

MINIMUM INCOME SCHEME REFORM IN LATVIA - QUO VADIS?

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Social security system

STATE SOCIAL INSURANCE (social contributions based)

Partial income compensation as a result of social risk (sickness, loss of work, accident at work or occupational disease, pre- and postnatal period)

€ 2 billion in 2013

STATE SOCIAL BENEFITS (universal)

State monetary support for persons belonging to specific social groups which due to objective reasons have additional expenses or a person can not get income or is not entitled to receive compensation from the social insurance system

€ 154 million in 2013

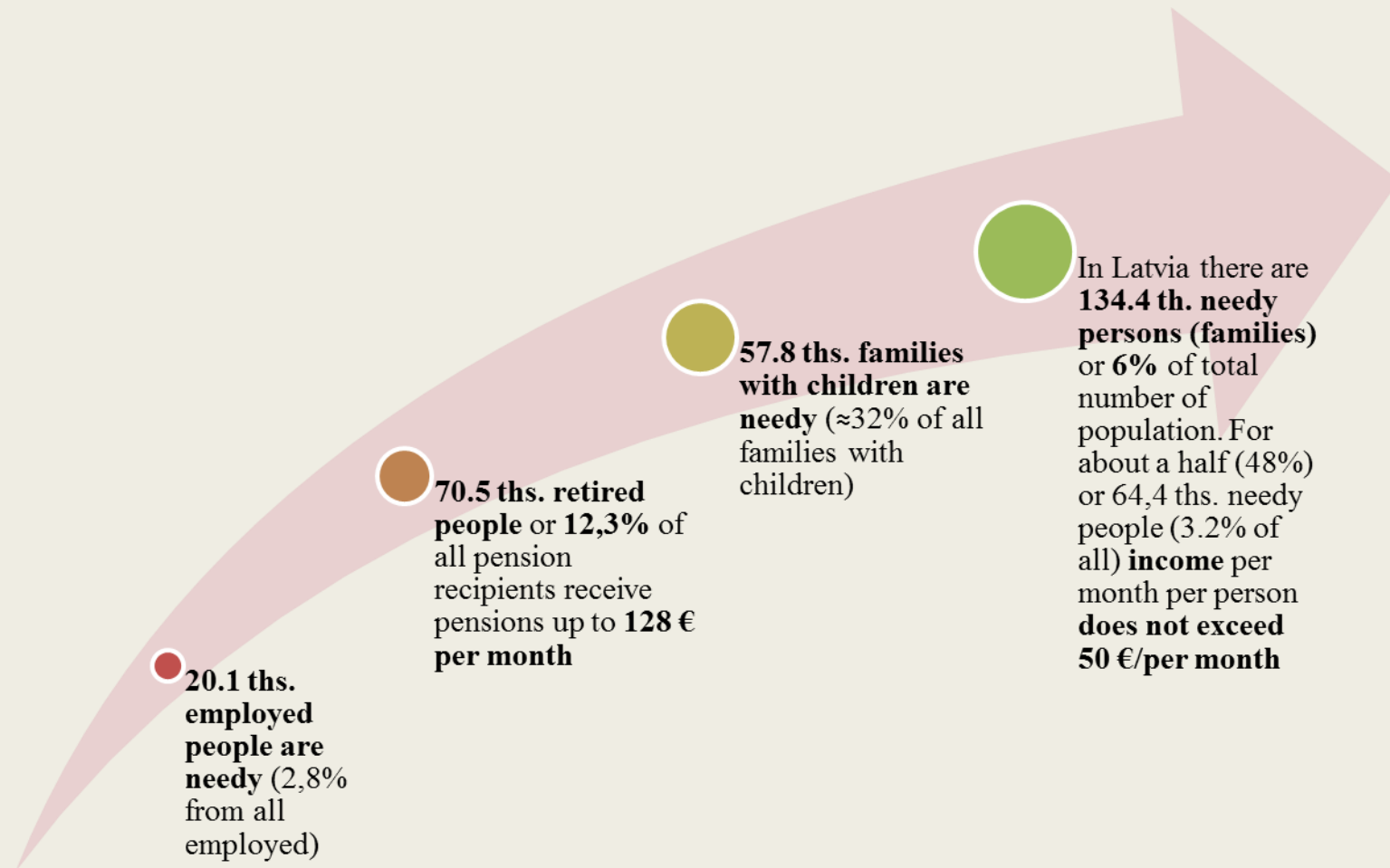
MUNICIPAL SOCIAL ASSISTANCE

Material support to needy and low-income families (persons) to satisfy their basic needs and promote participation of able-bodied in the labour market

