EVALUATION OF SCENARIOS FOR THE IMPROVEMENT OF SOCIAL PROTECTION FOR FAMILIES WITH CHILDREN IN LATVIA

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Abstract
Social protection for families with children is one of the priorities Latvia has highlighted in its strategic planning documents. Moreover, the priority being advanced for several planning periods indicates on the necessity to improve social security and foster the birth rate in the country. The research aim is to develop priority scenarios for possible improvement of social protection for families with children in Latvia. The authors put forward four scenarios for the improvement of social protection for families with children in Latvia, of which the experts in the field recognised the replacement of the personal income tax relief for children with a larger family state benefit as the priority. This would ensure fairer support for all families with children, including those on low incomes. Also, increasing the minimum wage and reducing the shadow economy would improve the social protection of families with children. Evaluating the criteria of population interests, the experts recognised the increase of family social security as more important than the increase in the number of children in the family, as the increase of social protection would contribute to the increase in the number of children in families thereof.
Key words: social protection, social benefits, support for families with children, state family allowance, personal income tax relief.

Introduction

The strategic planning documents of Latvia put forward social protection of the population as one of the priorities for several planning periods. The improvement of social security and increase of financing for the social sphere is vitally significant to achieve the increase of the quality of life of the population and to stimulate the birth rate in the country (Latvijas ilgtspējīgas attīstības ..., 2010).

'Strong families in generations' is one of the courses of action envisaged in the National Development Plan of Latvia for 2021-2027 (2020). The mentioned course of action is targeted on the improvement of the support system for families with children, at the same time encouraging families to give birth to a second child and create large families. The population of Latvia positively evaluates the present system established to support families with children; nevertheless, they indicate on the necessity to improve the system so that the level of income per family member does not essentially decrease due to the birth of a child (Latvijas Nacionālais attīstības ..., 2020).

Also the guidelines *'On Social Protection and Labour Market Policy Guidelines for 2021-2027'* (2021) mark the reduction of income inequality and poverty of the population as well as the promotion of employment as one of the targets. Sustainable, stable and adequate material support for families is required to achieve the set target. The development of the state and municipal material support should be planned so that social transfers are adequate and financially sustainable and so that they do not reduce the motivation to enter the labour market.

Kristapsone & Kantane (2019) state that the surveyed population of Latvia recognise the importance of the improvement of social protection by increasing social benefits in order to enhance the well-being of families. Grinevica, Bite, & Broka (2022) also agree to the statement that childcare allowances are essential support for families with children; hence, it is required to proceed with the improvement of the support system for families with children, consequently reducing poverty and improving the harmonisation of family and work life. In contrast, Ciobanu (2017) indicates that even nowadays those families that have many children frequently suffer from discrimination and other social and economic difficulties caused by low income.

Research hypothesis – social protection for families with children is diverse in Latvia, yet it requires improvements in line with the economic situation in the country. The research aim is to develop priority scenarios for possible improvement of social protection for families with children in Latvia.

The authors have advanced the following research tasks to achieve the set aim:
1) to evaluate social protection for families with children in Latvia;
2) to determine the most appropriate scenario for increasing social protection for families with children based on the opinion of experts.

Materials and Methods

Research methods: the monographic and descriptive methods, analysis and synthesis, the graphic method, statistical method. The Analytic Hierarchy Process was applied to determine the key stakeholders (residents, municipalities and the national government) interested in enhancing social protection for families with children in Latvia, based on ratings by experts, to assess the criteria that were important for each of the stakeholders as well as to identify the most suitable scenario for a further enhancement of social protection. The present research is based on various scientific publications, publicly available documents, information available on databases and other sources.

Results and Discussion

State social protection for families with children in Latvia

Abolina (2016), analysing the theoretical framework of social support measures by Math & Thevenon, emphasises that it is possible to provide support measures for families in different ways, for example, by granting financial support, childcare leave or support in the form of services. Within the framework of the present study, the authors focus on financial support for families with children, which is implemented through social transfers or other forms of support. Social transfers include pensions, benefits and maintenance.

An important part of social transfers is the benefit system, which is divided into three large groups. The first group includes social insurance benefits, the second group refers to the state social benefits and the third group covers social assistance benefits.

