



# Annual National Report 2011

## Pensions, Health Care and Long-term Care

### Latvia

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On behalf of the  
**European Commission**  
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Gesellschaft für  
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## 1 Executive Summary

The Annual National Report gives an overview of the latest trends in the development of the social protection system in Latvia in the period 2010-2011 (up to the mid-May). The report focuses on key themes in pension policy, health care, and long-term care.

The **pension policy** was revised, based on a long-term perspective, with the aim of ensuring the financial sustainability of the state social insurance pension (PAYG) scheme. Evaluation in the report of the operation of the state-funded pension scheme leads to the conclusion that the challenge imposed on funded pension systems by the crisis has been disregarded, even though the need for more prudent management of private pension plans is undeniable.

The structural reforms in the **health care** sector are indeed necessary, but were carried out too swiftly, not taking into account the real situation. Primary health care is not ready to take over the functions previously performed by hospitals. As regards access to health care services, the existing inequalities in health care are deepening. Poverty limits access to services. The share of private expenditure for health care is growing each year, and so are the prices of medicines.

The problems of **long-term care** are not on the political agenda. In Latvia, access to care is not universal but rather limited by restrictive criteria. The development of alternative forms of care, elaboration of services, quality assessment criteria, and some other innovative approaches have mainly been implemented with the support of the European Social Fund.

Until now, scientific research in the field of social protection has been very limited. This applies particularly to pension policy. More researchers are working in the health care field.

Some positive trends in this regard can be observed in recent years: many students choose to write their master's degree papers on issues relating to pensions and long-term care, which gives brighter prospects for the years to come.

## 2 Current Status, Reforms and the Political and Scientific Discourse during the previous Year (2010 until May 2011)

### 2.1 Overarching developments

In Latvian politics the year 2011 begins with more hope, but also more intrigue than the gloomy situation of 12 months ago. The *Saeima* (Parliament) elections in October signalled significant changes in Latvia's political architecture, against the background of Prime Minister Valdis Dombrovskis' continued and doggedly determined course of paying off debts and bringing Latvia's economy back to growth.

In the wake of the crisis political attention in Latvia has focused on immediate crisis management, in particular restoring stability and resilience to the financial sector and handling the huge rise in public indebtedness.

"The Government of Latvia has done a remarkable job in implementing tough but important reforms under difficult circumstances. 2009 was a difficult year for the people of Latvia and I am deeply moved by their determination to work hard to overcome this crisis," said World Bank Group President Robert B. Zoellick.<sup>1</sup>

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<sup>1</sup> World Bank Group President Zoellick Visits Latvia to Discuss Support during Global Economic Hard Times <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:22676162~pagePK:64257043~piPK:437376~theSitePK:4607,00.html>.

The progress made in Latvia was recognised not only by international donors, but by the leaders of other countries, too.<sup>2</sup>

The Declaration of Intended Activities of the Cabinet of Ministers headed by Valdis Dombrovskis<sup>3</sup> envisages strict state budget discipline, gradual reduction of the budget deficit in compliance with the Maastricht criteria -3% of GDP – and meeting the criteria for Latvia's accession to the euro zone in 2014 in order to provide for the stability of the exchange rate of the Lat (LVL).

The aims set in the declaration were recognised as realistic by the joint team from the European Commission (EC) and International Monetary Fund (IMF) that visited Riga on 5–15 April for discussion of the fourth review of the ongoing international financial support programme.

Latvia's credit rating outlook was raised to 'positive' from 'stable' by the rating agency Standard & Poor's, based on the Baltic nation's growing competitiveness and lower dependence on external financing, reports Bloomberg. S&P affirmed Latvia's long-term rating at BB+, one level below investment grade, analyst Frank Gill said in a statement from London on 9 March. A positive outlook means the credit rating is more likely to rise.<sup>4</sup>

The most urgent aim of the government is to regain the trust of the population. The Eurobarometer survey in November 2008 states: "Since spring 2008, distrust in the Latvian government and parliament (*Saeima*) remains very high. The absolute majority of the Latvian poll does not trust in the national government and *Saeima* – 79% and 86% of population respectively, which is one of the highest percentages in Europe".<sup>5</sup> The national sources present evidence that during 2009 trust in government and parliament has fallen even further.

The policy in the area of social protection has not helped to restore trust among the population.

In the area of social protection the previous period may be characterised as a time of uncertainty. Before the parliamentary elections held in November 2010 the opposition parties used every opportunity to remind the voters that the government had lied before the municipal elections in 2009 by asserting that the cost saving measures will not be applied to pensions, and taking the decision a few days after the elections to cut all pensions by 10%. Despite tough measures taken by the government to lead the economy out of crisis, the parties in government won the elections (forming a slightly modified party alliance). The people placed more trust in these parties, especially in the Prime Minister, than in the parties that had ruled in the years before the crisis.

Nevertheless, the uncertainty remained after the elections too.

Issues of social protection have never been discussed as extensively as they have during last year and this year. The necessity of reducing spending on social protection has been stressed by the international donors (the World Bank and the IMF).

The government announced changes in the family benefit scheme: a move from universal child benefits to targeted benefits, but afterwards the decision was changed and the previous scheme remained in force. Sickness, maternity (paternity) and paternal benefits had already

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<sup>2</sup> Pauls Raudseps, "Merkeles uzslava", weekly "ir" No. 23, September 2010 and UK Nordic Baltic Summit/London 2011, <http://uknordicbaltic.readandcomment.com/>.

<sup>3</sup> Declaration of Intended Activities of the Cabinet of Ministers headed by Valdis Dombrovskis, November 2010, <http://www.mk.gov.lv/en/mk/darbibu-reglamentejosie-dokumenti/valdibas-deklaracija-eng/>.

<sup>4</sup> The Baltic Times 16 March 2011, <http://www.baltictimes.com/news/articles/28255/>.

<sup>5</sup> [http://ec.europa.eu/public\\_opinion/archives/eb/eb70/eb70\\_lv\\_exec.pdf](http://ec.europa.eu/public_opinion/archives/eb/eb70/eb70_lv_exec.pdf).

been reduced in the previous year until the end of 2012. In April this year these restrictions were extended to the end of 2014. The parties in opposition asked for a referendum on this issue. The procedure to resolve the question by referendum will take two months. The NGOs protecting children's rights and some economists came with a proposal to reduce the higher pensions or the supplements to them. This idea was the subject of extensive public discussion. Such discussion means confrontation between various strata of society.

After the international donors announced that further budget spending cut will be needed in the amount of 50 million LVL, the leading economists declared that reductions in the social protection system are unavoidable. Lack of understanding prevailed in health care, too. The newly-appointed minister announced that emergency care services at hospitals will be provided only at night and that the only specialised hospital for traumatology in the capital Riga will be closed. This decision was changed only after intervention of the President.

From 1 November 2008 the period for receipt of unemployment benefit was reduced for the unemployed with short insurance records. From 1 July 2009 the period of receipt of unemployment benefit has been extended to the previous length – 9 months for all the unemployed. In January 2011 the Minister of Finance announced new changes in the system of unemployment benefits (once again reducing the period of receipt of benefits to 6 months). The period of receipt of benefit remained the same, but the amount of benefits was reduced. The safety net programme is to be abolished in 2012 to avoid dependency on benefits.<sup>6</sup>

The 2010 Eurobarometer survey on “Poverty and social exclusion” shows that around three quarters of those surveyed (91%) feel that poverty is widespread in Latvia.<sup>7</sup> People indicate that most at risk of poverty are the unemployed, the elderly and over-indebted people, as well as low-income families with children.

Analysing the situation in Latvia, it can be observed that most commonly the low income of the population, the high unemployment rate, the disparity between education/skills and the requirements of the labour market, undeclared work, serious regional, municipal and rural disparities, and the poor health of the population are the main causes of poverty and social exclusion in Latvia.

As there has been remarkable improvement in the economy and consolidation of the state budget, the examples given above prove that there is no united state policy on social protection, because the prevailing uncertainty in society has nothing in common with social security, which is so badly needed in times of crisis.

## **2.2 Pensions**

### **2.2.1 Overview of the system's characteristics and reforms**

#### Demographic situation

In Latvia the demographic situation has been unfavourable over the years, natural growth being negative. As of January 2011 natural growth was –1240. The population is decreasing, and according to the data of the Central Statistical Bureau in January 2011 it was 2.28 ml.<sup>8</sup>

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<sup>6</sup> “50 miljonus latu cer rast veselībā, sociālajā jomā un valsts pārvaldē” [http://www.delfi.lv/news/business/budget\\_and\\_taxes/50-miljonus-latu-cer-rast-veselibu-socialaja-joma-un-valsts-parvalde.d?id=36576303](http://www.delfi.lv/news/business/budget_and_taxes/50-miljonus-latu-cer-rast-veselibu-socialaja-joma-un-valsts-parvalde.d?id=36576303).

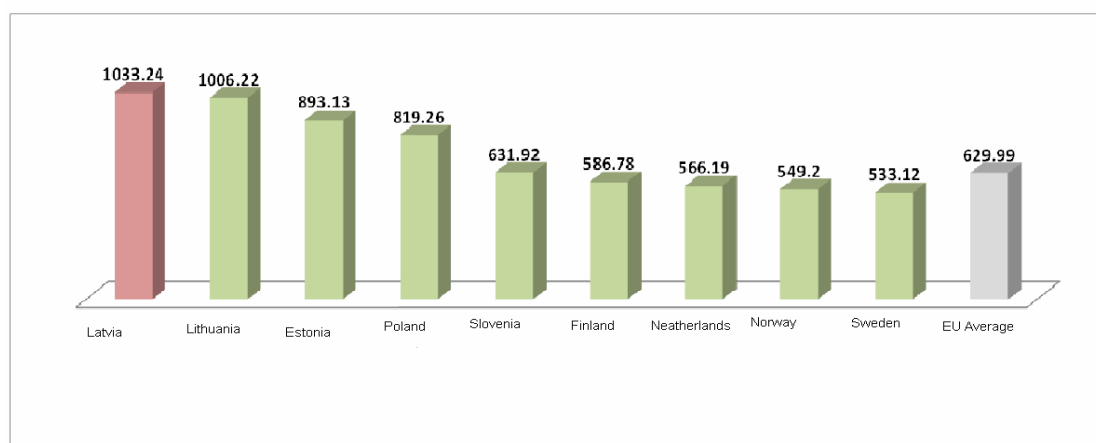
<sup>7</sup> “Poverty and social exclusion”, Special EUROBAROMETER 355, December 2010, [http://ec.europa.eu/public\\_opinion/archives/ebs/ebs\\_355\\_en.pdf](http://ec.europa.eu/public_opinion/archives/ebs/ebs_355_en.pdf).

<sup>8</sup> <http://www.csb.gov.lv/statistikas-temas/iedzivotaji-galvenie-raditaji-30260.html>.

The data are not precise. This year a new population census is being performed (from March until the end of May), and this will give a more precise figure for the population of Latvia.

Latvia has the highest mortality rate in Europe. The number of deaths for Latvia's 2.28 million population, compared with the same size of population in an average EU country, exceeds the number of deaths by 9 000 people.

Figure 1: Standardised mortality indicator in comparison with selected EU countries (deaths per 100 000 inhabitants), 2008



Source: Presentation by State Secretary of the Ministry of Health Rinalds Muciņš on 22 February 2011.<sup>9</sup>

Increasing migration is also heavily contributing to depopulation. There are some official data available on the numbers of people who have emigrated (to the UK, Ireland, Scandinavia and other countries), but these data are not reliable because, for example, the statistics from Ireland give a figure 10 times higher for the number of people from Latvia living and working there than that registered in Latvia. There are expectations that the public census will give a more realistic view of the current situation. Thus, in view of the economic and demographic situation and forecasts, there is reason to examine the financing of the social insurance system.

#### Financing:

In a period of crisis a serious problem is the decrease of contributions and the decrease of the contributions base. In 2008 the number of insured persons was 1.2 ml, but at the beginning of this year there were only 749,000 persons paying insurance contributions and for whom they were being paid. Due to the pay cuts the contribution base has decreased significantly, too. This can be explained by the high unemployment rate and high level of the unofficial ("shadow") economy (WB evaluation – 41.3% in 2010, the highest level in the EU). The evasion of contributions had created serious consequences for the financing of the social insurance system. The social insurance contributions rate was raised by 2% for employees, while for employers the rate remains at the previous level of 24.09%, the total rate being 35.09%.

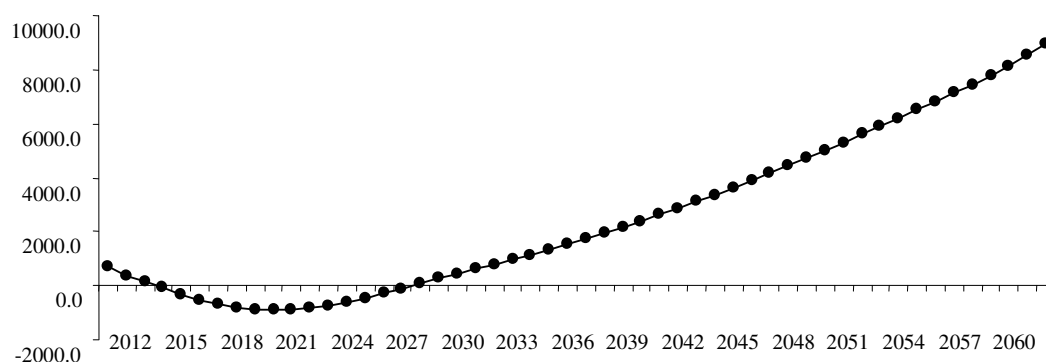
By the end of 2008 the accumulated surplus in the Social Insurance Budget was 965.6 million LVL<sup>10</sup>. By the end of 2009 it had decreased to 736.4 million LVL, and in 2010 it decreased to 381.6 ml LVL. The planned deficit for the year 2011 is 366.2 ml LVL, which means that at

<sup>9</sup> Presentation by State Secretary of the Ministry of Health Rinalds Muciņš on 22 February 2011, <http://www.vm.gov.lv/index.php?top=121&id=846>.

