

Social and Economic Aspects of Child Care Benefits in Latvia

Mg. oec., lecturer, PhD student, Baiba Mistre, Department of Accounting and Finances, Latvia University of Agriculture

Dr. oec., associate professor, Aina Dobele, Department of Business and Management, Latvia University of Agriculture

Abstract

A typical feature of the demographic development in Latvia is a low birth rate. Latvia is one of the demographically oldest countries in Europe and the world, and it is affected by certain social, economic and legal factors. In order to improve the demographic situation in the country and provide the inhabitants with income during the age of work inability, the system of social care in Latvia is being constantly developed.

In Latvia child care benefit as part of social transfers is significantly affected by the economic activity of the inhabitants and the legislation. The amount of social transfers depends on the social and economic policy implemented in the country, which results from the perspective and priorities of the state development.

The aim of the research is to investigate and evaluate the amounts and tendencies of child care benefit, and the factors influencing it in Latvia.

Child care benefit is one of the state social benefits. From 2001 to 2007 child care benefit has increased 4.6 times or LVL 68.81, and in 2007 it reached LVL 88.13. Between 2002 and 2005 the child care benefit per one household member has increased by 150% in the cities, yet only by 70% in the countryside on average. In 2002 the child care benefit in average per one household member was LVL 5.10 in the cities and LVL 5.14 in the countryside, but in 2005 in the cities it increased up to LVL 12.75 and up to LVL 8.78 in the countryside. It has been affected both by the increase of the minimum wage and the growth of salaries in certain economic areas, as well as by the changes in the legislation.

Key words: child care benefit, demographics, social transfers

Introduction

Due to the fast economic development, the emigration of labour to the old EU member states and a low birth rate, the human resources have become one of the most topical issues of the economic policy in Latvia.

According to the research done by several scholars (Zvidriņš P., Krūmiņš J., Goša Z., Vītoliņš E., 2006), depopulation is a typical feature of Latvia in the recent years, and negative indicators of natural movement of inhabitants is characteristic to all regions and big cities of the country; besides, the relatively highest indicators are observed in Riga and Latgale. At the beginning of 2007 the number of population amounted to 2.281 million. Since 2000 the number has decreased by 100 thousand inhabitants or 4.2%. The demographic forecasts for the period until 2050 show that most probably the number of population in Latvia will decrease to 2.1 million in 2020 and around 1.9 million in 2050 (Demographics 2007).

I. Saulāja (Saulāja, 2006) and I. Bite (Bite, 2003) have done research on the state social security and welfare system in Latvia paying more attention to the integration of a person in the labour market after the parental leave, examining state social benefits that are received during the parental leave, as well as investigating the influence of state social policy on the actual level of well-being of the inhabitants.

However, there is comparatively little research done on the importance of child care benefit and its relation to the demographic situation in the country, as well as the legal and economic factors influencing it.

Unfortunately Latvia is already now one of the demographically oldest countries in Europe and the world. The number and proportion of children is systematically diminishing, but the number and proportion of people at retirement age is increasing. Such a demographic situation puts an extra load on the economics because the aims of the economic development are hardly compatible with the ageing of population. According to the Central Statistical Bureau (CSB) data, the proportion of children and young people up to 14 years in relation to the total number of population has decreased from 18% in 2000 to 14% in the beginning of 2007. During the same period, the proportion of the inhabitants that are 60 and older has increased from 21% to 22.1%.

Taking into account the low birth rate in the country, the creation of favourable circumstances and support for families is a vital precondition. Therefore the "National Development Plan of Latvia 2007 –

2013” prioritises an individual person, and it emphasises that in order to improve the demographic situation, the state policy will mainly focus in two directions – protection of children’s rights/ the rights of children and family, and rendering of the state support to families with children within the social security system. A large part of state social benefits is intended exactly for families with children; however, the small amount of separate state allowances does not provide sufficient support. The demographic situation can improve in future experiencing also more favourable socially economic conditions.

The demographic situation in the country and the predictions of other scholars in this field determined the choice of the research topic – the analysis of one of the social benefits – **child care benefit** – in Latvia, which can directly influence the implementation of the state demographic policy.

Child care benefit is one the types of social transfers that has a great importance on the household budget income in a situation, when a child is born in a family. Simultaneously, the amount of child care benefit affects the demographic load in the country, which is not an unimportant indicator in the improvement of the socio-economic situation.

The research is based on the monographic method, analysis and synthesis, deduction and induction, statistical data investigation and graphic representation method.

Hypothesis: Child care benefit is a social transfer that is closely related to the demographic situation, and is affected by legal and economic factors.

