Annual National Report 2009

Pensions, Health and Long-term Care

Latvia

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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 2008 and 2009 (up to the middle of April). The report focuses on key themes in pension policy, health care and long-term care.

The last chapter describes the impact of the financial crisis and economic downturn on social protection; although in the current situation it was not possible to avoid referring to the crisis in other chapters of the report too, because all public life in Latvia is overshadowed by the crisis situation. The crisis in the country has had a very severe impact on the social protection system, so it is difficult to speak of further development in relation to the objectives agreed in the OMC.

Expenditures of ministries and other state institutions may be reduced by 40% in June this year, when amendments will be made to the state budget for 2009. This also affects the social protection system. For the time being, the discussions with social partners are still going on, especially on health care financing, but a cut in funding by such an amount cannot be excluded even in this sphere.

The first half of the year 2008 demonstrated positive trends in pension policy, responding to growing public dissatisfaction and to the fact that public confidence in the state authority has hit its lowest level in the history of the Latvian state.

A new trend worth mentioning was that the necessity of indexing all pensions, irrespective of their amount, was recognised.

I have to note that, up to the present day, the pension policy does not correspond to the goal of the initial reform: to link contributions to benefits in a transparent and fair way. For the time being, the redistributive functions within the system are winning out: the raising of minimum pensions and indexation of low pensions. These measures are indeed necessary for needy groups in the population. However, the distinction between contribution-based pensions and those tailored to the socio-economic situation is becoming blurred. Pensions exceeding the state social security benefit five times are not indexed at all. This means that these pensions are losing their real value all the time, thus penalising high-income earners.

Such an approach does not encourage a belief within the society that the statutory social insurance system offers the best possible link between contributions made and benefits received.

It was intended that indexation would be applied to all pensions for the first time in November 2009 (with the price index).

In accordance with the amendments to the Pension Law approved by the Saeima (Parliament) on 19 June 2008, as of 1 January 2009 the state supplement to old age pensions has been increased to LVL 0.70 per insurance record year until 31 December 1995. The intention was to increase this supplement to LVL 1.00 this year (2009). Since a ‘pension freeze’ has been declared, there will not be any further increase in pension supplements. Pensions will not be indexed in 2009 and thereafter indexation will be more modest.

The last projections made in March 2009 by the Ministry of Welfare show that the amount of pensions will decrease over years.

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 2007–2009.

Since independence was regained, there has never been sufficient public finance for health care in Latvia, but it is hard to imagine how the situation will develop this year and in the years to come. This means that the persistent inequalities in health outcomes will increase, and access to health care will become more limited than ever.

The only positive trend I can point out is that prevention and healthy lifestyle promotion programmes are still working.

Until now, long-term care has been less affected by the crisis. However, the reduced number of social workers and social carers and the pay cut for the remaining staff will influence the quality of care.

Until now, scientific research carried out in the field of social protection has been very limited. This applies particularly to pension policy. The only specialists on pension issues are working for the Ministry of Welfare and its institutions. Some positive trends in this regard could be observed in 2008 and 2009. In November 2008, the first dissertation on pensions was presented, for the degree of 'Doctor of economics' (Dr. oec.). The European Commission Representation in Latvia has initiated and supported some domestic and international events on social policy issues, for example, the Baltic Stakeholder Forum "No Europe for Old Men? Social reality in the Baltic", in April 2008. The representation supported a study entitled "Social policy implementation in Latvia post EU accession", written by Zane Cunska and Tatjana Muravska and presented on 21 April 2009 at the European Union House in Riga.

More researchers are working in the health care field.

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, reforms, debates, political discourse and scientific assessment

In the past years, Latvia has experienced very rapid and stable GDP growth.

Following a similar pattern, the growth of social insurance revenues can be explained by the positive overall trends in the national economy as a whole. For the first time in 10 years, there is a planned deficit in the State Social Insurance Budget.

Table 1: State Social Insurance Budget

	2003	2005	2007	2008	2009 (estimated)
Revenues, million LVL	578.9	769.2	1,292	1,466.8	1,268.6
Expenditures, million LVL	560.6	678.1	912.4	1,225.6	1,484.4
Surplus, million LVL	18.3	91.1	379.6	241.2	- 215.8

Source: Data of the State Social Insurance Agency.

The data for 2009 is given based on the Law on the State Budget for 2009, in force from 1 January 2009. In June 2009, the Budget Law will be amended.

The latest forecasts are that the deficit in the Social Insurance Budget may exceed LVL 325 million.

By the end of 2007 the accumulated surplus in the social insurance budget was LVL 724.5m, and by the end of 2008 it had reached LVL 965.6m.

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%).

The state social insurance system in Latvia has been created according to the redistribution principle (PAYG), with the objective of providing a maximum 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.

There are 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;

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 (fourth) tier was foreseen, to provide additional income support for those retired before the new law takes effect, with the aim of protecting previously acquired rights. However, this idea was not realised.

The first 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 first tier is a generation solidarity scheme, it also has its own distinct features. It is a scheme of defined contributions – a so-called Notional Defined Contribution (NDC) scheme or, according to the latest terminology, a Non-financial Defined Contribution scheme (Holzmann and Palmer, 2005).

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 in 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 second 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 first tier, where notional capital is accumulated, actual capital is accumulated in the second tier.

The third 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 first tier state mandatory unfunded pension scheme shall provide a stable, medium-low income replacement after retirement;
- the second 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 first tier is relieved and the development of the financial market is facilitated;
- the third 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 for 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 second and third tiers are subject to financial risks: passive financial markets, low profit margins, fluctuations of interest rates and prices of securities etc.

The new three-level pension system relieves the state liability on residents' old age insurance, makes the first 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 first tier PAYG benefits are subject to labour market risks, while the second 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 by the state budget. The pensions of the police, prosecutors and army are service pensions, granted upon completing a given service period. They are paid entirely from state budget until the person reaches legal retirement age. After that the social insurance budget pays the pension amount due from the performed 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 not less than 10 years.

Retirement age and early retirement

A gradual increase in the minimum retirement age has been carried out in Latvia in order to reach 62 years for both men and women. Men reached this age already in 2003, but for women the gradual increase in minimum retirement age continued until 1 July 2008. Until 1 July 2008, the retirement age for women was 61.5 years. Since 1 July 2008, the retirement age is 62 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.

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 not less than three years.

Socially insured persons who have suffered from 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 so-called '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 allocation.

G is the time period (years) counted on the basis of life expectancy in the years of allocation 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 second tier is not favourable to the latter.

Table 2: Indexation of the notional (non-financial) pension capital (K)

Year	Index	Total
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	**5.4950**
1997	1.12;1.117;1.069;1.0835;1.0453;1.1645;1.1754;1.1712;1.2333; 1.3593;1.3106	**5.3349**
1998	1.117;1.069;1.0835;1.0453;1.1645;1.1754;1.1712;1.2333;1.3593; 1.3106	**4.7633**
1999	1.069;1.0835;1.0453;1.1645;1.1754;1.1712; 1.2333;1.3593; 1.3106	**4.2644**
2000	1.0835;1.0453;1.1645;1.1754;1.1712;1.2333;1.3593; 1.3106	**3.9891**
2001	1.0453;1.1645;1.1754;1.1712; 1.2333;1.3593; 1.3106	**3.6817**
2002	1.1645;1.1754;1.1712;1.2333;1.3593; 1.3106	**3.5222**
2003	1.1754;1.1712;1.2333;1.3593; 1.3106	**3.0246**
2004	1.1712;1.2333;1.3593; 1.3106	**2,5733**
2005	1.2333;1.3593; 1.3106	**2.1971**
2006	1.3593; 1.3106	**1.7815**
2007	1.3106	**1.3106**
2008	-	

The index is calculated as a ratio of the average earnings in the national economy in the preceding year to the average earnings in the given year.

For example, if the person's individual average earnings in 1996 were LVL 200 per month, the pension will be calculated as if s/he had earned LVL 1,099 (LVL 200 x 5.4950) per month on average in 1996.

This method of pension calculation is designed to stabilise the system in the case of changes in life expectancy, but it does not compensate for fluctuations in the demographic burden of pensioners on society. This was supposed to be compensated by a buffer fund, consisting of the surpluses of the contributions over the costs. The buffer fund will be needed, for example, in years when a relatively large share of the generation of employed people born in the 1960s and 1980s will retire.

The replacement rate

According to projections made by experts from the Ministry of Welfare and the World Bank before the reform, first tier pensions will provide a replacement rate of 40% - 50% of gross

earnings. It is also forecast that the first and second tier together will provide at least a 70% replacement rate for persons who join the second 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% 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 3: Replacement rate (old age pension compared to lifetime gross earnings)

Birth year	Return rate in second tier - 2% (until 2009 – actual return rate)					
	Without changes in Law			With changes in Law		
	NDC	FDC	Total	NDC	FDC	Total
1960	57.2%	11.6%	**68.8%**	62.0%	6.8%	**68.8%**
1975	38.7%	20.3%	**58.9%**	46.5%	12.1%	**58.6%**
1980	28.0%	21.7%	**49.8%**	36.1%	12.9%	**49.0%**
1990	18.3%	23.1%	**41.4%**	25.6%	13.9%	**39.5%**

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%.