State social insurance benefits, which are related to the birth of a child and sickness, are maternity, paternity, parental and sickness benefits. Their amounts depend on the insurance salary contributions of a person, i.e. work remuneration. Yet, education is one of the most important factors determining the amount of salary (Darba algas un ..., 2006). Higher salaries are earned by those employees who have higher level of education (Career Profiles, s.a.). Also Mistre, Zvaigzne & Mazure (2019), conducting a population survey in Latgale region, found that education is one of the most important individual factors affecting the level of wages and salaries. The importance of education is also confirmed by the research on a conducted survey of experts in 2022 (Mistre, Leibus, & Mazure, 2023a).

A person's social protection is also impacted by undeclared employment (including 'envelope wages'), since the mandatory state social insurance contributions are not made in full amount from wages, and this affects the amount of state social insurance benefits and pensions. The study *'Shadow Economy Index in the Baltic States 2009-2021'* reports envelope wages as the most significant component of the shadow economy in the Baltic States in 2021, respectively envelope wages accounted for 46.2% of the total shadow economy in Latvia, 42.7% in Estonia and 38.8% in Lithuania. In 2021, undeclared income in Latvia amounted to 30.0% of the total shadow economy, while the component of undeclared employees – 23.8% (Sauka & Putnins, 2022). Putnins and Sauka (2015) accentuate a vicious circle of the shadow economy: individuals work illegally and do not pay taxes; thus, revenue in the state budget decrease and an increase in tax rates is necessary, which further encourages unofficial employment and weakens the economic and social basis.

Workers who officially receive at least the minimum monthly wage are more socially protected, because larger social insurance contributions are made as the minimum wage increases, and, consequently, the amount of social insurance benefits also increases. Several studies demonstrate that the well-being of low-income earners improves with the increase of the minimum monthly wage. Ferrarro, Merikull & Staehr (2018) have come to the conclusion that the minimum wage contributes to the reduction of wage inequality, especially in segments of the labour market with dominating low wages. Flavin & Shufeldt (2017) have also found that the level of well-being of low-income citizens improves with the increase of the minimum monthly wage.

The next group of benefits are **state social benefits**. The support for families with children includes the following benefits: state family allowance, childcare benefit, childbirth allowance and benefits for care of children with disabilities.

The state social benefits system includes both regularly paid benefits and one-off benefits. However, most social benefits are mainly intended to cover the needs for the first year of a child's life, without providing child care opportunities in the following childhood years and covering additional family expenses during the school years. Only the state family allowance provides support to the family for almost the entire period of raising and schooling the child (Koncepcija par ģimenes ..., 2012).

Mistre, Leibus, & Mazure (2023b) report that the amounts of state benefits for maternity, paternity, parents and family have increased in Latvia from 2011, while the amount of the childcare benefit has not been changed since 2014. Moreover, the amount of the childbirth allowance has not been changed even for a longer period, i.e. since 2004. Hence, the amounts of these benefits do not correspond to the current economic situation in the country.

Also, **social assistance benefits**, which are paid by the municipality where the claimant has declared its place of residence are an important type of benefits. The council of each municipality may adopt binding regulations, which determine the benefits of the voluntary initiative (Pašvaldību likums, 2022).

No less important type of social transfers is **maintenance** intended to cover the monthly maintenance expenses of a child. The minimum amount of maintenance is determined by the government (Uzturlīdzekļu garantiju fonda ..., 2016). It is the duty of every parent to provide maintenance for the child, regardless of the state of his or her property and ability to support the child.

Other types of support for families with children can be provided in the form of tax reliefs or social services (such as services related to the childcare and education). In accordance with the law *'On Personal Income Tax'* (1993), personal income tax (PIT) relief is applied in Latvia for each dependent person. The amount of this tax relief is EUR 250 per month from 2020 (Noteikumi par neapliekamā ..., 2017). Calculations demonstrate that this tax relief is unfair in relation to those families where the child's parents receive the minimum wage (EUR 700 per month in 2024). In that case the taxable income is less than the amount of the non-taxable minimum, and the relief cannot be applied in the salary calculation. Moreover, inequality increases precisely in those families with

children, where parents' wages are lower, and there are several children in the family (Table 1). When receiving the average salary in Latvia, which was EUR 1373 per month in 2022 (Official Statistics Portal, 2023), the PIT relief is used if there are four children in the family but if the family has five or more children, then this relief is not being used to the full extent. A particularly bad situation develops in families where a child is raised by one parent or both parents receive the minimum wage.