The aim of the research is to investigate and consider the amounts, tendencies, and the affecting factors of child care benefit in Latvia.

In order to reach the aim of the research, the following **objectives** were set:

- to investigate the economic and legal nature of child care benefit;
- to analyse the place of the child care benefit in social transfers and define tendencies;
- to evaluate the influence of salary as an economic factor on the amount of child care benefit.

Materials and Methods

The data of the Central Statistical Bureau “Income and living standards in Latvia” (2007), “Demographics 2007” (2007) and “Household budget in 2005” (2006), as well as State Social Insurance Agency (VSAA) data was used have been used for the purpose of the study.

The legislative and normative documents of the Republic of Latvia were used to analyse the influence of legal factors on child care benefit.

The structural analysis method and dynamic time series analysis method were used to investigate the tendencies of child care benefit in Latvia.

The graphic method and the method of analysis of synthesis were used to analyse economic factors.

The methods of analysis and synthesis, as well as methods of induction and deduction were used to draw the conclusions.

Results and Discussion

1. Theoretic and Legal Aspects of Child Care Benefit

In order to provide a sustainable social security system in Latvia, the elaborated “National Development Plan of Latvia 2007 – 2013” envisages the main tasks to provide the financial stability of the social insurance system and contribute to its development, as well as to promote greater understanding of the society on the importance of the social insurance system.

Every inhabitant of Latvia is concerned with the issues of material well-being and the quality of life, which are in turn related to the areas of social insurance – state social insurance, state social benefits, social assistance and social services.

The guiding principles of the social insurance shall provide for:

- 1) solidarity between social insurance contribution payers and recipients of social insurance services;
- 2) utilisation of social insurance funds only for social insurance services in accordance with the law.

State social benefits provide a universal state support in the form of financial allowance to particular groups of population in cases of social risks and situations connected with the decrease in income.

According to the law “**On State Social Allowances**” (2002), the state social allowances are divided into regular disbursement benefits and single disbursement benefits, as shown in Table 1.

Types of state social benefits in Latvia

<i>Regular disbursement benefits</i>	<i>Single disbursement benefits</i>
<ul style="list-style-type: none"> • State family allowance • Child care benefit • Guardian's allowance for a dependent child • Remuneration for the fulfilment of a guardian's duties • Remuneration for the fulfilment of a foster family's duties • Allowance for the compensation of transport expenses for disabled persons who have difficulties in movement • State social security benefit • Remuneration for the care of an adopted child • Care of disabled child benefit 	<ul style="list-style-type: none"> • Childbirth allowance • Funeral grant • Remuneration for adoption

Source: made by the authors according to the law "On State Social Allowances" (2002)

Starting from 2003, the child care benefit is paid until the child reaches the age of two. The child care benefit until the child reaches the age of one year is currently functioning according to a composite system: for the employed the child care benefit is calculated and allocated according to the principle of state social insurance, but for the unemployed the child care benefit is a typical state social benefit with a constant amount. The child care benefit is funded from the state general budget.

The amount of child care benefit is affected by:

- the age of the child;
- the salary of insurance contributions;
- the fact of employment.

One of the most important aspects influencing the amount of child care benefit is the salary of insurance contributions of an individual. According to the law "On Maternity and Sickness Insurance" (1996) the salary of insurance contributions is the income from which the state social insurance contributions are paid.

The law "On State Social Insurance" (1997) states that the following persons are subject to the social insurance - all employees who have reached 15 years of age employed by an employer – a domestic tax payer or foreign tax payer of another member state, as well as:

- persons taking care of a child who has not reached one and a half years of age;
- persons receiving unemployment benefit;
- unemployed disabled persons;
- persons receiving a disabled child care benefit;
- persons receiving a maternity or sickness benefit;
- persons receiving remuneration for the care of an adopted child;
- persons whose spouse performs diplomatic or consular service in a foreign state;
- persons who are located in a relevant foreign state in the status of spouse of a soldier performing service duties;
- self-employed persons.

Latvian citizens, non-citizens, aliens and stateless persons to whom a personal identity number has been granted and who permanently reside in the territory of Latvia have the right to state social allowances.

Affected by the changes in the legislation, the child care benefit has grown annually. From 1998 to 2003, the amount of child care benefit was as follows:

- for person taking care of a child who has not reached one and a half years of age – LVL 30 per month;
- for person taking care of a child from one and a half until 3 years of age – LVL 7.5 per month.