Taxation

The part of the pension exceeding LVL 165 is income-taxed (at the rate of 23%). Income tax was lowered by 2% in 2008 (previously, it had been 25%).

Indexation

Until now, pensions were indexed twice a year: on 1 April, pensions not exceeding three times the amount of state social security benefit (LVL 45 x3 = 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.

On 12 March 2009, the indexation rules for pensions were changed and the Pension Law amended.

In accordance with the Letter of Intent, signed by the Government and addressed to the IMF, the Government has taken an obligation to freeze pensions. This means that pensions will not be indexed in the year 2009.

In accordance with the amendments to the Pension Law, adopted by the Saeima (Parliament) on 12 March 2009, from 2010 pensions will be indexed only once a year – on 1 October – with the consumer price index.

Supplements

Taking into account the high inflation rate and aiming to alleviate poverty among the oldest cohorts of pensioners, supplements to old age pensions were implemented as of 1 January 2006. This trend was continued, with gradual increases made in the following years. This was one of the priorities laid down in the NSR 2005-2008 and has been implemented little by little. It does not follow the basic concept of the pension reform – to create as close as possible a link between contributions and benefits – but to some extent these supplements could replace the lacking transitional tier (fourth tier) that was envisaged in the original Pension Reform Concept to provide additional income for those retired before the new law takes effect.

For calculating the amount of the supplement, each insurance record year accumulated until 31 December 1995 is considered. The supplement to the old age pension per insurance record year from 1 January 2006 until 1 June 2008 was LVL 0.19. From 1 July 2008, the amount of the old age pension supplement per insurance record year accumulated until 31 December 1995 is LVL 0.40. In accordance with the amendments to the Pension Law, approved by the Saeima on 19 June 2008, as of 1 January 2009 the state supplement to old age pensions has been increased to LVL 0.70 per insurance record year until 31 December 1995 and is granted to all old age and disability pensions, irrespective of the amount of the pension. The intention was to increase this supplement to LVL 1.00 this year (2009). Since a 'pension freeze' has been declared, there will not be any further increase in pension supplements.

The State Funded Pension Scheme

The second tier of the Latvian pension system does not feature pension funds in the traditional sense. Its administration remains a competency of the State Social Insurance Agency (SSIA), which has contracted the Latvian Central Depository to administer the accounts of the second tier participants. Decisions concerning investment of assets are taken by the asset manager. For the first 2.5 years after the introduction of the tier, the functions of asset manager were performed solely by the State Treasury. From 1 January 2003 onwards, each insured individual has been able to choose whether to switch to a private asset manager or stick with the State Treasury. The actual capital is kept in a custodian bank. Such a division of responsibilities was envisaged in order to ensure maximum safety of pension assets. Furthermore, the law prescribes that pension assets shall be kept apart from other assets, both by asset managers and at custodian banks. The activities of all the institutions involved in the scheme are supervised by the Finance and Capital Market Commission. Strict investment rules have also been developed to guarantee the safety of assets.

In practice, there are close connections between the custodian banks and asset managers.

For the time being, the various banks advertise their products: a variety of pension plans. A connection between banks and asset managers is inevitable. Conclusive evidence for this is the exclusion of the State Treasury from the market (as of July 2007), although, when the second tier scheme was introduced, a promise was made to the public (which did not have much trust in private financial institutions for objective reasons due to negative experience in the 1990s) that there would always be a possibility of keeping the accrued second tier pension capital in the State Treasury, which would perform the functions of asset manager. Opinion polls show that even before the financial and economic crisis started in 2008, confidence in private financial institutions was low. Those participants in the second tier scheme registered in the State Treasury who have not chosen a private asset manager for themselves were distributed among the private managers (or banks).

At the same time, the number of persons joining the second tier scheme voluntarily is rising: from 9.5% in 2001 to 42.5% in 2008, as a percentage of the total number of participants in the 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 began operating - the return rate has been very low, fluctuating between -2.95% and 5.36% (www.vsaa.lv, 2008).

For persons who have (mandatorily or voluntarily) joined the State Funded Pension Scheme, 8% of pension insurance contributions are channelled to this scheme. This proportion was scheduled to rise by 1%–2% every year, until it would reach 10% in 2010. Taking into account the current situation in the State Basic Budget for 2009, the contribution rate for the second tier has not been increased and remains at 8%. Furthermore, according the Government Declaration the contributions rate will be decreased to 2% from 1 May 2009 up to the end of 2010. From 1 January 2011, the contributions rate will be increased to 4%, from 1 January 2011 to 6% of the contributions base. After this, it is envisaged to remain at this level. This decision has met strong resistance in the banking sector.

The third 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 have the option of receiving the pension already at the age of 55. In contrast to the second tier pension, a private pension is inheritable. The contribution amounts and timing are flexible – it is possible to pay as much as the participant in the fund wants, and when s/he wants.

In 2008 there were six private pension funds operating in Latvia: five open and one closed pension fund, offering 16 pension plans. The participation rate in private pensions is low. Due to the fact that the purchasing power of the population in Latvia is relatively small, people choose to use their income for the satisfaction of short-term daily needs, rather than investing in long-term deposits accumulating additional pension capital.

2.1.2 Overview of debates and the political discourse

In 2008, the main debates were connected with the referendum on minimum pension amounts. The referendum was initiated by opposition parties and the Seniors' Union. The basic idea of the proposals by the initiators of the referendum was that the amount of pension should not be below the subsistence minimum, and, thus, the referendum was aimed at implementing a new scheme for indexation of minimum pensions.

In addition, such a promise was made by one coalition party (First Party/Latvian Way) in its parliamentary election campaign and included in the party programme.

The debates were generally emotional, rather than professional. The representatives of the Government threatened pensioners that there would not be sufficient funds for pension payments in the years to come, while employees asserted that it would not be possible to

create the reserve fund to secure their pensions in the future. On the other hand, it was asserted that the measures passed in 2008, which were to be implemented in 2009, would achieve the same results as those proposed by the draft law that was the subject of the referendum.

The referendum failed, but the participation rate was remarkably high. Nevertheless, before the referendum, the parliament amended the Pension Law in favour of pensioners:

- the amount of pension supplements was increased;

- in the year 2008 pensions not exceeding LVL 150 (previously LVL 135) were indexed;

- the possibility of retiring two years earlier was prolonged to 31 December 2011;

- the necessity of indexing all pensions irrespective of the amount of the pension was recognised.

As a result, the average old age pension has grown more significantly and amounted to LVL 176.15 in February 2009, thus, for the first time reaching the subsistence minimum of LVL 172.47, calculated by the Latvian Central Statistical Bureau for February 2009.

In 2009, the main debate concerns the decreased contributions rate for the State Funded Pension Scheme. For the first time the specialists at the Ministry of Welfare are talking about growing notional capital in the first tier NDC scheme, which will result in a higher pension from the first tier. The representatives of the banking sector are very concerned about the sustainability of the pension system, stressing that the intended changes in the contribution rate will destroy the pension reform. Disregarding the objections of the IMF, the Pension Law was amended on 23 April 2009 and the contribution rate decreased as described above.

2.1.3 Impact assessment

Very little research has been carried out in the field of pensions. All the basic projections (demographic and financial forecasts) were made before the pension reform started. These projections have been developed further by the Ministry of Welfare, taking into account the changes in the demographic and financial situation. The latest projections, made in March 2009, show that the amounts of pensions will decrease over the years. Thus, if the retirees of this year have a replacement rate of previous earnings over 100% (participating only in first tier scheme), the replacement rate will fall with each year for those who have joined the two-tier scheme.

The projections prove that in the future the first tier of the pension system will fully correspond to the 'Three –Pillar System' propagated by the World Bank, consisting of: "Pillar 1, the public pillar, with an average replacement rate of initially 30 – 35% of the average wage, falling to 20% over time as other pillars phase in." (World Bank, 1994)

On 3 December 2008, the Cabinet of Ministers approved the concept 'On the management of state social insurance financial resources until the year 2012'. The concept looks at pension issues from various angles: in demographic terms (birth rates, growing life expectancy, ageing of population) and in terms of labour participation rates, and considering the situation where a large proportion of pensions are too low. The concept states: "There is still a marked negative tendency concerning the increase of the risk of poverty for people who have reached retirement age (65 years of age and over). This especially affects retired people living alone. The feminisation of poverty is also typical of Latvia. Women are more affected by risk of poverty than men. As women on average receive a lower wage, are outside the labour market during pregnancy and parental leave, take care of sick and old family members, and work part-time more often than men, lower social insurance contributions are made on behalf of

women. This results in lower pensions. The decision was taken to accumulate surpluses in State Treasury." (www.gov.lv, 2008)

More research has been carried out by the Institute of Economics of the Latvian Academy of Sciences on some financial issues and the demographic situation in the country. In the context of this report, research carried out under the guidance of professor Pārsla Eglīte, entitled 'Decrease in number of active age population in Latvia and eventual solutions: results of research' (Eglīte, 2008) is worth mentioning.