€ 47 million
(means tested) in
2013

€ 20,5 million
(without means test) in
2013

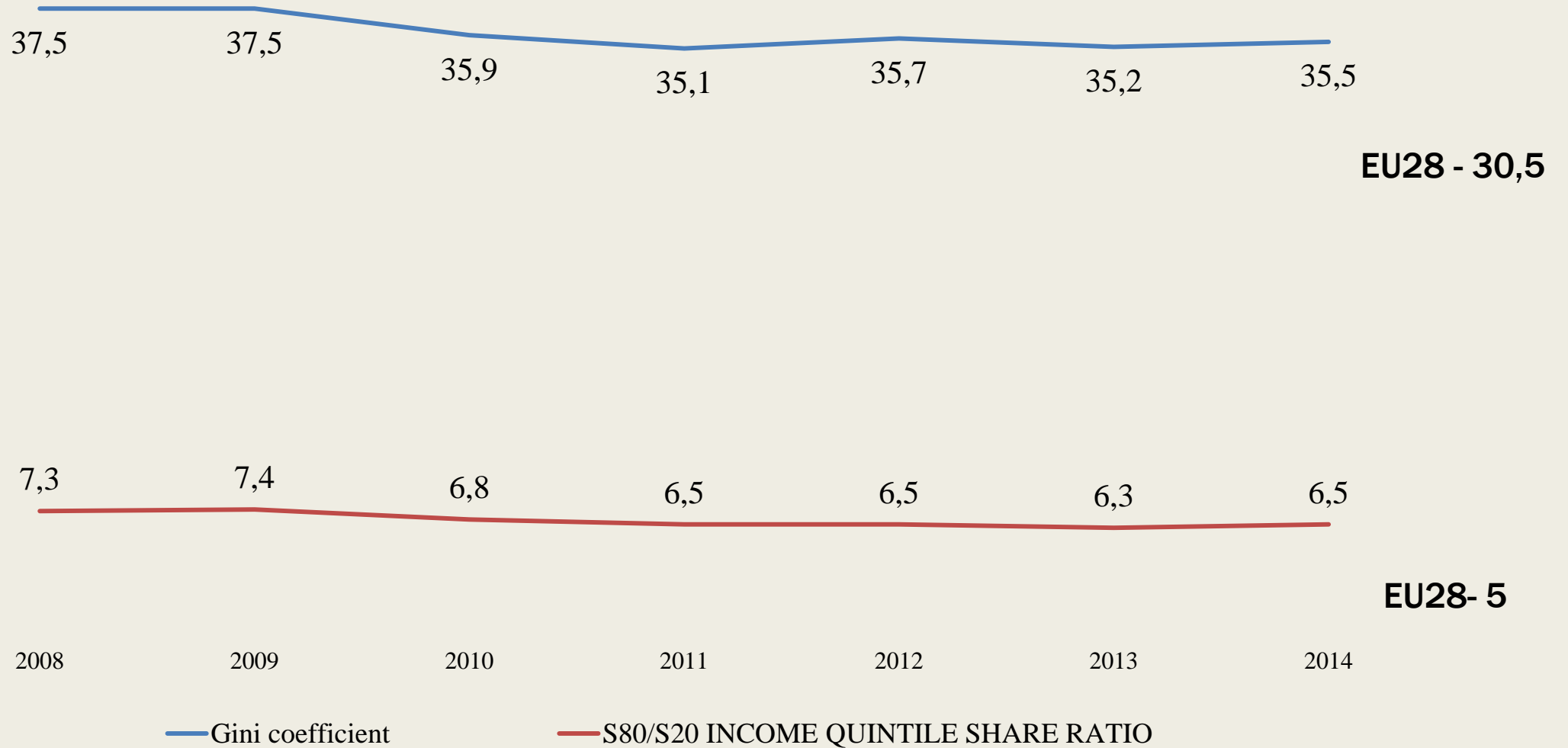