<sup>10</sup> 1 LVL = 0.70280 EUR.

the beginning of 2012 from the accumulated surplus will remain at about 15 ml LVL if there are no changes in the social insurance system. Accordingly, the Ministry of Welfare developed a Concept on Long-Term Sustainability of the Social Insurance System (accepted as an Instruction of the Cabinet of Ministers on 17 November 2010).<sup>11</sup> The essential elements of the concept are analysed above. Implementation of the concept will give the following financial effects: a saving of 213.5 ml LVL in the year 2011, 230.1 ml LVL in 2012 and 261.9 ml LVL in 2013. In this way the concept demonstrates the possibility of a recovery of the Social Insurance Budget, as shown in the table below.

Figure 2: The accumulated surplus in the Social Insurance Budget, ml LVL (in comparable prices)



Source: Calculations of the Ministry of Welfare, using macroeconomic forecasts of Ministry of Finances, EUROSTAT demographic forecasts and some other sources.

The statutory social pension insurance system consists of tiers I and II of the pension system.

The 2<sup>nd</sup> pension tier operates according to the accumulation and investment principle of individual mandatory social insurance contributions.

The 3<sup>rd</sup> tier provides the possibility of making private savings in pension funds on a voluntary basis.

The 1<sup>st</sup> tier pension scheme is designed as an earnings related, defined contributions pension scheme, which is financed on a pay-as-you-go basis, but resembles a funded scheme in terms of its construction – a Notional Defined Contribution (NDC) scheme.

The conditional pension capital, which is created as the sum of the contributions paid during one's lifetime, is protected against loss of actual value through indexation (using the wage index). In the years of growth the automatic balance mechanism contributed to an increase in the amount of newly granted pensions. Because average earnings decreased in 2008 and 2009 the indexes were 0.9622 in 2009 and 0.7978 in 2010.

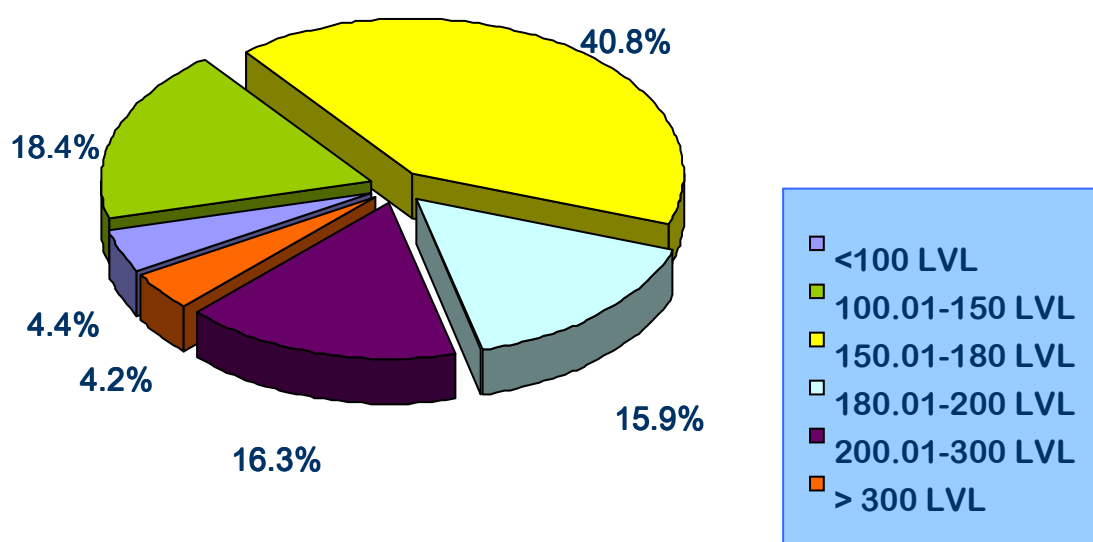
This means that for the first time since the new system was implemented, the indexation of notional capital has resulted in a decrease in the size of newly-granted pensions, because

<sup>11</sup> Concept on long-term sustainability of social insurance system (adopted as an Instruction of the Cabinet of Ministers on 17 November 2010, <http://polsis.mk.gov.lv/view.do?id=3518>).

average earnings decreased in the years 2008 and 2009, thus influencing significantly the size of newly granted pensions, because each year's earnings starting with 1996 are multiplied by both indexes, which results in a decrease of each year's notional capital. Thus, the mechanism automatically reduces pensions in times of deficit.

The average pension is slightly higher than the subsistence minimum level, so that the average old age pension in January 2011 amounted to 183.71 LVL (the subsistence minimum being 171.41 LVL). Nevertheless, 63.6% of all pensions are below the subsistence minimum.

Figure 3: Breakdown of pensions according to the amount granted as of 1 January 2010 (in LVL)



Source: data of the State Social Insurance Agency<sup>12</sup>

During the year 2010 the Ministry of Welfare developed a Concept on Long-Term Sustainability of the Social Insurance System.<sup>13</sup> In June 2010 the concept was published on the ministry's website for public discussion. On 17 November 2010 the concept was adopted as an Instruction of the Cabinet of Ministers. The concept envisages changes in social insurance legislation (mostly concerning pensions), such as:

- Raising the retirement age:

A gradual increase in the statutory retirement age has been carried out in Latvia in order to reach 62 years for both men and women. Since 1 July 2008, the retirement age is 62 years for women and men.

Currently, due to the ageing of society and the financial situation in the country, the decision has been taken on a further gradual increase of the retirement age starting with the year 2016 by a half a year each year up to the age of 65 in 2021. As the birth

<sup>12</sup> <http://www.vsaa.lv/vsaa/content/?lng=lv&cat=651>.

<sup>13</sup> Concept on Long-term Sustainability of Social Insurance System (accepted with order of Cabinet of Ministers, on 17 November 2010 <http://polsis.mk.gov.lv/view.do?id=3518>).



rate in Latvia is insufficient for generational replacement and as the average lifespan is growing, society has a high ageing rate, resulting in a considerable load of retirement-age persons on working age persons (1 pensioner per 1.6 contributors). In conjunction with the increase of the retirement age the possibilities for early retirement will be abolished.

- The minimum insurance period for qualification for old-age pension is currently 10 years. From 2016 it will be extended to 15 years and from 2020 to 20 years.
- From 1 January 2011 the amount of old-age pensions will be linked to the contributions really paid to State Social Insurance Agency. This is a controversial issue, because in 2001 the Constitutional Court ruled unlawful the link between entitlement to social insurance benefits and actual payment of the contributions.
- Pensions will not be indexed in 2011. There will likewise be no indexation until 2013, at least.
- The supplements to newly granted pensions will be abolished from 2012.

In the years of growth parliament passed some populist decisions, such as supplements to old age pensions, which were implemented as of 1 January 2006. This trend was continued, making gradual increases in the following years. This does not follow the basic concept of the pension reform, namely to create as a close as possible a link between contributions and benefits, but to some extent these supplements could replace the lacking transitional tier (4th tier) that was envisaged in the original Pension Reform Concept to provide additional income for those retired before the new law took effect and people retiring in the transitional period. Only it was not foreseen in the concept that the transitional tier would be financed from the State Social Insurance Budget – instead, it was to be financed from revenues earned in the privatisation process and from some other sources. Now 15 years have passed since the new law took effect and during this period it was possible to earn the pension capital for calculating the pension.

- Gradually abolish the rights to favourable entitlement conditions for certain categories of employees and so-called “service” pensions. For example, low age requirements for those working in hard or hazardous working conditions, because there are other compensation mechanisms for those whose health has been damaged at the workplace.
- The contribution rate for the 2<sup>nd</sup> tier (mandatory funded scheme) remains at 2% level in 2011, after which the rate will be increased gradually to 6% (not 10%, as was foreseen previously).
- Parent’s benefit for a child up to one year of age was initially implemented as a state social security benefit and was financed from the Basic State Budget. As of 1 January 2008 this benefit became a social insurance benefit and is financed from the maternity and sickness insurance budget. The concept envisages returning these benefits to the Basic State Budget, thus unburdening the Social Insurance Budget.

In sum, within the state PAYG scheme it is envisaged that retirement age will be raised, expenditures unrelated to social insurance will be removed from the social insurance system and some favourable entitlement conditions will be abolished.

In the author’s view, the concept has been developed with a high sense of responsibility, analysing three versions: 1) sticking with the existing system; 2) raising the social contributions rate considerably; 3) restructuring social insurance expenditures. Within each

version all scenarios (basic, pessimistic, optimistic) and all possible pros and cons of each solution to further development have been weighed up. The concept also shows how to avert distortions introduced in the social insurance system in the years of growth. The Cabinet of Ministers has approved the third version.

In pension policy, the aims set in the Declaration of Intended Activities of the Cabinet of Ministers headed by Valdis Dombrovskis<sup>14</sup>, in other policy planning documents and in the Concept on Long-Term Sustainability of the Social Insurance System, passed as an Instruction of the Cabinet of Ministers on 17 November 2010,<sup>15</sup> fully correspond to targets defined by the EU “Annual Growth Survey 2011” in reforming pensions.<sup>16</sup>

The only challenge, imposed by the crisis on pension systems (funded and NDC systems) that is not discussed in any of the above-mentioned documents, but is broadly discussed in various research papers by international organisations (ISSA, ILO), at conferences (for example, the Conference on the Green Paper on Pensions) and by individual researchers, is that DC systems suffered big losses during the crisis, which will heavily influence the replacement rates for the scheme participants, especially for those who are close to retirement age.

#### The 2<sup>nd</sup> tier – the State Funded Pension Scheme:

By 31 December 2010, 1,124,443 participants, or 96% of Latvia’s economically active population, had joined the 2<sup>nd</sup> tier of the state pension scheme. Of the total number of participants of the state-funded pension scheme, 645,113 participants, or 57.4%, had joined the scheme on a compulsory basis, while 479,330 participants, or 42.6%, had joined the scheme voluntarily. In 2010, the average return on state-funded pension scheme investment plans was 7.6%, varying between 1.1% and 12.1% for individual investment plans.<sup>17</sup>

#### The 3<sup>rd</sup> tier – private pension funds:

Participation in private pension funds is voluntary.

Personal income tax is not deducted from those contributions that do not exceed 20% of a person’s gross income in the tax year.

With a private pension there is the option of receiving the pension already at the age of 55. In contrast to the 2<sup>nd</sup> tier pension, a private pension is inheritable. The contribution amounts and timing are flexible – it is possible to pay as much as the participant in the fund wishes, and when s/he wishes.

In 2010 there were seven private pension funds operating in Latvia: six open funds (subsidiaries of Latvian banks) and one closed pension fund. These offered 21 pension plans. Three out of seven private pension funds ended the reporting period with losses. By 31 December 2010, there were 191,307 participants in the private pension plans, or by 1% more than on 31 December 2009 (16.5% of Latvia’s economically active residents). 24.1% of the private pension plan participants were passive in 2010 (not paying contributions for at least one year). Investments made in Latvia grew insignificantly compared with the end of Q4 2009 (0.1%), and at the end of Q4 amounted to 49.1 million LVL, or 45% of total investments.

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<sup>14</sup> The Declaration of Intended Activities of the Cabinet of Ministers, headed by Valdis Dombrovskis November 2010. <http://www.mk.gov.lv/en/mk/daribu-reglamentejosie-dokumenti/valdibas-deklaracija-eng/>.

<sup>15</sup> Concept on Long-Term Sustainability of Social Insurance System accepted with order of Cabinet of Ministers on 17 November 2010 <http://polsis.mk.gov.lv/view.do?id=3518>.

<sup>16</sup> EU “Annual Growth Survey 2011”, [http://ec.europa.eu/europe2020/index\\_en.htm](http://ec.europa.eu/europe2020/index_en.htm).

<sup>17</sup> Finance and Capital Market Commission Management of state-funded pension scheme assets, [http://www.fktk.lv/en/publications/press\\_releases/2011-02-25\\_on\\_the\\_performance\\_of\\_la/](http://www.fktk.lv/en/publications/press_releases/2011-02-25_on_the_performance_of_la/).

Here it should be noted that one of the main arguments when implementing the pension reform was: the fully funded component in the pension system will provide Latvia with investments so badly needed for promoting Latvia's economic growth. However, the author can now state as a fact that the largest share of accrued pension capital is being invested abroad.

In the four quarters of 2010, the amount of benefits paid out to participants from the pension plan capital amounted to 5.4 million LVL, the greater part, or 96.9%, of total benefits being paid to beneficiaries upon the retirement of pension plan participants, and 3.1% upon the death of participants. There are no data available on the size of pensions paid. Over the four quarters of 2010, investment value stabilised and the average return on pension plans was 7.9%, varying between 2.7% and 11.5%.<sup>18</sup>

### **2.2.2 Overview of debates and the political discourse**

The issues of social protection as such, and especially pensions, have never been discussed so broadly as last year and this year. In the author's view, the discussion tends to be emotional rather than professional and represents two polar positions: the NGO's protecting the social rights of the population are against all possible reforms (the rise in retirement age, abolishing early retirement, pension reduction etc.), while the economists (mostly bank specialists) are advocating cuts in the social insurance budget and pensions. The former group points to life expectancy in Latvia, the average pension being at the poverty line and the injustice done to the pensioners who retired before reform that took place in 1996.