In the course of the research, the age composition of current guest workers and those still living in the country of origin was analysed, and a projection of the population without those who have left the country, was prepared. As among migrants young people prevail, the current outflows have a negative impact on the number of expected births and add to the ageing of population and labour force. The survey of employees found out that the attitude of their employers differs according to the results of work but not the age of the employee. In general, in very rare cases age discrimination was seen as the most important reason for changing jobs. The results allow us to conclude that no generation feel useless at work or as being unpleasant for others.

It has to be mentioned that the research was done under conditions of lack of labour force. In a crisis situation with high and growing unemployment employers prefer to get rid of employees in retirement age rather than make redundant those in active age.

The possibility to accumulate pensions with earnings from work still exists.

In November 2008, Edgars Voļskis, a lecturer at the University of Latvia, presented the first dissertation on pensions for his degree of Doctor of economics (Dr. oec.), a work entitled 'The problems of improvement of the pension system in Latvia'. From my point of view, the most valuable part of this work is the analysis of the State Funded Pension Scheme and proposals for developing the scheme. The author points out that the operation of the second tier scheme does not correspond to the initial aim of the reform: to make available some of the required funds 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 citizens.

On this point I can only agree with the author.

The work also contains a description of pension systems in various countries: Germany, the UK, Sweden, Latin America, Singapore and the post-socialist countries. Highly commendable, in the author's view, is the pension model of Chile (Voļskis, 2008).

The most important programmatic documents of the Government are:

A Letter of Intent addressed to the IMF, signed by PM Ivars Godmanis, dated 18 December 2008, in which the Government has taken the obligation to freeze pensions.(www.fm.gov.lv, 2008)

A Declaration on Intended Activities of the Cabinet of Ministers headed by Valdis Dombrovskis, dated 11 March 2009. The declaration defines the decrease of the contributions rate pro tempore from 8% to 2% in order to involve more contributions in the solidarity scheme (www.mk.gov.lv, 2009).

The most important programmatic document by international organisations is the Joint Report on Social Protection and Social Inclusion 2009 of the European Commission, which contains

a profound analysis of the social protection system in Latvia and gives recommendations for improvement of the situation (European Commission, 2009)

2.1.4 Critical assessment of reforms, discussions and research carried out

The reforms in 2008 were aimed at improving the situation of retirees, although one has to bear in mind the influence of the approaching referendum. As stated above, the discussion was more emotional than professional.

Ironically, in the field of pension funding, the Concept 'On the management of state social insurance financial resources until the year 2012', approved on 3 December 2008 by the Cabinet of Ministers, analyses the possibilities of managing yearly surpluses in the pension budget, which were forecast as growing from LVL 220.3m in 2009 to LVL 325.6m in 2011. The decision was taken to accumulate surpluses in State Treasury (www.gov.lv, 2008).This position can be explained in terms of the use of old data (until 2009, there was a surplus in the pension budget each year, starting with the year 2000) and the concept's long path to the Cabinet of Ministers. But the fact that in December 2008 the Cabinet was seriously debating the further growth of surpluses in the social insurance budget, and how to use each year's surplus, is beyond my comprehension.

All the reforms undertaken in 2009 have been aimed at tackling the crisis in the financial sector and the economy. This time the discussion is more professional, because the participants in the debate (on the contributions rate for the second tier) are representatives of the banking sector and social security specialists who are working or have previously worked for the Ministry of Welfare. The former State Secretary of the Ministry of Welfare, Maija Poršņova, has published a highly critical article in the newspaper Diena entitled 'Looks like a robbery'. Her criticism attacks the use of the accumulated surplus in the Social Insurance Budget to cover the deficit in the State Basic Budget and some other distortions in the initially transparent social security system. Initially, in the year 1991, social insurance principles were reintroduced into Latvian social security, and the system was administratively and financially autonomous from the state budget, but in 1993, the social insurance budget was included in the State Consolidated Budget in the status of a 'special budget'. In 1996, the collection of social insurance contributions was handed over to the State Revenue Service. Thus, it is not really a social insurance any more. In fact, the huge (in terms of the situation in Latvia) accumulated surplus in the Social Insurance Budget had become 'notional', too. In theory, it does exist, but in practice it is used to cover the deficit in the State Basic Budget.

I also have some critical remarks on the dissertation of Edgars Voļskis.

I appreciate very much that we have a doctor working on pension issues. At the same time, I have to note that the dissertation demonstrates some lack of knowledge on social security theory. This becomes obvious when the author describes and analyses the first tier PAYG NDC scheme. He states that this scheme combines elements of both models of pension systems: Defined Benefits (DB) and Defined Contributions (DC). Such a combination is impossible: either benefits or contributions are defined. During the discussion on pension referendum issues, Voļskis published an article in the newspaper Diena quasi-discovering the causes of the low amount of old-age pensions. In his view, the reason for the low amount of pensions lies in the unjust calculation of the initial notional capital accumulated in the years 1996 to 1999 (Voļskis, 2008). He states that at that time earnings were low in comparison with earnings after joining the EU, and if the earnings of those years were to be adjusted to present-day earnings, the result could be very different. The method of adjustment of the initial capital and capital accumulated each year after the years 1996 to 1999 is described further above in this report, under the heading 'Overview of the system's characteristics and

reforms', demonstrating the growth of notional capital via indexation with the wage index. Thus, the accumulated notional capital has been adjusted more than adequately.

2.2 Health

2.2.1 Overview of the system's characteristics and reforms, debates, political discourse and scientific assessment

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 costs. 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 individual level are delivered in out-patient 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 – has been introduced in the hospitals of the capital, Riga. Doctors on duty ensure secondary emergency help for residents of Riga outside the working hours of general practitioners, either in a medical institution or at the patient's home. Help is ensured within three hours of receiving a 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.

Doctors on duty are accessible on workdays 15.00–21.00, on Saturdays 8.00–15.00, and on Sundays and bank holidays (if these are longer than two days) 8.00–15.00 (only for adults). The rest of the time, help for patients is provided by the hospitals' multi profile emergency care reception units.

Each medical institution has to provide information about the working hours of each GP and the possibility of getting seen by a doctor on duty. It is important to remember that a GP not only has visits to patients' homes and planned patient receptions, but also has 'acute' hours, during which the GP helps patients with sudden outbreaks of illness.

Secondary health care activities are directed towards definite, specialised health care activities that are provided by medical personnel in the respective institutions.

Secondary health care is specialised out-patient and/or in-patient health care aimed at urgent, speedy and good quality diagnosis, intensive treatment and rehabilitation to achieve the patient's recovery or to reduce the illness to a degree that further treatment is possible at the primary health care level.

Medical assistance in hospital can be received in state, municipal and private health care institutions.

Tertiary health care is characterised by highly specialised medical services that are provided at specialised health care centres or institutions by specialists in one of the medical specialisations who have additional qualifications.

For example, we do have in Latvia a hospital for patients diagnosed as having tuberculosis, because this disease is still relatively widespread in Latvia (47 patients per 100,000 inhabitants). In February this year, the Minister of Health announced that this specialised hospital would be merged with Riga's largest hospital, the Riga Eastern University Hospital, and that all patients from the tuberculosis hospital (agency) would be transferred to the Riga Eastern University Hospital. This decision met strong opposition from doctors. The mass media were even talking about possible interests in the background that have nothing to do with the optimisation of health care institutions, pointing out that the tuberculosis hospital is located in a very desirable area – the real estate includes expensive land. But there is no proof to substantiate such rumours. For the time being, merging the two institutions has been postponed.

At the Riga Eastern University Hospital, the institution of ombudsman for protecting patients' rights has been established.

Almost all hospitals have long waiting lists because of the uncertainty surrounding financing. The amount of the quota for medical treatment in hospital has been reduced. Some hospitals are refusing to take in planned patients until new contracts with the State Health Insurance Agency are signed, and are only providing treatment in emergency cases. Mental hospitals have discharged patients because the 15% cut in financing has also been applied to these institutions (Paparde, 2009).

The authors of 'Latvia – Health System Review' (European Observatory on Health Systems and Policies, 2008) state that: "A significant part of the Latvian health care reform process of recent years has been organised and driven by the World Bank's 'Health Reform Project' […] Most of the reforms were undertaken either as part of the World Bank project, or were strongly influenced by it."

An important document in the reform of the health care system is the Master Plan, or 'Programme for Development of Primary and Hospital Care Services for 2005–2010' (www.vm.gov.lv, 2004) and the plan for implementing the programme (www.vm.gov.lv, 2005). The aim of this reform is to reduce administrative costs and improve the quality of health care services, so as to ensure patient access to health care.

In accordance with the programme, 12 hospitals were 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 has been prepared. Thirteen hospitals are to be reorganised in this manner from 1 April 2009. It is envisaged that the centres will also provide health care services at the place of residence of the patients. Closer cooperation with social care institutions and social workers is to be developed.

In accordance with the programme announced by the Government, with the aim of reducing the bureaucracy in state administration in the year 2008, the Ministry of Health has implemented some changes in the institutions and agencies under its supervision. This process is planned to continue. In an interview with the newspaper Neatkarīgā Rīta Avīze, the Minister of Health Ivars Eglītis states that practically all agencies will be reorganised. It is even possible that three agencies will be abolished (Eglītis, 2008).