Aftermath of crisis – Latvia 2013



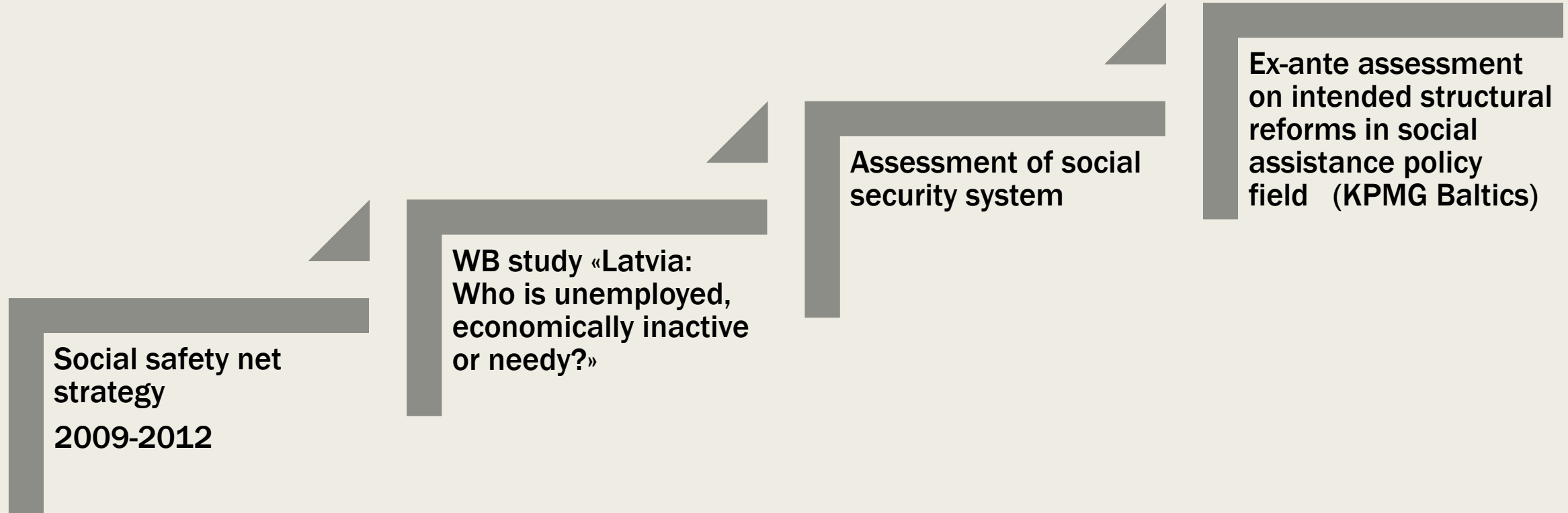
S80/S20 income quintile ratio (2013)



