



Annual National Report 2010

Pensions, Health and Long-term Care

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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 2009 and 2010 (up to the middle of April). The report focuses on key themes in pension policy, health care and long-term care. In considering the developments in the social protection system, it has to be borne in mind that in the period under consideration Latvia was caught in a vicious economic downturn, with a decline in GDP of 18% in 2009 and unemployment hovering above 20%. Thus, Latvia has suffered one of the deepest recessions in the world. Another factor influencing social policy this year is the approach of parliamentary elections, due in October 2010.

Although Latvia has not officially joined “The European Year for Combating Poverty and Social Exclusion” this year, main concern in the field of social protection is the alleviation of poverty. Recognising the fundamental right of people in a situation of poverty and social exclusion to live with dignity and to play a full part in society, Latvia is far from ensuring the implementation of this right. The European Social Fund (ESF) is making an essential contribution to addressing the problem of poverty and exclusion in Latvia.

The **pension policy** will be revised, based on a long-term perspective, ensuring the financial sustainability of the pension system. Evaluation in the report of the operation of the state funded pension scheme led to the conclusion that the state’s responsibilities in the provision of adequate social protection cannot be delegated to the private sector. Pension funds should be separated from the financial system, as was foreseen in the original pension reform concept.

The trends in **health care** are developing in the opposite direction to the objectives agreed in the OMC and the goals set in the Joint Reports 2007–2010. This means that the persistent inequalities in health outcomes are increasing, and access to health care is becoming more limited than ever. Positive changes have been achieved in patients’ rights protection, with the adoption of the Law on Patient Rights. Structural reforms in the health care sector have led to a reduction of administrative burdens and bureaucracy in the system. Funding for health prevention and promotion programmes has increased considerably due to supplementary funding from the European Social Fund (ESF) and European Regional Development Fund (ERDF).

In **long-term care** the demand for services has decreased, which does not mean that they are not needed, but that access is limited by the financial situation of the people. The reduced number of social workers and social carers and the pay cut for the remaining staff influence the quality of care. At the same time, the workload for social assistance offices is growing, because of an enormous increase in applications for social assistance benefits and for certificates confirming that people are needy or have a low income.

The last chapter describes **the impact of the financial crisis** and economic downturn on social protection. Almost all the reforms undertaken in 2009 and 2010 have been aimed at tackling the crisis in the financial sector and economy, so it was not possible to clearly separate ongoing discussions on structural reforms and the discussion related to the crisis. 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 could 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 as well as the Political and Scientific Discourse during the previous Year

2.1 Pensions

2.1.1 Overview of the system's characteristics and reforms

Organisation of the system

The state social insurance system in Latvia has been created according to the redistribution principle (PAYG), with the objective of providing a maximally close link between social security benefit levels and social insurance contributions paid during one's working life. There are some signs that neo-liberal ideas are gaining weight. This will become obvious when analysing the implementation of the pension reform.

All pension rights are highly individualised, i.e. there are only 'direct rights'. The only exception in the pension sector, where one can find some elements of derived rights, is in the survivors' pensions for dependent children, since, unlike adults, they have no possibility of establishing their economic and social independence.

Initially, there were no non-contributory redistributive elements in the pension insurance system. Parliament approved the Pension Reform Concept in 1995. The concept was designed in cooperation with a team from the World Bank. Through implementation of the reform, a pension system that differs from the classical continental pension insurance schemes of Europe is gradually being introduced in Latvia.

In accordance with the concept, the pension system is to be designed in three tiers: the first is the state compulsory social insurance scheme, operating according to the redistribution (PAYG) principle; the second is the state compulsory funded pension scheme, and the third represents the private voluntary pension funds.

The statutory social pension insurance system consists of tiers I and II of the pension system. In the original Pension Reform Concept, a transitory (4th) tier was foreseen, to provide additional income support for those who retired before the new law would take effect, with the aim of protecting previously acquired rights. However, this idea was not realised.

The 1st 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. Although the 1st tier is a generation solidarity scheme, it also has its own distinct features. It is a scheme of defined contributions – referred to as a Notional Defined Contribution (NDC) scheme. Information about social insurance contribution payments is recorded on individual pension accounts, building a 'notional capital'. However, money is not accumulated, but is paid out to the current pensioners. The pension formula contains a component that depends on the demographic situation of the country: the predicted life expectancy as of the moment of retirement. 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). The 2nd pension tier operates according to the accumulation and investment principle of the individual social insurance contributions. The Law on State Funded Pensions was adopted in Parliament on 17 February 2000 and came into force on 1 July 2001. In contrast to the 1st tier, where notional capital is accumulated, actual capital is accumulated in the 2nd tier. The 3rd tier provides the possibility of making private savings in pension funds. The Law on Private Pension Funds came into force on 1 July 1998.

The goal of the three-level pension system is the following:

- the 1st tier state mandatory unfunded pension scheme shall provide a stable, medium-low income replacement after retirement;
- the 2nd tier state mandatory/voluntary funded pension scheme shall provide a stable supplement to the income replacement, without increasing contributions to old-age pensions. Simultaneously, the scheme of the 1st tier is being relieved and the development of the financial market facilitated;
- the 3rd tier private funded pension scheme shall provide an additional pension, financed by additional contributions.

Sticking to the PAYG system, this system would be able to finance sufficient pension payments to the existing pensioners. However, due to the increase in the demographic load, in the future the sustainability of the state social insurance system would be subject to risk. In turn, the 2nd and 3rd tiers are subject to financial risks: passive financial markets, low profit margins, fluctuations of interest rates, and prices of securities etc.

The three-level pension system relieves the state liability on residents' old-age insurance, makes the 1st tier scheme more resistant against various unfavourable factors, facilitates personal accumulations and is designed to enhance economic development. If the intended goals of the reform are achieved, Latvia should obtain a pension system protected against the two main risks inherent in each tier. The 1st tier PAYG benefits are subject to labour market risks, while the 2nd tier pensions are subject to capital market risks. Because capital and labour market risks tend to be unrelated, retirement income – subject to both risks – receives better protection from a diversified system than from a system protecting only against one risk.

The three-tier pension system combines the principle of generation solidarity and personal responsibility for one's income in old age. Besides the general pension insurance system, there are special pensions for some categories of people: 1) the President; 2) the police; 3) state prosecutors; 4) persons in active military service; 5) MPs who voted for independence in 1990; and 6) children of people killed during the independence struggle of 1991. These are generally covered from the state budget. The pensions of the police, prosecutors and army are service pensions, granted upon completion of a given service period. They are paid entirely from the state budget until the person reaches legal retirement age. After that, the social insurance budget pays the pension amount due from the effected contributions, while the rest of the pension is still paid from the state budget. A person residing in Latvia is entitled to an old-age pension if s/he has reached the statutory retirement age and his/her insurance record is no less than 10 years.

Financing

For the first time in 10 years, there was a fiscal deficit in the State Social Insurance Budget in 2009. By the end of 2008, the accumulated surplus in the Social Insurance Budget was LVL 965,600,000. By the end of 2009, the accumulated surplus in the Social Insurance Budget had decreased to LVL 736,400,000. On 1 March 2010, it was LVL 701,100,000.

In accordance with an agreement with the State Treasury, the amount of the accumulated surplus of the social insurance fund is invested in a deposit (with an average return rate of 6%), in addition to which an agreement has been concluded on daily use of the special budget account balance (average return rate 4%).

Table 1: State Social Insurance Budget

	2005	2007	2008	2009	2010 (estimated)
Revenues, m LVL	769.2	1 292	1 466.8	1 263.14	1 188.6
Expenditures, m LVL	678.1	912.4	1 225.6	1 469.3	1 543.3
Surplus, m LVL	91.1	379.6	241.2	- 206.14	- 354.6

Source: Data of the State Social Insurance Agency.

The revenues from contributions are declining in line with rising unemployment (21.7% in February 2010 according to EUROSTAT).

Table 2: Employed and insured persons 2008/2009

Year, month	Employees ('000)	Insured persons ('000)
2008, January	1 137.8	1 191.2
2009, January	881.6	996.4
2009, December	732.9	880.8

Source: Data of the State Social Insurance Agency and Statistical Bureau of Latvia.

The number of insured persons always exceeds that of employees, because there are several categories of insured persons who are not employees, such as self-employed and unemployed persons, and persons receiving maternity/paternity benefits and other kinds of benefits. For all beneficiaries contributions are made from the corresponding Social Insurance Budget (Unemployment Insurance Budget etc.), which, in turn, is reducing the financial resources in these budgets, and is contributing to a general decline in total social insurance revenues.

Several essential decisions have been passed in order to decrease the budget deficit, including decisions in the social sphere. To provide social guarantees to individuals within the limits of available financing, the *Saeima* (Parliament) has adopted the Law on Payment of State Pensions and State Benefits for the Time Period from 2009 until 2012, and amendments have been made in all the laws regulating social protection.

Retirement age and early retirement

A gradual increase of the minimum retirement age was introduced in Latvia in order to reach 62 years for both men and women. Men reached this age mark already in 2003, but for women the gradual increase in minimum retirement age continued until 1 July 2008. Up until 1 July 2008, the retirement age for women was 61.5 years. Since 1 July 2008, the retirement age is 62 both for women and men. The possibility of early retirement was scheduled to be abolished from 1 July 2008. Amendments to the Pension Law from 19 June 2008 have prolonged the possibility of retiring two years earlier up to 31 December 2011. Currently, due to the ageing of society and the financial situation of the state, a discussion has been launched on a further gradual increase of the retirement age up to 65 years, starting with the year 2016.

In Latvian legislation, disability pensions are seen as a separate kind of pension, not as a form of early retirement. The social policy objective underlying this scheme embraces disability as a social risk. Access to disability pensions is relatively easy. Since the pension reforms started in 1995, several programmes have been developed by the Ministry of Welfare aimed at changing the procedure for granting the status of disabled person and the corresponding entitlement to pensions, but, so far, these programmes have not been implemented.

An insured person is entitled to receive a disability pension if the person:

- has not reached the retirement age determined by the law;
- has been acknowledged to be disabled (except cases where disability has resulted from work injuries or occupational disease);
- their insurance record is no less than three years.

Socially insured persons who have sustained work injuries or occupational diseases are entitled to insurance compensation.

The pension formula

The amount of the pension is determined by the individual's lifetime earnings (or more precisely, by the lump sum of social insurance contributions paid in). On retirement, the aggregate pension (the sum of the contributions paid in and the amounts this sum of pension credits has been increased by) is divided by the 'divisor'. This is primarily based on the average remaining life expectancy at the time of retirement, providing an annual pension amount under the reformed system.

The retirement pension is calculated according to the following formula:

$$P = K / G$$

P - annual pension

K - the pension capital of the insured person, composed of the amount of social insurance contributions registered on the personal account and the annual capital growth, which is dependant on the social insurance contributions earnings index determined by the Cabinet of Ministers.

G - the life expectancy after pension allotment.

'G' is the time period (years) counted on the basis of life expectancy in the years of allotment of the retirement pension. This period is determined by the Cabinet of Ministers according to data from the Central Bureau of Statistics and calculations made in the Ministry of Welfare. 'G' depends on the age at which the individual wishes to retire and also on the life expectancy forecast in that period. Therefore, it is possible that 'G' will be different from the life expectancy determined by the state statistics for the particular year. As the same life expectancy is used for men and women (when retiring at age 62), there will be some re-distribution of resources within the system due to the differences in the average age of men and women. It is very important to stress that each year's notional pension capital (K) is wage-indexed. This has not been widely explained in the publications on the Latvian pension reform, because comparison with the growth of real (financial) capital in the 2nd tier is not favourable to the latter. This was publicly declared for the first time when discussing the reduction of the contribution rate for the 2nd tier State Funded Pension Scheme.

Table 3: Indexation of the notional (non-financial) pension capital (K)

Year	Index	Total (1)	Total (2)
1996	1.03;1.12;1.117;1.069;1.0835;1.0453;1.1645; 1.1754;1.1712;1.2333;1.3593; 1.3106; 0.9622	5.4950	5.2872
1997	1.12;1.117;1.069;1.0835;1.0453;1.1645;1.1754; 1.1712;1.2333;1.3593;1.3106; 0.9622	5.3349	5.1332
1998	1.117;1.069;1.0835;1.0453;1.1645;1.1754;1.1712 ;1.2333;1.3593; 1.3106; 0.9622	4.7633	4.5832
1999	1.069;1.0835;1.0453;1.1645;1.1754;1.1712; 1.2333;1.3593; 1.3106; 0.9622	4.2644	4.1032
2000	1.0835;1.0453;1.1645;1.1754;1.1712;1.2333;1.35 93; 1.3106; 0.9622	3.9891	3.8383
2001	1.0453;1.1645;1.1754;1.1712; 1.2333;1.3593; 1.3106; 0.9622	3.6817	3.5425
2002	1.1645;1.1754;1.1712;1.2333;1.3593; 1.3106; 0.9622	3.5222	3.3890
2003	1.1754;1.1712;1.2333;1.3593; 1.3106; 0.9622	3.0246	2.9102
2004	1.1712;1.2333;1.3593; 1.3106; 0.9622	2,5733	2.4760
2005	1.2333;1.3593; 1.3106; 0.9622	2.1971	2.1140
2006	1.3593; 1.3106; 0.9622	1.7815	1.7142
2007	1.3106; 0.9622	1.3106	1.2610
2008	0.9622		0.9622
2009	-		

Source: data of the State Social Insurance Agency

(1) The index applied to newly granted pensions in 2009.