Table 1

Amount of personal income tax relief depending on the number of children in the family and remuneration in Latvia in 2023, EUR

Number of children	Relief amount per month	Gross work remuneration/non-taxable minimum			
		620 EUR / 500 EUR	800 EUR / 400 EUR	1000 EUR / 300 EUR	1373 EUR / 200 EUR
		Unused amount of PIT relief (-) or used amount (+)			
one	250	-195.10	+250	+250	+250
two	500	-445.10	-184	+500	+500
three	750	-695.10	-434	-155	+750
four	1000	-945.10	-684	-405	+1000

Source: authors' construction and calculations.

The Ministry of Welfare in its informative report '*On the Situation of the Minimum Wage in 2022*' (2023) indicates that 18.1% of employees had income equal to the minimum wage or less in 2020, while these were 19.4% of employees in 2021, which shows that this situation worsens. It should be emphasised that the minimum wage in Latvia was the second lowest in the EU in 2022, and it is also lower than in Lithuania and Estonia.

The study '*Conducting Research on the Factors Influencing the Regeneration of the Nation*' (2013) reports that if there is an intention to apply the PIT relief for a dependent persons as a tool to increase the birth rate, the relief should be differentiated depending on the number or the sequence of children. At the same time, it is emphasised that some families are not able to use the benefits to their full extent, and thus, the increase in the PIT relief would not provide support to families with many children and would not promote birth.

According to Urban & Peezer (2018), tax incentives (reliefs) might be attractive thanks to the simplicity of their administration; however, these advantages are criticised for their 'regressive' effect, as they do not always reduce poverty in families. It can be concluded that the PIT relief is not fair for all families with children; hence, it is necessary to find out the best solution for improving social support, so that it is fairer and corresponds to the economic situation of the population.

Development scenarios for social protection for families with children in Latvia
The authors have employed the Analytic Hierarchy Process (AHP) to identify the most appropriate scenario for enhancing social protection for families with children in Latvia. Based on the previous research, a pyramid of hierarchies was created, which was divided into four levels 'Figure 1'.
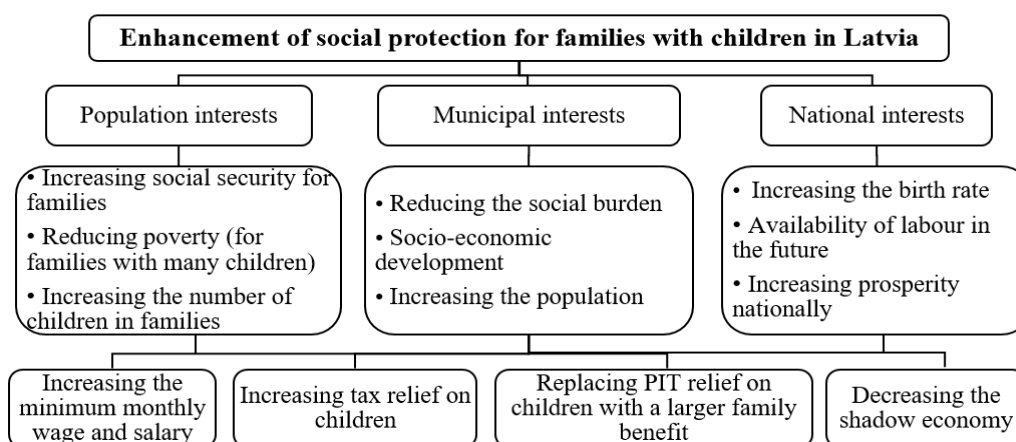

Figure 1. Hierarchy of evaluation criteria for enhancing social protection for families with children in Latvia.
Source: authors' construction.