From 2003 to 2005 the amount of child care benefit was increased, but the time period when it can be received was diminished:

- for persons taking care of a child until one and a half years of age – LVL 30 per month;
- for person taking care of a child from one and a half until 2 years of age – LVL 22 per month.

Significant changes in the legislation were introduced in 2005, when the minimum and maximum child care benefit amounts were determined, as well as the fact of employment was taken into account, namely, whether the person who took care of the child was employed or not. Besides the fact whether the person is on parental leave or not was taken into account.

From 2005 to 2007 according to the legislation of the Republic of Latvia, the amount of child care benefit is determined:

- for person taking care of a child *up to one year of age*, if this person is employed – is deemed to be an employee or self-employed person in accordance with the law “On State Social Insurance” (1997) and is on parental leave or is employed during the period of childcare, but is not on parental leave – 70% of the average monthly salary of insurance contributions, but not less than LVL 56 per month and not more than LVL 392 per month;
- for person taking care of a child *up to one year of age*, if this person is not employed – is not deemed to be an employee or self-employed person in accordance with the law “On State Social Insurance” (1997) – LVL 50 per month;
- for person taking care of a child from *one year up to two years of age* – LVL 30 per month.

If the child care benefit is allocated in case of twins of multiple births, for each following child an additional allowance is paid extra to the regular benefit in accordance with the Cabinet of Ministers Regulations No. 644 “*On the Procedure for Calculation, Review and Payment of Child Care Benefits and Compensation in Case of Multiple Births*”. Extra allowances on child care benefit amounts are determined:

- for person taking care of children up to one year of age – LVL 50 per month for each following child;
- for person taking care of children from one year up to two years of age – LV 30 per month for each following child.

One problem of the efficiency of child care benefit was the connection between the benefit and the parental leave which until June 1, 2002 was given only to the mother of the child for the period up to three years. But until March 1, 2007, the child care benefit could be received only by the person who was on parental leave, which limited the possibility for parents to choose which of them will receive this benefit. It is a positive aspect that since March 1, 2007, the parents of the child can freely choose which of them will receive the child care benefit irrespective of the work load and salary, and it also does not matter which of the parents is on parental leave. Only it has to be taken into account that in accordance with the current legislation, the person which is taking care of a child up to one year of age and receives child care benefit, is socially insured for unemployment and pension. During this period the contributions for the unemployment and pension insurance are paid from the fixed amount of the state general budget – LVL 50.

With the 2008 budget draft law, the government has supported the amendments to several laws prepared by the Ministry of Welfare, which determine the introduction of a new social insurance benefit – parent benefit, which will partially replace the current child care benefit. Employed persons will receive parent benefit, but unemployed persons will continue to receive child care benefit. The amendments envisage that starting from January 1, 2008, the parent benefit will not have the maximum limit of LVL 392, and namely, a person who is taking care of a child up to one year of age will receive a benefit that equals to the net salary. The minimum parent benefit will be LVL 63 per month. The benefits must be requested during 12 months from the day when the right comes into force. The new parent benefit will be funded from the social insurance budget.

2. The Place and Role of Child Care Benefit in Social Transfers

In Latvia the child care benefit as one component of social transfers is significantly affected by the economic activity of inhabitants and the legislation. The amount of social transfers depends on the social and

economic policy implemented in the country, which in turn results from the vision of state development and the priorities. According to the CSB results of the analysis of Community statistics on income and living conditions (EU-SILC), in 2005 the social transfers constituted 23.6% of all household income, but there is a difference between the cities and the countryside. The proportion of social transfers in the countryside is 28.9% of all household income, but in Riga only 19.0%.

Table 2

Average household transfers per one household member and their structure in Latvia in the period from 2002 to 2007

<i>Transfers</i>	All households				Urban				Rural			
	2002		2005		2002		2005		2002		2005	
	<i>LVL</i>	<i>%</i>	<i>LVL</i>	<i>%</i>	<i>LVL</i>	<i>%</i>	<i>LVL</i>	<i>%</i>	<i>LVL</i>	<i>%</i>	<i>LVL</i>	<i>%</i>
Total	272.99	100	319.45	100	286.85	100	333.35	100	243.76	100	290.14	100
<i>of which</i> pensions	197.35	72.3	238.78	74.7	210.05	73.2	249.98	75.0	170.59	70.0	215.17	74.2
state social benefits	34.06	12.5	57.68	18.1	30.59	10.7	58.17	17.4	41.38	17.0	56.65	19.5
<i>of which</i> child care benefit	5.11	1.9	11.47	3.6	5.10	1.8	12.75	3.8	5.14	2.1	8.78	3.0
other	41.58	15.2	22.99	7.2	46.21	16.1	25.20	7.6	31.79	13.0	18.32	6.3