Indeed, it is hard to explain, for example, the existence of two agencies in the same field: the State Medicine Agency and the State Agency for Medicine Prices.

Disregarding the protests of municipalities, the emergency health care services have been centralised.

To promote a healthy lifestyle and implement preventive programmes is one of the key priorities of the Ministry of Health and has been developed in many programmes. Work on important policy planning documents has commenced: the Guidelines for the Public Health Strategy 2010-2020, the Cancer Monitoring Programme, the measures for restricting the spread of the human immunodeficiency virus (HIV) and AIDS, the measures restricting the spread of TB 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 2009–2012. Work on the implementation of the state vaccination programme 2008–2010 has continued.

When a state of crisis was officially declared in the country in the second half of 2008, the implementation of many programmes was suspended. The Minister of Health has officially announced that the programme 'Development of Human Resources in Health Care 2006–2015' will be suspended as well. Until now, this programme had contributed to an improvement in the quality of health care services and had stimulated a decrease in unofficial payments to doctors and other medical personnel.

Only the programmes connected with prevention and with promotion of a healthy lifestyle are working successfully and are being developed further.

Already in 2007, the Joint Report on Social Protection and Social Inclusion (European Commission, 2007) states that health expenditure in Latvia is below the EU average, and recommended the increased allocation of public resources to the health care sector. The 2009 Joint Report on Social Protection and Social Inclusion recommended Latvia to "ensure that public spending cuts do not affect health care, given the low health status of the population and low overall expenditure; to reduce the individual financial burden of health care; to improve the quality of care services; and address human resources issues while continuing to improve the efficiency of health care."(European Commission, 2009) This recommendation has not been followed. Quite the contrary, the share of health care in GDP has been shrinking each year.

Table 4: Health care expenditure

Year	2001	2004	2006	2007	2008	2009 (estimated)
Share of GDP (%)	3.00	3.27	3.60	3.80	3.59	3.1

Source: Data from the Ministry of Health

After the Government declared a cost-cutting budget for the year 2009 as a priority, with all ministries having to cut their expenditure, it is estimated that the resources allocated to health care will remain at the 2008 level. The Ministry of Health has calculated that this translates into a LVL 50m decrease due to rising prices for services (heating, electricity etc). It is envisaged that funding for health care will decrease for the next three years.

The financing of health care has been cut by 15%, taking effect from 1 January 2009. A further 20% to 40% decrease in financing is planned in the amendments to the Budget Law in June.

A rise in patients' fees and co-payments for hospital treatment has been viewed as a radical reform in health care.

Table 5: Patient fees

	Patient's fee for visit to GP	Patient's fee for visit to specialist	Treatment in hospital
Previously	LVL 0.50	LVL 2	LVL 3-5 per day
From 1 March 2009	LVL 1	LVL 5	LVL 12 per day

In addition, the co-payment for surgery during treatment in hospital has been set at LVL 30.

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

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

Latvia's National Strategy Report on Social Protection and Social Inclusion 2008–2010, adopted in 2008, states that the "main reason for not attending the doctor in 2005 and in 2006, and for women more than for men, was the high cost of medical services. It has to be noted, though, that in 2006, compared to 2005, the number of persons who did not use medical services on financial grounds has decreased by 12.5%" (www.polsis.mk.gov.lv, 2009). It is not difficult to conclude that the rise in patients' fees and co-payments, and the decrease in the amount of medicine reimbursement, along with a simultaneous decrease in income, will reinforce the tendency of not attending the doctor, thus having a severe impact on the state of health of the population.

Despite poor funding for scientific research, scientists in Latvia have demonstrated significant achievements in medicine.

In 2008, the academician Dr. habil. med. Rafail Rosental received an award from the Latvian Academy of Sciences for research on 'The solution to transplantation problems in Latvia'. Each year in Latvia, 55–75 kidney transplants are performed, i.e. 24–32 operations per 1 million inhabitants, which is higher than the average figure in Europe.

Heart transplants are also performed.

Other significant achievements in medicine in 2008 include:

- the discovery of a new cell mechanism responsible for the capability of malignant tumours to regenerate after anti-cancer therapy (Dr. habil. med. Jekaterina Erenpreisa of the Latvian Biomedical Research and Study Centre, in cooperation with the University of Southampton, the University of Heidelberg and the Bundeswehr Institute of Radiobiology);
- approaches to the synthesis and isolation of pure optical isomers of biologically active compounds have been developed and their properties studied; these findings contribute to developing more effective medications (Latvian Institute of Organic Synthesis – Professor Ivars Kalviņš, Dr. habil. chem., Dr. habil. chem. Edmunds Lukevics, Dr. pharm. Maija Dambrova, Dr. chem. Aivars Krauze, Dr. habil. chem. Grigory Veinberg);
- a simultaneous pancreas-kidney transplant performed for the first time in Latvia (under the leadership of Professor Rafail Rosental, Dr. habil. med., P.Stradiņš Clinical University Hospital);

- a hitherto unknown syndrome of gait disturbance (resembles Parkinson's disease) was discovered in users of the intravenous drug Methcathinone (ephedrone) and the cause of the syndrome established – excessive accumulation of manganese compounds in these individuals (Professor Viesturs Liguts, Dr. med., Dr. Ainārs Stepens, Riga Stradiņš University in cooperation with the University of Oxford) (Kipere, 2009).

I am aware that the description of the above-mentioned achievements is not part of my task in the context of the National Report, but it does prove that Latvia has the potential and human resources to develop a high level of medical services.

2.2.2 Overview of debates/the political discourse

The political discourse and public debates in 2008 and 2009 have, in general, not been devoted to the strategic tasks and objectives of the health care system in Latvia, but have been connected with the decrease in allocated financial resources for health care, pay cuts, increased patients' fees and co-payments, and the changed reimbursement system in medicine.

The only theoretical issue, discussed since 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. 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. Besides, it is internationally recognised that both models have their advantages and disadvantages. This is proven by the latest research paper 'Social Health Insurance vs. Tax- Financed Health Systems – Evidence from the OECD' by Adam Wagstaff (Wagstaff, 2009). The author addresses the question: "How far can policymakers choose the good elements from one health system model without getting the bad ones?" This is really a question to which there is no answer.

In March, the Health Compulsory Insurance State Agency (HCISA) distributed to hospitals the contracts for 2009, which also determine the funding. For many of them, especially in rural areas, funding was reduced by 30%–60%. At the same time, funding for several hospitals was increased. The Association of Physicians reacted very sharply, accusing HCISA of corruption. In April, the Minister of Health recognised that HCISA had made errors in its calculations, and now the Ministry of Health and HCISA are working together to eliminate the mistakes.

In an interview, the minister stressed again (a slogan he uses frequently) that everybody is responsible for his/her health, which depends on a healthy (or unhealthy) lifestyle.

At the same time, it is undeniable that many losses and impairments are not connected with a person's lifestyle. Thus, disabled people and people with serious chronic diseases felt insulted and demonstrated in January 2009 at the Cabinet of Ministers against the planned cuts in the health care budget (Neimane, 2008; Neimane 2009).

The minister has passionately protested against a further cut in health care funding, which is planned at 20–40%, as for all branches. He states that in this case a further rise in patients' fees and co-payments is unavoidable, and he is convinced that such an approach will result in the necessity of closing more hospitals, thus increasing the waiting times, and that one patient in five will be excluded from health care, which in turn will threaten people's lives. The Cabinet of Ministers has rejected his objections (Rulle, 2009).

2.2.3 Overview of impact assessment

At the beginning of 2008, the Ministry of Health was planning to develop further reforms in accordance with the 'Programme for Development of Primary and Hospital Care Services for

2005–2010', the Implementation Plan for the programme and other important policy planning documents mentioned in the previous chapter. In the second half of the year and in 2009, all activities were subordinated to the macroeconomic and financial situation in the country. As stated above, the implementation of many programmes was suspended. The long-term programme 'Development of Human Resources in Health Care 2006–2015' was further developed in 2007, and until 2008 the promises given by the Government regarding the salaries of physicians and other health-care personnel were kept. The implementation of this programme has had a positive impact on health care quality and has substantially decreased the specific weight of informal payments. It is not difficult to forecast that a pay cut by an average of 35% will have an adverse effect.

The objective of improved quality of health care has received less attention than other areas of health reform.

The longer working hours and dissatisfaction among medical personnel influences the quality of the services provided. Latvia's National Strategy Report on Social Protection and Social Inclusion 2008–2010, adopted in 2008, outlines data on the rising mortality rate among newborns and the postpartum mortality rate among women, and these have been increasing further in 2008 and 2009.

The authors of 'Latvia – Health System Review' (European Observatory on Health Systems and Policies, 2008) point out that "measures that have been taken offering some potential to monitor quality of care involve the inclusion of quality control issues in contracts between providers and HCISA (Health Compulsory Insurance State Agency), allowing the HCISA to audit services and to refuse payment to providers or impose penalties for inappropriate service provision." A different institution – the Health Inspectorate – is formally responsible for overseeing the quality of health care issues. However, in practice both institutions – HCISA and the Health Inspectorate – have rarely exercised their rights.