Income inequality in Latvia



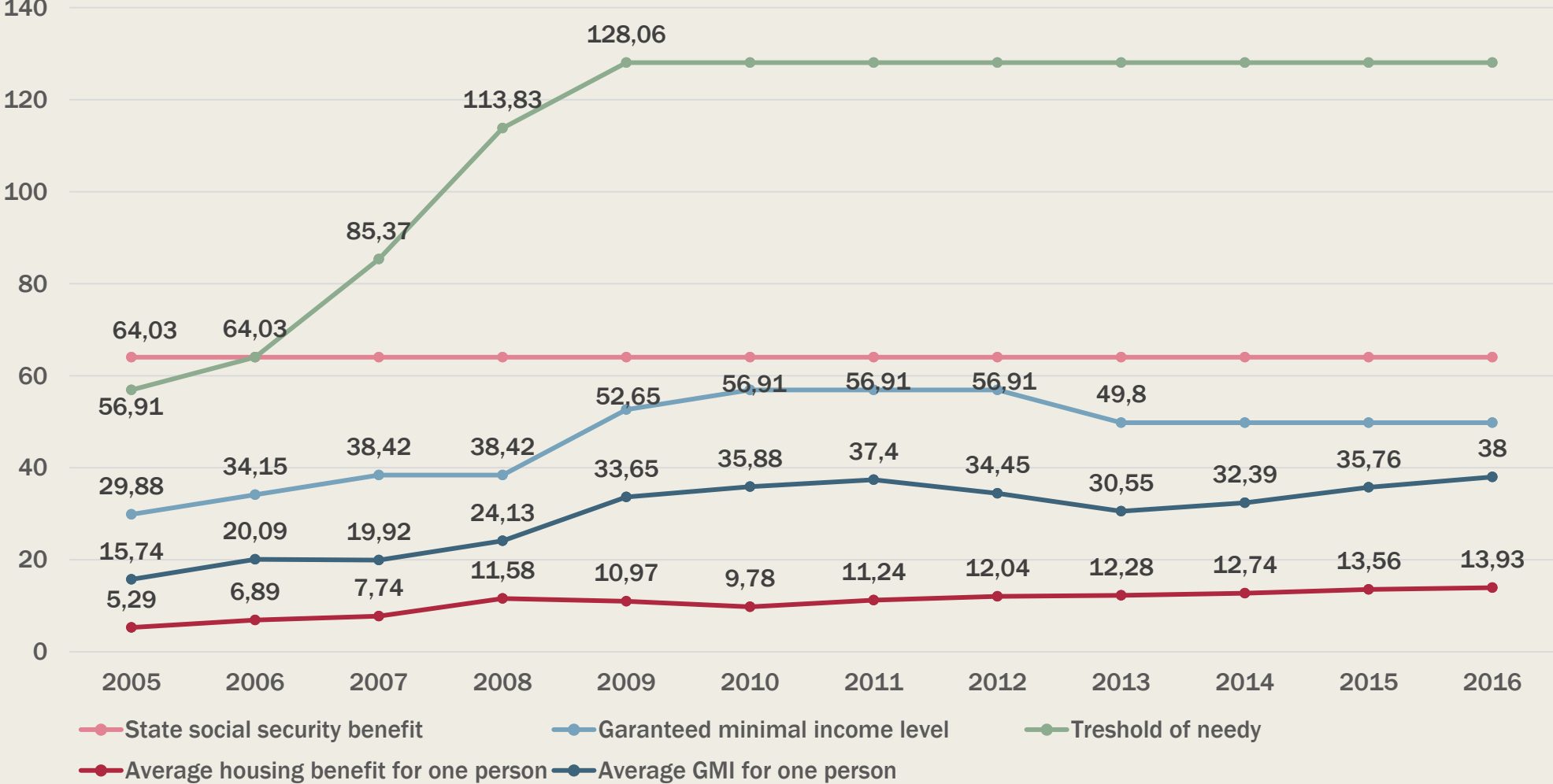
Preparation of reform



Minimum income levels/poverty thresholds in Latvia (EUR, per month per person or equivalent consumer)

Level/threshold	Set in legal acts	Calculation methodology
Guaranteed minimum income (GMI) level (2016) (<u>EUR 50</u>)	Defined	No
Needy family /person income level (2016) (<u>EUR 128</u>)	Defined	No
Low-income person income level (different across municipalities) (2016) (<u>EUR 128 - 360</u>)	Defined	No
EU at-risk-of poverty threshold (2015) (<u>EUR 291</u>)	Not defined	Yes
Subsistence minimum (until December 31, 2013) (<u>EUR 253</u>)	Not defined	Yes