Source: made by the authors according to the CSB data (*Household budget...., 2003, 2006*)

From the data presented in Table 2 it can be seen that transfers per one household member in 2005 were LVL 333.35 in the cities, while only LVL 290.14 in the countryside, which is by 13% less than in the cities. Analysing their structure, the conclusion can be made that the greatest proportion, almost 75% is constituted by pensions. State social benefits comprise a larger proportion in the countryside (19.5%) than in the cities (17.4%). It indicates that in the countryside social benefits have a greater significance in the income of the inhabitants. The information presented in Table 2 demonstrates that there is a significant difference between the cities and the countryside in the amount of child care benefit, and the difference is LVL 4.02 or 31.5% that is influenced by the economic activity and average wages.

Analysing the dynamics of the data on household budget from 2002 to 2005, we may conclude that the child care benefit on average per one household member in the analysed period has increased by 150% in the cities, while only by 70% in the countryside. In 2002 the child care benefit on average per one household member in the cities was LVL 5.10, in the countryside – LVL 5.14, but in 2005 it already increased up to LVL 12.75 in the cities, yet only up to LVL 8.78 in the countryside. This was determined by significant changes made in the legislation in 2005 that substantially affected the determination of the amount of child care benefit in Latvia.

The calculations done in the research show an increasing importance of the child care benefit and its proportion in the state social benefits. If in 2001 the recipients of child care benefit comprised 8.0% of all state social benefit recipients, then in 2007 this figure has reached 8.4%.

The number of recipients of the child care benefit and the changes are directly connected with the demographic situation – the number of children born in the country. Therefore the calculations were done in the research to evaluate how many parents use this benefit. In order to determine the potential number of child care benefit receivers, the authors have used the assumption based on the legislative norms that those parents whose child was born until December 2002 could receive the benefit until the child reached the age of three, but starting from 2003 this benefit can be received until the child reaches the age of two.

The number of child care benefit recipients in Latvia in the period from 2001 to 2006

Indicators	2001	2002	2003	2004	2005	2006
Average number of child care benefit receivers	46 851	46 672	45 915	44 600	38 475	35 842
Potential number of child care benefit receivers	59 308	59 956	60 714	59 384	41 831	43 761
Share of benefit receivers of potentially possible receivers	79.0	77.8	75.6	75.1	92.0	81.9

Source: made by the authors according to the SSIA and CSB data (1999 – 2007)

The performed calculations show that from 2001 to 2004 the proportion of child care benefit recipients of the potentially possible recipients has decreased from 79.0% to 75.1%. This allows drawing a conclusion that this benefit could not perform the economic functions, and parents choose to work in order to provide the income for the family. Starting from 2005, the proportion of the benefit recipients sharply increases reaching 92.0%, which was determined by the change in the benefit amount in the law “*On State Social Insurance*”. However, taking into account the data of the research, in 2006 the proportion of the benefit recipients decreases again thus causing a repeated reconsideration of the legislative norms in order to ensure the support to families with children and contribute to the implementation of the demographic policy in the country.

The statistical data on demographics of the year 2006 summarized by the Central Statistical Bureau show that the number of children born in 2006 (22264 children) has grown by 3.6% in comparison with 2005, but in comparison with 2000 the figure has increased by 10%. The number of children born (9.7 children) per 1000 inhabitants has been the highest indicator in the last 13 years.

3. Economic Factors Affecting Child Care Benefit

During the performed research it was ascertained that the legislation determined a gradual increase in the amount of child care benefit, which also influenced the number of the benefit recipients. In further investigations it was important to find out the dynamics of how the amount of child care benefit had changed. The calculations presented in Table 4 demonstrate that during the period from 2001 to 2007 the child care benefit has increased by LVL 68.81 or 4.6 times. The lowest child care benefit has been in 2002 amounting to LVL 19.09. The benefit has significantly increased starting from 2005 which can be explained by the changes in the legislation, namely, both the minimum and the maximum amount of child care benefit was increased. As well as that, the state minimum wage has increased, which affects the average amount of the child care benefit. Notwithstanding the fact that the maximum amount of child care benefit is LVL 392 per month, the calculations in the table show that a large proportion of inhabitants have received the minimum amount.