(2) The index applied to newly granted pensions in 2010.

The index is calculated as the ratio of the average earnings in the national economy in the preceding year to the average earnings in the given year. For example, if a person's individual average earnings in 1996 were LVL 200 per month, the pension will be calculated as if s/he had earned an average of LVL 1099 (LVL 200 x 5.4950) per month in 1996, if the pension is granted in 2009. If the pension is granted in 2010, it will be calculated as if s/he had earned an average of LVL 1057.44 (LVL 200 x 5.2872) per month in 1996. 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 average earnings decreased in 2009.

From 1 July 2009 until 31 December 2012, the state old-age and service pensions were reduced (excluding those of former Presidents and Members of Parliament) by 10%. Thus, as of 1 July 2009, the state old-age and service pensions were paid in the amount of 90%. Working pensioners (employees and self-employed) received their pension only in the amount of 30% of the calculated pension (the additional 10% reduction not being applied). As from 1 July 2009, the early retirement pension until reaching the general retirement age,

together with the supplement, were paid in the amount of 50%. If an early retirement pension had been granted up to 30 June 2009, then 70% of the granted pension amount was paid.

The table below shows how the changes in legislation affected the amount of the average old-age pension (including early retirement pension).

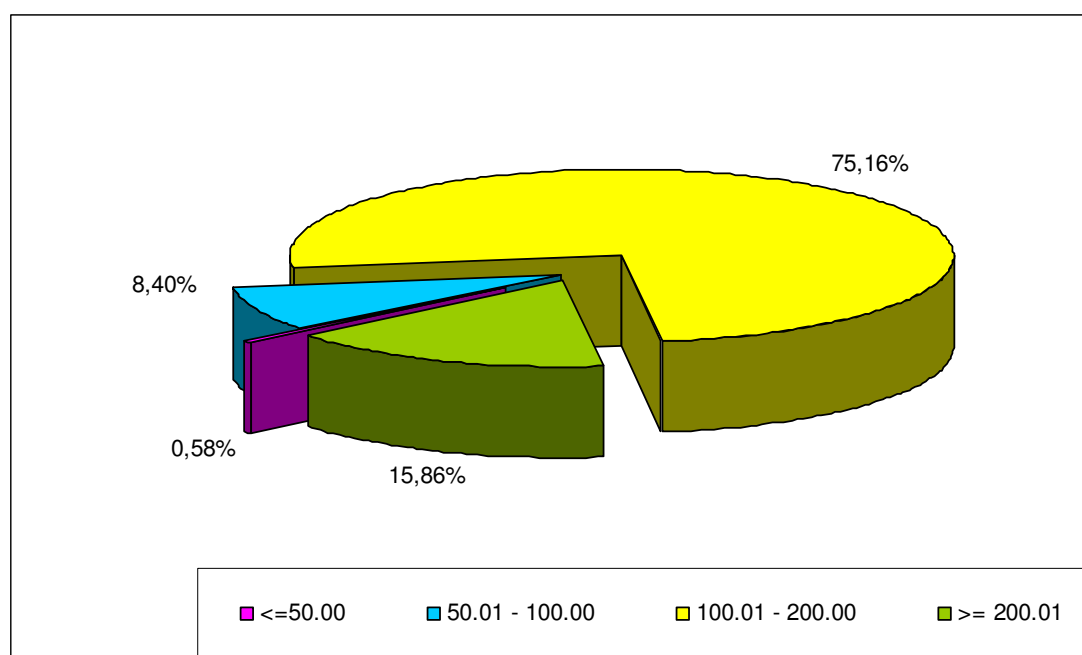
Table 4: Amount of average old age pension 2009

Year 2009	The amount of granted pension, LVL	The amount of paid pension, LVL
January	175.66	171.51
July	178.15	145.42

Source: Data of the State Social Insurance Agency

After the law was passed, the supreme judicial body of the Republic of Latvia – the Constitutional Court – received many hundreds of submissions from pensioners, NGOs and opposition political parties, claiming that these legislative changes were unlawful. The hearing of the case was postponed until December 2009. On 21 December 2009, the Constitutional Court ruled that the reduction of the pension amount for all pensioners – whether retired or still working – was unlawful. The decision was based on the argument that the reduction of pensions is a violation of constitutional rights to social protection and of the principle of legal expectations. Pensions are being paid in full amount as of 1 February 2010, and the lump sum of deductions from pensions from 1 July 2009 to 1 February 2010 was paid out in April 2010. The additional expenditure for implementing this decision will be LVL 184,600,000.

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



Source: Data of the State Social Insurance Agency

According to the statistical data of the State Social Insurance Agency, 45% of all pensions are below the subsistence minimum (LVL 163.34 in February 2010 – Central Statistical Bureau).

Indexation

Until April 2009, pensions were indexed twice a year: on 1 April pensions not exceeding three times the amount of the state social security benefit (LVL 45 x 3 = LVL 135) were indexed with the consumer price index and 50% of the insurance contributions earnings real growth (wage) index. The only exception was made in year 2008, when pensions not exceeding LVL 150 were indexed. In accordance with the Letter of Intent signed by the Government and addressed to the IMF, the Government took the obligation to freeze pensions. On 12 March 2009, the indexation rules for pensions were changed and the Pension Law amended. In accordance with the amendments to the Pension Law adopted by the *Saeima* (Parliament) on 12 March 2009, as from 2010 pensions will be indexed only once a year – on 1 October – with the consumer price index. In accordance with the next amendments to the Pension Law adopted by the *Saeima* (Parliament) on 16 June 2009, in 2009 and 2010 pensions will not be indexed.

Since it was decided that pensions will be indexed only with the consumer price index, and since deflation has replaced the high inflation of the years of growth, it may be presumed that likewise there will be no indexation in 2011, at least. The World Bank mission, which left Latvia on 26 March 2010, proposed that pensions should be indexed anyway with the price index, which would mean that the size of pensions decreased.

Taxation

The part of the pension exceeding LVL 165 is income-taxed (at the rate of 26%). The income tax rate was raised as of 1 January 2010 (from 23% to 26%).

Until now, the tax-exempt part of the pensions has been maintained at LVL 165 per month (LVL 1,980 per year). Another proposal of the World Bank mission was to reduce the tax-exempt part of pensions to LVL 80.

Further development of the scheme

In accordance with the Supplemental Memorandum of Understanding with the EU (second addendum)¹, the Ministry of Welfare is developing a concept on changes in pension legislation, such as:

- Increase of 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.

Although the original Pension Reform Concept envisaged raising the retirement age to 65, when introducing the pension law there were high expectations associated with the pension formula. 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

¹ Supplemental Memorandum of Understanding with the EU (second addendum), came into force on 22 February 2010, retrieved from:
http://www.fm.gov.lv/preses_relizes/dok/201002_LV-ES_memoranda_2papildinajums_eng.pdf.

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 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.

Currently, due to the ageing of the society and the financial situation of the state, a discussion has been launched on a further gradual increase of the retirement age up to 65. 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.

- Averting distortions introduced in the social insurance system after the implementation of the reform.

In the years of growth, Parliament passed some populist decisions (generally during the run-up to elections), 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. It does not follow the basic concept of the pension reform, namely to create an as close as possible 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. 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.

- 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.
- When the principles of social insurance were renewed in Latvia the system was designed in accordance with a very clear vision: to get rid of all 'special' pensions and pensions with preferential entitlement conditions inherited from the former Soviet Union. In the first place, this applies to the retirement age, which, in comparison to West European countries, was uncommonly low (60 for men and 55 for women). In addition to this, in many cases earlier retirement was permitted: for example, age requirements were reduced for those working in hard and hazardous working conditions (even down to 40–45 years). In the Transitional Provisions of the Pension Law a gradual transition to the statutory pensionable age was regulated. And then, when the target had nearly been reached, Parliament reintroduced this kind of pensions from 1 January 2007. The entitlement conditions are not as generous as previously: the above-mentioned category of workers can request a pension at the age of 57. This is not the only case where preferential entitlement conditions have 'returned' in pension law.

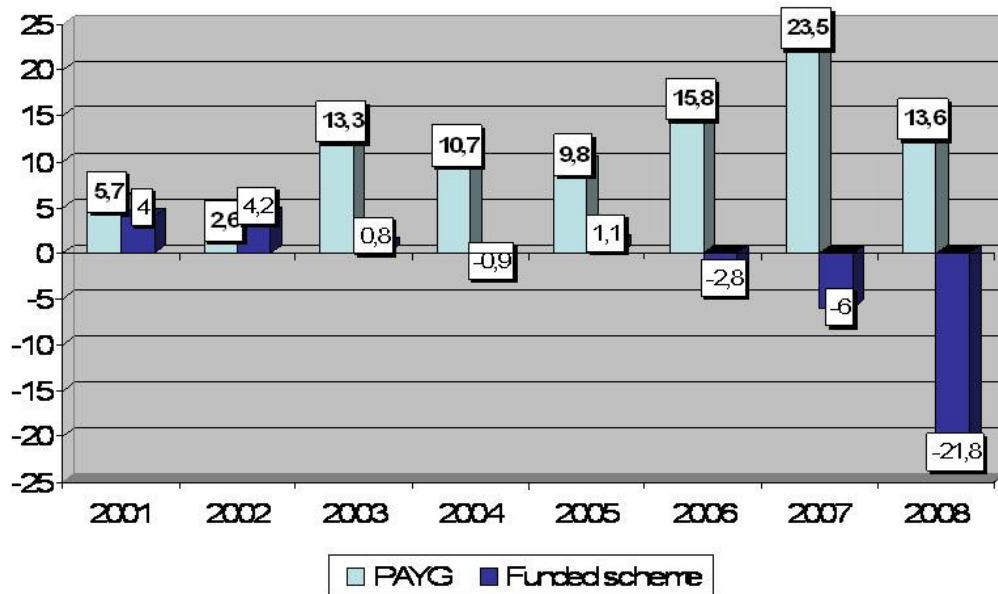
I take no particular pleasure in looking back so far into the past, but this was necessary in order to explain the origin of the amendments made to pension law in respect to the possibilities of earlier retirement. In sum, within the state PAYG scheme it is envisaged that retirement age will be raised, expenditures unrelated to social insurance will be removed from the social insurance system, and some favourable entitlement conditions will be abolished.

The State Funded Pension Scheme

The return rate from assets in 2008 was low, fluctuating between -24.45% and 7.6%. None of the pension plans had managed to exceed the inflation rate (15.4% in 2008) and thus obtain actual growth of pension capital. Out of 25 pension plans, the return rate was negative in 16. The return rate was negative in all active and balanced pension plans and even in one conservative pension plan. Even in the long term – since the pension plans have begun to operate – the return rate has been very low, fluctuating between -2.95% and 5.36%. That means that even in the years of growth, when the banks were making high profits, the pension plans were operating less successfully. The same trend was observed in early 2009.

Over the year 2009, the situation improved. The average return rate on State Funded Pension Scheme investment plans in 2009 was 12.3 % (compared to -11.5% at end of 2008), with several investment plans ranging between 4.8% and 20.8%. On 31 December 2009, the volume of net investment plan assets in the State Funded Pension Scheme grew by 51.9% in comparison to 31 December 2008. In 2009, the volume of net investment plan assets in the scheme totalled LVL 704,000,000.²

Figure 2: Real rate of return (%)



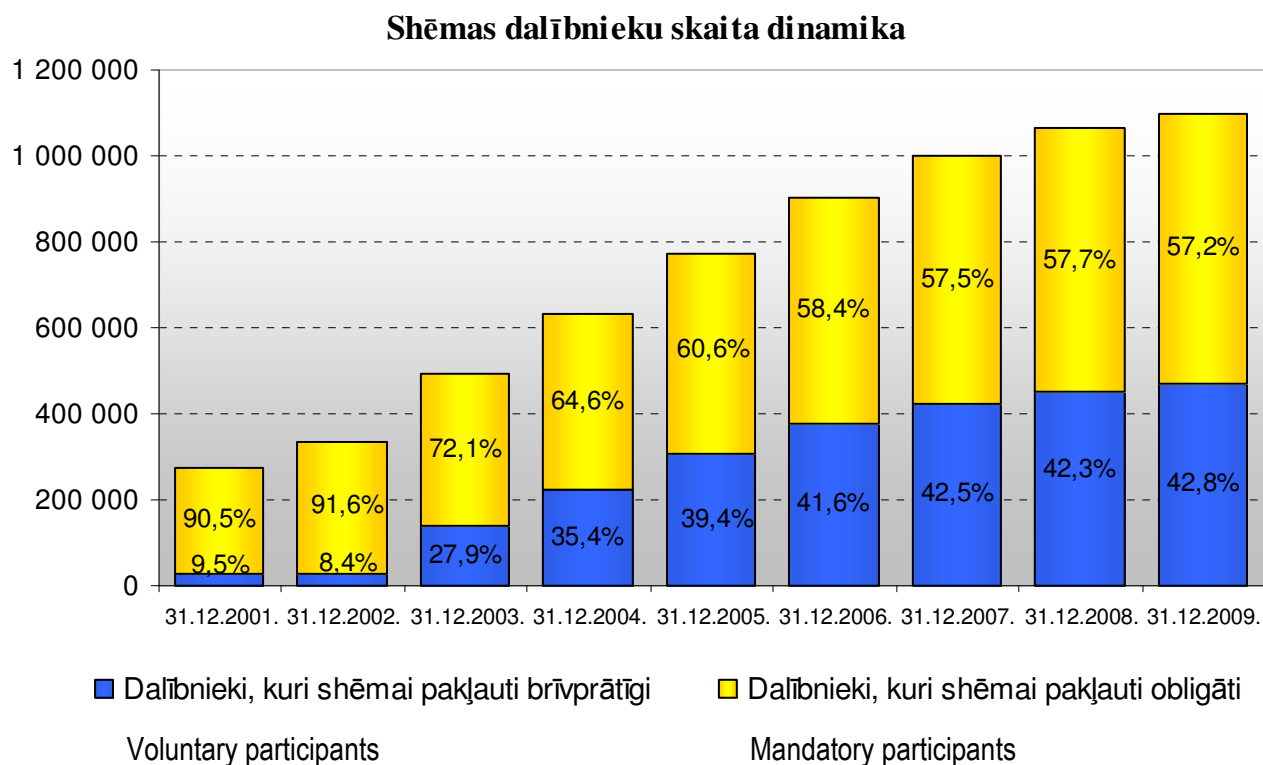
Source: Calculations of the Ministry of Welfare, 2009.