At the *first level*, a general target is defined - enhancement (improvement) of social protection for families with children in Latvia. The *second level* includes criteria groups or stakeholders interested in enhancing social protection for families with children. The selection of criteria groups was based on the question: for whom is it important to enhance social protection for families with children in Latvia? The *third level* defines the evaluation criteria that are important for each of the stakeholders. Four potential scenarios (alternatives) for increasing social protection for families with children in Latvia, which experts need to rate in terms of criteria of the second and third level groups, are suggested at the *fourth level*.

Scenario 1: increasing the minimum monthly wage and salary. By increasing the minimum monthly remuneration, an individual's insurance salary contributions increase, which, in turn, determine the sizes of social insurance benefits (maternity, paternity, parental, sickness). By increasing the minimum monthly wage and salary, social protection for persons from lower income families increase in the event of one of the social risks.

Scenario 2: retaining the PIT relief on children and gradually increasing the amount thereof. By increasing the PIT relief for a dependent child, family income increases. However, individuals earning the minimum monthly wage or salary cannot use this tax relief in full. Therefore, this kind of support is not equally fair to all families with children.

Scenario 3: replacing the tax relief on children with a larger family benefit to provide fairer support for all families with children, which is not affected by the parents' income.

Scenario 4: decreasing the shadow economy. By reducing undeclared employment, an individual gets involved in the social insurance system, which increases tax revenue paid to the national and local government budgets and thus social protection for the individual increases. Social protection for the individual increases by reducing the 'envelope wages'.

To evaluate the potential scenarios (alternatives) for enhancing (increasing) social protection for families with children, seven experts who were competent in the field of social protection and represented various stakeholders were involved:

1) deputy director of the Social Policy Planning and Development Department of the Ministry of Welfare;
2) deputy director of the Children and Family Policy Department of the Ministry of Welfare;
3) head of the Methodological Management Department of the State Social Insurance Agency;
4) adviser to the Association of Local and Regional Governments of Latvia on health and social issues;
5) consultant to the State Development Planning Division, Cross-Sectoral Coordination Department of the State Chancellery;
6) deputy chairperson of the Free Trade Union Confederation of Latvia;

7) head of the parental organisation 'Mammamuntetiem.lv' of Latvia.

A survey questionnaire was sent to each expert and a remote meeting was held to help them fill in the matrices and discuss problems in the field of social protection related to support for families with children. After processing the experts' ratings, it could be concluded that the most important were population interests, i.e. the interests of families with children, for increasing social protection for families with children 'Figure 2'.
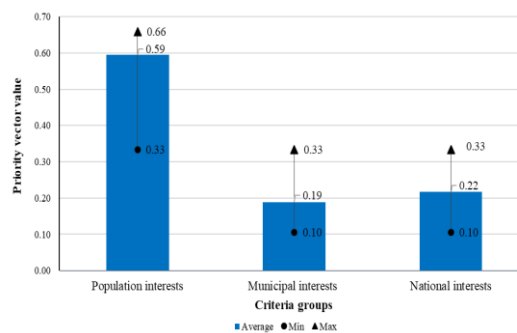

Figure 2. Expert ratings of population, local government and national interest criteria groups.
Source: authors' construction.

According to the experts, the state and local governments were the least interested stakeholders in increasing social protection for families with children. After rating the second-level criteria groups, the experts had to rate the third-level criteria groups, where three criteria were set for each interest group. After summarising the expert opinions on criteria for population interests, it could be concluded that the enhancement of social security for the family was rated the highest. This was evidenced by an arithmetic mean calculated for priority vector values (0.46). However, the coefficient of variation (44%) showed that the experts had different opinions, which ranged from 0.10 to 0.71 'Figure 3'.
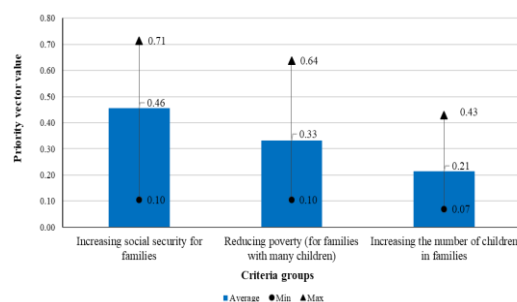

Figure 3. Expert ratings of population interest criteria.
Source: authors' construction.

