

Latvia to encourage births: considerable upgrade of family support schemes

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OLGA RAJEVSKA – EUROPEAN SOCIAL POLICY NETWORK

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As of January 2022, the universal flat-rate family benefit will be considerably increased and the whole system simplified and made more transparent. The benefit level will no longer depend on birth order, but only on the number of dependent children. The benefit, however, as previously, will not be means-tested, has no link to any benchmark (such as median equalised income, consumer index, minimum wage or guaranteed minimum income) and no regular indexation is foreseen. Social bursaries for children from multi-child families attending higher education institutions are expected to be launched in September 2021.

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Description

Given the unprecedented ongoing demographic decline, family support measures remain a top priority on Latvia's policy agenda.

In Latvia, the universal flat-rate state family benefit is the major instrument for supporting parents raising dependent children (i.e. children below 16 or between 16 and 20 and still studying). It is paid to one parent (at the family's choice) on a monthly basis and depends on the number of children and their birth order. The level of family benefit is not linked to any benchmark and is not subject to regular indexation. The base rate (€11.38 per month per child) has not changed for 12 years since 2009. Until 2014, it was paid for each dependent child regardless of the number of children in the family. In 2015, changes were made: for the first child the amount remained the same, for the second child it was doubled (€22.76), for the third (and each subsequent) child it was tripled (€34.14). It is the birth order of children that matters, and not the total number of dependent children. This means that families with the same number of dependent children, but of different birth orders (because some older siblings are no longer dependents) receive different amounts. Starting from 2017, the benefit was raised to €50.07 per month for the fourth and any subsequent children.

From March 2018, a supplement to family benefit was introduced for families with more than one child: €10 per month for two children, €66 for three children, and for each subsequent child an additional €50 per month (i.e.

€116 for four children, €166 for five children etc.). Similarly to the family benefit, the supplements are not linked to any benchmark and not indexed.

Apart from the benefits, working parents receive income tax exemptions for each dependent person, whether children or not (presently €250 per month, which increases the net wage by €50). Taking the three elements together (benefit, supplement and tax exemption), a family with one child receives in total, directly or indirectly, €61.38 per month; a family with two children receives €144.14, and a family with three children €284.28 (in the simplest case, i.e. in the absence of older independent siblings). However, families where parents are on low wages (especially single-parent families) may not be able to take full advantage of the tax exemption, as the total eligible tax exemption may turn out to be higher than their gross wages.

The benefits are paid until the child is 15 or, if they are still studying at a secondary or vocational school (but not in higher education), until the child is 20. Income tax exemptions are, however, applicable for children up to 24 years old if they continue studying (higher education institutions included).

On 7 May 2021, the Amendments to the Law on State Social Benefits were promulgated. As of January 2022, the family benefit system will be simplified: the supplement will be abolished, the benefit will be increased and it will no longer depend on birth order, but only on the number of dependent children. The eligible age will be increased from 15 to 16 for children who are no longer studying. The amount will be €25 for

one child, €100 for two children (or €50 per child), €225 for three children (€75 per child), €400 for four children (€100 per child), €500 for five children, and €600 for six children. By way of comparison, in 2021, the guaranteed minimum income is €109 per month, the minimum pension €150 per month, and the minimum wage €500.

The increase in social expenditure is estimated at €81.4 million per year. Tax exemptions will remain unchanged. The option of removing the tax exemption was also considered, in exchange for providing an additional allowance of €50 to employees for each dependent child. However, the proposal was not retained because of the difficulty administering these tax arrangements and the risks of fostering a shadow economy.

The Centre for Demographic Affairs (2021) has estimated that some 7% of the current beneficiaries will have their total benefit reduced. These are multi-child families in which older siblings no longer qualify for the benefit. To compensate for their losses (but not only), social bursaries will be introduced for children from multi-child families attending higher education institutions. The Law on Higher Education Institutions was amended on 19 June 2021 to include a reference to social bursaries, but (as of 14 July 2021) the Cabinet has not yet adopted regulations determining the range of beneficiaries and the procedure for payment of such bursaries (expected by the end of the summer 2021). The bursary will amount to €160 per month or €1,600 per school year. It will be available to young people under 25 years of age studying full-time at first vocational level (2 years) or bachelor level (4 years) at a university or college.



Support to families with children is probably the most developed part

of the social protection system in Latvia. The population has been falling continuously now for 30 years: since 1991 there has never been a surplus of births over deaths or immigration over emigration. This demographic decline has led to consensus among the public that families with children should be supported by the state and people motivated to have more children.

During the last decade, a whole range of family support policies was gradually put in place at national and municipal levels, such as: increased benefit amounts and tax exemptions for parents, free meals and free public transport for schoolchildren, and improved availability of pre-school facilities. As a result, the financial situation of families has improved considerably: the share of children (0-17) at risk of poverty or social exclusion (AROPE; EU definition) was 44.1% in 2011 (compared to 27.4% for the EU-27 average), but has been steadily decreasing since then, down to 18.9% in 2019 (EU-27: 22.2%). Over the same period, the AROPE rate among the working age population (18-64) dropped from 41.1% to 22.3%, while in the oldest group (65+) it increased dramatically from 33.0% to 50.5% (Eurostat, 2021).

The Latvian National Development Plan for 2021-2027 seeks to further reduce the risk of poverty in families, particularly among single parents and multi-child families. The Declaration of the present Government adopted in May 2019 includes a reform of the state family benefit system as one of the priorities of the Government's work. The reform was prepared with active participation of the Centre for Demographic Affairs - the platform for cooperation of experts from different ministries, demographers and other stakeholders. With its implementation, payment of the family benefit will be simplified, balanced, and much clearer. It will significantly increase support to families. On the other hand, it

inherits the flawed features of the current system, such as the lack of reference to any objective benchmark, the lack of clear rules for regular updating and the absence of a means-tested component.

Further reading

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Author

[Olga Rajevska](#) (University of Latvia)

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