In 2008, 8% of pension insurance contributions for those persons who have (mandatorily or voluntarily) joined the State Funded Pension Scheme were channelled to this scheme. This proportion was expected to rise by 1%–2% every year, until reaching 10% in 2010. Taking

² Finance and Capital Market Commission, “Management of the State Funded Pension Scheme”, 29 March 2010, retrieved from: http://www.fktk.lv/texts_files/13_200912_VFP_E.pdf.

into account the situation in the State Basic Budget for 2009, the contribution rate for the 2nd tier was not increased and remained at 8%. Furthermore, in accordance with the Government Declaration, the contributions rate was decreased to 2% for the period from 1 May 2009 until end of 2010. From 1 January 2011, the contribution rate will be increased to 4%, and from 1 January 2011 to 6% of the contributions base. It is planned to maintain this level subsequently. This decision has met strong resistance in the banking sector.

Figure 3: The number of participants in the State Funded Pension Scheme



Source: Data of the State Social Insurance Agency

The number of persons joining the 2nd tier scheme voluntarily rose during all the years after the introduction of the scheme: from 9.5% in 2001 to 42.5% in 2008, as a percentage of the total number of participants in the scheme. In 2009, the rise in the number of voluntary participants was insignificant.

For the time being, the various banks have extended the advertising campaigns recommending their products: a variety of pension plans with some additional bonuses, such as the chance of winning a lump sum after joining the scheme.

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 2nd tier pension assets. The fact that the performance of asset manager functions has been unsatisfactory becomes evident when ascertaining that the average real return rate, even over the long term – from the time the pension plans have begun

to operate up to 2007 – has been negative (source: data of the Ministry of Welfare). I have deliberately omitted the data for the last years: because of the crisis there were objective reasons for such results, as in other countries, but the fact that in the years of growth the banks, while earning huge profits, were not able to secure a positive return rate in their pension plans bears witness to the poor performance of their functions as pension plan managers.

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: -3.5% in this scheme from the time the pension plans have been established until 2007.³ As the scheme is a part of the state pension system, the state must supervise more effectively the operation of the scheme, this being, according to the legislation, the responsibility of the Finance and Capital Market Commission. This is particularly important since, when implementing the funded pension scheme, individuals are taking over the financial risks inherent to 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.”⁴

Latvian experts take a similar view of the situation in the state funded scheme: “In a country where there is a lack of previous experience of investing in public pension schemes, the implementation of such a mandatory scheme, especially without any guarantees, is more risky. Therefore, by introducing a fully advance-funded mandatory pension scheme, the state has to take full responsibility for making this scheme function well.”⁵

Many countries with mandatory funded systems offer a guaranteed rate of return on assets in accounts, despite the controversy surrounding these guarantees. The current Latvian legislation does not offer any guarantees.

Until now, the Finance and Capital Market Commission has criticised the asset managers only 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.⁶

The 3rd 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. Private pension funds include the option of receiving the pension already at the age of 55. In contrast to the 2nd tier pension, a private pension is inheritable. The contribution amounts and timing are flexible – it is possible for the fund participants to pay as much as they want, and when they want.

In 2009, there were six private pension funds operating in Latvia: five open funds (subsidiaries of Latvian banks) and one closed pension fund. These offered 16 pension plans. The number of pension funds has not grown over years. In 2009, the number of private pension plan participants rose by 6.3% (to 16.3% of Latvia’s economically active residents). Two out of six private pension funds in 2009 ended up with losses.⁷

³ WB staff using data from national sources, in: “Pensions in Crisis: ope and central Asia Regional Policy Note”, Document of the World Bank, 12 November 2009).

⁴ Nicholas Barr “Reforming pensions: myths, truths, and policy choices”, *International Social Security Review*, Vol. 55, No.2, April – June 2002.

⁵ Inta Vanovska “Pension reform in Latvia: achievements and challenges” in: “Reforming Public Pensions, Sharing the Experiences of Transition and OECD Countries” 2004.

⁶ “FKTK: 2.līmeņa pārvaldnieku cenas ir nekorektas”, 02 December 2009, retrieved from: <http://www.db.lv/>.

⁷ Finance and Capital Market Commission, “Operation of private pension funds” 29 March 2010, retrieved from: http://www.fktk.lv/texts_files/09_200912_PPF_E.pdf.

2.1.2 Overview of debates/political discourse

In the Supplemental Memorandum of Understanding with the EU (second addendum) the following intentions have been announced: “By the end of June 2010, with technical assistance from international organisations and in cooperation with social partners, prepare changes in the pension system to be implemented in 2011 in order to preserve future sustainability and adequacy of the three pillars of the pension system. In this context, all special pension regimes and retirement ages will be reviewed.

By the end of June 2010, considering economic and demographic forecasts, review the social benefit system, so that appropriate changes can be implemented after 2012.”

The same commitments are expressed in the Letter of Intent signed by the Latvian Government on 22 January 2010 and addressed to the IMF.

No such clear message is contained in the IMF Country Report No. 10/65, published in March 2010: “Pensions make up roughly 20% of government spending and rose by about 27 % in real terms between 2005 and 2008: keeping these off limits, especially at times of price deflation, would mean that discretionary spending would need to be cut disproportionately. ... The ruling [of the Constitutional Court – author’s remark] in itself does not preclude future pension cuts, although a careful approach would be needed to ensure that pension savings are generated in a way that is constitutional.”⁸

The deliberately expressed position of IMF becomes more clearly when compared with the proposals of the World Bank mission concerning pension indexation and taxation mentioned above, published on 30 March 2010⁹. The official recommendations of the World Bank will be announced in June 2010.

In response to WB proposals, the Prime Minister stated that a reduction of pensions is out of the question.¹⁰ On 4 March 2010, the Board of the World Bank approved a Special Policy Loan for Latvia to Support Safety Net and Social Sector Reforms.¹¹ The main objectives of the loan are:

- to protect vulnerable groups with emergency safety net support during the economic contraction;
- to mitigate the social costs of fiscal consolidation;
- to support important structural reforms in social sector programmes.

In 2009, the main public debates were connected with the reduction of pension amounts and the financial sustainability of the pension system. The debate on the latter issue is continuing this year, 2010.

Members of Parliament have expressed various opinions on pension reduction and have proposed other solutions for economising expenditures: to freeze pensions exceeding LVL 300 or LVL 500; to reduce pension supplements; to reduce the tax-exempt part of the pension. Opposition party leaders have been categorical, calling the activities of the Government

⁸ IMF Country Report No. 10/65, published in March 2010, retrieved from: <http://www.imf.org/external/pubs/cat/longres.cfm?sk=23703.0>.

⁹ Retrieved from: <http://www.delfi.lv/news/national/politics> (accessed on 30 March 2010).

¹⁰ Published on 31 March 2010, retrieved from: <http://www.d-fakti.lv/lv/news/article/15055/>.

¹¹ WB Programme Document “Latvia – Safety Net and Social Sector Reform Programme”, Report No 51434, retrieved from: <http://www-wds.worldbank.org>.

cynical. The Pensioners' Federation has expressed its readiness to make complaints to the European Commission.¹² The discussion on the financial sustainability of the pension system is based on demographic and population ageing forecasts, as well as on forecasts of expected economic recovery.

Currently, there is widespread discussion in society and the mass media on the forthcoming 'pension reform'. Experts in this discussion are striving to convince the public that "without reforms there will not be funds available for pension payments in five years' time". At the same time, the Director of the State Social Insurance Agency states that problems may arise after 15 to 20 years.¹³

2.1.3 Impact assessment

For the time being, the main attention is focussed on elaborating the concept on the development of the pension system and its financial sustainability in the medium and long term. Different scenarios are being developed at the Ministry of Welfare in cooperation with leading researchers on demography and international experts. The State Social Insurance Agency provides the latest data for analyses and forecasts. According to the projections of the ministry, if the changes to legislation described above are made, then the fiscal deficit in the State Social Insurance Budget will end by 2024. If no changes are made, then the social insurance contribution rate should be raised from 33.09% to 44.2%.

Evolution of replacement rates

According to the projections made before the reform by experts from the Ministry of Welfare and the World Bank, 1st tier pensions will provide a replacement rate of 40%–50% of gross earnings. It is also forecast that the 1st and 2nd tier together will provide at least a 70% replacement rate for persons who join the 2nd tier at the age of 20.

In March 2009, the Ministry of Welfare developed different scenarios of the future replacement rate. This projection demonstrates more modest replacement.

As an example, I have taken one of the scenarios – with a return rate of 2% as from the year 2009.

The projections are made for a person who started working at the age of 22, with an insurance record of 40 years, retiring at the age of 62.

Table 5: Replacement rate (old-age pension compared to lifetime gross earnings). Return rate in 2nd tier -2% (until 2009 – actual return rate).

Birth year	NDC	FDC	Total
1960	62.0%	6.8%	68.8%
1975	46.5%	12.1%	58.6%
1980	36.1%	12.9%	49.0%
1990	25.6%	13.9%	39.5%

Source: Scenario of the Ministry of Welfare, 2009.

¹² News Agency LETA: "Latvijas pensionāri apsver iespēju sūdzēties Eiropas Komisijā", Newspaper *Neatkarīgā Rīta Avīze*, 25 June 2009.

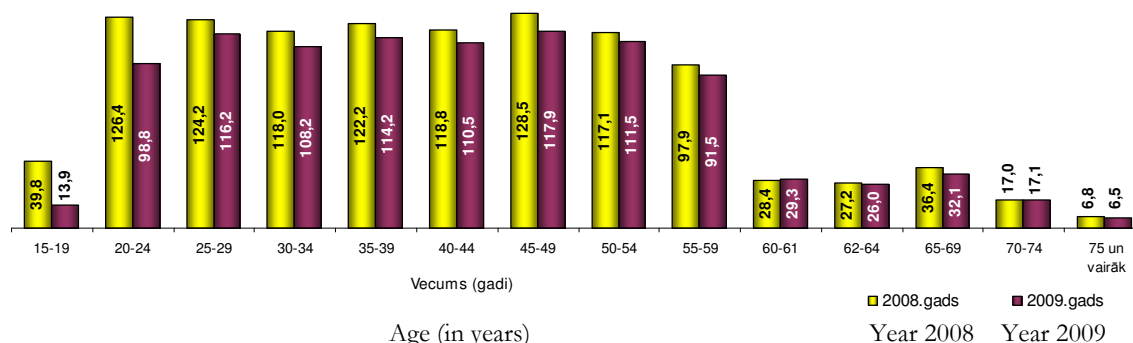
¹³ "LM:2013.gadā sociālā budžeta uzkrājums var sarukt līdz nullei", 5 December 2009, retrieved from: <http://www.delfi.lv/archive/index.php?id=28519933>.

In other scenarios with various return rates (from 0% to 5%) the replacement rate is different: For a person born in 1990 the total replacement rate is projected to be 35.2% (return rate 0%) and 51.8% if the return rate in the State Funded Pension Scheme were to be 5%.

Labour market participation of the elderly

As described above, in accordance with the Law on Payment of State Pensions and State Benefits for the Time Period from 2009 until 2012, working pensioners (employees and self-employed) received their pension only in the amount of 30% from 1 July 2009 until 1 February 2010. Despite vehement public statements that the law is forcing pensioners to retire, the employment rate in the age group 60 to 75 years and over decreased insignificantly in 2009, in comparison with 2008, when working pensioners were receiving a full pensions.

Figure 4: The number of employees by age group



Source: Data of the State Social Insurance Agency

As in previous years, very little research has been carried out in the field of pensions by research institutes and individual researchers. A chapter on pensions is included in the Human Development Report 2008/2009, prepared by the Advanced Social and Political Research Institute of the University of Latvia.¹⁴

The most profound study covering pension policy was written by Zane Cunska and Tatjana Muravska – “Social policy implementation in Latvia post EU accession”.¹⁵ The authors point out that “This paper is a follow-up of the very extensive and detailed pre-accession assessment of the social protection system in Latvia ... in the ‘Country Study Latvia, in the Social Protection in the Candidate Countries’”.