Conclusions in figures



Main conclusions

Current minimum income levels in force (GMI level, needy and low-income person level) are not tied to any socio-economic indicators	amount of minimum income levels not evidence based
	conditions for defining various minimum income levels are not transparent and stay unclear
State and municipal social transfers (benefits, pensions a.o.) are not enough targeted to the most in need	after receipt of the support needy people are still in a deep poverty and face high poverty risks
Taxation for low-income earners is heavy	low – income earners are subjected to the poverty risk and social assistance recipients are not motivated accept low paid jobs

Rational behind

**Ultimate goal - establish
solidarity-based poverty and income inequality reduction
system**

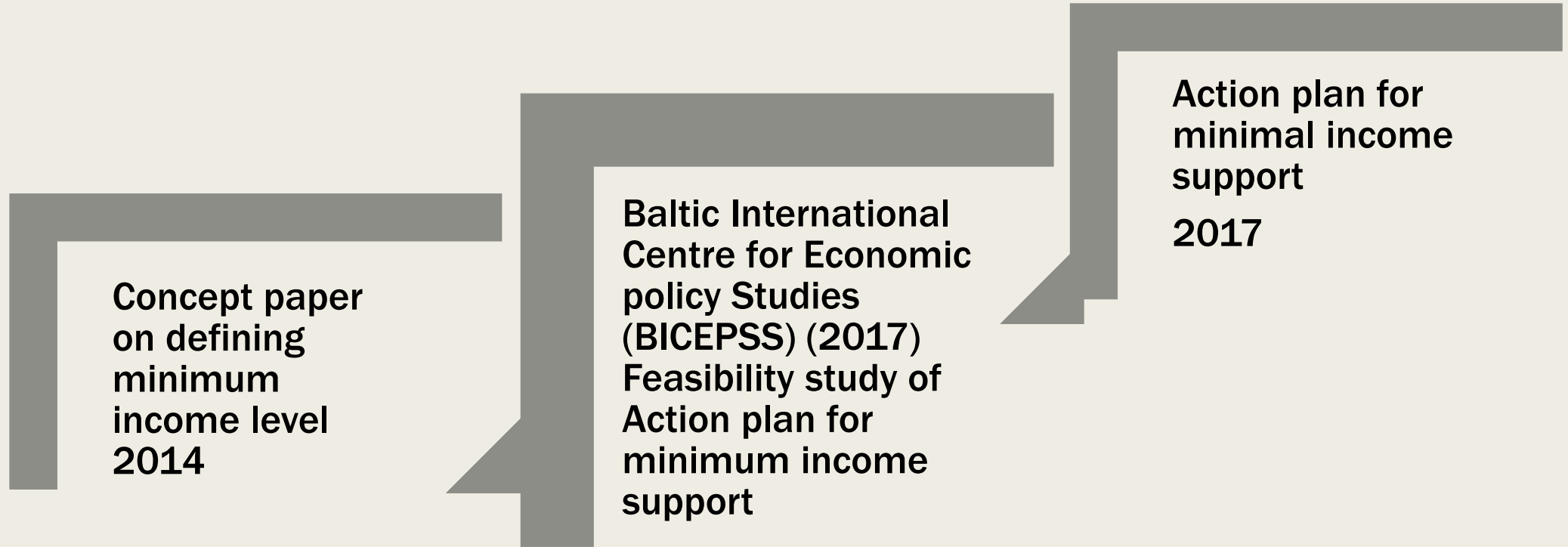
**Goal - set methodologically substantiated and socio-
economically adequate minimum income level which serve
as reference point for all social security system (state social
benefits, social insurance, social assistance).**

**In parallel, the minimum income level is meant to be used for
tax system development in order to reduce tax wedge on law
wage earners**

Target groups

- Low – income earners
- People with very low or no income
- Retired persons with minimum pension
- Families with children
- Unemployed

Elaboration of reform



Solution

- determine minimum income level as 40 % of the median disposable income, adjusted to the equivalent customer with equivalence scale (1; 0.7; 0.7)