The most profound research paper published in 2008 is 'Latvia – Health System Review' by the European Observatory on Health Systems and Policies. It covers all relevant topics of health care: organisational structure of the health care system, reforms carried out, financing, benefits provided, population coverage and human resources. The review contains an assessment of the health system and analysis of the provision of all kinds of services.

2.2.4 Critical assessment of reforms, discussions and research carried out

According to the 'Euro Health Consumer Index 2008 Report' by Euro Health Consumer Powerhouse (HCP, 2008), Latvia remains the least friendly country in providing health services to customers, coming last among 31 European countries (including the candidate countries Macedonia and Croatia). The report states that Latvia's health care system is "at this point lacking in resources and organisational culture to be a really consumer-adapted system. The country does consist of more than downtown Riga; poor geographical equity! Acute need for a systems overhaul by external auditors!" In their recommendations, HCP advise that Latvia, "the loser of health care ranking this year, should urgently improve the weak performance of public health care. The system needs consumer pressure! HCP believes Latvia needs to:

- Establish a patients' rights law;
- Introduce a service provider catalogue with quality ranking;
- Make the most of the new possibilities that e-Health offers in order to increase safety and efficiency."

With regards to the organisational structure of health care, the assessment by HCP does correspond to the growing dissatisfaction with the management of the health care system in the society of physicians.

The Ministry of Health, as well as a number of different agencies and other institutions (with a total of approximately 2,000 employees) under the ministry's supervision, have been sharply criticised for bureaucracy, overlapping functions etc.

Scathing comments have come from a representative of the doctors, namely from Dr Apinis, President of the Association of Physicians, and this shows that the doctors have no confidence in the health care management (Apinis, 2008).

After reforms in the health care management system, the number of employees has been decreased approximately by 300, and a further decrease is expected.

A patients' rights law was drafted back in 2003 but has not yet been adopted. Now the new Government, headed by Valdis Dombrovskis, promises to secure adoption of the law in its 'Declaration on Intended Activities of the Cabinet of Ministers'. (www.mk.gov.lv, 2009)

Other sections of the 'Euro Health Consumer Index 2008 Report' are very categorical and the statements are without argumentation. In their recommendations, the HCP states: "As there is a European tendency of building waiting times, we would suggest that the access issue is taken into account at an early stage – primary care gatekeepers should be abandoned, particularly as there is no evidence supporting the theory that gate-keeping saves money!" In my opinion, Latvia has made the right choice in making primary health the cornerstone of the health care system. In contrast to the HCP, the World Health Organisation (WHO) has entitled its World Health Report 2008 'Primary health care – now more then ever', and states: "People want to live in communities and environments which secure and promote their health. Primary care, with universal access and social protection represent key responses to these expectations." (WHO, 2008)

In theory, the vision of the Minister of Health that five to six large hospitals are enough for Latvia as a small country could be right, but it is hard to imagine the implementation of this vision in the immediate future. The abolition of hospitals in remote rural regions will create serious problems for residents in those areas.

In this respect, the reorganisation of 13 hospitals into health day care centres, mentioned above, 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 are doubts about 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 health 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 trade unions protest against moves directed towards privatisation in the health system, and to the further restriction of accessibility to health care for the poor population and even for people with average income levels. Raising the level of patients' payments for health care services will further aggravate the situation of social risk groups. The trade unions consider rising inequality in access to health care services as a violation of human rights.

Valdis Keris, the chairman of the Trade Union of Health and Social Care Workers, has declared that the Government's policy will deepen the existing inequalities in health care, and that this policy is "a real threat for the survival of the nation" (Keris, 2008).

As described above, there are various programmes to promote public health: preventive measures and measures to promote a healthier lifestyle among the population have been developed in many documents. But one other programme was commissioned by the Government to the Ministry of Health and widely discussed in public: how to eliminate under-the-table payments? In fact, no programme was actually drawn up; only an opinion poll was performed: the 'research paper on the attitude and motivation of inhabitants of Latvia to perform unofficial payments to medical personnel', commissioned by the Ministry of Health and Health Compulsory Insurance State Agency (HCISA) and performed by the Qualitative Research Studio. Thus, no proposals were drawn up on how to combat unofficial payments, which was set as the goal of the programme.

2.3 Long-term care

2.3.1 Overview of the system's characteristics and reforms, debates, political discourse and scientific assessment

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

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

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 in this chapter.)

The possibility for the elderly and disabled people to live longer in the 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.

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.)

Up to 1 October 2008, municipalities had a statutory duty to provide only one benefit – the Guaranteed Minimum Income (GMI) benefit, the aim of which is to guarantee a minimum level of income. From 1 January 2009, this benefit has to guarantee an income of LVL 37 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 Regulations of the Cabinet of Ministers. As of 1 October, housing benefit is 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 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 these.

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

Riga City Council has allocated 9.71% of the city budget for the year 2009 to social assistance needs. In the two first months of 2009, the number of people receiving GMI benefit has risen by 41%, and the number receiving housing benefits has risen by 27%, compared with the same period in 2008. The new tendency this year is that the number of working-age persons claiming benefits is increasing, while the number among old-age and disabled persons is decreasing (Brice, 2009). Some municipalities state that they have used more than 40% of the funds allocated for social assistance in this year's budget in the first quarter of 2009 alone.

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. With regards to 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 recognised as being capable of taking care of him/herself, then long-term care is refused.

At the same time, if a person possesses sufficient means (or somebody is prepared to cover the 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.

Taking into account the financial pressure on many old and disabled people (high rent and utilities payments, high prices for food and consumer goods), many are prepared to move to social care centres (contrary to the historical tradition).

But even if the individual in question does meet the criteria described above, this does not mean that s/he will be admitted to a care centre.

There are 33 state-financed social long-term care centres in Latvia for persons with mental disorders, with 5,487 residents. There are 625 persons waiting for placement in these institutions. 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. In 2008, the Welfare Department received 550 applications from people for placement in a care centre. However, there is no data as to how many were refused. The waiting list in March 2009 contains 129 persons. The Welfare Department, in cooperation with the Latvian Red Cross, is seeking places in care centres in rural regions. On 20 March 2009, an agreement was reached with the care centre in Talsi District, where 25 residents of Riga are to be placed.

2.3.2 Overview of debates and the political discourse

The Letter of Intent addressed to the IMF on 18 December 2008, signed by PM Ivars Godmanis, states: "In 2009 […] we will seek to improve the targeting of all social security nets within a social spending budget that increases by 1% of GDP relative to 2008"(http://www.fm.gov.lv, 2008). The new Government has taken over this task.

The Declaration on the Intended Activities of the Cabinet of Ministers headed by Valdis Dombrovskis, of 11 March 2009, (www.mk.gov.lv, 2009) states: "Our Government expresses its commitment to: - focusing of the social security system on 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."

Thus, the priorities for this year were 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. Some basic foodstuffs are distributed once a month at 44,083 locations across the country. 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. If they do not apply for social assistance, or apply and 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. On 18 March 2009, the regulations were changed, and individuals or families indebted to banks may be recognised as needy. Up to this date, this was not allowed. This mostly applies to individuals and families in which the breadwinner has lost their job.

There is no real debate on the provision of long-term care, either at political level or in society as a whole. Now and then, publications appear in the mass media, describing the situation in social care institutions, criticising the quality of care, giving comparisons with social care institutions in Western countries, etc. But there has not been any response.

2.3.3 Impact assessment

In spite of the crisis situation, the Ministry of Welfare is trying to do its best to achieve the objectives agreed in the OMC concerning alternative kinds of care: the development of services such as halfway homes, group houses (apartments) and day care centres for persons with mental disorders. This year the Ministry of Welfare has doubled financial support for the four group houses established with co-financing from the European Regional Development Fund. For other group houses (apartments) owned by municipalities, co-financing is also envisaged.

Published in 2008 was a collection of papers entitled 'Social care: theory, practice, solutions', by the Higher School for Social Work and Social Pedagogy Attīstība (Sociālā aprūpe, 2008). This work was published with the support of the European Social Fund (ESF). In general, all the papers, written by different authors, analyse the quality of long-term care and the question how to promote the professional development of social carers. In the theoretical part, the authors analyse notions such as professional behaviour, attitude to the client, responsibility for the work done and the ethical aspects of social work. The quality of the work has been analysed through the performance of social care in institutional care establishments, in the provision of home care services and in group apartments. An innovative approach is demonstrated by Ināra Krauja in her paper 'Client's life history as a resource in social care work'. Instrumental activities of daily living are also analysed.

2.3.4 Critical assessment of reforms, discussion and research carried out

The key trend in the development of long-term care in 2008–2009 was the extended implementation of alternatives to institutional forms of long-term care. The priority was given to home care services, enabling elderly and disabled people to live in their own dwellings as long as possible.

However, 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 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, and the number of persons who are receiving home care, 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 (European Commission, 2008) 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.

3 Impact of the Financial and Economic Crisis on Social Protection

The financial crisis and economic downturn in Latvia is twice as severe as in other European countries, because Latvia was in crisis even before the global crisis started.

The Government remained optimistic for too long.

In the past years, Latvia experienced very a 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. It is forecast that the growth rate will be -13% this year.