2.1.4 Critical assessment of reforms, discussions and research carried out

Reflecting the discussion on the pension cut, my considerations on this issue are rather controversial:

¹⁴ Latvijas Universitātes Sociālo un politisko pētījumu institūts, “Latvija. Pārskats par tautas attīstību, 2008/2009: Atbildīgums”, redaktori: Rozenvalds Juris un Ijabs Ivars Latvijas Universitātes Akadēmiskais apgāds, 2009.

¹⁵ Cunska Zane, Muravska Tatjana, “Sociālās politikas īstenošana Latvijā pēc pievienošanās ES”, 21 April 2009, http://ec.opa.eu/latvija/news/press_releases/2009_04_21_3_lv.htm.

- It is undeniable that the principle of legal expectations was violated, since all the changes to legislation were made in a hurry, and were very severe for retirees with low pensions.
- The country's financial situation in June 2009 was very difficult and unpredictable, which was the reason for extreme measures. When the Budget Law for 2010 was approved the situation became more stable and the vision for the year 2010 clearer, and there was no delay in implementing the decision of the Constitutional Court, which was done immediately – as soon as technically feasible, even though the Constitutional Court, taking into consideration the financial situation of the country, had given time up to 2015 for re-payment of deductions from pensions.
- On pension payments to working pensioners: Of course, this is the decision of the Constitutional Court and must be respected by all, but one has to bear in mind what the right to social protection actually means: to protect the right to social security in cases of social risk and to compensate lost income in case of illness, unemployment, old age etc. There is a theoretical controversy as to whether or not a person who continues to work after statutory pensionable age should be allowed to receive an old-age pension. I am aware that it is not my task within the scope of this report to analyse different theoretical points of social security, but I cannot avoid saying that, since the old-age pension is intended to be an income replacement measure, it should not be paid until income does need replacing – i.e. when retirement actually takes place. Working pensioners have not lost their income; therefore no social risk has entered, old age not being a special social risk. Of course, in many countries political decisions about the point at which old-age pensions should become payable have been influenced by the country's financial and economical climate. In Latvia's circumstances, to pay a part of old-age pension to working pensioners was the optimal decision. In any case, it cannot be considered anti-constitutional, because the constitution proclaims only the right to social protection. The most recent decision on this issue by the Constitutional Court may be explained on the basis of precedent: a decision on 19 March 2002, when the Court stated that the restrictions on the pension amount for working pensioners infringed the constitutional right to social protection in old age.

In any case, the decision of the Constitutional Court has opened Pandora's Box: many categories of benefit receivers and salary earners to whom restrictive income rules have been applied are all appealing to the Constitutional Court. For some categories a positive decision has already been taken (e.g. for judges), while others are waiting in line for a court ruling.

- Before the global crisis hit the Social Insurance Budget had accumulated a huge surplus (in terms of the situation in Latvia), which was used to cover the deficit in the State Basic Budget. Thus, until 2009, the social insurance system was sustainable. Latvia's politicians and Government in their official documents mostly put the blame for Latvia's severe economic downturn on the global crisis (for example, in the Report on Progress in Implementation of the National Lisbon Programme of Latvia (NRP) 2009).¹⁶ In contrast, when talking about pension policy, the only references made concern the ageing of the population and demographic forecasts, although it is internationally recognised that the current crisis is complex worldwide. It is not only financial and economic, but has an important social component as well. No pension system, however structured, is immune from crisis.

¹⁶ The Report on Progress in Implementation of the National Lisbon Programme of Latvia (NRP) 2009, retrieved from: http://socialprotection.eu/files/211/lv_nrp_en.pdf.

According to the International Security Association (ISSA) Survey: “Social security revenue has reduced significantly as a result of crisis: The majority of respondents confirmed a loss of revenues, mainly due to a decline in contributions and investment income, a decrease in government subsidies and cross subsidies between schemes, and through rising non-compliance. Social security reserves have also diminished.”¹⁷ In turn, the World Bank – Human Development Network stresses: “Governments should recognise that the current financial crisis is a rare ‘extreme’ event. ... Abrupt policy changes in response to the immediate circumstances should be avoided. Pension systems are designed to function over long time periods. Poorly designed short term responses to relatively rare events can potentially have negative long-term consequences on the capacity of pension systems to reliably provide adequate levels of retirement income”¹⁸.

- The discussion on the forthcoming ‘pension reform’.

In my view there is no real justification for statements like: “in five years’ time there will not be funds available for pension payments”, and it is irresponsible to create additional uncertainty in society at a time of crisis. Of course, the financial crisis provides a strong impetus to review the design and implementation of policies to best achieve the core objectives of retirement systems, and it is always necessary to improve the system and eliminate mistakes, but the pension model chosen has proved itself operational. As for myself, I did not support the implementation of this model before the reform started, but at this time I cannot imagine anything worse than radical changes in the existing system. Social insurance relies heavily on trust which people place in the system. Over the years since the reform people have understood and started to believe that the social insurance contributions paid will result in higher benefits. This trust has already been damaged by the recent emergency measures taken to eliminate the consequences of the economic and financial crisis. A radical reform should not completely destroy this hard-won trust.

When talking things over with officials of the Ministry of Welfare, it became clear that no major reforms are planned. The envisaged changes in the pension system fully correspond to the aims agreed in the Supplemental Memorandum of Understanding with the EU, quoted above. However, the elaboration of the concept for improved sustainability of the pension system is surrounded by some secrecy. The World Bank’s proposal and the bank’s involvement in the elaboration of the concept raises some concerns. The recognition of the need to reform the pension system leads to a justified question: what has happened to the pension system advocated by the World Bank and highly valued by their experts at the time of its implementation? In the time after the reforms “the Bank comes under bland but firm criticism for ‘overselling’ the benefits of funded pensions in its countries of operation (especially in the post-socialist transition economies)” (Dr. Mario Nutti “First You Pay Then You Go”, 13 June).¹⁹ The World Bank itself has recognised that “In a number of instances, the Bank supported multi-pillar reforms even though there were clear weaknesses in the country’s underlying economic and financial structure.[...] But, despite expectations, in many countries with multi-pillar systems, funded pensions remain poorly diversified and pension coverage has not increased. In addition, the secondary objectives of funded pillars – to

¹⁷ ISSA Survey: Social security responses to the financial crisis, ISSA, 23 June 2009, <http://www.issa.int>.

¹⁸ The Financial Crisis and Mandatory Pension Systems in Developing Countries, Primer Note prepared under the direction of Robert Holzmann, 12 October 2008, retrieved from: <http://www.worldbank.org>.

¹⁹ Mario Nutti “First You Pay Then You Go”, 13 June 2009, retrieved from: <http://www.dmarionuti.blogspot.com/2009/06/first-you-pay-then-you-go.html>.

increase savings, develop capital markets, and improve labour flexibility – remain largely unrealised.”²⁰

2.2 Health Care

2.2.1 Overview of the system’s 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. For example, dental care for adults is provided only by private practitioners, and consequently patients bear the full cost. Patients’ fees and co-payments are payable even for basic treatment, and these have risen considerably as of 1 March 2009.

Government policy distinguishes between primary, secondary, and tertiary health care. Patients normally enter the health care system via the primary sector, by visiting the family doctor (usually a general practitioner – GP), who acts as gatekeeper to higher levels of care. The system should be accessible, well understood, and effective. It is difficult to separate health promotion and preventive activities from primary health care – prevention, diagnosis, treatment, and rehabilitation at the individual level are delivered in outpatient conditions because some of these activities are strongly interrelated. When necessary, the primary care doctor refers a patient to a specialist or to hospital for further treatment.

There is a marked trend of increasing ambulatory (outpatient) visits, while the number of hospitals and days spent in hospital are decreasing. Nevertheless, varying from doctor to doctor, the waiting time for visits remains long.

To make primary health care more accessible, in 2009 a new form of primary care – doctors on duty – was introduced in the hospitals of the capital, Riga. Doctors on duty ensure secondary emergency help for residents of Riga outside working hours of general practitioners, either in a medical institution or at the patient’s home. Help is ensured within three hours of receiving the call. The doctor on duty treats all residents living in the working area of the medical institution, no matter which GP the patient is registered with.

The whole system of health care has undergone major structural reforms.

The number of institutions under the direct supervision of the Ministry of Health has been reduced, so that only three such institutions have remained after 1 October 2009. In 2004, the ministry and the various agencies and other institutions under the ministry’s supervision employed 1,699 civil servants and other employees. In 2009, there were 1,319 employees. After 1 October 2009, a staff of only 593 has remained. The staff of the Ministry of Health was reduced by 43%.

The number of hospitals providing emergency care has been reduced in 2010 from 59 to 20.

In accordance with the programme, 12 hospitals have been transformed into health care centres during the years 2005–2007. This development continued in 2008. A further reduction in the number of hospitals and their reorganisation into health care day centres took place in 2008–2009: 29 hospitals have been reorganised in this manner since 1 September 2009. This means that a total of 41 hospitals were closed.²¹

²⁰ Independent evaluation group, “Pension Reform: how to Strengthen World Bank Assistance”, in *IEG REACH*, 2 February 2006.

²¹ B.Rozentāle, “Veselības aprūpes sistēmas strukturālās reformas norise un plānotie pasākumi tās tālākai īstenošanai”, 15 July 2009, retrieved from: <http://www.vm.gov.lv/index.php?id=121&top=121>.

In 2009–2010, further steps were taken for better protection of patients' rights.

A law on patients' rights, drafted already in 2003, came into force on 1 March 2010. The law declares the basic rights and responsibilities of patients and their family members. The law envisages patients' rights as follows:

- to agree to or refuse medical treatment;
- to be treated in accordance with a professional standard of care and kindness, with respect for the patient's dignity;
- to choose a GP (general practitioner or family doctor) and health care institution;
- to have respect for his/her privacy;
- to obtain from the medical facility medical information concerning him/herself (including his/her medical records).

The patients' responsibilities:

- for their own self-care;
- to provide the relevant health professionals with all information required;
- active participation in the diagnosis and treatment process;
- to respect other patients' rights.

In 2008, the institution of an ombudsman for protecting patients' rights has been established at the Riga Eastern University Hospital. During the past year it has grown into a Patients' Ombudsman Office.

The Patients' Ombudsman Office is an independent and professional instrument, mediator and adviser in patients' rights, communication and legislation in the health care system. The office provides an effective management for handling complaints, resolving the problems and concerns of clients and providing comprehensive feedback to staff and management in order to improve health care services in general. The main tasks of the office are:

- to inform patients about their rights and duties in the health care system, and how to meet their needs within the system provided;
- to inform medical professionals about the rights and duties of patients and themselves, to promote not only first-rate medical services, but also good communication between staff and patients;
- to facilitate positive and effective communication and collaboration between health care personnel and patients;
- to provide quick and impartial complaint-handling management in order to improve the feedback circle and service quality of the health care organisation;
- to collaborate with local and international health care organisations in order to exchange experience and improve health care quality in the hospital and the country in general;
- to promote health, well-being and patients' rights as a priority in the individual and national system of values.

Health financing

In the period 2008–2010, the Latvian Government has substantially decreased the funding for health care.

The financing of health care was cut by 15%, taking effect from 1 January 2009. A further decrease in financing was carried out with the amendments to the Budget Law on 6 June 2009. In comparison to 2008, the budget for health care has decreased by 21.2% in 2009 and constituted 3% of GDP in 2009. In 2010, the budget for health care has decreased by a further 4.6% and constitutes 3.4% of GDP. The share in GDP has actually grown, but one has to bear in mind that the GDP of the country has decreased substantially.

As from July 2009, all hospitals in the country ceased to perform planned surgery and other treatment, taking patients only in emergency cases. All other treatment is provided at the patient's own expense if s/he is able to cover the expenses.

Cost sharing and out-of-pocket payments for health care have increased noticeably, but decreased again slightly since 1 January 2010.

Table 6: Cost sharing and out-of-pocket payments 2009/2010

	Patient's fee for visit to GP (in LVL)	Patient's fee for visit to specialist (in LVL)	Treatment in hospital (in LVL)
Previously	0.50	2	3–5 per day
From 1 March 2009	1	5	12 per day
From 1 January 2010	1	3	9.50 per day

Source: Data of Ministry of Health

In addition, the co-payment for surgery during treatment in hospital has been set at LVL 30. The patient also has to cover the cost of other examinations.

Some patient categories, namely children and people with a severe disability, pay reduced fees and co-payments. The needy are charged half of the fees and co-payments.

The reimbursement system for medicine was changed as from 1 January 2009. The four reimbursement categories (100%, 90%, 75% and 50%) were replaced with three categories: 100% for serious illnesses, when the medicine is life-preserving; for other diagnoses the amount of compensation was reduced from 90% to 75% and from 75% to 50%.

As from 1 February 2010, patient fees and co-payments for persons with low incomes were reduced. For families in which per capita income over the past three months does not exceed LVL 120 per month the patient fees have been abolished, and for those with an income not exceeding LVL 150 they have been reduced by 50%. For these categories co-payment for surgery during treatment in hospital has been set at LVL 15.