The discussion resumed with new force when the Minister of Finance came up with the idea that in future the retirement age should be 70 years. The President of the Pensioners Federation described this as absolutely unrealistic.<sup>19</sup>

In 2010 a new NGO, the "Society for social reforms", was established. In an open letter to the Prime Minister the society presented six arguments against a rise in retirement age, such as: the poor state of health of the population and poor access to health care, low life expectancy and the results of their own calculations that the present pensioners in Latvia are receiving a pension for only a third as long as the average pensioner in EU (from retirement until death).<sup>20</sup>

The opposite camp – the economists – use no less impressive turns of speech: "The pensioners were the only group within the population whose income did not decrease in 2009 and (...) they are eating up our future."<sup>21</sup> The bank specialists are advocating funded pension schemes (2<sup>nd</sup> and 3<sup>rd</sup> level of the pension system), promising high replacement rates, which differ significantly from the projections made by specialists of the Ministry of Welfare in cooperation with the World Bank team. For example, in a discussion on the social insurance budget Pēteris Strautiņš, the expert from DnB Nord Bank, declared that "the generations solidarity scheme existing in Latvia is unjust and will collapse."<sup>22</sup> There are plenty of such publications – from both sides – but in the author's view the tendencies are clear and there is no need to quote them further.

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<sup>18</sup> Finance and Capital Market Commission "On the performance of Latvian second tier and third tier pension schemes for year 2010", [http://www.fktk.lv/en/publications/press\\_releases/2011-02-25\\_on\\_the\\_performance\\_of\\_la/](http://www.fktk.lv/en/publications/press_releases/2011-02-25_on_the_performance_of_la/).

<sup>19</sup> Aina Verze "Pensionēšanās 70 gados ir absolūti nerāla", 21 February 2011. [http://www.pietiek.com/raksti/verze\\_pensionesanas\\_70\\_gados\\_ir\\_absoluti\\_nereala](http://www.pietiek.com/raksti/verze_pensionesanas_70_gados_ir_absoluti_nereala).

<sup>20</sup> <http://www.tautasforums.lv/?p=1751>.

<sup>21</sup> Raudseps Pauls, "Apēst nākotni", weekly "ir" Nr.7 (46), February 2011.

<sup>22</sup> "Eksperts: Latvijas pensiju sistēma ir netaisnīga un sabruks", 27 February 2011. [http://www.financenet.lv/viedokli/367665-strautins\\_latvijas\\_pensiju\\_sistema\\_ir\\_netaisniga\\_un\\_sabruks](http://www.financenet.lv/viedokli/367665-strautins_latvijas_pensiju_sistema_ir_netaisniga_un_sabruks).

This discussion has influenced public opinion, and society is divided, too.

On the other hand, when in June 2010 the Concept on Long-term Sustainability of the Social Insurance System, prepared by the Ministry of Welfare, was published on the ministry's website for public discussion the public response was very weak. Almost nobody speaks or writes about the different scenarios developed in the concept and the essentials of the concept. As the original pension reform was worked out in cooperation with the World Bank team, which involved Swedish experts who were interested in testing in Latvia the Swedish pension system reform model, it is interesting to compare the political responses and public reaction in Sweden and Latvia, because both countries have the same pension system (with regard to the NDC scheme). According to International Social Security Association (ISSA) information "In the Swedish case, it is clear that the financial and economic crisis has had a significant and negative impact on the *Incomstpension* ("earnings-related pension", from the NDC system – author's remark) system and especially on the insured in this plan, potentially undermining public confidence (author's underlining) in the system."<sup>23</sup> And this, disregarding the political responses taken by the Swedish Government to mitigate the impact of pension reductions, such as: a change in accounting rules for indexation, which meant a smaller pension reduction, tax cuts for retirees and a buffer fund for low income retirees.<sup>24</sup>

This problem has been mentioned in Latvia's public space, but on this point there was no further reaction. Public confidence in the system is undermined by the discussion cited above.

### **2.2.3 The impact of EU social policies at the national level**

A debate on the Green Paper on Pensions was organised by the Ministry of Welfare and the EU Commission Representation in Latvia. The ministry published the draft of Green Paper on its website and asked for proposals. The responses were weak.

Many policy planning documents are influenced by the aims set in the OMC in the field of social protection, especially the National Progress Reports, in terms of promoting longer working lives, flexible working conditions for elderly workers etc. In the pension area the author can name one very practical issue: the employees involved in coordination of social security schemes benefited a lot from various training courses on the OMC, organised by European Commission and Member States, obtaining skills for the coordination of different social security schemes within the EU. The pension policy in the country, as described above, closely corresponds to the EU 2020 strategy and the objectives specified in the Annual Growth Survey. This is easy to see from chapter 2 in this report, on pensions.

Currently not yet developed is a plan for 2012 as the European Year on Active Ageing.

Some activities in this respect have taken place in cooperation with NGOs (for example, with the Samaritans) already in the framework of the European Year of Volunteering (2011). So far, regarding next year's activities the Minister of Welfare has had discussions with the Minister of Culture on introducing "culture passports" allowing pensioners to attend cultural events at reduced prices. Both ministers discussed the possibility of using libraries as "one stop agencies" for promoting informal life-long learning, because they are already performing additional functions in promoting skills among the population (especially in rural areas), such as providing people with access to computers and the internet and advising people on how to

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<sup>23</sup> Impact of the financial and economic crisis on the Swedish pension system ISSA, 30 September 2010 <http://www.issa.int/layout/set/content/view/full/119199>.

<sup>24</sup> Text contributed by Ole Settergen, Director of Research and Development, Swedish Pensions Agency (the same source as in footnote 23).

use them. Both projects are planned to be developed with the support of EU funding.<sup>25</sup> And of course, promoting longer working lives will be on the agenda, since it has been declared in so many policy planning documents this year. The author very much hopes that our institutions elaborating the plan for EU2020 will follow the recommendations given in the framework of the 2012 European Year on Active Ageing: “Enhance solidarity between generations in order to create a society for all ages. [...] Demographic change should be looked at as an opportunity, which can bring innovative solutions to many current economic and social challenges.”<sup>26</sup>

The forecasts with regard to pension financing are given in chapter 2, on pensions. The forecasts with regard to the replacement rate vary from 40% to 60%. In the author’s view the forecasts made by the ministry are the most reliable.

Table 1: Replacement rate (old age pension compared to lifetime gross earnings) and return rate in the 2<sup>nd</sup> tier given as 2% (the real return rate until 2009)

Year of Birth	NDC	FDC	Total
1960	62.0%	6.8%	<b>68.8%</b>
1975	46.5%	12.1%	<b>58.6%</b>
1980	36.1%	12.9%	<b>49.0%</b>
1990	25.6%	13.9%	<b>39.5%</b>

Source: *The projections made by the Ministry of Welfare in March 2009.*

The projections were made by the Ministry of Welfare in March 2009 for a person who started working at the age of 22, with an insurance record 40 years, retiring at the age of 62. The projections are close to projections made in the Joint Report on Pensions.<sup>27</sup>

## 2.2.4 Overview of impact assessment

The reforms planned by the government are based on the Concept on Long-term Sustainability of the Social Insurance System (adopted as an Instruction of the Cabinet of Ministers on 17 November 2010).<sup>28</sup> At the same time, the author has to say that the concept is the only research paper prepared during the previous period. The essentials of the concept are analysed in chapter 2, on pensions.

There have been no significant changes in the participation rate of the elderly in the labour market. The state social insurance old age pension calculation formula contains a component (a divisor), which depends on the demographic situation in the country: the predicted life expectancy at the moment of retirement. The longer contributions are paid and the later the pension is required, the higher the annual pension will be. Thus, a financial incentive to postpone retirement was introduced, and the retirement age was supposed to be flexible. However, practice has shown that people rarely make use of the possibility of postponing

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<sup>25</sup> Apsver ideju ieviest Latvijā “kultūras pases”, <http://culturelablv.wordpress.com/2011/04/02/vai-latvija-tiks-ieviestas-kulturas-pases/>.

<sup>26</sup> 2012 European Year on Active Ageing and Solidarity between Generations, <http://www.age-platform.eu/en/age-policy-work/solidarity-between-generations/latest-news>.

<sup>27</sup> The Joint Report on Pensions: Country profile: Latvia 13 December 2010 <<http://ec.europa.eu/social/main.jsp?langId=en&catId=752&newsId=958&furtherNews=yes>>.

<sup>28</sup> Concept on Long-Term Sustainability of the Social Insurance System (accepted as an instruction of the Cabinet of Ministers on 17 November 2010 <http://polsis.mk.gov.lv/view.do?id=3518>).

retirement, and it does not affect the general retirement age. The possibility of receiving a full pension in addition to a salary is more attractive for old age pensioners.

The main findings of assessments of the impact of the crisis on the pension system were the recognition of the necessity to analyse the long-term sustainability of the PAYG scheme.

Although pensions are not high, in the author's view pensioners are not the section of the population most affected by the crisis, because in many cases the pensioner, especially in the countryside and the most depressed regions of the country, is the only family member with a stable monthly income in cash. Besides, pensioners with low pensions are entitled to social assistance benefits and some other allowances from the social safety net. Only 0.05% of all pensioners receive minimum pensions (ordinarily 49.50–76.50 LVL; up to 127.50 LVL for those disabled from childhood, depending on the insurance record).

Until now career breaks or broken careers have not had a significant impact on pension entitlements. "The Joint Report on Pensions: Country profile: Latvia" states, that: "Replacement of people with incomplete careers is projected to be very low."<sup>29</sup> In the Latvian pension system the insurance record does not influence the amount of the pension directly, because the amount of pensions depends only on the lump sum of contributions paid to the system. Such career breaks as sickness, maternity/paternity leave and child care are seen as an insurance period, for during this time the contributions are made from the respective insurance budget. This also applies to the unemployed, for the time of receipt of benefit. Thus, the problem may arise only for the long-term unemployed and persons who are not working for personal reasons (for example, housewives). When Latvia returns to growth the problem may arise again for older pensioners, because their previously acquired rights were not protected when reforming the system in 1996. Thus, the difference between the "old" pensions and the newly granted pensions (where 'notional capital' is wage indexed) could grow further and price indexation might erode the value of benefits for older pensioners as compared to real wages. The authors of the Joint Report on Pensions have come to the same conclusion.<sup>30</sup>

Until now, privately-funded pensions are not playing an important role in retirement income. The income from the operation of the State Funded Pension Scheme is not satisfactory. Out of seven countries in Central and Eastern Europe that have implemented a state funded scheme, only Latvia has a negative real rate of return: minus 3.5% in this scheme from the time the pension plans began operating until 2007.<sup>31</sup> As written in section 2 on pensions, the results of pension plan operation are improving, with higher return rates, but it should be noted that pension plan management shows only the nominal rates of return, not the real ones. In the voluntary private pension plans the situation is similar.

The Joint Report on Social Protection and Social Inclusion (2010) stresses the necessity for better supervision of funded schemes.

"The crisis has exposed the vulnerability of funded schemes to volatility in financial markets and highlighted the need for policymakers, regulators and supervisors to promote more

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<sup>29</sup> The Joint Report on Pensions: Country profile: Latvia 13 December 2010 <<http://ec.europa.eu/social/main.jsp?langId=en&catId=752&newsId=958&furtherNews=yes>>

<sup>30</sup> The Joint Report on Pensions: Country profile: Latvia 13 December 2010 <<http://ec.europa.eu/social/main.jsp?langId=en&catId=752&newsId=958&furtherNews=yes>>.

<sup>31</sup> WB staff using data from national sources, in: "Pensions in Crisis: Europe and central Asia regional Policy Note", Document of the World Bank, 12 November 2009.



prudent management of people's retirement savings thus finding a balanced way of reaping the advantages of funded schemes."<sup>32</sup>

This conclusion is one that Latvia's institutions must heed.

This is particularly important since, when implementing the funded pension scheme, individuals are taking over the financial risks inherent in this system. In any case, "the key variable is effective government, which is the prerequisite for well-run pensions, however they are organised. It is not possible to get government out of the pensions business."<sup>33</sup>

Under the law, the Financial and Capital Market Commission, which is an autonomous public institution, should carry out the supervision of Latvian private pension funds. Until now, in its reports the commission has only published impassive data on the numbers of pension fund participants, return rates etc. An evaluation of fund performance has never been given. Only once has the Finance and Capital Market Commission criticised the asset managers with regard to high administrative costs, fluctuating from 1.5% to 1.895% of the average value of pension plan assets in the given year.<sup>34</sup>

It should be noted that the management of the State Funded Pension Scheme does not correspond to the framework initially developed. In accordance with the legislation, the decisions concerning investment of assets should be taken by an independent asset manager, and the actual capital has to be kept in a custodian bank. Such a division of responsibilities was envisaged in order to ensure maximum safety of pension assets.

In practice, almost all asset managers are affiliated to the custodian banks, and the banks are acting as the only managers of 2<sup>nd</sup> tier pension assets.

### **2.2.5 Critical assessment of reforms, discussions and research carried out**

The author has no valid reason to be critical of the Concept on Long-term Sustainability of the Social Insurance System. The only issue to be stressed is that in the concept the ministry has not given the real rate of return in the State Funded Pension Scheme (which was negative in all years even before the crisis), as it previously did, but the nominal one, which is positive. This is further evidence of the strength of the banking lobby in the country, even if it is recognised in the concept itself. There is more to say about the discussion in the public space. To some extent the position of NGOs protecting pensioner's rights is understandable. The new NGO the "Society for Social Reforms" has proposed no reforms and the author would call it the "Society against All Reforms" undertaken by the government. The Pensioners' Federation is more flexible and in general supports the aims set in the concept.