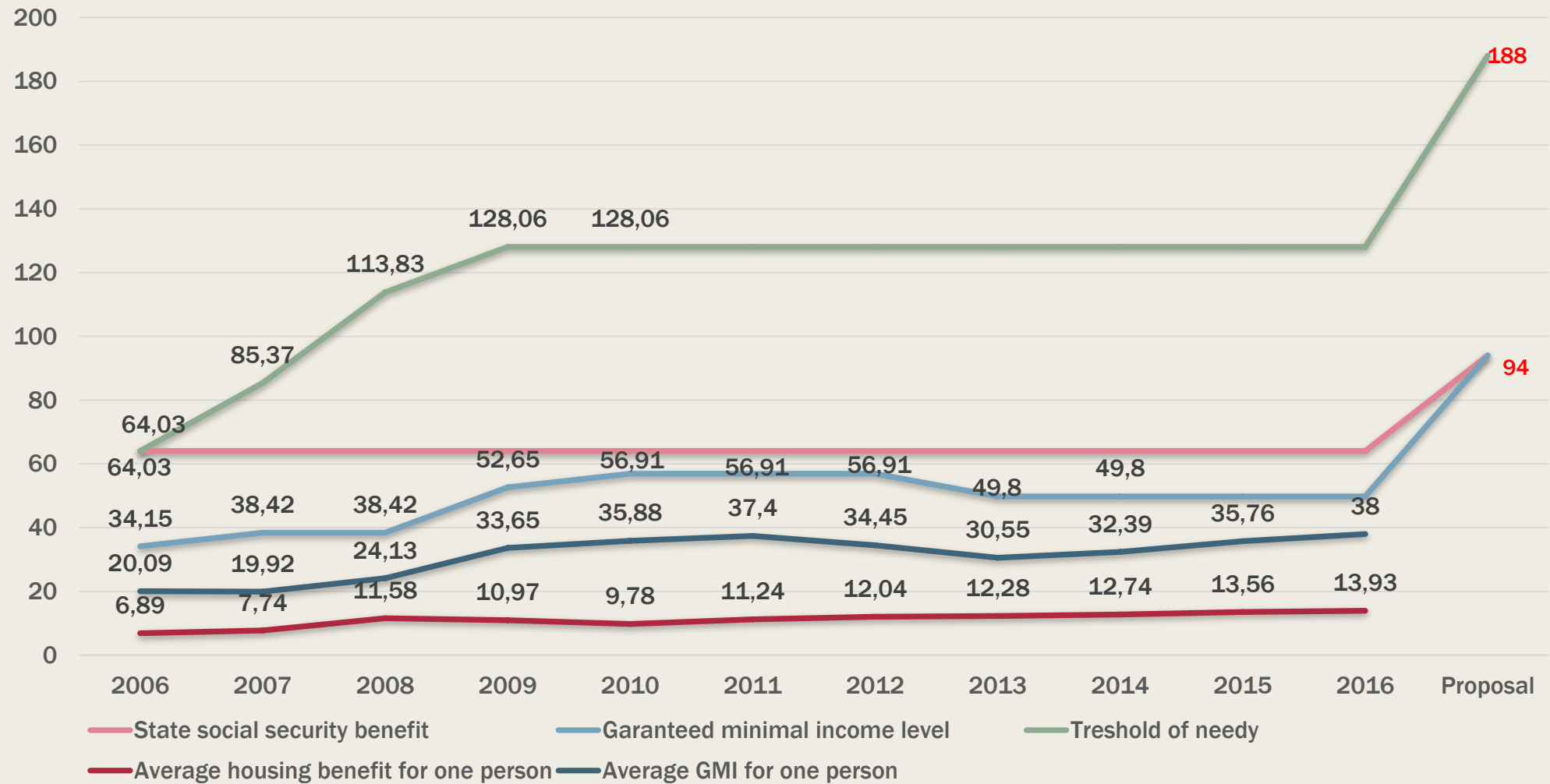
and

- develop new complete minimum budget of goods and services for different types of households with reference to territorial dimension

