for the benefit level. The solution was openly rejected by the Minister of Labour and Social Justice.

Currently, the Ministry of Labour and Social Justice, along with the Ministry of Finance, are preparing an assessment analysis of the fiscal impact of a possible change; yet, beyond acceptance of a pragmatic approach and shared

budgetary concerns, there is no agreement on the social justice related arguments, ranging from individual entitlement to social risk coverage.

Outlook & commentary

Currently, Romania has by far the most generous child-rearing benefit in place among all EU countries, with a minimum indemnity that doubled in March 2017 compared to its June 2016 value (1,233 Lei, i.e. 270 Euros, compared to 600 Lei, i.e. 132 Euros, before the amendments). In May 2017, according to the Ministry of Labour and Social Justice, the minimum indemnity and the insertion stimulus make up, together, for 69% of benefits, whereas an additional 25% of the benefits range between the minimum benefit and the former upper cap of 3,400 Lei (746 Euros) per month. While the benefit is generous, its coverage is quite low: it covers around 36% of all families with children less than 2 years, with a higher coverage in urban areas (about 44%) and a lower coverage in rural ones (around 27%).

The argument for re-introducing an upper limit to the indemnity is financially sound (as it would lower costs by 20 to 30%), yet the problem lies in the ambiguous nature of the benefit. As a social assistance benefit, its level and duration are too generous; benefits of over 45 thousand Lei (10 thousand Euros) are unfairly high and encourage abuse, according to the Minister of Labour and Social Justice. While 45 thousand Lei (10,000 Euros) per month is by any standards a huge social benefit, in Romania there is strong and widespread support for employment-related entitlements, that prevails – sometimes – over any other argument.

Further reading

Law 66/2016 on child-rearing leave and indemnity:
http://www.cdep.ro/pls/legis/legis_pck.frame

“Liviu Dragnea, despre plafonarea indemnizațiilor de creștere a copilului” (“about putting a cap on child-rearing indemnities”) (9th May 2016):

http://www.romaniatv.net/liviu-dragnea-anunta-ca-nu-sustine-plafonarea-indemnizatiilor-de-crestere-a-copilului_355096.html

“Ministerul Muncii despre majorarea indemnizatiei de creștere a copilului” (“Ministry of Labour on the increase of the child-rearing indemnity”) (5th September 2016):

<http://www.hotnews.ro/stiri-esential-21269759-ministerul-muncii-despre-cresterea-indemnizatiei-crestere-copilului-dupa-numai-luna-aplicare-masurii-inregistreaza-deja-dezechilibrul-aceasta-situatie-trebuie-dezbatuta-public.htm>

“Plafonarea indemnizatiei pentru mame” (“Putting a cap to mothers’ indemnities”) (9th May 2017):

<http://www.digi24.ro/stiri/actualitate/social/plafonarea-indemnizatiilor-pentru-mame-olgota-vasilescu-8-000-de-lei-ar-fi-o-suma-potrivita-720599>

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