For bank experts the author cannot find any excuse. Of course, the economic and demographic situation raises concerns about the future financing of the social insurance system, but if they are so worried about it and have projections for the future differing from those made by the Ministry of Welfare, then there is plenty of space to come up with them and prove what is wrong with the projections in the concept. The views expressed in their articles and in public discussion create the impression that they don't even know about the existence of the concept. The concept was discussed for the first time only in a TV discussion on 30 March this year. Arguments that have been heard such as "today pensioners are

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<sup>32</sup> Joint Report on Social Protection and Social Inclusion (2010) <http://www.ec.europa.eu/social/main.jsp?langId=en&catId=750>.

<sup>33</sup> Nicholas Barr "Reforming pensions: myths, truths, and policy choices", *International Social Security Review*, Vol. 55, No.2, April – June 2002.

<sup>34</sup> "FKTK: 2.līmeņa pārvaldnieku cenas ir nekorektas", 02 December 2009, <http://www.db.lv/>.

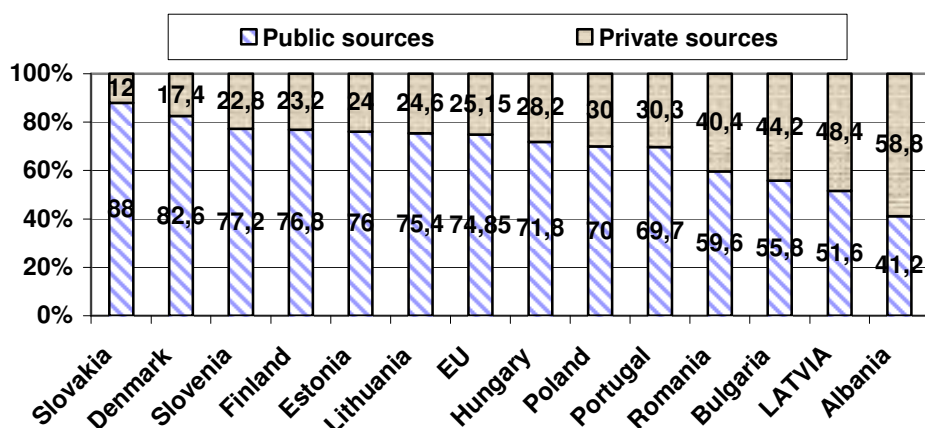
blackmailing the rest of society”,<sup>35</sup> that they were “communism-builders” and are not capable of solidarity with society (TV discussion). In the author’s view it is entirely inappropriate for someone who calls himself a “pension expert” to use such expressions. In the Latvian society the notion of “solidarity” is understood only as horizontal solidarity – between working people and those who are in the situation of social risk (old age, sickness etc). Social security theory refers to a second type of solidarity: the vertical solidarity that in Western countries is often called “the generation agreement”. Latvia’s present-day pensioners have fulfilled their duty to the previous generation, and currently it can be said that they have not done it badly. This agreement cannot be interrupted because of a change of political regime (no matter what the previous regime was like). The only explanation for such a position is the aim of promoting private savings by destroying trust in state social insurance.

## 2.3 Health Care

### 2.3.1 Overview of systems characteristics and reforms

Latvia’s health system in general is tax-financed. At the same time, some kinds of treatment are provided at the patient’s own expense.

Figure 4: Public and private expenditure on health care in comparison with selected EU countries (2008).



Source: Presentation by the State Secretary for the Ministry of health Rinalds Muciņš on 22 February 2011.<sup>36</sup>

The data are given for the year 2008, but the trend remains the same: private expenditure on health care in Latvia has only grown.

Patients’ fees and co-payments are payable even for basic treatment, and these have risen considerably as of 1 March 2009.

Health care services are also provided by private health care institutions. The Association of Health Care Employers unites approximately 60 private health care organisations. Public-private partnership is also used by public institutions to outsource their functions to private health service providers.

In recent years, until 2009, the private health insurance system was gaining in importance. To a great extent this can be explained in terms of the increasing numbers of employers insuring

<sup>35</sup> Baņķieris: pensionāri šantažē sabiedrību, <http://www.apollo.lv/portal/news/articles/231118>.

<sup>36</sup> Veselības ministrijas valsts sekretāra Rinalda Muciņa prezentācija: Veselības nozare 2011. – 2014.gadā <http://www.vm.gov.lv/index.php?top=121&id=846>.



their employees. Private health insurance was used as a bonus for employees in both the private sector and the public sector.

In the years 2009 and 2010 the situation changed significantly. The prime minister has forbidden the buying of insurance policies for employees in the public sector. The number of entrepreneurs in the private sector insuring their employees is decreasing. Almost the only insurance company providing health insurance to private individuals – the Riga Sickness Insurance Fund – became insolvent, accused of fraudulent activities, and is closed as of 1 April 2010. The president of the Insurer's Association reported losses of 10 million LVL from health insurance in the first three quarters of 2009 alone. He states that insurance is a private business and as such is not interested in insuring private individuals.<sup>37</sup> Thus, there was no possibility for individuals to buy a health insurance policy. By the end of the year 2010 the Latvian branch of the insurance company P&C<sup>38</sup> started to offer private health insurance to individuals. Until now it has been the only company offering such services. The premium payments for insurance are foreseen as being from 132 LVL to 150LVL. This insurance does not cover the full costs of treatment: for some kinds of treatment it covers from 50% to 70% of real costs. The remaining part must be covered by the insured person. In March this year a second insurance company, ERGO Life Insurance Latvia, started to offer private insurance to individuals. Neither company offers its services to the elderly.

The national consolidation programmes have had a severe impact on health policies.

The Declaration of Intended Activities of the Cabinet of Ministers Headed by Valdis Dombrovskis promised:

“Starting with 2011, provision for the budget of the principal functions of health care area not less than actual funding level of the previous year, not including the EU funding for investment projects and provided co-financing. Gradual increase in funding for the principal functions of health care area according to the state budget opportunities.”

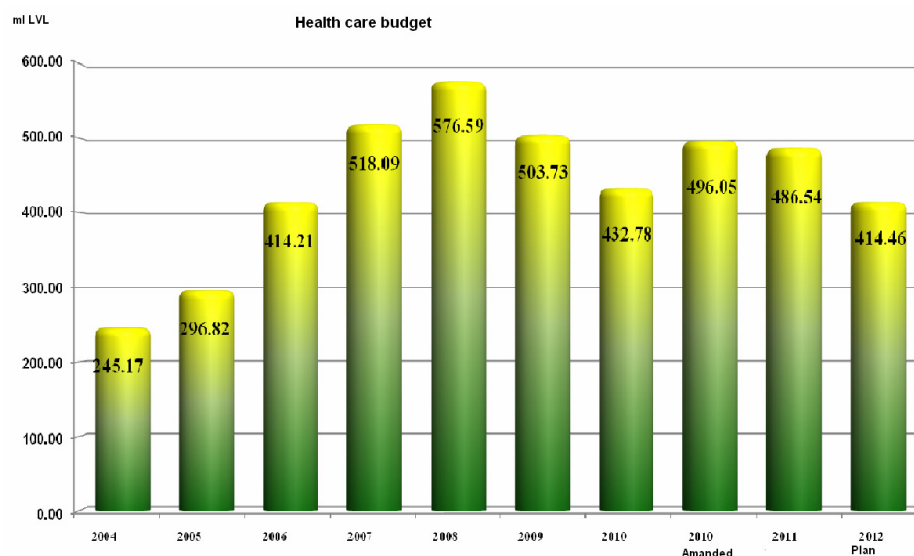
Contradicting this statement, expenditure for health care was cut by 12.4 million LVL in 2011. There were objective reasons for this, because the IMF did not recognise all the budget consolidation measures envisaged by the government. Nevertheless, once again financing for health care is insufficient.

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<sup>37</sup> Liene Barisa “Nav risinājuma, kā nodrošināt veselības apdrošināšanas iespējas”, newspaper *Neatkarīgā Rīta Avīze* 21 January 2010.

<sup>38</sup> <http://www.if.lv/web/lv/eng/private/Pages/default.aspx>.

Figure 5: Health care budget



Source: presentation by the State Secretary of the Ministry of Health Rinalds Muciņš on 22 February 2011.

As figure 5 shows, financing for health care will decrease further in 2012.

### 2.3.2 Overview of debates and the political discourse

The Ministry of Health has prepared a Development Plan for the Health Care System for the Years 2011 to 2013<sup>39</sup>. The plan defines the most acute problems in the health care system. Thus, public health in the country is in such bad condition because the health care system is dealing with the consequences of health problems, namely illnesses, rather than preventing its causes:

- Unsatisfactory access to primary health care;
- Integrated, continuous and consecutive health care is not safeguarded, because medical personnel are paid according to the number of performed manipulations, not the results of treatment (quality).

The aims of the plan are: To secure the use of available resources in an appropriate way under the restricted financial possibilities, safeguard the sustainability of the health care system in the long term, and also create equal access for the population to publically financed health care services.

In order to use the available financial resources more efficiently, it is planned to minimise not only the number of hospitals, but also the numbers of beds in them and the number of bed/days spent in hospital.

Table 2: Number of beds in hospitals and the number of bed/days spent in hospitals

2009	2013
Per 100,000 inhabitants	

<sup>39</sup> The Ministry of Health, Development Plan for the Health Care System for the years 2011 to 2013, <http://www.vm.gov.lv/index.php?top=137&id=143>.

550 acute beds in hospitals	350 acute beds in hospitals
2,678 acute beds in mental hospitals	1,314 acute beds in mental hospitals
8.5 average bed/days spent in hospital	6.5 average bed/days spent in hospital

*Source: The Ministry of Health, Development Plan for the Health Care System for the years 2011 to 2013.*

Simultaneously, the plan envisages improving outpatient health care.

There has been much public criticism of the health care system reforms, poor funding, the prices of medicines and the use of available resources. World Health Organisation (WHO) experts contributed to a discussion at the Latvian Parliament on 8 September 2010 on the development of a public health strategy and the health budget. The WHO experts pointed out that cutting a government's health budget often puts a heavy burden on individuals. They must pay for health care and medicines out of their own pockets when they are sick. This pushes some into poverty, and can prevent others from seeking medical help, particularly those who are poor, elderly or chronically ill. The WHO experts stressed that the system remains fragile and, given the cuts of the past two years, a further reduction in public spending on health could well have a destabilising influence on the health sector and the population's ability to benefit from the health care system. Therefore, the WHO recommends that the health and social sectors should be protected from further cuts.<sup>40</sup>

As described above, this recommendation was not followed.

There is no question that public funding for health care is insufficient, but in the years 2009–2010 the question was raised as to whether the available financing is always being used in a fair and transparent way. The prime minister wishes to see evidence that the current situation in the health care budget is transparent and that the financial means will be used for the improvement of health care as such, rather than for covering the costs of construction and expensive equipment for hospitals. This aim is set out in the Declaration of Intended Activities of the Cabinet of Ministers: “Development and introduction of the guidelines for examination and treatment process, thus discontinuing useless spending of the state budget resources for purchase of unnecessary technologies.”<sup>41</sup> The mass media have reported on cases when all tenders announced by several hospitals have been won by one company, although the other offers were cheaper and met the required standards. At one of these hospitals, the Children's Clinical University Hospital, fraudulent activities were discovered in connection with tenders, and the four employees responsible were arrested. This is a particularly appalling case, widely discussed in public, because people had been regularly donating to the hospital to improve treatment conditions for the children. The director of the hospital has lost his job, and currently four of the employees responsible for organising the tender and the renovation that followed are facing court charges. So far, the reconstructed building is not functioning and taking in patients because of the poor quality of the renovation work, although it was unveiled by the minister at the beginning of 2010. The current situation was analysed by a journalist in the weekly *ir* at the end of 2010 in an article entitled “How to rob children”. The previously generous donations for this project have decreased by 90%.<sup>42</sup>

The discussion on the shortage of medical staff has continued for years.

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<sup>40</sup> WHO/Europe contributes to health budget discussions in Latvia, <http://www.euro.who.int/en/where-we-work/member-states/latvia/sections/news/2010/09/who-europe-contributes-to-health-budget-discussions-in-latvia>.

<sup>41</sup> The Declaration of Intended Activities of the Cabinet of Ministers, headed by Valdis Dombrovskis November 2010. <http://www.mk.gov.lv/en/mk/darbibu-reklamantejosie-dokumenti/valdibas-deklaracija-eng/>.

<sup>42</sup> Sanita Jemberga “Kā apzagt bērņus”, weekly “*ir*”, No. 30, 2010.

### **2.3.3 The impact of EU social policies at the national level**

The draft of Latvia's National Reform Programme (NRP) for the Implementation of the "Europe 2020" strategy defines the targets in health care only in general terms: "Development and availability of qualitative social and health care services". The Ministry of Health has prepared proposals for the final version of the NRP, adding to the programme concrete targets in respect to public health, such as potential years of life lost (PYLL), setting an indicator to be reached in 2020. Concrete targets should also be set for sickness rates for the more widespread illnesses. The proposals are also linked to the ageing of the population, stressing that health is not (only) a primary goal, but a contributor to wider societal goals: Better health conditions for the population could promote longer working lives and labour productivity, while a healthy lifestyle will save resources that are currently used to treat illnesses resulting from unhealthy behaviour and habits. The proposals are not included in the final version of the NRP.