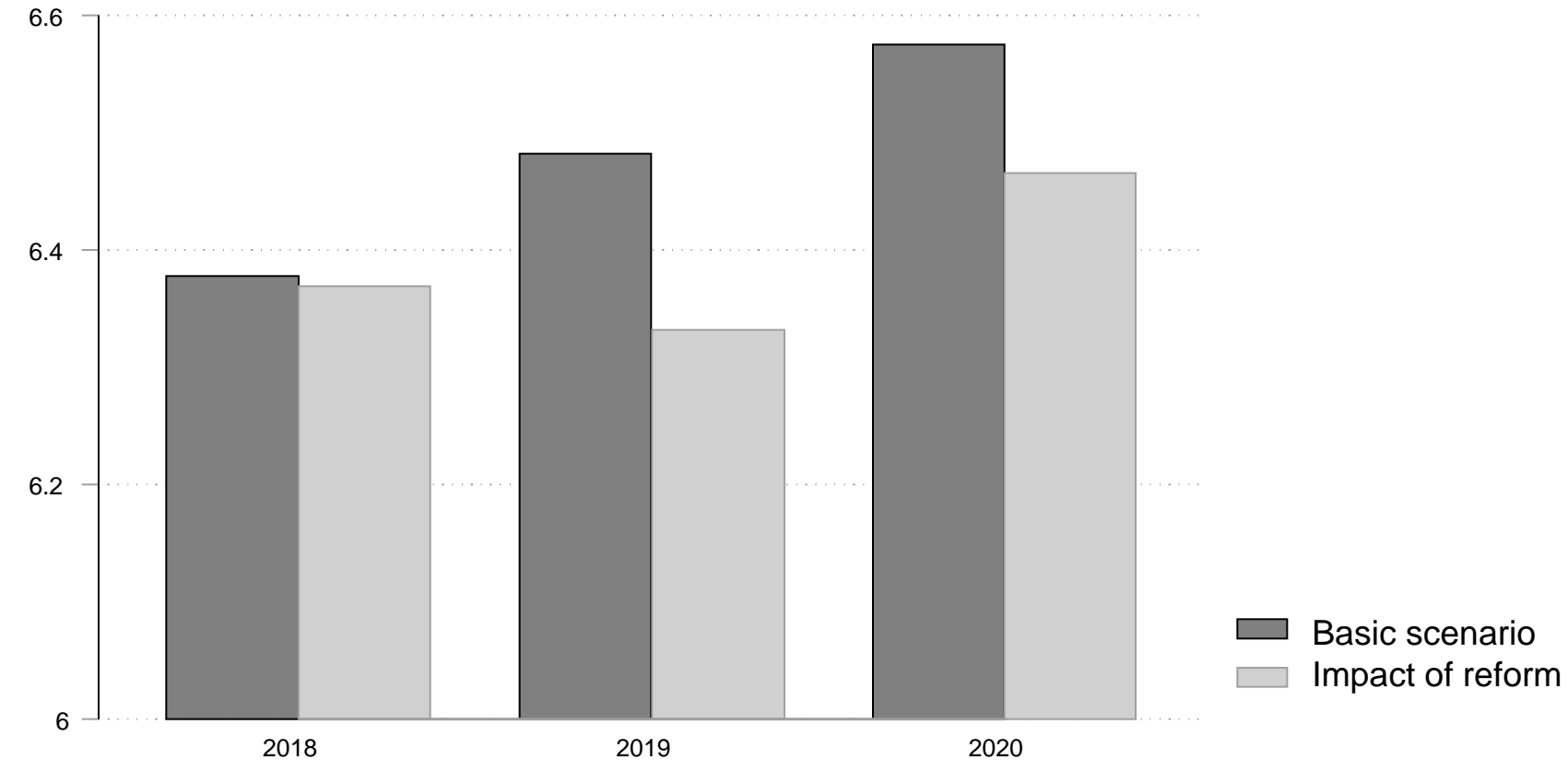
Action plan for minimum income support

- **Revision of existing minimum income levels**
- **Harmonization of minimum income support system and the social assistance system**

Action plan in figures



Impact on inequality S80/S20



Source: MoW using EUROPOP-LV

Question for debate

Could reform on minimum income support be considered for temporary deviation from the Stability and Growth Pact for next 3- 5 years?

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