The next most important criterion was the reduction of poverty (especially in large families and single-parent families). This was evidenced by the arithmetic mean of priority vector values (0.33). The experts considered an increase in the number of children in the family to

be a less important criterion (0.21). However, the experts differed in their ratings as well. It should be noted that several experts emphasised that enhancing social security for the family could also affect an increase in the number of children in the family. The experts also noted that it was essential to reduce poverty in single-parent families because such families, like families with many children, were more exposed to the risk of poverty. After summarising the expert opinions on criteria for local government interests, it could be concluded that an increase in the number of residents was rated the highest 'Figure 4'.
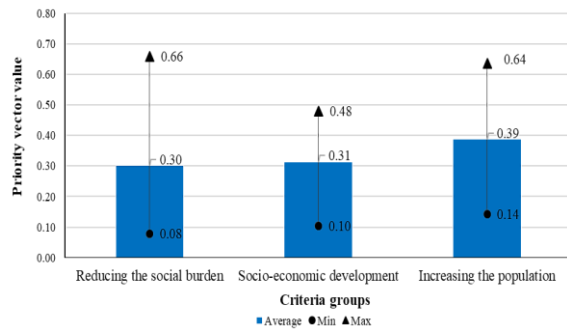

Figure 4. Expert ratings of local government interest criteria.
Source: authors' construction.

The experts' ratings of the criteria: social burden reduction and socio-economic development were similar. The experts noted that an increase in the number of residents in municipalities was important for fostering socio-economic development. This would also promote economic activity; thereby contributing to employment as well as access to education, and the impact of these factors would decrease emigration. After summarising the expert opinions on the national interest criteria, it could be concluded that an increase in the level of financial well-being in the country was rated the highest. This was evidenced by the arithmetic mean of priority vector values (0.50). However, the minimum value of the priority vector was 0.28 and the maximum was 0.66. The coefficient of variation (27%) indicated small differences in expert opinions and a low dispersion around the mean 'Figure 5'.
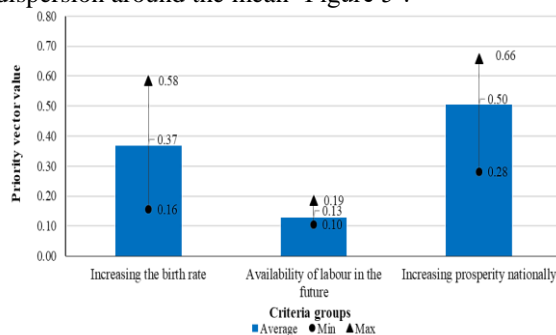

Figure 5. Expert ratings of national interest criteria.
Source: authors' construction.

According to the experts, the next most important criterion in the national interest group was an increase in the birth rate. This was evidenced by the arithmetic mean of priority vector values (0.37). The supply of labour in the future was less important (0.13). It should be noted that the experts had more similar opinions on the supply of labour in the future, and the coefficient of variation (0.21%) indicated it. However, the largest difference in expert opinions on national interests was for the criterion of increasing the birth rate (coefficient of variation was 38%). The experts emphasised that if the level of financial well-being in the whole country increased, the birth rate would increase and consequently the labour force would be available in the future.

At the end of the hierarchy analysis, the main scenario for increasing social protection for families with children was identified based on all the nine criteria. The experts identified Scenario 3 as the most optimal one: replacing tax relief on children with a larger family benefit (average value of the global eigenvector was 0.36). The experts differed the least on the choice of this scenario, as evidenced by the coefficient of variation of 35% 'Figure 6'.
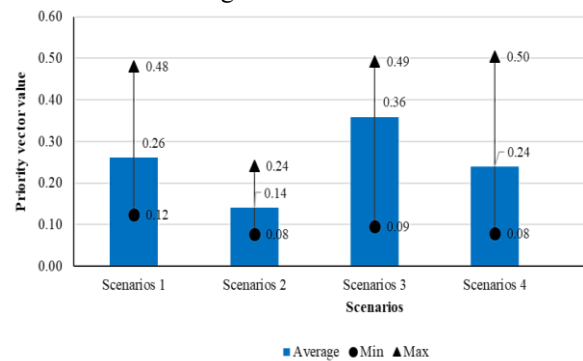

Figure 6. Global eigenvectors of the scenarios for increasing social protection for families with children.
Source: authors' construction.