### **2.3.4 Impact assessment**

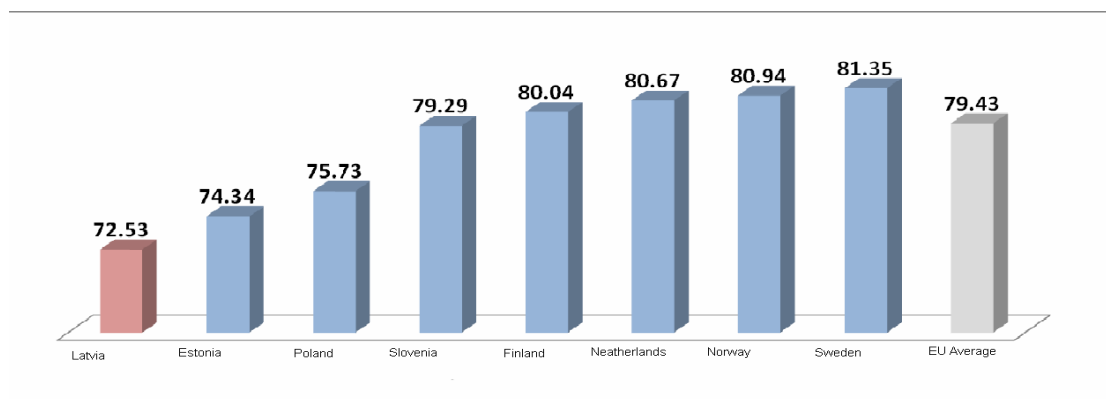
As regards access to health care services, the existing inequalities in health care are deepening. The share of private expenditure for health care is growing each year, and so are the prices of medicines.

Hospital patients are only treated in emergency cases, unless they are able to cover the full costs themselves. Doctors stress that the interruption of planned treatment in hospitals has not decreased the number of patients, because each planned patient, if not treated in due time, will become an emergency patient. The patients are delivered to hospital with very advanced diseases, which creates additional expenses for treatment, and suffering for patients and their family members. The situation is especially tragic in oncology, cardiology, traumatology and general surgery, as in other fields of medical treatment. An overview of all existing problems and impact assessment is provided by an interview with Valdis Keris, Chairman of the Trade Unions of Health and Social Care workers, who asserts that the policy of the government will deepen the existing inequalities in health care, disregarding the recommendations of the European Commission and the World Health Organisation. In an interview entitled "Health care – between half-coma and coma"<sup>43</sup>, he characterises the situation in health care, naming some of the relevant demographic indicators: high total and infant mortality rate, low birth rate and low fertility rate. After the dramatic cut in the number of hospitals, the remaining number of hospitals is one of the lowest in the European Union, and the number of medical personnel has also been cut. The death risk in hospitals has grown by 20% in 2010 in comparison with the previous year.

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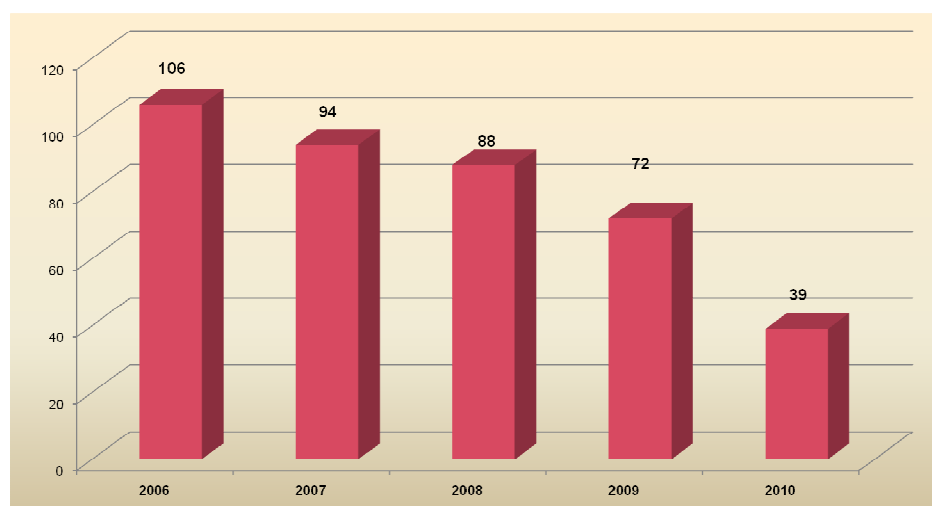
<sup>43</sup> "Keris: Veselības aprūpe atrodas starp puskomu un komu", <http://www.veselibai.info/keris-veselibas-aprupe-atrodas-starp-pus>.

Figure 6: Life expectancy in comparison with selected EU countries (2008)



Source: Presentation by the State Secretary of the Ministry of Health Rinalds Muciņš on 22 February 2011.

Figure 7: The number of hospitals in Latvia



Source: Presentation by the State Secretary of the Ministry of Health Rinalds Muciņš on 22 February 2011.

The health care system is not sustainable in terms of health care personnel either. One third of Latvia's physicians are at pre-retirement or retirement age. The Ministry of Health recognises that the shortage of health care workers is real and that the situation will grow worse in coming years, because the tendency for health care workers to leave for work abroad will obviously continue. Many medical workers are emigrating in order to take up better-paid positions abroad. As a result, the country is faced with a severe shortage of health care workers, which is becoming more and more pronounced each year, as workers change their profession, retire or take up positions outside Latvia. More than 50% of medicine students are ready to leave the country after their studies.<sup>44</sup>

Under the legislation, all inhabitants are covered by the health system, but poverty limits access to services. The results of an opinion poll performed by the Compensa Life Vienna Insurance Group SE shows that 44% of population in Latvia do not plan to spend any money on their health care in 2011. 23% of respondents state that they are planning to spend a small amount of money – up to 30 LVL.<sup>45</sup>

<sup>44</sup> Vairums medicīnas studenti domā par emigrāciju, 01 February 2011. <http://unity.lv/lv/news/301344/>.

<sup>45</sup> Compensa Life Vienna Insurance Group SE aptaujas rezultāti, [http://www.financenet.lv/viedokli/367665-strautins\\_latvijas\\_pensiju\\_sistema\\_irhttp://www.tvnet.lv/zinas/latvija/365930-44%\\_iedzivotaju\\_sogad\\_neplano\\_teret\\_naudu\\_savai\\_veselibai\\_netaisniga\\_un\\_sabruks.](http://www.financenet.lv/viedokli/367665-strautins_latvijas_pensiju_sistema_irhttp://www.tvnet.lv/zinas/latvija/365930-44%_iedzivotaju_sogad_neplano_teret_naudu_savai_veselibai_netaisniga_un_sabruks.)

The 2010 Eurobarometer survey on “Poverty and social exclusion” shows that around three quarters of those surveyed (91%) feel that poverty is widespread in Latvia.<sup>46</sup> People indicate that most at risk of poverty are the unemployed, the elderly and those overly in debt, as well as low-income families with children. According to SILC 2008, the poverty rate in Latvia is 59.8% and the poverty gap is 43.3%.<sup>47</sup> In 2009 Latvia had the third-lowest real household income per capita in the EU, PPS being 48. Along with two other EU countries, Latvia has the highest recorded level of income inequality.<sup>48</sup>

Taking into account the poor state of the infrastructure, the situation raises real concerns about the accessibility of health care in rural areas. The latest news is that in the framework of budget consolidation the earmarked subsidy for the Ministry of Transport will be reduced by 3 ml LVL. According to specialists this will lead to a situation where in rural areas the buses will run only once a week and it will be necessary to raise ticket prices. If so, then access to health care will become more restricted. The latest opinion poll demonstrates that 72% of respondents cannot afford wholesome health care services (an opinion poll performed in February 2010 by an NGO for disabled people, the respondents being persons with serious illnesses)<sup>49</sup>. The same trend is demonstrated by an opinion poll performed by “DnB NORD Latvian Barometer”<sup>50</sup> in the framework of research paper No. 34, published on 2 March 2011. This poll was performed using the general methods for conducting a representative opinion poll. According to the “DnB NORD Latvian Barometer”, the country's population is dissatisfied with the quality of the existing health care system, pointing to its non-correspondence to actual needs and the costliness of its services. Moreover, in the opinion of respondents, improvements could be made not only by additional funding, but also by major changes in the system itself.

More than 80% of respondents believe that the health care system in Latvia does not satisfy the needs of the general public, and the following are mentioned as the main reasons behind its inefficiency: costly medicine (72%) and medical services (67%), as well as the lack of funding (64%). A proportion of respondents see as the principal problem the never-ending changes within the system and inconsistency of decisions (41%), as well as an unsatisfactory attitude towards patients on the part of medical staff (38%).

Nevertheless, regardless of the wish to see reforms within the health care system, more than half of respondents are not supportive of the current reform of hospitals, believing that its goals do not correspond to the best interests of the population, and another 43% reckon that it is being inefficiently implemented.

### **2.3.5 Critical assessment of reforms, discussion and research carried out**

The structural reforms in the health care sector were indeed carried out swiftly and have reduced administrative costs in the health care administration significantly.

However, the reforms might have been implemented gradually, in accordance with the Master Plan, or “Programme for Development of Primary and Hospital Care Services for 2005–2010”. One of the aims of the Master Plan was to reduce administrative costs. Implementation of the plan was postponed, because in the years of growth the government was not interested

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<sup>46</sup> “Poverty and social exclusion”, Special EUROBAROMETR 355, December 2010, [http://ec.europa.eu/public\\_opinion/archives/ebs/ebs\\_355%20en.pdf](http://ec.europa.eu/public_opinion/archives/ebs/ebs_355%20en.pdf).

<sup>47</sup> The measurement of extreme poverty in the European Union, EC, January 2011.

<sup>48</sup> EUROSTAT “Statistics in focus”, 16/2011, 06 April 2011.

<sup>49</sup> SUSTENTO, 2011. gada februāra aptaujas dati, <http://www.sustento.lv/resource/show/794>.

<sup>50</sup> DnB NORD Latvijas barometra pētījums Nr. 34 (02 March 2011). Veselības aprūpe <http://www.dnbnord.lv/lv/publikacijas/barometrs/>.



in taking unpopular decisions. If the reforms had started earlier they might have been more carefully considered and not as painful for the population as was, for example, the closing of so many hospitals (some of them well-equipped with the help of the European Social Fund).

The need for reform is also recognised among physicians. The Chairman of the Trade Unions of Health and Social Care Workers Valdis Keris admits that the number of hospitals really was too high, but such rapid closing of so many hospitals “was a tragic mistake”, because primary health care is not ready to take over the functions previously performed by hospitals.<sup>51</sup>

The reorganisation of emergency care was likewise ill-judged.

The newly appointed minister pronounced that emergency care services at hospitals would be provided only at night, and that the only specialised traumatology hospital, in the capital Riga, would be closed. This brought criticism from all sides: from physicians, patients and the public, because this hospital is highly specialised and performs unique surgical operations.<sup>52</sup>

This decision was changed only after intervention by the President.

The political party alliance leading the government, *Vienotība* (‘Unity’), proposes to link health care services to the payment of income tax, with the aim of forcing people out of the shadow economy. This means that health care services would be provided only to those paying taxes and to some other groups, such as children and pensioners. It also means that many people will be excluded from the health care system, for example, the unemployed. The authors of this idea call this method “health insurance”.<sup>53</sup>

The World Health Organisation (WHO) has entitled its World Health Report 2010 “Health system financing – the path to universal coverage” and states: “As the world grapples with economic slowdown, globalisation of diseases as well as economies...the need for universal health coverage, and the strategy for financing it, has never been greater.”<sup>54</sup>

This means that, if the idea finds support in parliament, Latvia’s health system will go in the opposite direction to the targets set by the EC, WHO and ILO – to achieve universal coverage – by imposing a financial penalty on the ill. In any case, the proposal has nothing in common with social health insurance (SHI) the way it is understood in social protection theory. The idea has also been criticised by social partners and practitioners, who have difficulty imagining how it will be possible to check before treating a patient whether non-payment of the taxes is justified or not.<sup>55</sup>

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<sup>51</sup> Veidemane Elita : Keris : “Veselības aprūpe atrodas starp puskomu un komu”, Neatkarīgā Rīta Avīze, 12 November 2010.

<sup>52</sup> Jurkevičs Vitolds “Traumatoloģijas slimnīca: Reformām veselības aprūpē jābūt rūpīgi pārdomātām” 29 December 2010, <http://www.delfi.lv/news/comment/comment/traumatologijas-slimnica-reformam-veselibas-aprupe-jabut-rupigi-pardomatam.d?id=35988331>.

<sup>53</sup> “Iecerēta veselības apdrošināšanas sistēma cīņai ar ēnu ekonomiku” *DELFI*, 11 February 2011, <http://www.delfhttp.com/www.delfi.lv/news/national/politics/iecereta-veselibas-apdrosinasanas-sistema-cinai-ar-enu-ekonomiku.d?id=36731981> i.lv/news/comment/comment/traumatologijas-slimnica-reformam-veselibas-aprupe-jabut-rupigi-pardomatam.d?id=35988331.

<sup>54</sup> WHO, World Health Report 2010, <http://www.who.int/whr/2010/en/index.html>.

<sup>55</sup> “Veselības nozares sociālie partneri aicina rūpīgi vērtēt aprūpes atteikšanu nodokļu nemaksātājiem”, 11 February 2011, *DELFI*, <http://www.delfi.lv/news/national/politics/article.php?id=36776575#c36776731>.

## **2.4 Long-term care**

### **2.4.1 Overview of the system's characteristics**

Long-term care is a part of Latvia's social assistance system.

According to the Social Services and Social Assistance Law (in force from 1 January 2003), social services and social assistance are a constituent part of the system of social security, with the aim of guaranteeing social protection for individuals unable to provide for themselves or to overcome specific difficulties in life and who do not receive sufficient help from anybody else.