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 beginning of the year 2008, the Government retained an optimistic position, claiming that the Latvian economy had entered a phase of balance and was 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 crises began in the global financial market and economy, Latvia's problems became 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. 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 roll over their international liabilities. Thus, it became obvious that it would not be possible to overcome the crisis without international help.

The European Commission (EC), the International Monetary Fund (IMF), the World Bank, the European Reconstruction and Development Bank and several Member States of the European Union agreed to provide financial assistance to Latvia totalling 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 the Parliament in December 2008, a Letter of Intent to the IMF (www.fm.gov.lv, 2008), as well as a Memorandum of Understanding with the EC (www.fm.gov.lv, 2009). A determined and

timely implementation of Latvia's Economic Stabilisation and Growth Revival Programme is a significant precondition for receiving this international loan.

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 sectors.

Economic collapse and social pressures forced Latvian PM Ivars Godmanis (Latvian First Party/Latvia's Way) to hand in his resignation in February 2009. The non-voluntary resignation of the Government was quite a high risk, and added to the flow of negative information from Latvia to the world. The change of government in this situation came as a very unwelcome event, since it was clear that Latvia's economy is in a very bad state and that each day is crucial. A partly new government was approved on 12 March 2009. Valdis Dombrovskis, from the Jaunais laiks/New Era party, which had hitherto been in opposition, was nominated as Prime Minister.

Leading politicians still do not exclude the possibility that Latvia as a state might go bankrupt, if the commitments undertaken and agreed with the IMF and the EU Commission are not fulfilled.

The impact of the crisis on the labour market

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

The average slowdown rate in manufacturing 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 this year, 300 companies have already been excluded from the register.

2) A pay cut of approximately 15% affecting all public sector employees, taking effect from 1 January 2009.

The newly designated Prime Minister Valdis Dombrovskis (Jaunais laiks/New Era) has stated that a further pay cut is planned: a 20% reduction affecting all public institutions and agencies.

This decision also extends to salaries under LVL 360 a month, which were not affected by changes in budget expenditures introduced by the previous government.

3) Growing unemployment.

Employee and worker redundancies have, of course, led to increased unemployment. In the last quarter of 2008, the unemployment rate, according to the ILO methodology used by EUROSTAT, was 9.9%, i.e. 160,500 people out of an economically active population of 1 million. In February 2009, the unemployment rate was 14.4%. It is forecast that the rate of unemployment will reach 20% in the year 2009.

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

5) The unofficial ("shadow") economy is growing as result of increase of the value added tax (VAT). The shadow economy officially has been estimated to be 10% -12% in 2008. (www.csb.gov.lv, 2008)

6) The discussion on subsidised jobs.

The social partners have proposed the creation of subsidised jobs. Responding to this proposal, the Head of the EC Representation in Latvia has stated that EU funding could be used for this purpose, if this were to be recognised as a national priority. So far, there has been no response to this proposal.

In the Declaration on Intended Activities of the Cabinet of Ministers headed by Valdis Dombrovskis, it is envisaged that subsidised jobs will be created only for people at pre-retirement age.

7) Support for small businesses.

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 (www.ec.europa.eu, 2008). The planned 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. Special measures for small businesses are not envisaged.

The impact of the crisis on the social insurance budget

For the first time in 10 years, the social insurance budget will end the year 2009 with a deficit (estimated at 215.8m). The main reasons are: the decrease in revenues due to the situation in the labour market, the fall in earnings, and the rising unemployment, which all mean reduced contribution payments to the social insurance budget.

The impact of the crisis on the pension system

1. In the Letter of Intent signed by the Government and addressed to the IMF, the Government has undertaken to freeze pensions. This means that pensions will not be indexed in 2009. There was a proposal from the IMF (during the IMF mission in February) that pensions should decrease in line with wages (to offset the shortage of funds). The new Government has stated that this advice would not be followed.

On 12 March 2009, the indexation rules were changed and the Pension Law amended. Until now, pensions are indexed twice a year: on 1 April pensions not exceeding 3 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.

On 1 October, those pensions will be indexed with the consumer price index.

In accordance with the amendments in the Pension Law, from 2010 pensions will be indexed only once a year with the consumer price index.

2. There has been quite a broad discussion on a decrease in the rate of contributions (8%) to the State Funded Pension scheme. The idea was supported by the Ministry of Welfare, which pointed out that in the neighbouring countries – Estonia and Lithuania – the contributions rate for funded pensions is much lower and has recently been reduced even further in Lithuania, taking into account the current financial situation. The banks (and their lobby) have opposed this idea. The Government Declaration states that the contributions rate for the State Funded Pension scheme will be decreased from 8% to 2%. The banks have taken a very negative view

on this decision. The Pension Law was amended on 23 April 2009 and the contribution rate decreased to 2% from 1 May 2009 until the end of 2010.

3. In all funded pension schemes the return rate is very low and even negative (as low as -24.24%).

The impact of the crisis on health care

1. Funding for public health care has been cut by 15%, a further cut in funding is foreseen (up to 40%).

2. Patients' fees, and co-payments for visits to specialists and treatment in hospital have been increased (described in chapter 2.2. Health Care).

3. The system of reimbursement for medicines has been changed as of 1 January 2009.

4. 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 and electricity.

5. Changes in the duration of payment of sickness benefits. Currently, sickness benefit is paid for 52 weeks. The Government Declaration states that this period will be reduced to 26 weeks.

Long-term care

Although municipal revenues have also decreased, so far there are no changes in the provision of long-term care. Some additional social assistance programs have been implemented. This situation can (in part) be explained in terms of the approaching municipal elections, due in June 2009. However, the Government Declaration states that the safety nets for the needy will be extended.

Government's actions to reduce impact of crisis

The new Government is acting very fast avoiding the bureaucratic procedures.

The Government has taken various actions to reduce the impact of the economic downturn on the labour market: It encourages greater use of short-time working rather than layoffs and redundancies, it encourages the improvement of skills, a programme covering measures for qualification and retraining has been developed.

The period of receipt for unemployment benefit has been extended to the previous length – 9 months for all unemployed (reduced for unemployed with short insurance records by the previous Government in 2008) and procedures for claiming the benefit have been simplified.

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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.

[R1] LR MINISTRU KABINETA, «Koncepcija par valsts sociālās apdrošināšanas finanšu resursu pārvaldīšanu līdz 2012.gadam», Regulations of the Cabinet of Ministers of LR nr. 768, 03 December 2008.
"The Concept 'On the management of state social insurance financial resources until the year 2012'"

The concept looks at pension issues from various angles: in demographic terms (birth rates, growing life expectancy, ageing of population) and in terms of labour participation rates, and considering the situation where a large proportion of pensions are too low. The concept states: "There is still a marked negative tendency concerning the increase of the risk of poverty for people who have reached the retirement age (65 years of age and over). This especially affects retired people living alone. The feminisation of poverty is also typical of Latvia. Women are more affected by the risk of poverty than men. As women on average receive a lower wage, are outside the labour market during pregnancy and parental leave, take care of sick and old family members, and work part-time more often than men, lower social insurance contributions are made on behalf of women. This results in lower pensions."
In the field of pension funding, the Concept analyses the possibilities of managing yearly surpluses in the pension budget, which were forecast as growing from LVL 220.3m in 2009 to LVL 325.6m in 2011.The decision was taken to accumulate surpluses in State Treasury.

[R2] AIDUKAITE, Jolanta, «The transformation of social policy in the Baltic states», Promotion of Social Policies – An Investment in the Future, EU Commission Representation in Latvia and University of Latvia, Riga, 2009.

The author expresses her view on pension reforms in the Baltic states with regard to pension policy. She states that "the Baltic States have adopted the three–pillar model for the pension insurance propagated by the World Bank. Officially, the second and third pillars were developed to increase individual interest and responsibility in the pension system, as well as to avoid a drop in the pension replacement rate due to unfavourable demographic developments. However, the impact of global organisations, such as the International Monetary Fund (IMF) and the World Bank, has been crucial here. For instance, Casey (2004;32) has pointed out that the Baltic countries were recipients of substantial World Bank loans. […] Since the EU does not impose any specific or concrete recommendations on Social Policy, it is not very surprising that the in the Baltic countries (with regards to pension insurance) more of the 'Bank' rather than the 'European' model can be found."

[R1] EUROSTAT, «Populations projections», News Release 119/2008, EUROSTAT, 2008.

One of the latest forecasts projects that the decrease in total population will be most severe in Latvia. The total population of Latvia is forecast to decrease by 25.9% by 2060.

[R1] EGLĪTE, Pārsla (editor), «Darbaspējīgo skaita mazināšanās Latvijā un iespējamie risinājumi: pētnieciskā darba rezultāti», Apcerējumi par Latvijas iedzīvotājiem, Institute of Economics of Academy of Science, Riga, 2008.
"The Decrease in the number of active-age population in Latvia and eventual solutions: results of research."

In the course of the research, the age composition of current guest workers and those of still living in country of origin was analysed, and a projection of the population without those who have left the country, was prepared. As among migrants young people prevail, the current outflows have a negative impact on the number of expected births and add to ageing of population and labour force. The survey of employees found out that attitude of their employers differs according to the results of work but not age of employee. In general, in very rare cases age discrimination was seen as the most important reason for changing jobs. The results allow us to conclude that no generation feel useless at work or as being unpleasant for others. It has to be mentioned that the research was done under conditions of lack of labour force.