According to the estimate of the Ministry of Welfare, this new system applies to 700,000 adults. Entitlement to these allowances will be granted on the basis of certificates issued by municipal social assistance units.

To some extent these changes do correspond to the incentives of the European Commission document published on 20 October 2009 to tackle the gaps in health care which exist between and within countries in the EU "Solidarity in health: reducing health inequities in the EU":

“Addressing health inequalities effectively requires policies which include both actions to address the gradient in health across the whole of society as well as actions which are specifically targeted at vulnerable groups. Particular attention needs to be given to the needs of people in poverty, disadvantaged migrant and ethnic minority groups, people with disabilities, elderly people or children living in poverty. For some groups, the issue of health inequality including reduced access to adequate health care can be qualified as one which involves their fundamental rights.”²²

On 6 October 2009, the Cabinet Regulations “Price list for paid services provided by emergency medical units” was amended and the payments for ‘groundless’ calls were substantially increased. A call is qualified as groundless if there was no real threat to the patient’s life. In such a case it is possible that the patient must bear high costs (from LVL 30.50 up to LVL 83).

2.2.2 Overview of debates and the political discourse

The political discourse in 2009 and 2010 has been devoted to the strategic tasks in health care set out in the Declaration of the Intended Activities of Cabinet of Ministers headed by Valdis Dombrovskis, 11 March 2009.²³ Implementation of some of these tasks has been successful, such as: the reduction of administrative burdens and bureaucracy by reorganisation of direct public administration institutions (agencies) in the health care sector; and adoption of the Law on Patient Rights, stipulating protection of the rights of patients and medical practitioners.

When a state of crisis was officially declared in the country the implementation of many important programmes was suspended.

Work has commenced on some policy planning documents: the Guidelines for the Public Health Strategy 2010–2020, the Cancer Monitoring Programme, measures restricting the spread of TB in 2008–2010, the reduction of alcohol consumption and alcoholism during the coming period, the concept for the necessary financial resources for the development of a reimbursement system for medicines in 2009–2012. Work on the implementation of the state vaccination programme continued.

On 30 June 2009, the Cabinet of Ministers approved a “Programme for restricting the spread of human immunodeficiency virus (HIV) infection”, Cabinet Regulations No. 437, 30 June 2009.

Funding for health prevention and promotion programmes has increased considerably due to supplementary funding from the European Social Fund (ESF) and European Regional Development Fund (ERDF).²⁴

Some results have been achieved in the prevention of inefficient use of state budget resources and distortion of competition, through the definition of equal pricing criteria for health services.

Not so successful was the implementation of the task of ensuring equal health care opportunities by developing health care guidelines and a system for quality assessment.

²² The European Commission document published on 20 October 2009, “Solidarity in health: reducing health inequities in the EU” retrieved from: <http://ec.opa.eu/social/main.jsp?catId=89&langId=en>.

²³ Declaration of the Intended Activities of Cabinet of Ministers headed by Valdis Dombrovskis, 11 March 2009, retrieved from: <http://www.mk.gov.lv/en/mk/darbibu-reglamentejosie-dokumenti/deklaracija-dombrovskis>.

²⁴ Health care budget for 2009 and 2010 in comparison to the budget for 2008, Ministry of Health, <http://www.vm.gov.lv/>.

The public debate has mostly been connected with the decrease in allocated financial resources for health care, pay cuts, increased patients' fees and payments for emergency care, and the changed reimbursement system in medicine. There is no question that public funding for health care is insufficient, but in the years 2009–2010 the problem arose 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 of the health care budget is transparent and that the financial means will be used for improvement of health care as such, rather than for covering the costs of construction and expensive equipment for hospitals, as was the case in previous years. Despite the poor funding already in 2005, the amount of expensive equipment in Latvia was higher (per capita) than in Germany and Finland. In the following years, the amount of such equipment grew further. In 2008 alone, 16 new computer tomography and five magnetic resonance scanners were registered in Latvia. This has resulted in heavy debts to providers of equipment. Furthermore, in 2010 the State Audit Office reported that institutions under the supervision of the Ministry of Health have inexpediently and inefficiently utilised financial resources in the amount of LVL 3,000,000²⁵. The mass media reports on cases where all tenders announced by several hospitals were won by one company, although the other offers were cheaper and met the required standards. In one of these hospitals, the Children's Clinical University Hospital, fraudulent activities were discovered in connection with tenders, and four responsible employees were arrested. This is a particularly appalling case, widely discussed in public, because people have been regularly donating to the hospital to improve the treatment conditions for the children. After that, the Minister for Health discussed the possibility of excluding corruption risks in the health care system with the Corruption Prevention and Combating Bureau (KNAB).

Another question raised by physicians and pharmacists relates to the state vaccination programme. The ministry decided to purchase expensive vaccines against rare illnesses (worth LVL 6,000,000). The Society of Pharmacists, the Association of Family Doctors and the Society of Latvian Physicians have objected to such expensive purchases in the current financial situation, stressing that only the richest countries in the world can afford such expensive vaccines.

Such events do not promote public confidence in the health care system.

2.2.3 Overview of impact assessment

On 17 March 2010, an open letter to the Government was published, signed by the country's leading physicians²⁶. The doctors came out in support of the Minister for Health who had requested additional financing for health care. The financial sources available to hospitals were overdrawn already in January 2010, even though patients were only being treated in emergency cases. The 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.

²⁵ News Agency LETA on 3 November 2009, "VM par sešiem miljoniem latu iegādāsies dārgas vakcīnas", retrieved from: <http://www.delfi.lv/archive/php?id=27814229>.

²⁶ Atklāta vēstule valdībai, "Ārsti par situāciju veselības aprūpes nodrošināšanā", retrieved from: <http://www.apollo.lv/portal/printit/197488/0>.

The sick are visiting charlatans who offer 'non-traditional' treatment, which makes the situation more chaotic.

The number of cases where patients are delivered to hospitals already unconscious is growing, because people are worried about the payments they would have to make for treatment in hospital and thus are not making emergency calls. Another reason for not making emergency calls is that the call could be deemed 'groundless'. The mass media report on cases when sick people have died because they were afraid to make an emergency call. Indeed, it is not easy for the patient to evaluate his/her own state of health. Explanations of the Ministry of Health on this issue are controversial. On the one hand, the representatives of the ministry assert that the decision to send an ambulance or not is taken by the doctor on duty in the emergency unit, and if s/he has decided to send the ambulance, then treatment of the patient is free of charge. On the other hand, the ministry states that the debts caused by groundless calls are growing.

Patients in hospitals are running from them, i.e. leaving the hospital before treatment is finished in order to avoid payments.

Mental hospitals have discharged patients because the cut in financing has been applied to these institutions, too.

At the end of 2009, a research paper entitled "Potential years of life lost (PYLL)" was published by the Centre of Health Economics.²⁷ In Latvia, PYLL represents the number of years not lived by an individual from birth to age 65, differing from the internationally accepted reference age – 75 years. This difference is explained in terms of the short life expectancy in Latvia. In 2008, more than 132 thousand years of life were lost. In comparison with the previous year, in 2008, the PYLL indicator had decreased by 11.5%. 73% of the potential years of life are lost in males. The able-bodied population is losing potential years of life mostly due to external causes: the highest figures being for suicides and traffic accidents. In comparison with the previous year, in 2008, the PYLL indicator for suicides rose by 17%. The second highest figure is for diseases of the circulatory system, and the third is for malignant tumours. The social gradient in years of PYLL has not been studied.

The 2009 National Report, published in November 2009 by the Centre of Health Economics, examined new developments and trends, and presented in-depth information on selected issues. The report is one of the national annual reports compiled by the national Focal Points in the European Information Network on Drugs and Drug Addiction (REITOX).²⁸

In 2009, the Public Health Agency published a situation report "Suicides in Latvia – situation, perspectives and solutions", 2009.²⁹ The report states that over the past years the suicide rate in Latvia has decreased, although it remains high. The positive trend in the suicide rate did not continue in 2008, when the total number of suicides during 11 months exceeded the total number of suicides in 2007: 19.9 per 100,000 population in the age group 15–64. In 2007, the number of medically treated attempted suicides in Riga alone was 160. The authors of the report expressed their concern that "The current situation and economic downturn in the country are worrying factors which make professionals review positive future forecasts in the field of suicides and plan preventive measures in due time."

²⁷ Veselības ekonomikas centrs, "Potenciāli zaudētie dzīves gadi Latvijā 2008.gadā", Rīga, 2009.

²⁸ The Centre of Health Economics, "The 2009 National Report, new developments, trends and in – depth information on selected issues", published in November 2009, Riga.

²⁹ Sabiedrības veselības aģentūra, "Pašnāvības Latvijā – situācija, perspektīvas un risinājumi", Rīga, 2009, retrieved from: <http://www.vec.gov.lv/>.

2.2.4 Critical assessment of reforms, discussions and research carried out

According to the “Euro Health Consumer Index 2009 report” by Euro Health Consumer Powerhouse (HCP)³⁰, Latvia remains one of the least friendly countries in providing health services to patients, coming in 31st place (the same place as in 2008) out of 33 European countries (only Romania and Bulgaria have a lower ranking, and share 32nd place). The report states that Latvia’s health care system has been in a stable position at the bottom of the ranking table from the time this statistic started to be measured.

The structural reforms in the health care sector were indeed carried out swiftly and have reduced the administrative costs in 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” and the plan for implementing the programme. One of the aims of the Master Plan was to reduce administrative costs. The implementation of the plan was postponed, because in the years of growth the Government was not interested 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).

In this respect, the reorganisation of 41 hospitals into day care centres will result in a deterioration of the health of the inhabitants. Most of these hospitals are located in very remote places in the countryside. Taking into account the poor state of the infrastructure, i.e. the transport system (one bus per day, if at all) and the impassable roads in autumn and winter, there is doubt as to the accessibility of health care. One has to add to this the problem of rising prices for transport and the low incomes of people in these areas. To sum up, the day care centres will be accessible only to those living close by. There have been protests against reorganisation from municipalities, doctors, nurses, and patients, but in the context of the difficulties experienced by the state as a whole they have not been heard. The problems aggravated during this snowy and cold winter: even ambulances could not reach their destinations, namely patients’ homes. Medical equipment was supplemented with snow shovels for digging a path to the patient’s home. Patients sometimes had to wait for help for 2–3 hours or more. Problems of this kind continued in April, when large areas in the countryside and even in the cities were flooded.

The Law on Patient Rights was welcomed in the public space, especially the regulation of the law creating a compensation fund for cases where medical treatment has led to damage to the patient’s health, although the fund will start to operate only in 2012. Until present, such cases have been the subject of long court proceedings.³¹ The newspaper article cites an interview with Prof. Aivars Vētra, who expresses his opinion on the new law, in the drafting of which he had been participating. He stated that the law defines notions which are self-evident in civilised society and perhaps require legislative regulation only in Latvia. On this point I cannot agree with the professor. The majority of countries around the world have implemented legislation of this kind. The new law fully corresponds to the Declaration on the Promotion of Patients’ Rights in Europe³², which states: “.... The fact that medical practice has become more hazardous and in many cases more impersonal and dehumanised, often involving bureaucracy, and no less the progress made in medical and health science and

³⁰ o Health Consumer Powerhouse (HCP), “o Health Consumer Index 2009 Report”, 2009, retrieved from: <http://www.healthpowerhouse.com>.

³¹ “Liene Barisa, Pacientu tiesības beidzot vienā likumā”, newspaper *Neatkarīgā Rīta Avīze*, 17 December 2009.

³² Declaration on the Promotion of Patients’ Rights in ope, WHO, ICP/HLE 121, 28 June 1994.

technology have all placed new emphasis on the importance of recognising the individual rights of patients.” This means that Latvia is not alone in experiencing difficulties in the medical staff/patient relationship.

The only theoretical issue, discussed ever since independence was regained, and brought up on a weekly basis at the beginning of 2008 was the debate on health care financing models: state financed health care or insurance-based health care. In the years 2009 and 2010, the discussion on the funding of health care returned to the political arena in full swing. The proposal of the leading political party (New Era) was to link health care services to taxes. This means that health care services should be provided only to those paying taxes and to some other groups, such as children and pensioners. The Minister for Finance stated that very similar systems already exist in Estonia and Austria (which have normal health insurance systems – author’s remark). In response to this proposal the Ministry of Health created a working group with the aim of studying and compiling information on health insurance systems in the EU countries and coming up with conclusions regarding the necessity of implementing a health insurance system in Latvia.³³ Thus, it becomes a never-ending story: Information on social insurance systems is available and specialists are very familiar with it. Only one question remains: is it currently possible to introduce a new contribution rate for health insurance?

One of the chapters of the “o Health Consumer Index 2009 report” by o Health Consumer Powerhouse (HCP) is entitled “BBB; Bismarck Beats Beverage - yet again!”. The authors of the report go on to explain their position: “Looking at the results of the EHCI 2006–2009, it is very hard to avoid noticing that the top consists of dedicated Bismarck countries, with the small-population and therefore more easily managed Beverage systems of the Nordic countries squeezing in. Large Beverage systems seem to have difficulties in attaining really excellent levels of customer value. The largest Beverage countries, the UK and Italy, keep clinging together in the middle of the Index.”³⁴

In his research paper, Adam Wagsaff points out the pros and cons of implementing one or the other system and stresses that no conclusions should be drawn “simply by comparing countries that finance their health care through SHI with countries that do so through general revenues”.³⁵ Thus, Latvia is no exception in this discussion, lasting over 100 years: social insurance versus state funding.