Although there is no definition for long-term care in Latvian legislation, the character of long-term care does correspond to the OECD definition: "a cross-cutting policy issue that brings together a range of services for persons who are dependent on help with basic activities of daily living (ADLs) over an extended period of time."<sup>56</sup>

Long-term care is provided by the state, municipalities, NGOs, charities and private institutions.

Access to public care is limited by age, health and socio-economic status, because of restrictive criteria for entitlement to long-term care.

The number of applications for institutional long-term care is decreasing. As has been written in the previous report, a new trend has developed during the period of crisis: Many families are interested in having the old people at home, especially in the countryside, because in many cases the pensioner is the only family member with a stable monthly income in cash. This trend is observed even in the capital, Riga. There are cases when people are taking their relatives out of social care homes with the aim of improving their household situation. Thus one can say that the role of family care is growing, although this does not mean that old people always benefit from this situation. Old, dependent people are being taken out of care centres and the mass media report on cases when the elderly have been placed in a situation of helplessness: used to care services, they are being left at home without any regular care.

In the current situation municipalities are searching for ways of optimising social work in a given territory.

The possibility of outsourcing social care services is also used, following the practice of other countries. This has been easier to do in the years 2010 and 2011, because in July 2009 the *Saeima* adopted the Law on Public Private Partnership (PPP), allowing public institutions to outsource their functions to private service providers. This approach is being used by several municipalities. Taking into account the restricted financial possibilities, the local authorities are searching for other resources to support their residents, in other words resources in the community itself. Thus, municipalities are facilitating the development of mutual self-assistance in the community. These tasks are being implemented by developing community social work. The importance of the volunteer movement is gaining weight, supported by the Latvian Red Cross, other charity organisations and organisations for people with disabilities.

The Ministry of Welfare has simplified the procedure for registering as a social services provider for private individuals and institutions prepared to provide social services, such as: social work, social care, social rehabilitation and professional rehabilitation.

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<sup>56</sup> OECD 2005 Long-Term Care for Older People, [http://www.oecd.org/document/61/0,3746,en\\_2649\\_37407\\_35490493\\_1\\_1\\_1\\_37407,00.html](http://www.oecd.org/document/61/0,3746,en_2649_37407_35490493_1_1_1_37407,00.html).



Up to May 2011 there were 730 registered social care providers (464 in 2010) which demonstrate the growing weight of private service providers.

The Ministry of Welfare registers all social services providers. The register contains all relevant information on the services provider, their legal status and their capacity for providing social services. The registration might be described as a kind of accreditation. If the ministry discloses irregularities in the operation of the service provider, they may be excluded from the register. The monitoring of the work of the provider is entrusted to social protection institutions in the respective territory and to general monitoring institutions. The provider must comply with the standards for each kind of services or the rules developed by the municipality. All municipalities have rules for different kinds of services, which are mandatory for social workers and social carers. Elaboration of the regulations is not complete yet, but they are designed in such a way as to secure quality labelling and quality assurance. This is relevant particularly at this time when the national authorities are increasingly diversifying the ways in which the services are organised, provided and financed. Consequently, a growing proportion of these services now come under the scope of community rules on competition and the internal market<sup>57</sup>.

According to the Plan of development of the health care system for years 2011 to 2013, long-term care for elderly people is to be developed in special hospitals (or hospital beds) to avoid the fact that many of elderly patients occupy beds in hospitals for acute treatment because of social indicators, which provides indirect evidence that home care is not available.<sup>58</sup>

#### Financing:

Some institutional care institutions are state financed (for example, for people with mental disorders), while the rest are financed by municipalities. The private service providers are gaining weight. Charity organisations are organising home care also through donations, for example, the activities of the Latvian Red Cross in the framework of the project "Home care".<sup>59</sup> Private insurance schemes or contracts have until now not been used in LTC because the insurance companies do not offer the possibility of insuring such a risk as "need of care".

Austerity programmes have had an impact on long-term care arrangements. The number of recipients of social transfers is growing each month, with a correspondingly increasing workload for social service offices. In the framework of budget consolidation measures the number of social workers and social carers has been reduced, as have the salaries for the remaining staff, which has a serious impact on their capacity for performing their functions. There is an increase in applications for social assistance benefits and certificates, confirming that people are needy or have a low income, and these people, too, together with potential benefit receivers, are forming long waiting lists at social services offices. Some municipalities have avoided decreasing the number of employees directly involved in the provision of services by reducing the staff performing various administrative functions or by centralising these functions (personnel managers, accountants etc.). This is the way it was done at the Riga Welfare Department, which has retained a constant number of social services providers during the years of crisis, and from 1 July 2010 there are 14 additional social services providers. The Riga Welfare Department has introduced a new kind of benefit for the persons with low income (up to LVL135 per person or family member) – a benefit in cash for payment for home care services. This means that a person entitled to home care can choose the carer. This provides a good opportunity to improve the household situation and promote family care.

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<sup>57</sup> <http://ec.europa.eu/social/main.jsp?catId=794&langId=en>.

<sup>58</sup> Veselības aprūpes sistēmas attīstības plāns 2011. -2013. gadam, <http://lv.lv/?menu=doc&id=221275>.

<sup>59</sup> Mājas aprūpe, <http://www.redcross.lv/start.php?lang=lv&id=144>.

## **2.4.2 Overview of debates and the political discourse**

The problems of long-term care are not on the political agenda. In all political planning documents the aims in long-term care are set only in general terms and expressed in the same words: “Development and availability of qualitative social services by improving the existing support systems and developing alternative social care services in the regions.”

More success has been achieved with the support of the European Social Fund.

For the Riga Planning Region a social services programme for alternative social care and social rehabilitation services for the years 2010–2016 has been developed, in the framework of a project funded by the European Social Fund (Project No. 1 DP/1.4.1.2.3./09/IPIA/NVA/003). The programme includes development of alternative forms of care, such as day centres, day care centres, home care, half-way houses and apartments, a crisis centre, group apartments, ‘safety buttons’ and other forms of alternative care. Such forms of care already exist, but the project provides an opportunity to develop them further with co-financing from the ESF.

The final version of the programme was approved on 30 June 2010 and implemented during the year 2010 (with some modifications in line with local needs) in all planning regions of Latvia. The programme offers conclusions based on polls of inhabitants, which do correspond to the current situation in Latvia. The author will refer to the Riga Planning Region social services programme for alternative social care and social rehabilitation services for the years 2010–2016<sup>60</sup>, because the same trends are characteristic for all regions of the country. The five basic problems which clients (at risk of exclusion) point out and which they have faced during the past 12 months were connected with satisfaction of basic needs for survival. All problems are interrelated and caused by the lack of money. Approximately half of all respondents indicate as most necessary social services such as: soup kitchens, day and night shelters. The vast majority of respondents point out the need for different benefits in cash and kind, which are not seen as social services in context of the programme. Thus one can conclude that the inhabitants at risk of exclusion are not thinking in categories such as “quality of life”, “result-oriented service performance” etc., but are simply struggling for survival. The next phase of the project started on 12 April this year as the activity “The development of social care services alternative to institutional care”. Participation in the project is open to all social services providers (institutions and individuals) registered with the Ministry of Welfare as social service providers. The project is fully funded by the European Social Fund (ESF). The aim of the project is to cover 3,000 people in a situation of risk.<sup>61</sup>

The situation differs significantly in social care homes where all basic needs of residents are satisfied. During the years of crisis institutional care has become more available. In the year 2007 many people had been waiting for placement in social care homes for five years, and the waiting list for 2007 included 511 people, but as of 1 January 2011 there were only 96 persons on the waiting list.

In most cases they were waiting to be placed in a particular care centre. The Ministry of Welfare is developing projects for improving the quality of care in social care homes with the support of ESF as well. In the framework of a pilot project “Elaboration of the methodology

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<sup>60</sup> Rīgas Plānošanas Reģiona sociālo pakalpojumu attīstības programma alternatīviem sociālās aprūpes un sociālās rehabilitācijas pakalpojumiem 2010.-2016.gadiem, Rīga, 2010.

<sup>61</sup> Varēs saņemt ES fondu atbalstu alternatīvo sociālo pakalpojumu īstenošanai reģionos. 12 April 2011, <http://www.lm.gov.lv/news/id/2667>.

for assessment of the quality of social services providers, validation and implementation”.<sup>62</sup> The project is basically funded by ESF and amounting to 85% of all project costs.

The problems of long-term care are discussed in academics circles, for example, in the yearly conferences at Stradiņš University. The abstracts of publications below give an insight in the problems considered at the conferences.

In the context of current situation there are no discussions in the public space on long-term care. Some information sometimes appears in mass media on the cases on the neglected old people, who are not able to leave their dwellings, especially in the wintertime and receive help from nobody but such cases are rare and there is no response to information of such kind.

### **2.4.3 Impact of EU social policies at the national level**

The impact of EU social policies in the field of long-term care can be felt in Latvia mostly through the implementation of projects funded or co-funded by the European Social Fund.

As described previously, there is no real debate in the field of long-term care in Latvia. In the draft of National Reform Programme the general targets of long-term care were set, but they have disappeared in the final version of the programme. The only document which can be indicated as referring to the EU 2020 Strategy is the Plan of development of the health care system for years 2011 to 2013. Based on this plan, a vision for the year 2020 has been developed: by 2020 a special programme for care of old people has been implemented, bringing together the following resources: family doctors, nurses + medical treatment at home + care beds in hospitals. The programme should be financed from the health care budget, municipal and personal sources.<sup>63</sup>

The linkage between long-term care and poverty is very strong because long-term care is provided only to persons with low income (the income criteria differ from municipality to municipality). In the capital Riga the criteria are based on the highest level of income – if the income of the person or each person in the family does not exceed 200 LVL per month (excluding benefits in cash for home care).

### **2.4.4 Overview of impact assessment**

All data on people receiving long-term care are given in absolute numbers, so it is difficult to estimate to what extent the demand for home and community care is satisfied. There are no data as to how many applicants have confirmed the loss of their ability to independently perform the essential tasks of everyday living. Taking into account the growing number of old people in Latvia, the number of disabled people with severe impairments and the number of people receiving home care, one can conclude that this form of care cannot cover all persons who really need such support.

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<sup>62</sup> LM pilotprojekta veidā pārbaudīs jauno sociālo pakalpojumu sniedzēju kvalitātes novērtējuma metodiku, 08 April 2011, <http://www.lm.gov.lv/news/id/2646>.

<sup>63</sup> Veselības ministra J.Bārzdiņa prezentācija “Sabiedrības veselības pamatnostādnes 2011. -2017.gadam, 18 April 2011, <http://www.vm.gov.lv/index.php?id=122&sa=121,122&rel=3005&large=>.

Table 3: Home care in 2010 (provisional data provided by municipalities for state statistics overview).

	Total	Home care organised by municipality	Home care organised by NGO's	Home care organised by individuals
Home care receivers (total)	9,392	5,220	1,934	2,238
Thereof,- persons at retirement age	3,936	842	1,740	1,354

*Source: provisional data provided by municipalities to the Ministry of Welfare.*

Up to January 2011 there were 2 persons waiting for home care services.<sup>64</sup>

It should be noted that the information provided by municipalities is incomplete. According to information from the Riga Welfare Department, up to May 2011 there were 60 pensioners and persons with disabilities waiting for social services (including rehabilitation measures, “safety buttons”, hot meals at home etc.) All requirements are satisfied within one month.<sup>65</sup>

If one can rely on the information given in the table above, the number of persons receiving home care constitutes 0.83% of all pensioners. If to this number is added the adult persons (including persons with disabilities) living in social care homes, the coverage will be 2.12%. Of course the author's calculations provide no evidence of a need for care not being met, but it demonstrates that the possibilities for long-term care are unsatisfactory.

Many EU documents stress the aim of long-term care: to reach all sections of the population through universal insurance coverage and/or affordable care, and in such a way that this does not lead to impoverishment: individual ability to pay or the share of private sources of financing should not hinder accessibility. Thus, access should be universal not only for person's at-risk-of-poverty and social exclusion. In Latvia, access to long-term care is restricted even for those at-risk-of-poverty and social exclusion.

#### **2.4.5 Critical assessment of reforms, discussion and research carried out**

In the current situation no special attention is being paid to long-term care problems. The information given above allows to conclude that the need for home care is not being satisfied.

In institutional care all basic needs of residents are being satisfied, which actually means that only basic needs are being satisfied. The living conditions are not such as to secure “support and treatment tailored to your personal needs and wishes”.<sup>66</sup>

Positive trends with regard to research in the field of long-term care can be observed in recent years: many students, under the guidance of academic staff, choose to write their master's degree papers on issues relating to long-term care, which gives brighter prospects for the years to come. Abstracts of relevant publications on long-term care give an insight into the themes being analysed in this respect. In the author's view, there is no basis for critical assessment of research carried out because previously the research carried out on long-term

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<sup>64</sup> Data provided by the Ministry of Welfare on 06 March 2011.

<sup>65</sup> Information provided by the Head of Social services division of Riga Welfare Department Mārtiņš Moors on 09 May 2011.