Further the authors analyse the situation of children in Latvia and find that the frequency of pupils' different health troubles increases; more than half of all families with children evaluate their standard of living as rather poor or poor. Birth rates have at least stopped to decrease, but are still too low.

[R1] KRŪMIŅŠ, Juris, «The social impact of demographic changes», Promotion of Social Policies – An Investment in the Future, EU Commission Representation in Latvia and University of Latvia, Riga, 2009.

The aim of this publication is a comparison between the Baltic States, the Nordic States, the larger Baltic Sea region and Canada, on the social impact of demographic changes.

Describing the demographic situation in Latvia, the author points out: that "the level of fertility below replacement level has been a long-lasting problem in the case of Latvia. The UN Fertility and Family Survey shows that the average number of children ultimately expected by female birth cohorts is slightly above the normal replacement level of generations. This implies that, if there were smart social and demographic policies, there would be a space for improvement."

Regarding life expectancy the author writes: "Paradoxically, Latvia and Lithuania both saw their life expectancy decline shortly after joining the European Union. There is a rather close correlation between differences in incomes and peoples lives."

"The age structure of the population raises a number of questions. Are elderly people a burden or a resource for society? If one compares the population age composition, there are less people in the younger age groups in 2006 than in 1935. The situation in Latvia is comparable to other European countries, only that the number of people under working–age is lower due to declining fertility and more people in retirement age within the female population."

[R2; R3] MUIŽNIECE, Jana, «Pensiju sistēma krustcelēs», Neatkarīgā rīta avīze, 26 March 2009.
"Pension system at the cross-roads"

The article contains a description of the pension system in Latvia and explains the

design of the three tier pension model. The aim of the article is to explain that the lowering of contribution rate for the State Funded Pension Scheme does not jeopardise the pension system, as the representatives of the banking sector assert.

The author points out that, initially, the contribution rate was planned at the level of 6%, and only under the pressure of lobbyism by financial institutions the rate was set at

10%.The author stresses that with a low contribution rate for the first tier PAYG NDC scheme, there would not be sufficient funds to secure pensions in the future. [R 2].
Taking into account the ageing of the population in Latvia as well as financial considerations, the retirement age would have to rise to 65 years. [R 3].

[R2] PORŠŅOVA, Maija, «Izskatās pēc laupīšanas», Diena, 23 March 2009.
"Looks like a robbery"

The former State Secretary of the Ministry of Welfare, Maija Poršņova, has published a highly critical article. Her criticism attacks the use of the accumulated surplus in the Social Insurance Budget to cover the deficit in the State Basic Budget and some other distortions in the initially transparent social security system.

[R2] VOĻSKIS, Edgars, «Pensiju sistēmas pilnveidošanas problēmas Latvijā, Promocijas darbs Dr.oec. grāda iegūšanai», Latvijas universitāte, Rīga, 2008.
"The problems of improvement of the pension system in Latvia"

In November 2008, Edgars Voļskis, a lecturer at the University of Latvia, presented the first dissertation on pensions for his degree of Doctor of economics (Dr. oec.). The work contains a description and analysis of the pension system in Latvia. The most valuable part of this work is the analysis of the State Funded Pension Scheme and proposals for developing the scheme. The author points out that the operation of the second tier scheme does not correspond to the initial aim of the reform: to make available some of the required funds 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 citizens.
The work also contains a description of pension systems in various countries: Germany, the UK, Sweden, Latin America, Singapore and the post-socialist countries. Highly commendable, in the author's view, is the pension model of Chile.

[R5] VOĻSKIS, Edgars, «Pensijas – (ne)solidāras, (ne)taisnīgas?», Diena, 20 March 2008.
"Pensions – (un) solidary, (un) just?"

The article is quasi-discovering the causes of the low amount of old-age pensions. In the author's view, the reason for the low amount of pensions lies in the unjust calculation of the initial notional capital accumulated in the years 1996 to 1999. He states that at that time, earnings were low in comparison with earnings after joining the EU, and if the earnings of those years were to be adjusted to present-day earnings, the result could be very different.

[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, regional 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] Disability

[H2] LATVIAN CABINET, «Declaration of the Intended Activities of the Cabinet of Ministers headed by Valdis Dombrovskis», 11 March 2009,

Targets set:

1. Prevention of inefficient use of state budget resources and distortion of competition by defining equal pricing criteria for health services.
2. Reduction of administrative burdens and bureaucracy by further reorganisation of direct public administration institutions (agencies) in the health care sector.
3. Reorganisation of the network of hospital treatment service providers on the basis of economic calculations and preventing adverse effects of service availability and quality.
4. Involvement of other line ministries in improvement of public health: the Ministry of Environment, the Ministry of Education and Science, the Ministry of Welfare and the Ministry of Agriculture, as well as local governments and NGOs.
5. In order to promote healthy lifestyles and prevention of illnesses, re-introduction of a health course in schools and definition of the available preventive checkups and guarantees to the public of their availability, irrespective of the place of living.
6. Clear separation of health care services financed by the state from paid services by providing precise public information concerning availability of such services.
7. Assignment of the status of a top priority to ambulatory (outpatient) health care as close to patient's place of living as possible. Ensuring equal health care opportunities, by developing health care guidelines and system for quality assessment.
8. Adoption of the Law 'On Patient Rights' which would stipulate protection of the rights of patients and medical practitioners.
9. Further development of the first aid system by also developing opportunities of alternative aid closer to the place of living and provided by family doctors, feldshers and trauma units.
10. Accelerated implementation of e-health by using modern technologies.

[H1; H2; H3; H4; H6;] EUROPEAN OBSERVATORY ON HEALTH SYSTEMS AND POLICIES, «Latvia – Health system review», Health Systems in Transition, Vol.10 No.2, 2008.

The review is the most profound research paper published in 2008. It covers all relevant topics of health care: organisational structure of the health care system, reforms carried out, financing, benefits provided, population coverage and human resources. The review contains an assessment of the health system and analysis of the provision of all kinds of services.
Pages 61 -95, Financing of health care.
In the author's view, Latvia is in the unique position of possessing a tax-funded "social insurance" system with a purchaser–provider split. What differentiates the current Latvian financing system from most general tax-based ones is that these funds from the state basic budget continue to be transferred to the State Compulsory Health Insurance Agency (SCHIA), which, together with its five regional branches, acts as purchaser of health services on behalf of the entire population. Approximately 85% of funds allocated to the SCHIA are used to purchase services through contracts with health providers. The remaining amount is allocated to state agencies and centres for specific national health programmes.
The second source of financing is out-of-pocket payments.
The third source of financing involves private (voluntary) insurance schemes, offered by insurance companies.
As of January 2006, following the "Regulation of the Cabinet of Ministers of 2004 on Organisation and Financing of Health Care", a single PHC (primary health care) payment mechanism was introduced for the entire country. According the new system, the GP is a gatekeeper and fund holder for capitation funds.
[H 1]

Pages 211 – 241, Public health policies.
The authors points out, that "a significant part of the Latvian health care reform process of recent years has been organised and driven by the World Bank's 'Health Reform Project'. […] Most of the reforms were undertaken either as part of the World Bank project, or were strongly influenced by it."
An important document in the reform of the health care system is the Master Plan, or 'Programme for Development of Primary and Hospital Care Services for 2005–2010' and the plan for implementing the programme. The aim of this reform is to reduce administrative costs and improve the quality of health care services, so as to ensure patient access to health care. [H 2]
Pages 232 -237, Health inequities and access to health care.
Equity in access is one of the more serious issues in the Latvian health care system. On the positive side, entitlement to health care services is universal, and the range of statutory financed services tends to be quite comprehensive. Difficulties arise, however, due to shortages in budgetary health care funding, with two major consequences. First, there is a need to prioritise care services provision, focusing on emergency care and certain specific serious conditions, which sometimes results in long waiting times for non-emergency care. Second, the imposition of user charges for virtually all services compromises the ability of low-income individuals to receive the health care services and pharmaceuticals they need. This problem is worsened for the poor, with the result that a certain proportion of the Latvian population faces difficulties in receiving all the necessary services and pharmaceuticals.
Another factor which reduces access to services for some groups includes geographical distances from services, including even primary care services, due to geographical imbalances in service distribution throughout the country. [H 3]
Pages 29 – 54, Governance of the health system.
The authors give on overview on the health care system in Latvia, outlining the functions of the Ministry of Health and institutions under the supervision of the Ministry.
The historical background of the development of the organisational structure is also given. [H 4]
Pages 194 – 198, Regulation of the pharmaceutical market.
Pharmaceutical products are supplied to the public by a regulated distribution system consisting of licensed enterprises that manufacture and/or distribute them.
Pharmacies are mostly privately owned. Only those pharmacies that belong to local governments and public health care institutions have remained in the public sector and constitute 5% of the total number of pharmacies.
In 2006, there were 14 Latvian manufacturers of pharmaceutical products, covering 6.5% of the total Latvian pharmaceutical consumption. The largest company, Grindex, represents 2.1% of the total Latvian pharmaceutical market. The chapter contains tables on the number of enterprises involved in pharmaceuticals manufacture and distribution; pharmaceutical output growth and total pharmaceutical expenditure in Latvia. [H 6]

[H 2] CUNSKA, Zane, & MURAVSKA,Tatjana, «Social policy implementation in Latvia post EU Accession», Promotion of Social Policies – An Investment in the Future, EU Commission Representation in Latvia and University of Latvia, Riga, 2009.