As for myself, I am a supporter of insurance principles. At the same time I am convinced that the time for introducing social health insurance (SHI) in Latvia has passed. Before World War II Latvia had a very well developed health insurance system, and one can only regret that the system was not renewed along with other kinds of social insurance.

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

Privately insured patients were welcomed by the doctors, too.

In the years 2009 and 2010 the situation has changed significantly. The Prime Minister has forbidden the buying of insurance policies for employees in the public sector. The number of

³³ Veselības ministrijas mājas lapa: Aktualitātes, 2010. gada 22.februārī, retrieved from: <http://www.vm.lv>

³⁴ o Health Consumer Powerhouse (HCP), “o Health Consumer Index 2009 Report”, 2009, retrieved from: <http://www.healthpowerhouse.com>.

³⁵ Wagstaff, Adam, “Social Health Insurance vs. Tax-Financed Health Systems—Evidence from the OECD”, Policy Research Working Paper 4821, The World Bank Development Research Group, Human Development and Public Services Team, January 2009.

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 was closed on 1 April 2010. The president of the Insurers' Association reported losses of LVL 10,000,000 from health insurance only in the first three quarters of 2009. He states that insurance is a private business and as such is not interested in insuring private individuals.³⁶ Thus, there is no possibility for individuals to buy a health insurance policy.

2.3 Long-term care

2.3.1 Overview of the system's characteristics and reforms

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

According to the Social Services and Social Assistance Law (in force as 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."³⁷

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. (These criteria are further discussed below.)

The possibility for the elderly and disabled people to live longer in an accustomed home environment depends to a large extent on the support from local municipalities.

Local municipalities organise and prioritise services variously, in line with their budgetary capabilities. In the countryside, organising home care is much cheaper than placement in social care centres. For example, in the Kandava district the monthly costs for home care are LVL 25.65. As there is no institutional social care centre in the district, the municipality has to buy those services from the neighbouring district providing social care centres, the monthly cost being LVL 350–450. (Source: an interview with the Director of Social Service Centre of the Kandava District Municipality on 20 April 2010).

Various municipal social benefits are designed to provide support for needy groups within the population. These are social assistance benefits, which are means-tested and conditional upon cooperation. (For example, for the long-term unemployed there are several behavioural conditions.)

Municipalities had a statutory duty to provide the Guaranteed Minimum Income (GMI) benefit, the aim of which is to guarantee a minimum level of income. Since 1 October 2009,

³⁶ Liene Barisa, "Nav risinājuma, kā nodrošināt veselības apdrošināšanas iespējas", newspaper *Neatkarīgā Rīta Avīze*, 21 January 2010.

³⁷ OECD; Long-Term Care for Older People; 2005; retrieved from: <http://www.oecd.org/health/longtermcare>

this benefit has to guarantee an income of LVL 40 (for children LVL 45) per month. Many municipalities have made use of their right to set higher amounts of GMI for some categories of people, as laid down in the Regulations of the Cabinet of Ministers. As of 1 of October 2008, housing benefit has become mandatory as well. In accordance with amendments to the Social Services and Social Assistance Law (in force since 1 October 2008), local municipalities are obliged to define the housing benefit in their compulsory regulations. Even so, the requirements for application can differ from one municipality to another and still depend on the financial possibilities and priorities set in each community. The amount of the housing benefit, the procedure for payments and the range of persons eligible for this benefit is to be laid down in the compulsory regulations of the municipality, and the local residents are to be informed about them.

Other social benefits include: health care benefits, extraordinary benefits in a situation of crisis, and benefits for other purposes.

Riga City Council has allocated 9.4% of the city budget for the year 2010 to social assistance needs, which is by 13.4% more than in 2009. In the two first months of 2010, the number of people receiving GMI benefit was rising by 82%, and the number of those receiving housing benefits by 12.7%, compared to the same period in 2009. The new tendency over the past two years is that the number of working-age persons claiming benefits is increasing, while the number among old-age and disabled persons is decreasing.

Alternative forms of long-term care include day care centres for retired people, social residential houses, social apartments, group apartments etc. However, all the data are available only in absolute numbers, so it is difficult to estimate to what extent the need for establishments of this kind is being satisfied. As regards the accessibility of social care at home and institutional care, restrictive criteria have been established in this area: These services are means-tested and the need for services is assessed. (In the city of Riga this is done by a special commission.) If a person is deemed to be capable of taking care of himself/herself, then long-term care is refused.

At the same time, if a person possesses sufficient means (or somebody is ready to cover full cost of long-term care), the services will be provided immediately. For people in care centres who pay for their accommodation (the average monthly cost being LVL 300–400), additional comfort is provided.

There are 33 state-financed social long-term care centres in Latvia for persons with mental disorders, with 5,487 residents. The municipalities finance 82 social long-term care centres with 5,472 places.

The situation regarding waiting lists can be illustrated by data from the Welfare Department of Riga City Council.

The number of applications for institutional long-term care is decreasing. 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 where people are taking their relatives out of social care homes with the aim of using their pensions. (Source: an interview with the Deputy Director of the Welfare Department of Riga City Council on 20 August 2009).

In 2007, 372 persons were placed in institutional care centres, some of them after waiting for a period of two to five years.

In 2007, 511 persons were on the waiting list, 136 of them died during the waiting time.

In March 2010, there was no real waiting list. A number of 50 persons were waiting for placement in institutional care centres, but in most cases they were waiting to be placed in a particular care centre.

There are no waiting lists for home care either. The number of people receiving home care has been stable at around 10,000 people over the past three years. The specialists of the Ministry of Welfare explain that the number of applications for home care is not increasing, with two trends observable: firstly, in the current financial situation the relatives are not able to cover payments or co-payments for home care for dependent family members, and secondly, as so many people are unemployed, they are providing care themselves.

The situation is similar in the country as a whole.

Because so many hospitals have been reorganised into day care centres, providing services at the place of residence of the patient, too, basic medical services are becoming better available than was previously the case.

2.3.2 Overview of debates and political discourse

The Declaration on the Intended Activities of the Cabinet of Ministers headed by Valdis Dombrovskis, of 11 March 2009, states: “Our Government expresses its commitment to: - focusing the social security system on the provision of support to the most sensitive/vulnerable social groups during the crisis, and ensuring availability and stability of social services in a situation where state budget resources are very limited.”³⁸

Accordingly, on 8 September 2009, the Cabinet of Ministers approved the Strategy on the social security net for the period from 1 October 2009 to 31 December 2011.³⁹ The Strategy contains supplementary measures for needy persons in all branches of social protection.

For persons with disabilities an important event in the context of long-term care was the ratification of the UN Convention on the Rights of Persons with Disabilities in January 2010, which came into force in Latvia on 31 March 2010. Apart from all essential human rights, the convention declares the right to an adequate standard of living and social protection: to ensure access to appropriate and affordable services, devices and other assistance for disability-related needs and to assistance from the state for disability-related expenses, including adequate training, counselling, financial assistance and respite care etc.

The Ministry of Welfare has developed a Plan of Activities for the Implementation of the Convention for the years 2010–2012. The guidelines for implementation of the convention for the years 2012–2019 are under preparation.

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, within 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 draft programme includes the 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. As described above, such forms of care do already exist, but the project provides an opportunity to develop them further with the co-financing of the ESF.

³⁸ Declaration of the Intended Activities of Cabinet of Ministers headed by Valdis Dombrovskis, 11 March 2009, retrieved from:

<http://www.mk.gov.lv/en/mk/darbibu-reglamentejosie-dokumenti/deklaracija-dombrovskis>.

³⁹ Sociālās drošības tīkla stratēģija approved on 8 September 2009 by Cabinet of Ministers, retrieved from: <http://www.fm.gov.lv/?lat/>.

In April 2010, the draft programme has been discussed in all the regions involved, covering approximately one third of Latvia.

In the years 2009–2010 the mass media has reported on a new trend in long-term care, namely that empty places in social care centres have replaced the waiting lists that were previously common. Old, dependent people are being taken out of care centres in order to improve the families' financial situation. Cases have been described where the elderly have been placed in a situation of helplessness: used to care services, they are being left at home without any regular care.

2.3.3 Overview of impact assessment

In spite of the crisis situation, the Ministry of Welfare and the municipalities are trying to do their best to achieve the objectives agreed in the OMC concerning alternative kinds of care: the development of services such as half-way homes, group houses (apartments), and day care centres for people with mental disorders.

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 (the UK, Finland). It can be done easier this year, because in July 2009 the *Saeima* (Parliament) adopted the Law on Public Private Partnership, allowing public institutions to outsource their functions to private service providers. This approach is being used by several municipalities. For example, the Social Services Centre of Sigulda Municipality has handed over home care services to a private social care centre, carefully managing the transfer of functions. 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. Although society in Latvia can be considered as socially passive, nevertheless a desire is observable for using the potential of social activity and action. Thus, municipalities are facilitating the development of mutual self-assistance in the community. These tasks are being implemented by developing community social work.

The theoretical aspects of long-term care in Latvia are analysed in the “Long term care” MISSOC Analysis, August, 2009. The paper gives the characteristics of the Latvian long-term care (LTC) system, placing Latvia among countries “which spread their benefits related to LTC over several branches of their existing social security and/or public assistance system. Within this line of thought, it is most likely to approach LTC via both social security and assistance schemes. ... Latvia ... does not apply the means-testing scheme in favour of social insurance-financed provision.”⁴⁰

2.3.4 Critical assessment of reforms, discussions and research carried out

Unfortunately, I cannot agree with the authors of the MISSOC Analysis that in Latvia LTC is based on social insurance principles. As described above, LTC in Latvia is part of the social assistance system, and not only means-testing is applied, but there are also various other restrictive criteria for entitlement to long-term care.

As stated above, all data 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

⁴⁰ MISSOC Analysis, “Long term care”, August, 2009, retrieved from: <http://ec.europa.eu/social/main.jsp?catId=792&langId=en>.

many applicants have confirmed the loss of their ability to perform the essential tasks of everyday living independently. Taking into account the growing number of old people and the number of disabled people with severe impairments in Latvia on the one hand, and the number of persons who are receiving home or institutional care on the other hand, one can conclude that this form of care cannot cover all persons who really need such support. The Joint Report on Social Protection and Social Inclusion (2008)⁴¹ stressed that the aim for EU countries is to ensure universal access to affordable long-term care. In Latvia, access to care is limited by restrictive criteria. The new trends in LTC during the past two years show that access to care is becoming more restricted.

Municipalities are trying to do their best to improve the quality of LTC: developing standards for different kinds of LTC and enforcing monitoring instruments.

3 Impact of the Financial and Economic Crisis on Social Protection

It is generally known that Latvia has suffered one of the deepest recessions in the world.

After joining the EU, Latvia, as a small and open country, quickly attracted investment. For many years the Latvian taxation system has been investor, local entrepreneur and local individual friendly both in the tax rates applied and in the income base that was taxed. No one of the taxes applied is progressive.

The big Swedish banks established subsidiaries and an influx of foreign capital helped sustain a real estate boom. Rising domestic consumption, a thriving property market and capital inflows all spur growth. The main problem was that a lot of the foreign capital was directed to real estate development and mortgages rather than building an export-oriented manufacturing base.

In the past years, Latvia experienced very rapid and stable GDP growth: from 6.5% in 2002 to 10.2% in 2005. The growth rate remained at such a high level (10.2%–11.9%) for three years.

However, already in 2005, there were warnings from both domestic and international experts that the economy was overheating. In 2008, the hard landing/soft landing debate came to the forefront of public discussion. Even at the beginning of 2008, the Government retained an optimistic position, claiming that the Latvian economy had entered a phase of balance and were heading towards a soft landing. Only in the second half of 2008 did it become obvious that this would not be the case. After the crisis began in the global financial market and economy, Latvia's problems aggravated. The Government's activities and statements were contradictory and could change overnight.

After statements that Latvia's banking sector was stable and that Latvia would not be taking out international loans, it turned out that Parex, Latvia's second largest bank, was experiencing serious difficulties. The Parex Bank had suffered a significant outflow of deposits, and the Government partially nationalised it, providing liquidity support. Other domestic banks and companies have found it difficult to rollover their international liabilities. Thus, it became obvious that it would not be possible to overcome the crisis without international help.

⁴¹ Joint Report on Social Protection and Social Inclusion, European Commission, Luxembourg: Office for Publications of the Europeans Communities, 2008.

The European Commission (EC), International Monetary Fund (IMF), World Bank, European Reconstruction and Development Bank and several Member States of the European Union agreed to provide financial assistance to Latvia in the amount of EUR 7.5 billion (LVL 5.27 billion). The decision to provide financial assistance was based on Latvia's Economic Stabilisation and Growth Revival Programme, approved by Parliament at the end of last year, a Letter of Intention to the IMF, as well as a Memorandum of Understanding with the EC. Determined and timely implementation of Latvia's Economic Stabilisation and Growth Revival Programme is a significant precondition for receiving this international loan. All those documents have been amended in the years 2009–2010 in accordance with the development of the situation.