<sup>66</sup> European Charter of the rights and responsibilities of older people in need of long-term care and assistance, 2010, [http://www.age-platform.eu/images/stories/22204\\_AGE\\_charte\\_europeenne\\_EN\\_v4.pdf](http://www.age-platform.eu/images/stories/22204_AGE_charte_europeenne_EN_v4.pdf).

care was very restricted. The young scientists are researching not only the physical aspects of client's well-being. Much attention is being paid to problems of the client's emotional well-being as a quality indicator for seniors, and on how to promote optimism and self-esteem among clients. The impact of music and art therapies has been broadly discussed. In the teaching process, the academic staff introduces the students to result-oriented performance indicators in residential care.<sup>67</sup> This knowledge will help the young scientists and specialists to develop strategies to overcome existing shortcomings of the institutional care sector, including attempts to strive towards further orientation to user needs, as well as to improve outcome quality in care homes by means of quality management and appropriate criteria and indicators. The author very much hopes that this knowledge will be useful to social work practitioners and scientists when Latvia returns to growth, and that the quality of life in social care centres will not be threatened by environmental hazards, such as lack of safety equipment, poor lighting, and faulty footwear and clothing.<sup>68</sup>

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<sup>67</sup> "Measuring Progress: Indicators for care homes", PROGRESS, the EU programme for employment and social solidarity 2007 -2013. Vienna, October 2010.

<sup>68</sup> Evita Kivkucāne, Līva Germane, Dace Stirane "Fall risk factors for elderly persons living in nursing homes", Rīga Stradiņš University, November, 2010, scientific conference.

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### **3 Abstracts of Relevant Publications on Social Protection**

#### **[R] Pensions**

- [R1] General trends: demographic and financial forecasts
- [R2] General organisation: pillars, financing, calculation methods or pension formula
- [R3] Retirement age: legal age, early retirement, etc.
- [R4] Older workers activity: active measures on labour market, unemployment benefit policies, etc.
- [R5] Income and income conditions for senior workers and retired people: level of pensions, accumulation of pensions with earnings from work, etc.

#### **[H] Health**

- [H1] Health expenditures: financing, macroeconomic impact, forecasting, etc.
- [H2] Public health policies, anti-addiction measures, prevention, etc.
- [H3] Health inequalities and access to health care: public insurance coverage, spatial inequalities, etc.
- [H4] Governance of the health system: institutional reforms, transfer to local authorities, etc.
- [H5] Management of the health system: HMO, payments system (capitation, reimbursement, etc.)
- [H6] Regulation of the pharmaceutical market
- [H7] Handicap

#### **[L] Long-term care**

#### **[R] Pensions**

**[R1, R3]** A Concept on Long-Term Sustainability of the Social Insurance System, accepted with order of Cabinet of Ministers on 17 November 2010, retrieved from <http://polsis.mk.gov.lv/view.do?id=3518>.

The concept envisages changes in social insurance legislation (mostly concerning pensions), such as:

- Raising the retirement age:  
A gradual increase in the statutory retirement age has been carried out in Latvia in order to reach 62 for both men and women. Since 1 July 2008, the retirement age is 62 for women and men.  
Currently, due to the ageing of society and the financial situation in the country, the decision has been taken on a further gradual increase of the retirement age starting with the year 2016 by a half a year each year up to age 65 in 2021. As the birth rate in Latvia is insufficient for generational replacement, the average lifespan is growing and therefore society has a high ageing rate, resulting in a considerable load of retirement-age persons on working age persons (1 pensioner per 1.6 contributors). In conjunction with the increase of the retirement age the possibilities for early retirement will be abolished.
- The minimum insurance period for qualification for old-age pension is currently 10 years. From 2016 it will be extended to 15 years and from 2020 to 20 years.
- From 1 January 2011 the amount of old-age pensions will be linked to the contributions really paid to State Social Insurance Agency.
- Pensions will not be indexed in 2011. There will likewise be no indexation until 2013, at least.
- The supplements to newly granted pensions will be abolished from 2012.
- Gradually abolish the rights to favourable entitlement conditions for certain categories of employees and so-called “service” pensions.

- The contribution rate for the 2<sup>nd</sup> tier (mandatory funded scheme) remains at 2% level in 2011, after which the rate will be increased gradually to 6% (not 10%, as was foreseen previously).
- Parent's benefit for a child up to one year of age was initially implemented as a state social security benefit and was financed from the Basic State Budget. As of 1 January 2008 this benefit became a social insurance benefit and is financed from the maternity and sickness insurance budget. The concept envisages returning these benefits to the Basic State Budget, thus unburdening the Social Insurance Budget.

**[R3]** Declaration of the Intended Activities of the Cabinet of Ministers headed by Valdis Dombrovskis', November 2010. Retrieved from: <http://www.mk.gov.lv/en/mk/darbibu-reglamentejosie-dokumenti/valdibas-deklaracija-eng/>.

“Revision of the social insurance services, int. al. by gradually increasing the retirement age and minimum social insurance length of service in the medium term, unburdening the state social insurance special budget from the uncharacteristic tasks.”

**[R4]** Finanšu ministrija, “Darbības programma” Cilvēkresursi un nodarbinātība, 2010.gada janvāris, papildināta 07 January 2011. Retrieved from <http://www.likumi.lv/doc.php?id=224014>

*“Ministry of Finance, Operational Programme “Human Resources and Employment”, January 2010, updated on 07 January 2011.”*

Measure 2.2. “Development of LLL and Cooperation and Capacity Strengthening of Institutions responsible for Education and LLL Policy” the objective of the measure is to improve the accessibility of lifelong learning for adults and youth, including groups at risk of social exclusion, promote competitiveness and professional and sectoral mobility of the educators, promote development of inclusive education and improve professional orientation.

**[R1]** Mežs, Ilmārs” “Bērni – latviešu stratēģiskais kapitāls” 28 January 2011 retrieved from <http://genocids.wordpress.com/2011/03/03/ilmars-mezs-latvijas-valstij-ir-vajadzigi-berni/> on 12 May 2011.

*“Children – the strategic capital of the Latvians”*

In the year 2010 the fertility rate was 1.2 children per woman in fertility age. It was the lowest birth rate in Latvian history. In the author's opinion there is something wrong with state policy on demographics, since Latvia currently has a very high proportion of women in the age group between 20 and 30. The demographer Ilmārs Mežs gives forecasts for the future: in the year 2050 Latvia will have a population of approximately 1.5 ml. The correlation between age groups will be: 5 pensioners to 3–4 economically active people to 2 children.

**[R2]** Voļskis, Edgars “Pensiju sistēmas darbības pamatnostādnes”, Rīga, Aprīlis, 2011.

*“The basic principles of functioning of pension systems.”*

The author of the book gives an insight into the history of social insurance, dividing pension systems into Bismarckian and Anglo-American systems. An innovative approach is found in evaluating the South-Asian pension systems, described as “4<sup>th</sup> level pension systems”, where

social protection is provided by family members. In this connection no references to the Singapore pension system are made. The latest sources used in the publication date from 2005.

In the second part of the book the author describes and explains the Latvian pension system and develops various scenarios for the replacement rate of the previous earnings, taking into account different scenarios of the return rate in the state funded pension scheme. A novel feature for Latvia is the author's rather sceptical position on the possibilities provided by the state funded pension scheme.

## **[H] Health**

**[H2]** "Garīgā veselība Latvijā 2009.gadā". Statistikas gadagrāmata, Veselības ekonomikas centrs, 2010.gada decembris.

*"Mental health care in Latvia in 2009", Statistical yearbook, The Centre of Health Economics. December 2010.*

The Centre of Health Economics has presented the yearbook with comprehensive statistical information on mental health care in Latvia, as well as short evaluation of the provided data. The yearbook provides the insights into population study results and situation appraisal. Data show a slight increase in the first time registered patients with mental and behavioural disorders from 2007 to 2009. The highest rate of mental disorders is observed in Riga region and Latgale (the most depressive region of Latvia – highest unemployment rate etc.) Only data on patients with mental and behavioural disorders were processed, excluding information on patients with disorders related to use of psychoactive substances, because these patients are registered in a separate database and analysed in special reports.

The yearbook contains information on registered suicides too. There has not been increase in the last years although the level of suicides remains high 22.9 per 100,000 inhabitants (the 3<sup>rd</sup> highest rate in EU). The rate is especially high amongst the men - 40 per 100,000 inhabitants.

**[H1, H2, H4, H5]** Karaškēviča, Jautrīte "Latvijas veselības aprūpes sistēma: organizācija, reforma un mana līdzdalība", Rīga, 2010.

*"The health care system in Latvia: organisation, reform and my involvement in it", Riga, 2010.*

The book by J.Karaškēviča is the most voluminous publication on health care issues in 2010 (231 pages) and the most controversial one. The publication can be divided into two parts: the first part, describing the history of development of the health care system after independence was regained, is very informative and contains valuable statistics. It covers all relevant topics of health care: organisational structure of the health care system, reforms carried out, financing, benefits provided, population coverage and human resources. The book contains an assessment of the health system and analysis of the provision of all kinds of services.

The second part is rather emotional, describing the persons involved in the health care system – ministers, state secretaries, directors of departments and other employees of the ministry – who are generally characterised in very unpleasant terms. There was no reaction to this publication among physicians, even when direct questions were asked by journalists.

**[H1, H3]** The Declaration of Intended Activities of the Cabinet of Ministers Headed by Valdis Dombrovskis November 2010. Retrieved from: <http://www.mk.gov.lv/en/mk/darbibu-reglamentejosie-dokumenti/valdibas-deklaracija-eng/>.

“Starting with 2011, provision for the budget of the principal functions of health care area not less than actual funding level of the previous year, not including the EU funding for investment projects and provided co-financing. Gradual increase in funding for the principal functions of health care area according to the state budget opportunities.”

“Re-orientate the priority of the health care system to patient interests. Provision of equal health care services in all territory of Latvia by strengthening the primary health care, ensuring that the state financed services of doctors and doctors’ assistants are available as close to the place of residence as possible. Improvement of the public procurement for family doctors increasing the scope of prophylactic work. Increasing the responsibility of primary health care doctors (including family doctors) for patients’ health. Ensuring the availability of qualitative hospital medical aid in regions and improvement of tertiary level medical aid in multi-profile regional hospitals.”

**[H4]** The Ministry of Health, “A Development Plan for the Health Care System for the Years 2011 to 2013” November, 2010.

The plan defines the most acute problems in the health care system. Thus, public health in the country is in such bad condition because the health care system is dealing with the consequences of health problems, namely illnesses, rather than preventing its causes:

- Unsatisfactory access to primary health care;
- Integrated, continuous and consecutive health care is not safeguarded, because medical personnel are paid according to the number of performed manipulations, not the results of treatment (quality).

The aims of the plan are: To secure the use of available resources in an appropriate way under the restricted financial possibilities, safeguard the sustainability of the health care system in the long term, and also create equal access for the population to publically financed health care services.

In order to use the available financial resources more efficiently, it is planned to minimise not only the number of hospitals, but also the numbers of beds in them and the number of bed/days spent in hospital.

2009	2013
Per 100 000 inhabitants	
550 acute beds in hospitals	350 acute beds in hospitals
2678 acute beds in mental hospitals	1314 acute beds in mental hospitals
8.5 average bed/days spent in hospital	6.5 average bed/days spent in hospital

Simultaneously, the plan envisages improving outpatient health care.

## **[L] Long Term**

[L] Gorkina Edite, Olehnovica Erdiana “Gerontological social work in the municipal institutions: conditions for the sustainability of social dialogue.” Rīgas Stradiņa University, November, 2010 the collection of papers of the scientific conference.

In the introduction the author’s stresses, that in gerontological social work, there is a need for new ways to improve the sense meaningfulness of life for retirement age clients, its quality and clients’ social welfare, to minimise the emotional burden of their social alienation, feeling of unworthiness, failure and deadlock. Research results show that, in general, the respondents are satisfied with social services provided by municipal agencies. However, there significant problems in elderly people’s daily life, most notably the material ones, which leads to insufficient financial resources to get social services, rehabilitation, as well as food, health care and medicine.

There is a need for significant changes in social work praxis in Latvia, with emphasis on social work that combines material help with principles of psychosocial work in an optimal way. Until now, the main focus has been on social help. Only a small part of social work was directed towards development and realisation of client’s individual potential. The adoption of elderly people to nursing home conditions is still the weakest point in the functions of social service providers. If the adaptation problem is effectively solved, this would improve life quality of individuals and prolong their life term.

[L] Kivkucāne Evita, Germane Līva, Stirane Dace “Fall risk factors for elderly persons living in nursing homes”, Rīga Stradiņš University, November, 2010, the collection of papers of the scientific conference.

Falls have been a special concern for society and elderly because of the associated morbidity, mortality, and health care costs.

The author’s explore fall risk factors for persons living in social care centres, taking in account the medical indicators of the inhabitants as well: Functional Independence Measure (FIM), Elderly mobility scale (EMS), Geriatric depression scale (GDS) and others. The results of the study show that people who are living in social care centres have a high risk of falling. Apart from functional disorders, environmental hazards are playing a significant role, such as lack of safety equipment, poor lighting, faulty footwear and clothing.

[L] Kožinova Olga, Tomsone Signe “Dzīves kvalitātes salīdzinājums dažādās sociālās aprūpes iestādēs dzīvojošām personām ar garīgās attīstības traucējumiem”, Rīgas Stradiņa universitāte, 2010. gada zinātniskā konferences referāti.

*“The comparison of the quality of life in different social care establishments for the people with mental disorders”.* Rīgas Stradiņa University, March, 2010 the collection of papers of the scientific conference.

This paper reviews and evaluates issues and methodologies for the assessment and promotion of quality of life (QOL), a multidimensional and dynamic construct frequently used to measure psychological and physiological well-being in people with intellectual disability. The results of study show that objective appraisal proves that the higher quality of life is for persons living in the group apartments, the subjective appraisal – for the persons living in half –way apartments. 28.6% living in the group apartments perform a paid work; they are taking part in different social events in society out of home. In the same time one third of the inhabitants of social care homes and half –way apartments have very restricted social contacts and do not have friends.

[L] Lapcinska Ligita, Karpova Arija “Emotional well-being as quality indicator for seniors.”, Rīga Stradiņš University, November, 2010, the collection of papers of the scientific conference.