The authors address the problem of human resources in the health care system. "Currently, the health care system is lacking mid-level medical personnel (nurses) and an ageing of the higher medical personnel is observed - 28% of the physicians are in pre–pension age (51 – 61), and another 21% of the physicians are in pension age (62

plus). Only 76% of the health care specialist graduates work in the profession connected to their education (medicine or pharmacy) (2005 data), the main reason being low remuneration. This is also a reason for the emigration of young professionals to Western European countries."

[H 1] JOKSTS, Reinis, «Public Financing of Health Care in Latvia», Promotion of Social Policies – An Investment in the Future, EU Commission Representation in Latvia and University of Latvia, Riga, 2009.

In the introduction Joksts comes up with the characteristic features of the health care system in Latvia and describes the basic players in the system of public financing of health care. The publication supplies information on public financing, voluntary health insurance and private sources (i.e. out-of-pocket payments). As expected changes Joksts points out:

- possibly more reliance on public as opposed to private financing in the future, in order decrease inequality in access to care, provided that the economy is doing well;

- strengthening of the primary health care system;

- more effective structure of service providers by creating hospital unions, and defining care levels (regional multi- profile hospitals, local multi –profile hospitals, specialised centres, other health care providers).

[H3] KERIS, Valdis «Bez līdzekļiem nevienlīdzīgā aprūpe kļūs vēl nevienlīdzīgāka», retrieved from: http://news.frut.lv/lv/ppl/society/60506.

"Without recourses the unequal care will became more unequal"

The Chairman of the Trade Union of Health and Social Care Workers has declared that the Government's policy will deepen the existing inequalities in health care, and that this policy is "a real threat for the survival of the nation".

[H5] QUALITATIVE RESEARCH STUDIO, «Pētījums par Latvijas iedzīvotāju motivāciju un attieksmi pret neoficiālajiem maksājumiem ārstniecības personām», commissioned by the Ministry of Health and Health Compulsory Insurance State Agency (HCISA) and performed by, 2008.

"Research paper on the attitude and motivation of inhabitants of Latvia to perform unofficial payments to medical personnel"

This programme was commissioned by the Government to the Ministry of Health and widely discussed in public: how to eliminate under-the-table payments? In fact, no programme was actually drawn up, only an opinion poll was performed. Thus, no proposals were drawn up on how to combat unofficial payments, which was set as the goal of the programme.

[L] Long-term care

[L] MUKĀNE, Ausma «Kas to zina, laime vai nelaime […]», Sociālais darbinieks, published by the Higher School for Social Work and Social Pedagogy Attīstība., nr.1, Riga,2009.

"Who knows: for better or worse […]"

The paper is published as an expanded interview with the adviser on social and health issues of the Latvian Association of Local and Regional Governments, Silvija Šimfa. The author of the paper and the adviser look at social care and social work in situation of crisis and in terms of the approaching municipal elections, due in June 2009. As a provider of a wide range of social services, municipalities are faced with several challenges, including the introduction of new Cabinet regulations, regional funding limitations. The possibility to outsource social care services is also discussed. The

conclusion is that there is a possibility to draw lessons from the current situation to optimise social work in municipalities.

[L] VILKA, Lolita, «Pastāvēs, kas pārmainīsies», Sociālais darbinieks, published by the Higher School for Social Work and Social Pedagogy Attīstība., nr.4, Riga, 2008.
"Change to survive"

Dr.phil. Lolita Vilka analyses the quality of social work from a theoretical point of view, as well as the impact of the quality of care taking into account the existing inequities in the society. In many cases these make the contact with clients difficult. Social work practitioners must embrace the principles of advanced generalised practice and move fluidly and seamlessly in providing competent interventions to their clients. The social work profession promotes social change, e.g. problem-solving in human relationships. Social work intervenes at the points where people interact with their environment. The accent has to be set on intervention, not social assistance, thus contributing to the welfare of clients. The publication also presents results of opinion-pooling: those of the social workers and their clients. The opinion pool of social workers demonstrates that the difficulties arise from the client's unwillingness to solve their social problems. In turn, the clients set at first place their material circumstances (79%), at second the unjust social policy of the state (45%) and only at third place (22%) their inability to solve their problems themselves.

[L] HIGHER SCHOOL FOR SOCIAL WORK AND SOCIAL PEDAGOGY ATTĪSTĪBA, «Sociālā aprūpe: teorija, prakse,risinājumi», collection of papers, Riga,2008.
"Social care: theory, practice, solutions"

In general, all the papers, written by different authors, analyse the quality of long-term care and the question how to promote the professional development of social carers. In the theoretical part, the authors analyse notions such as professional behaviour, attitude to the client, responsibility for the work done and the ethical aspects of social work. The quality of the work has been analysed through the performance of long-term care in institutional care establishments, in the provision of home care services and in group apartments. An innovative approach is demonstrated by Ināra Krauja in her paper 'Client's life history as a resource in social care work'. Instrumental activities of daily living are also analysed.

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: Bune Evita, 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.vssa.lv

The SSIA is a state institution under supervision of the Ministry of Welfare, performing the public administration function in the area of social insurance and social services.
The tasks of the SSIA:
to administer the social insurance budget;
to register socially insured persons and their contributions into the socially insured person's accounts;
to provide social insurance and selected social assistance services to the population – grant, calculate, recalculate and pay pensions, benefits and allowances;
to provide individual consultations to the population about the social insurance and social assistance services;
regularly inform the public about current social insurance matters;
to ensure, that the services are accessible to every customer as close to their place of residence as possible.

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 m*ission of the SEA is *to become a bridge connecting employers and employees, reducing unemployment and stimulating employment in Latvia.*
The SEA works with clients, i.e. employers, unemployed and job seekers; it performs career counselling; it entertains international relations and relations with EURES; it provides information to the public; it improves its services; it works with the European Social Fund; it works on the improvement of normative documents; it undertakes capacity building, budget planning and the control of financial expenditure.

Valsts obligātās veselības apdrošināšanas aģentūra – Health Compulsory Insurance State Agency (HCISA)

Contact person: Noviks, Toms , Head of PR Department
Webpage: http://www.voava.gov.lv

The HCISA realises the state policy to provide the availability of health care services; its main assignment is the administration of financial resources of compulsory health insurance.
The main functions of the Agency are:

- *signing of contracts with medical institutions on provision of health care services paid by the state;*
- *ensuring of availability to health care services;*
- *settlement of accounts for health care services, as well as medicaments anticipated for out-patient care, medical equipment and goods;*
- *information of the public on available health care services and procedure for receiving them, as well as ensuring the necessary assistance to inhabitants to realise their social rights;*
- *control over possibilities to receive health care services and conformity of assistance to legislation and resolutions and monitoring overspending of the state budget resources in accordance with the signed contracts;*
- *analytical work on financial and volume showings of health care services, making prognosis on the volume for health care services and estimation of the necessity for these services;*

- *calculation of prices for health care services;*
- *elaboration of proposals and financial calculations for the introduction of new health care services;*
- *execution of international contracts in the field of health care;*
- *forming and updating the waiting lists for planned health care service recipients.*

Finanšu un kapitāla tirgus komisija – Finance and Capital Market Commission

Contact person: Upleja, Ieva, Adviser in PR
Webpage: www.ammd.lu

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 Advisor
Webpage: www.ammd.lu

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: Stepiņa, Inese, Adviser of International and European Union Affairs

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.

Sociālo pakalpojumu pārvalde – Social Service Board

Contact person: Čakste-Ozolniece, Laima, Head of PR Division

Webpage: http://www.socpp.gov.lv

The Social Service Board (SSB) is a state institution under supervision of the Ministry of Welfare, taking part in realisation of the social policy of the state in the field of social services and social assistance. The SSB controls State budget resources provided for social assistance and social rehabilitation services; coordinates provision of State social care and social rehabilitation services; and controls and evaluates the quality of social services and the conformity of social service providers to the requirements specified in regulatory enactments. It summarises and analyses statistical data on social services and social assistance, which is necessary for the monitoring of social services and social assistance policies; it also provides informative and methodological assistance in the field of social services and social assistance to municipalities and social services providers.

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

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

Webpage: http://www.biss.soc.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.

Free Trade Union Confederation of Latvia (FTUAL)

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

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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.*

This publication is financed by the European Community Programme for Employment and Social Solidarity (2007-2013). This programme was established to support the implementation of the objectives of the European Union in the employment and social affairs area, as set out in the Social Agenda, and thereby contribute to the achievement of the Lisbon Strategy goals in these fields. The seven-year Programme targets all stakeholders who can help shape the development of appropriate and effective employment and social legislation and policies, across the EU-27, EFTA and EU candidate and pre-candidate countries. The Programme has six general objectives. These are:

(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/employment_social/progress/index_en.html