The programme prescribes activities in four sectors: monetary, fiscal and financial policy, as well as promotion of economic competitiveness. The strict fiscal policy envisages further optimisation of budget expenditures, aiming at a balanced state budget. Structural changes prescribed in the plan will facilitate improvement of Latvia's payment balance and decrease economic dependence on foreign financial resources. These changes will also involve an improvement of efficiency in the public administration sector, as well as an increase in productivity in both the business and public service sector.

Economic collapse and social pressures forced Latvian PM, Ivars Godmanis, (Latvian First Party/Latvia's Way) to hand in his resignation in February 2009. A partly new government was appointed on 12 March 2009. Valdis Dombrovskis, from the New Era Party (*Jaunais laiks*), which had hitherto been in opposition, was nominated as Prime Minister.

The adoption of substantial savings measures in the 2010 budget has given the hope of some recovery later this year and into 2011. The strong measures taken by the Government have enhanced the credibility of the authorities' strategy and have been positively assessed by international donors.

On 31 March 2010, the international credit rating agency Moody's Investors Service raised the outlook on the Latvian Government's Baa3 ratings from negative to stable. The outlook on the foreign currency deposit ceiling was also changed to stable.

Even if the catastrophe has been averted for the moment, Latvia's economy remains in trouble.

In 2009, the GDP growth rate was -18%. Deflation has replaced the high inflation of the period of growth. According to EUROSTAT the deflation rate in January 2010 was 4.4%. The total retail trade is declining further: in Latvia the decrease between January and February was -13.3%.⁴²

Further budget cuts will be needed in 2011 and 2012 (LVL 800–900 million spread over two years) but it has been considered that the essential social spending should be protected.

The political environment in Latvia remains very volatile. This situation can be explained by the approaching parliamentary elections, due in October 2010. The fragile coalition government was reduced to a parliamentary minority in March, when the People's Party left the coalition in a desperate attempt to improve their dwindling ratings. It is a blow to the Government's capacity to push through the badly needed reform agenda and threatens Latvia's international credibility, which it had just started to rebuild.

The social protection system is mostly seen as a burden for the state, not as a factor of production and as a tool ensuring cohesion in society.

⁴² EU, Employment Situation and Social Outlook, April 2010, retrieved from: <http://ec.europa.eu/social/main.jsp?catId=792&langId=en>.

The crisis in the country had very severe impact on the social protection system; thus it is difficult to speak about progress made with regard to the Lisbon Strategy or aims agreed in the OMC.

The impact of the crisis on the labour market:

1. Redundancies, both in the public and the private sector, caused by a reduction in the number of employees in the state sector and by an enormous drop in production.

The average slowdown rate in production in January 2009 was 27.2%. Industrial output continued to fall in the timber industry (35.9%), the textile industry (46.3%) and in food commodities (13.7%).

By the end of February 2009, bankruptcies in the construction branch alone numbered in the hundreds. Because of a shortage of orders, more and more companies are being declared insolvent or removed from the register of building companies. In the first two months of 2009, 300 companies were already excluded from the register.

These trends continued during the year 2009: In the third quarter of 2009 the slow-down rate was 36% in construction, 28.7% in the total retail trade and 31% in the hotel and restaurants business.

2. A pay cut of approximately 20%–30% affecting all public sector employees and employees in state enterprises, in 2009.

3. Growing unemployment.

Employee and worker redundancies have, of course, led to increased unemployment. In February 2010, the unemployment rate, according EUROSTAT, was 21.7%, out of an economically active population of 1.16 million.

The EU Employment Situation and Social Outlook, April 2010, states:

“Rises in the unemployment rate eased in most EU countries in February, with only Latvia recording a steep increase, while the rate stabilised in several countries, including Germany and the UK. As the economic recovery is still facing headwinds, latest forecasts suggest that the EU labour market will just level off during 2010.”⁴³

4. In many enterprises employees are working part-time (a three- or four-day week).

5. The unofficial (“shadow”) economy has been estimated to be 20%–40% in 2009 (according to different sources: Global management consultancy company “A.T.Kearney” evaluation – 39.4%).

6. Support for small business.

In June 2008, the EU Commission proposed the rapid adoption of measures to help small businesses, which create the most new jobs in the EU. The Small Business Act emphasises that these firms often encounter huge administrative hurdles and find it difficult to secure financing. This is a real problem in Latvia. So far, plans include the reduction of the bureaucracy connected with setting up a new business.

The Supplemental Memorandum of Understanding (First addendum to the Memorandum of Understanding), signed on 13 July 2009 by the Prime Minister, Valdis Dombrovskis, and by Commissioner Joaquin Almunia) states:

⁴³ EU, Employment Situation and Social Outlook, April 2010, retrieved from: <http://ec.opa.eu/social/main.jsp?catId=792&langId=en>.

“In cooperation with the relevant organised business organisations, the Small Business Act shall be implemented by providing a special programme for the support of small and micro companies. The activities include lowering of start-up costs (e.g. registration fee for enterprises), changes in taxation and bookkeeping laws (e.g. frequency of reporting) and access to microcredit financing.”⁴⁴

Some steps in this direction have been taken. On 30 October 2009, the Cabinet of Ministers approved the Concept on Support Measures for Micro Enterprises with the aim of:

- reducing the costs related with launching commercial activity of micro enterprises;
- implementing a tax policy, which is friendly for micro enterprises;
- ensuring that the micro entrepreneur is able to do his own accounting;
- ensuring the availability of funding for micro enterprises;
- ensuring availability of complete information for micro enterprises.

The situation in manufacturing and in the financial and labour market had a severe impact on all branches of social protection: a substantial decrease in social insurance revenues, which led to some extreme measures, described previously in the report. Most affected by the crisis is the health care sector. All hospitals are sinking into debt: because of insufficient funding, they are not in a position to fulfil their commitments towards the providers of heating, natural gas, electricity and equipment.

The Government has developed social protection programmes to cushion the impact of the crisis.

After careful analysis of the existing situation, the Government of the Republic of Latvia has updated the country’s Economic Stabilisation and Growth Revival Programme.

One of the cornerstones of the programme is to maintain social protection activities in order to reduce social tension.

Accordingly, on 8 September 2009, the Cabinet of Ministers approved the Strategy on the Social Security Net for the period from 1 October 2009 to 31 December 2011. The Strategy contains supplementary measures for needy persons in all branches of social protection. The strategy looks at the current situation from various angles: in terms of labour participation rates and unemployment, and considering the situation where a large proportion of population is at risk of poverty. According to the estimates of the Ministry of Finance, 200,000 persons or 8.8% of all residents will become needy in 2010.⁴⁵

The objectives of the strategy are:

- to provide guaranteed minimum benefit (GMI) to needy persons (LVL 40 for adults and LVL 45 for children);
- to provide the accessibility of basic health care services and basic medicine for the needy.

Previously the needy were charged half of the fees and co-payments. The strategy envisages that the needy should be exempted from patient fees and co-payments, as described in the chapter on health care.

⁴⁴ The Supplemental Memorandum of Understanding (First addendum to the Memorandum of Understanding), signed on 13 July 2009, retrieved from:
http://www.fm.gov.lv/preses_relizes/dok/Supplementary_MoU_13%2007%202009_ENG.pdf.

⁴⁵ On 1 April 2010: 145,000 persons.

- to involve unemployed persons in temporary public works at municipalities.

Since municipal revenues have also decreased and the number of applications for social assistance is increasing each month, the social assistance benefits will be co-financed from the state budget, which will cover 50% of the resources needed for payment of GMI and 20% of funding required for payment of housing benefits.

At the same time, the strategy states that only a half of all the needy could receive the GMI benefit in 2010 (4.4 % of all residents).⁴⁶

The aim of the GMI benefit is to guarantee a minimum level of income. From 1 October 2009, this benefit has to guarantee an income of LVL 40 (LVL 45 for children) per month, which constitutes 24.5% of the subsistence minimum.

The priorities for the years 2010–2011 are to strengthen safety nets. In addition to the social care services provided by social care institutions, certain forms of extreme help are becoming more widespread. New shelters for homeless people have been opened and so-called ‘soup kitchens’ are providing meals for the needy. Second-hand clothing is also available. Once a month, basic foodstuffs are distributed over 443 main distribution points to a network of distribution points in the local communities, to the needy people across the country. Food stamps are also introduced. On these issues, municipalities are working together with NGOs and charity organisations. The number of people making use of these opportunities is growing each month, in all regions of Latvia. A new category of residents has joined the people making use of soup kitchens: people heavily indebted to banks because they have taken out loans to buy houses, apartments, commodities, etc. 56% of the population have unpaid debts. If they do not apply for social assistance, or do apply but are not granted sufficient aid, they are even at risk of becoming homeless. Court proceedings initiated by banks against debtors are not uncommon in Latvia.

Some allowances for the needy are being made by the state-owned companies Latvenergo (electricity provider) and Latvijas siltums (heating provider).

Most at risk are families with children where the parents (or one of them) have lost their job or their income has decreased substantially. Many charity campaigns have been launched to help the families affected by the crisis.

Grants from the European Social Fund (ESF) make an essential contribution to addressing the problem of unemployment. By the end of 2009, the number of persons involved in temporary public works and receiving grants was 63,324, i.e. 38% of all registered unemployed. Long waiting lists have formed at municipalities (30,000 in total) of unemployed people ready to take advantage of this possibility.

In April 2010, subsidised workplaces were introduced, funded by the ESF. The distribution of foodstuffs is also financed by the ESF.

The attention given in academic circles to the current situation may be characterised by the opinion of Professor Brigita Zepa, which is expressed in the article “A state that wishes to know nothing about itself”. The professor writes that the crisis is so deep in Latvia because the state administration does not respect education and is unable to make use of the opportunities offered by science. There is no cooperation between scientists and the state administration. As an example, the professor named a big-budget scientific research project on aspects of the labour market, funded by the European Commission and administered by the Ministry of Welfare. The project was brought to a high standard, with the participation of

⁴⁶ Sociālās drošības tīkla stratēģija, approved on 8 September 2009 by Cabinet of Ministers, retrieved from: <http://www.fm.gov.lv/?lat/>.

about 100 scientists and experts over the course of two years (until to 2007). At the same time, “the bureaucracy has neither the capacity nor the comprehension of what to do with the results of the project.”⁴⁷

The research on economic, financial and demographic forecasts and scenarios is coordinated by Latvia’s Commission of Strategic Analysis under the auspices of the President of the Republic of Latvia. The commission’s main goal is to generate a long-term vision of Latvia’s development through interdisciplinary and future-oriented studies. The commission is working in closer cooperation with the Government and NGOs, such as the Free Trade Union Association, the Employers’ Confederation of Latvia and Institutes of the Academy of Sciences.

⁴⁷ Brigita Zepa , “Valsts, kura par sevi neko negrib zināt”, 2009, retrieved from: <http://www.lv.lv/?menu=doc&id=187297>.

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4 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

[R1] ZVIDRIŅŠ, Pēteris, *Demogrāfiskā attīstība Latvijas reģionos*, Publishing Agency of the University of Latvia, 2009.

“Demographic development of Latvian regions”

Latvia nowadays finds itself in a deep demographical crisis. The number of inhabitants in the country has been continually decreasing for the last twenty years. The existing low fertility level does not ensure the simple generation replacement. Latvia has turned into a statistically un-estimated active emigration country. There exist differences in the indicators of regional demographical processes. Latgale and other distant from Riga districts meet extremely critical demographical situation. To alleviate the existing critical situation in the country it is necessary to carry out an active demographic policy.

[R1] PAPARDE, Inga, *Latvijā strauji samazinās iedzīvotāju skaits*, in: Newspaper *Neatkarīgā Rīta Avīze*, 17 March 2010.

“The population of Latvia is decreasing rapidly “

The article is based on the latest data provided by Dr Peteris Zvidriņš on changes in the population structure in 2009 – 2010. The first months of 2010 demonstrate negative population growth in comparison with the same period in 2009. Birth rate has decreased by 9% in 2009, natural increase in 2009 was: -1092. Median age is over 40 years. In Rezekne district (on of most depressive regions of Latvia) the death rate exceeded the birth rate ten times.

[R1] IMF, Republic of Latvia: Second Review and Financing Assurances Review Under the Stand-By Arrangement, Request for Extension of the Arrangement and Re-phasing of Purchases Under the Arrangement and Request for Waiver of Nonobservance and Applicability of Performance Criteria, IMF Country Report No.10/65, March 2010.

In the report IMF staff advises Latvian government that a careful approach would be needed to ensure that pension savings are generated in away that is constitutional. Staff encourages the authorities to intensify their efforts to prepare changes which would

ensure the sustainability of the pension system, so the new government would have reform options (and potential savings) available to consider and could act quickly.

[R2] LATVIJAS UNIVERSITĀTES SOCIĀLO UN POLITISKO PĒTĪJUMU INSTITŪTS, Latvija. Pārskats par tautas attīstību, 2008/2009 :Atbildīgums,redaktori: Rozenvalds Juris un Ijabs Ivars Latvijas Universitātes Akadēmiskais apgāds, 2009.

The Advanced Social and Political Research Institute of the University of Latvia, "Latvia - Human Development Report 2008/2009: Responsibility" Editors: Rozenvalds Juris un Ijabs Ivars, University of Latvia Press, 2009.

A chapter on pensions entitled "Pensions and responsibility between generations" is included in the report.