Ageing process in a society requests more attention and analyses to the emotional well-being as a quality of life indicators. Positive psychological wellness provides satisfaction with life, optimism, self-esteem and makes a considerable impact on emotional well-being in the future. Special attention the paper pays to the art – craft in the lives of elderly:” Art-crafts (visual arts, etc.) give them more joy, self-esteem and make them feel fruitful in a society.”

[L] Robiņa Ineta “Veco cilvēku dzīves kvalitātes izpēte institucionālās integrācijas apstākļos”, Rīgas Stradiņa universitāte, 2010. gada zinātniskās konferences referāti.

*Robiņa Ineta “The study of the quality of life of old people under conditions of institutional integration” Rīgas Stradiņa university, March, 2010 the collection of papers of the scientific conference.*

The author stresses that the Latvian population ages continuously and if the biological age grows the quality of life changes.

The study is based on research made in a particular social home between 2002 and 2009. The study provides constant feedback on the inter-connections between theory and practice and on links with actual practical work with elderly.

## 4 List of Important Institutions

### **Baltijas sociālo zinātņu institūts – Baltic Institute of Social Sciences (BISS)**

Contact person: Zepa, Brigita, Chair – person of the researcher board  
Address: Elizabetes str. 65 – 13, LV -1050, Riga, Latvia  
Webpage: <http://www.bszi.lv>

*The Baltic Institute of Social Sciences (BISS) is a private non-profit research institute. The aim of BISS is to work for the benefit of the whole society and its main activities are related to socio-political research and the national distribution of information based on scientific research.*

*BISS has initiated and implemented different research projects on current topics of social and political life in Latvia. It researches those aspects and issues which have not been sufficiently studied and analysed in previous research projects. BISS offers full service - development of research design, its implementation and consultations for policy makers and implementers and others interested in research.*

*During recent years, BISS has carried out several big budget scientific research projects on social integration, education policy and its reform, and aspects of the labour market. On the basis of previous research and policy analysis, BISS makes recommendations for policy makers and implementers at all levels of government, as well as distributes information to all stakeholders, social partners and the public in general. In that way, BISS participates in decision making processes in different fields of state, regional and local policy, as well as promotes the quality of living of the society.*

### **Finanšu un kapitāla tirgus komisija – Finance and Capital Market Commission**

Contact person: Batraga Kristīne, PR specialist  
Address: Kungu str. 1 LV – 1050, Riga, Latvia  
Webpage: <http://www.fktk.lv/>

*The Financial and Capital Market Commission is an autonomous public institution, which carries out the supervision of Latvian banks, insurance companies and insurance brokerage companies, participants of the financial instruments market, as well as private pension funds. The Financial and Capital Market Commission commenced its activities on 1 July 2001.*

### **Labklājības ministrija – Ministry of Welfare**

Contact person: Kupce Marika, Head of Communications Unit  
Address: Skolas str.28, LV – 1330,Riga, Latvia  
Webpage: <http://www.lm.gov.lv>

*The Ministry of Welfare is the leading institution of state administration in the areas of labour, social security and gender equality.*

*The work of the Ministry of Welfare is focused in 4 directions:*

- *Planning and supervision of the implementation of the state welfare policy.*
- *Compensation of social risks to ensure an income replacement in the case of retirement, disability, maternity, illness or unemployment.*
- *Financial support to specific groups of population, i.e. families with children, disabled persons, elderly people, children without supporters, the liquidators of the Chernobyl nuclear power plant accident, etc.*
- *Measures to secure and implement social rights. The main tasks are as follows:*
  - *To increase the competitive capacity and quality of the labour force, to reduce unemployment;*

- *To ensure the protection of employees' rights to a legal, safe and harmless work environment and to reduce illegal employment;*
- *To ensure that social services and social assistance are professional and of a high quality.*

*The Ministry of Welfare is the institution responsible for the implementation of the measures co-financed by funds of the European Union. In the field of welfare a support of both the European Social Fund and the European Regional Development Fund is available.*

### **Latvian Central Depository (LCD)**

Contact person : Valdis Slokenbergs, Chairperson of the Board

Address: Vļņu str. 1 LV – 1050, Riga, Latvia

Webpage: <http://www.lcd.lv>

*The Latvian Central Depository (LCD) is the sole central securities depository in Latvia and administers the publicly issued securities central register. The LCD performs safe-custody of securities, clearing and settlement for securities trading and management of corporate actions (payment of dividends and interest), as well as providing other services related to securities.*

*The Latvian Central Depository also administers the accounts of participants of the State Funded Pension Scheme, i.e. the second tier (pillar) of the pension system. The operations of the Latvian Central Depository are supervised by the Financial and Capital Markets Commission.*

### **Latvijas Brīvo Arodbiedrību Savienība – Free Trade Union Confederation of Latvia (FTUAL)**

Contact person: Homko, Irina - expert in social issues

Address: Bruņinieku 29/30, LV – 1001, Riga, Latvia.

Webpage: <http://www.lbas.lv>

*The Free Trade Union Confederation of Latvia (FTUAL) is the biggest non-governmental organisation in Latvia, which protects the interests of professional trade union members and employees on branch and inter-branch level.*

*FTUAL coordinates the cooperation between 21 independent Latvian trade unions, represents and protects the interests of its members in national and international institutions, implements a joint working programme.*

*The purpose of FTUAL activities is to protect the interests of trade union members. The main principle of operation is solidarity – joint coordinated actions of the affiliates. FTUAL represents its members' interests and protects their rights in the socio-economic field.*

*Together with the Government and the Latvian Employers' Confederation, FTUAL works in the National Tripartite Cooperation Council. FTUAL observes the principles of social dialogue in cooperation with the social partners.*

*FTUAL participates in the elaboration of economic and social development programmes, in the evaluation of draft laws, in working groups on improvement of labour conditions, salaries, tariff policies, compulsory social insurance and social guaranties, health care as well as employment, vocational education and lifelong learning.*

*FTUAL represents the interests of its members in:*

- *the National Tripartite Cooperation Council and its Sub-councils;*
- *State and municipal institutions;*
- *courts.*



**Latvijas darba devēju konfederācija** – Latvian Employers' Confederation

Contact person: Šusta, Inta, Adviser  
Adress: Vīlandes str. 12 – 1, LV -1050, Riga, Latvia  
Webpage: <http://www.lddk.lv>

*The Latvian Employers' Confederation (LDDK) is the biggest organisation representing the interests of employers. The LDDK acts as a partner in socioeconomic negotiations with the Saeima (Parliament), the Cabinet of Ministers of the Republic of Latvia and the Free Trade Union Confederation of Latvia. The members of the LDDK employ 35% of all employees in Latvia.*

*The mission of the LDDK is to enhance effectiveness of entrepreneurship and employment development by taking into account the interests of the society at large, to promote the strengthening and development of Latvian employers and their organisations, to enhance the growth of Latvian employers, the development of an enterprise culture and the creation of favourable social conditions. The LDDK represents and protects the economic, social and professional interests of its members in conformity with the Law on Employers' Organisations and Their Associations.*

**Latvijas Pašvaldību savienība** – The Latvian Association of Local and Regional Governments (LALRG)

Contact person: Kaupuža Agita, PR specialist  
Adress: Mazā Pils str. , LV -1050, Riga, Latvia  
Webpage: <http://www.lps.lv>

*The Latvian Association of Local and Regional Governments (LALRG) is an association unifying local and regional governments of the Republic of Latvia on a voluntary basis.*

*Main objectives:*

- *development of municipal policy in Latvia;*
- *municipal problem solving;*
- *protection of local government interests.*

*Tasks:*

- *to represent interests of the LALRG and its members in the state authorities and administrative institutions;*
- *to develop opinion of the LALRG in the policy of Latvian local governments according to proposals of local/regional governments, their associations and unions;*
- *to facilitate cooperation among Latvian local/regional governments, their associations and unions;*
- *to provide local governments with information and required services;*
- *to organise training for local government deputies and employees;*
- *to facilitate social protection of local government employees;*
- *to facilitate the establishment of enterprises to solve issues of common local government interest;*
- *to organise the establishment of local government information processing systems based on unified principles.*

**Latvijas Pensionāru Federācija** – Pensioner's Federation of Latvia

Contact person: Bormanis, Kārlis  
Adress: Bruņinieku 29/30, room 306, LV – 1001, Riga, Latvia.  
Phone: +371 67276789  
Webpage: -

*The Pensioner's Federation of Latvia is an umbrella organisation for 138 local organisations.*

*The work of the Pensioner's Federation of Latvia is focused in five directions:*

- *To promote volunteer work;*
- *To protect pensioners' rights;*
- *To inform and advise older people;*
- *To strengthen intergenerational relations in families;*
- *To organise cultural events for retirees*

**Valsts nodarbinātības aģentūra – State Employment Agency (SEA)**

Contact person: Kalniņa, Helmi, assistant to the director  
Address: Kr.Valdemāra 38k-1. LV 1010, Riga, Latvia  
Webpage: <http://www.nva.gov.lv>

*The SEA is an institution under the supervision of the Ministry of Welfare and implements state policy in the field of unemployment reduction and job seekers' support. The mission of the SEA is to become a bridge connecting employers and employees, reducing unemployment and stimulating employment in Latvia.*

*The SEA works with clients, i.e. employers, unemployed and job seekers; it performs career counselling; it entertains international relations and relations with EURES; it provides information to the public; it improves its services; it works with the European Social Fund; it works on the improvement of normative documents; it undertakes capacity building, budget planning and the control of financial expenditure.*

**Valsts Sociālās apdrošināšanas aģentūra – State Social Insurance Agency (SSIA)**

Contact person: Olupe Edīte, Head of PR Division  
Address: Lāčplēša str.70a , LV-1011, Riga, Latvia  
Webpage: <http://www.vssa.lv>

*The SSIA is a state institution under supervision of the Ministry of Welfare, performing the public administration function in the area of social insurance and social services.*

*The tasks of the SSIA:*

- *to administer the social insurance budget;*
- *to register socially insured persons and their contributions into the socially insured person's accounts;*
- *to provide social insurance and selected social assistance services to the population – grant, calculate, recalculate and pay pensions, benefits and allowances;*
- *to provide individual consultations to the population about the social insurance and social assistance services;*
- *regularly inform the public about current social insurance matters;*
- *to ensure, that the services are accessible to every customer as close to their place of residence as possible.*

**Veselības ekonomikas centrs - The Centre of Health Economic**

Contact person: Džonsa, Dzintra, Head of International Relations Unit  
Address: Dantes str.12/22 LV – 1005, Riga, Latvia  
Webpage: <http://www.vec.gov.lv>

*The Centre of Health Economics started to carry out its activities on 1 October 2010. The centre is one of the three state institutions directly responsible to the Ministry of Health of Latvia.*

*The centre has been established on the basis of the former State Medicines Pricing and Reimbursement Agency according to State Decree No 509 adopted on 29 July 2009 and entitled "The reorganisation of the state institutions directly responsible to the Ministry of*

Health”, and the resolution of the Cabinet of Ministers adopted on 29 September 2009. It has taken over several functions formerly carried out by the Public Health Agency, the Health Statistics and Medical Technologies State Agency and the Compulsory Health Insurance Agency.

The main functions of the Centre of Health Economics are to:

- determine the health care services which will be funded from the state budget according to the normative Acts of the State;
- provide a therapeutic and financial assessment of pharmaceutical products and medical technology to develop a list of products which will be financially reimbursed;
- summarise and analyse public health (including health care) data;
- maintain the Register of Patients with Particular Diseases;
- implement the e- Health policy of the State;
- execute the functions of the cooperation institution of European Union funds;
- implement the functions regarding a national focal point of the European Monitoring Centre for Drugs and Drug Addiction in the European Information Network on Drugs and Drug Addiction (Reitox).

#### **Veselības ministrija** – Ministry of Health

Contact person: Pole Egita, Head of Communications Unit

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The Ministry of Health is the leading governmental institution in the health sector and is responsible for public health, health care, pharmacy and the legal circulation of drugs. The main task of the Ministry of Health is to develop and implement state policies by ensuring public health in a healthy environment, promoting prevention and a healthy life style, as well as creating conditions where the inhabitants benefit from cost effective, physically accessible, and high-quality health care services.

The Ministry of Health:

- elaborates proposals on state policies for disease prevention, diagnostics, treatment, rehabilitation and health care organisation;
- plans resources to assure health care quality;
- elaborates health research and educational policies;
- implements policies related to environmental health, health promotion, epidemiological safety of infectious diseases, and surveillance and control of addiction-related health problems;
- supervises all processes of production, import and distribution of medicines, as well as pharmaceutical care.

The Ministry of Health is the institution responsible for implementation of the measures co-financed by the funds of the European Union. In the field of health a support of both the European Social Fund and the European Regional Development Fund is available.

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- (1) to improve the knowledge and understanding of the situation prevailing in the Member States (and in other participating countries) through analysis, evaluation and close monitoring of policies;
- (2) to support the development of statistical tools and methods and common indicators, where appropriate broken down by gender and age group, in the areas covered by the programme;
- (3) to support and monitor the implementation of Community law, where applicable, and policy objectives in the Member States, and assess their effectiveness and impact;
- (4) to promote networking, mutual learning, identification and dissemination of good practice and innovative approaches at EU level;
- (5) to enhance the awareness of the stakeholders and the general public about the EU policies and objectives pursued under each of the policy sections;
- (6) to boost the capacity of key EU networks to promote, support and further develop EU policies and objectives, where applicable.

For more information see:

<http://ec.europa.eu/social/main.jsp?catId=327&langId=en>