Compared with the rest of the experts, two of the experts who represented population interests preferred a different scenario. Based on one expert's rating, Scenario 1 – increasing the minimum monthly wage and salary – was identified as the most optimal one. The expert justified the choice of Scenario 1 by the fact that an increase in the minimum monthly wage and salary lead to higher social insurance benefits (maternity, paternity, sickness) as well as guarantees higher income in the family budget, especially in families where both parents earn the minimum wage or salary. However, the expert who gave priority to Scenario 4 – decreasing the shadow economy – noted that the most important measure for decreasing the shadow economy was the elimination of 'envelope wages', as this would increase tax revenue paid to the special government budget (social insurance) and provide greater social guarantees for families with children. The experts' ratings of Scenarios 1 and 4 were similar (average values of the global eigenvector were 0.26 and 0.24, respectively), while Scenario 1 –

increasing the minimum monthly wage and salary –
slightly prevailed. The rationale for this was that the
increase of the minimum wage increases household
incomes and reduces family poverty, and this can also
contribute to the increase of wages at other wage
levels. Scenario 3 – replacing PIT relief on children
with a larger family benefit – was also preferred based
on population interest criteria. The ratings of the
population interests also determined the choice of a
scenario for enhancing social protection for families
with children in Latvia because the priority vector
values were the highest for the population interests.
The mean values for the other scenarios were also in
the same order as the respective global eigenvectors.
The coefficients of variation showed that the expert
opinions differed in the choice of scenarios (between
44 and 52%). The experts' ratings of criteria for
municipal interests and national interests were very
similar and had small values, as indicated by the
average values of priority vectors calculated for all the
scenarios. For the experts, Scenario 2 – increasing the
PIT relief on children – was the least important;
moreover, the expert opinions had a relatively low
dispersion (37%), which indicated relatively similar
opinions in their decision-making. However, one of
the experts noted that the PIT relief for a dependent
person was the relief of a social nature, which aimed
to reduce the labour tax burden for those working with
dependent persons, and it was also one of the
instruments that promoted the legal employment of
parents. The result obtained was expected because
choosing Scenario 3 as the main scenario for
enhancing social protection for families with children
meant that Scenario 2 lost its relevance and was no
longer possible to implement.

It should be noted that Lithuania has such an experience,
it no longer applies a relief for dependent children from
2019; instead, the family benefit was increased.

Such a decision was made because low-wage recipients
could not fully use this kind of support to the maximum
extent (Lithuania introduces a ..., 2019). In this way, the
risk of poverty in low-income families was reduced. If

considering a possibility of replacing the PIT relief for
children with a larger family benefit, it should be
considered that the PIT relief is applied until the child
is 24 years old and if s/he is obtaining education, while
the family benefit is paid only until the child is 20
years old, and only for those who are obtaining general
or professional education. If replacing the PIT relief
with a benefit, it is recommended that the benefit is
paid until the child is 24 years old, provided that s/he
is not only acquiring general or professional education
but also university education.

Conclusions
1. Rating the scenarios of social protection for
families with children in Latvia, the experts gave
the highest ratings to population interests (families
with children) because enhancing social protection
would have the most significant impact on families
with children. As regards the criteria for population
interests, the experts rated the enhancement of
social security for the family the highest, while the
criterion – an increase in the number of children in
the family was rated as less important, noting that
enhancing social protection would also contribute
to an increase in the number of children in families.
2. Four scenarios were designed for enhancing social
protection for families with children in Latvia. The
experts recognised the scenario of replacing the
PIT relief on children with a larger family benefit
as the priority to provide fairer support also for
those families with children whose incomes were
low. The experts acknowledged that increasing the
minimum wage and salary and decreasing the
shadow economy would also increase social
protection for families with children.

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