The chapter describes the existing pension system, and analyses the interaction between political processes and the pension system in recent years. Special attention is paid to the development of the State Funded Pension Scheme. The authors of the report point out that the operation of the 2nd tier scheme does not correspond to the initial aim of the reform: to make available some of the funds required to finance the investment needs of the Latvian economy and thus stimulate economic growth. In the operation of the scheme, there is more evidence of lobbyism by financial institutions (banks, investment companies) than protection of the socio-economic rights of the population. Data are presented on the growing amount of assets invested abroad each year.

[R2] RAJEVSKA, Feliciana "Trends and problems in the development of a Latvian welfare state", in: EU Strategic Challenges in the Baltic Sea Region" Vidzeme University of Applied Sciences, Valmiera, 2009, retrieved from: <http://www.va.lv/>

The article briefly discusses the development of social policy in Latvia after joining the EU looking at such areas as employment and income maintenance. The author comes to conclusions that one of the main trends in the Latvian social policy is: removing responsibility for persons' welfare from the state towards the individual, introduction of highly individualised pension reform being a good example of this trend.

[R2] ŠVARCS, Harijs, Mērķtiecīgas reformas pensiju samazināšanas vietā", 21 July 2010, retrieved from: <http://www.delfi.lv/news/comment/article.php?id=25818629>

"Appropriate reforms instead of pension cut"

The author, an asset manager, stresses that problems in pension area arise from the reliance in state unfunded pension scheme - so called solidarity scheme. If state funded pension and private pension schemes, where individual savings are accumulated, were more developed prosperity in old age for the future pensioners will be secured.

[R2; R5] CUNSKA, Zane and MURAVSKA, Tatjana, Sociālās politikas īstenošana Latvijā pēc pievienošanās ES, 21 April 2009. retrieved from:

http://ec.opa.eu/latvija/news/press_releases/2009_04_21_3_lv.htm

"Social policy implementation in Latvia post EU accession".

The research paper analyses the trends in pension policy in the time period from 2004 to 2008. The statistical data used are mostly for the period up to 2007. Changes in pension amounts during this period are analysed.

"Size of all pensions has increased during the previous years. The average old age pension has increased by more than 40% in the after-accession period, the invalidity and survivors' pensions have increased by almost the same percentage. Though, the living costs have also increased significantly due to inflation – the subsistence minimum has increased from LVL 99 in 2004 to LVL 133 in 2007 and LVL 160 in 2008."

Comparing the old age pensions with the subsistence minimum in Latvia, the authors stress that the welfare of the elderly has not improved.

The operation of the State Funded Pension Scheme is criticised:

“A controversial issue in the pension system development was the complete transfer of administrative rights of the state’s funded pension funds to the private sector. It has led to high concentration of financial resources within the private pension plans and investments of these resources abroad, especially the US bonds. As a consequence, these resources are not facilitating development of Latvian national economy, but rather working against the Bank of Latvia intervention policy.”

[R4] RAJEVSKA, Feliciana, Social policy and Integration, in: MUIŽNIEKS, Nils (ed.), How Integrated Is Latvian Society? An Audit of Achievements, Failures and Challenges, Riga: University of Latvia Press, 2010.

The chapter contains a description of the situation of pensioners in Latvia. Pensioners, and particularly those who live alone, have traditionally been seen as a social risk group. The author describes the implementation and gradual rise of amount of pension supplements which were implemented for the work the pensioners did up until 31 December 1995. All pensioners faced a 10% cut as of 1 July 2009, which meant a decline in the average pension in Latvia from LVL 173 (~EUR 247) in June to LVL 145 (~EUR 207) in July. The number of working pensioners shrank from 60,800 in June to just 35,000 in July. These changes were abolished by a Constitutional Court decision.

[H] Health

[H2] VESELĪBAS EKONOMIKAS CENTRS, Potenciāli zaudētie dzīves gadi Latvijā 2008.gadā, Rīga, 2009, retrieved from: <http://www.vec.gov.lv>
“Potential years of life lost (PYLL) in Latvia in 2008”

In Latvia, PYLL represents the number of years not lived by an individual from birth to age 65, differing from the internationally accepted reference age – 75 years. This difference is explained in terms of the short life expectancy in Latvia. In 2008 more than 132 thousand years of life were lost. In comparison with the previous year, in 2008 the PYLL indicator has decreased by 11.5%. 73% of the potential years of life are lost by males. The able-bodied population is losing potential years of life mostly due to external causes: the highest figures being for suicides and traffic accidents. In comparison with the previous year, in 2008 the PYLL indicator for suicides rose by 17%. The second highest figure is for diseases of the circulatory system, and the third is for malignant tumours.

The social gradient in years of PYLL has not been studied.

[H2] THE CENTRE OF HEALTH ECONOMICS, The 2009 National Report, new developments, trends and in – depth information on selected issues, November 2009.

The report is one of the national annual reports compiled by the national Focal Points in the European Information Network on Drugs and Drug Addiction (REITOX). The report consists of two parts. Part A discusses recent developments and research data from 2008 and early 2009. The sections that describe the drug situation during the past year (drug experimentation, problem drug use, health and social correlates and consequences, availability and supply of drugs) are linked with discussion on related societal interventions (prevention, treatment, harm reduction, social rehabilitation and control). Each section begins with background information on the subject and the latest data is discussed in the subsections. Part B discusses selected issues relating to drugs, this year’s theme being cannabis market and production and problem amphetamine and methamphetamine.

[H2] SABIEDRĪBAS VESELĪBAS AĢENTŪRA, Pašnāvības Latvijā – situācija, perspektīvas un risinājumi, Rīga, 2009, retrieved from: <http://www.vec.gov.lv>

“The Public Health Agency, “Suicides in Latvia – situation, perspectives and solutions”

The report states that over the past years the suicide rate in Latvia has decreased, although it remains high. The positive trend in the suicide rate did not continue in 2008, when the total number of suicides during 11 months exceeded the total number of suicides in 2007 – 19.9 per 100,000 population in the age group 15–64. In 2007 the number of medically treated attempted suicides in Riga alone was 160. The authors of the report expressed their concern that “The current situation and economic downturn in the country are worrying factors which make professionals review positive future forecasts in the field of suicides and plan preventive measures in due time.”

[H2; H3; H4] VESELĪBAS STATISTIKAS UN MEDICĪNAS TEHNOLOĢIJU VALSTS AĢENTŪRA, Ikgadējā Latvijas veselības aprūpes statistikas gadagrāmata, Rīga, 2009.

“Annual Yearbook of Health care Statistics in Latvia”

Health statistics for the year 2008 had been compared to data of the previous year.

In 2008 there was not observed significant improvement of public health state like in previous years. Health statistics data confirm existing problems concerning the access of health care services and the quality of medical work. The showings of hospital beds utilisation have not improved in comparison to 2007. Bed occupancy rate has decreased, but the average number of bed-days per 1 patient has not changed significantly.

Improvement of structure of health care service providers at secondary and tertiary level is in progress. The number of hospitals is decreasing, while the number of outpatient institutions is increasing. The health care access indicator – the number of outpatient visits per 1 inhabitant – has been improving slowly.

[H3] RAJEVSKA, Feliciana, Social policy and Integration, in: MUIŽNIEKS, Nils (ed.), How Integrated Is Latvian Society? An Audit of Achievements, Failures and Challenges, Riga: University of Latvia Press, 2010.

The chapter analyses the access to health care. The complications which have occurred in Latvia in terms of the accessibility of health care services had to do with the scanty budget which is available for health care overall.

Geographic distances also reduce access to health care services. For rural residents in particular, a simply doctor’s visit is costly, because specialists are mostly centred in large cities such as district centres or the capital city. A substantial share of health care financing in Latvia is based on out-of-pocket expenses. Long-term treatment can create the threat of poverty for a patient, and so the state has set a ceiling on patient fees for each period of inpatient fees after cannot exceed a total of LVL 250 (~ EUR 569), and the total fee paid for outpatient and inpatient services during the course of one year may not exceed LVL (~ EUR 569).

There is much evidence in Latvia to show that people with lower income also have lower levels of health care service use because of financial barriers. The fact is, however, that it is specially people with lower income who need more health care than others. The same applies to unemployed people, as well as children from families with low levels of income.

[H4] DOLACIS, Valters and DOLACE, Dace, Darbaspēka migrācija un iekļaujoša ģimenes politika - Latvija, Latvijas Kristīgā akadēmijas Zinātniskie raksti Nr 2, 2009.gads.

“Labour Force Migration and Inclusive Family Policy: Case of Latvia”

Low salaries among the physicians have already resulted in pronounced ageing within this professional group. Although the number of those choosing to study in the field of health and social care is increasing in recent years, the country feels shortage in supply of health care professionals although the prestige of being a health care professional is relatively high in the country, many of them emigrate for having better paid job positions abroad. As result the country is faced with a severe shortage in health care workers, which is becoming more and more pronounced each year, as current workers change their profession, retire or take up positions outside Latvia. With the existing rate of training and licensing of new doctors, it is estimated that it would take some 200 years to replace the 400 practicing general practitioners who are close to retirement (20% of them are currently over 60 years old). Nurses also are in short supply with approximately 500 nurses per 100,000 population.

The tendency of health care workers going abroad will obviously continue in the nearest future.

There is not a specific policy for addressing this situation through immigration.

[H6] ZĀĻU VALSTS AĢENTŪRA, Zāļu patēriņa statistika, 2008.gadā, Rīga, 2009.

“Statistics on medicines consumption”

Data on consumption of medicines are investigated by dividing medicines into groups according to their application basing of the ATC/DDD classification system. In order to evaluate the amount of medicines reaching a consumer all data analysis are based on medicines consumption data reflecting the real situation – medicines reaching the next level within the sales chain. Also information on consumer groups is analysed.

In 2008 the total medicines turnover was LVL 256,140,000 - increasing by 10% in comparison to 2007.

An average price for one packing was LVL 3.48 in 2008. This figure has increased by 16% in comparison with the year 2007, in comparison with the year 2004 - by 57.5%.

[L] Long term care

[L] MISSOC SECRETARIAT, Long term care, MISSOC Analysis, August, 2009.

The report gives an evaluation of theoretical aspects of Latvian long term care system.

Most of the Member States are acquainted with a differentiated approach, and spread their benefits related to LTC over several branches of their existing social security and/or public assistance system. Within this line of thought, it is most likely to approach LTC via both social security and assistance schemes. Only a few Member States have a ‘pure’ globally oriented system, being either social security related or within the public assistance scheme. Some Member States’ schemes could be types as ‘characteristic’, and are therefore well-placed within the above mentioned typology:

The same goes more or less for Latvia (LV), although this member state does not have unified legislation: the legal provisions consist of the coordination of various schemes related to social services for the elderly, disabled and children.

Bulgaria, Greece, Iceland, Latvia, Lithuania, the Netherlands, Norway, Sweden, Switzerland and Germany do not apply the means testing scheme in favour of social insurance financed provision.

Almost all Member States have a system that provides benefits in cash (except for Latvia).

[L] BEINAROVIČA, Eva, Sociālais darbinieks sadarbībā ar izvairīgiem klientiem, published by the Higher School for Social Work and Social Pedagogy *Attīstība.*, nr.34, Rīga, 2010.

“Social worker’s cooperation with evasive clients”

The passiveness of clients makes the contacts with them difficult. The difficulties arise from the client’s unwillingness to participate in solving their social problems. Thus the article discusses the strengths perspective in social work practice. Strength – based, person centred caregivers recognise existing strengths, mirror them back, and help people see where they are strong.

5 List of Important Institutions

Labklājības ministrija – Ministry of Welfare

Contact person: Jurševska, Ilona, Head of Communications Unit

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.

Veselības ministrija – Ministry of Health

Contact person: Pole Egita, Head of Communications Unit

Webpage: <http://www.vm.gov.lv>

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.

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

Contact person: Olupe Edīte, Head of PR Division

Webpage: <http://www.vsaa.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.

Valsts nodarbinātības aģentūra – State Employment Agency (SEA)

Contact person: Kancēna, Iveta, Head of PR Division

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 ES; 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.

Veselības ekonomikas centrs - The Centre of Health Economics

Contact person: Džonsa, Dzintra, International Relations and Project Manager

Email: dzintra.dzonsa@vec.gov.lv

Webpage: <http://www.vec.gov.lv/>

The Centre of Health Economics started to carry out its activities on 1 October. 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).

Finanšu un kapitāla tirgus komisija – Finance and Capital Market Commission

Contact person: Batraga Kristīne, Head of EU and international relations unit

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.

Latvian Central Depository (LCD)

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

Contact person: Zvirbule Dace, PR Adviser

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 darba devēju konfederācija – Latvian Employers' Confederation

Contact person: Alksne Agnese, Communications' expert

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.

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

Contact person: Zepa, Brigita, Chair – person of the researcher board

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.

Latvijas Brīvo Arodbiedrību Savienība -Free Trade Union Confederation of Latvia (FTUAL)

Contact person: Homko Irina - expert in social issues

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.*

At present, FTUAL unites more than 15% of all workers of Latvia in almost 2,900 state, municipal and private enterprises.

Latvijas Pensionāru Federācija – Pensioner’s Federation of Latvia

Contact person: Kārlis Bormanis

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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.*

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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>