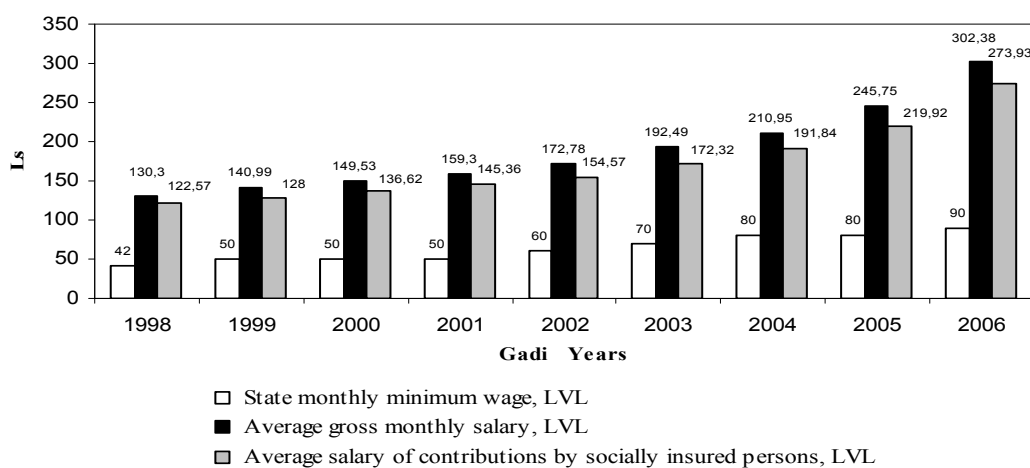
The amount of the benefits are reviewed by the Cabinet of Ministers on the motion from the Minister of Welfare according to the possibilities of the state budget, considering the economic situation in the country and taking into account the increase of average gross monthly salary fixed by the Central Statistical Bureau. However the amounts of state social benefits are fixed taking into account the insurance contributions of a person. Thus, in order to evaluate the analysis of the economic factors influencing the amount of child care benefit, the analysis of the changes in the state monthly minimum wage, gross monthly salary and average salary of contributions of socially insurable persons was carried out for the period from 1998 to 2006.

**The dynamics of average amount of child care benefit in Latvia in the period from
2001 to 2007**

Year	Average amount of child care benefit, LVL	Absolute rise, LVL		Growth rate, %		Increment rate, %		1% absolute importance of increase $tm_{(1\%)}$
		Chain $\Delta m_{(k)}$	Base $\Delta m_{(b)}$	Chain $Tm_{(k)}$	Base $Tm_{(b)}$	Chain $tm_{(k)}$	Base $tm_{(b)}$	
2001	19.32	-	-	100.0	100.0	-	-	-
2002	19.09	0.23	0.23	98.81	98.81	-1.19	-1.19	0.19
2003	19.49	0.4	0.17	102.10	100.88	2.10	0.88	0.19
2004	20.13	0.64	0.81	103.28	104.19	3.28	4.19	0.19
2005	52.01	31.88	32.69	258.37	269.20	158.37	169.20	0.20
2006	68.89	16.88	49.57	132.46	356.57	32.46	256.57	0.52
2007	88.13	19.24	68.81	127.93	456.16	27.93	356.16	0.69

Source: calculations done by the authors on the basis of SSIA data

According to the data presented in Figure 1, it can be concluded that state monthly minimum wage, average gross monthly salary and average salary of contributions by socially insured persons in the period from 1998 to 2006 have a tendency to grow which provides a possibility to increase the amount of child care benefit in the country. At the same time, positive structural changes can be observed. If in 1998 the average salary of contributions by socially insured persons exceeded the monthly minimum wage 2.9 times, then in 2006 this relation was more than 3 times.



Source: figure made by the authors on the basis of SSIA and CSB data

Figure 1. State monthly minimum wage, gross salary and average salary of contributions by socially insured persons in the period from 1998 to 2006, LVL

There has also been change in the difference between the average gross monthly salary and average wage of contributions by socially insured persons. If the difference was 6% in 1998, then in 2006 it was already 10%. This can be explained by the fact that gross salary consists of all income acquired at work before taxes, while the average salary of contributions by socially insured persons is constituted from the

social contributions done by a person. In accordance with the current legislation in force, it is stated that the state social contributions and personal income tax is not applied to the presents or gifts by employer to the employee if their total amount does not exceed the amount of minimum monthly wage in an accounting period, as well as funeral grant assigned by an employer not exceeding LVL 150. The minimum monthly wage has grown from LVL 40 to LVL 90 or by 125% from 1998 to 2006, but the average salary of contributions by socially insured persons has increased from LVL 123 to LVL 274 or by 124%. The increase in the average salary of contributions by socially insured persons has been advanced by the growth in the minimum monthly wage, which also enabled the possibilities to increase the child care benefit.

Conclusions

1. Child care benefit as one of the components of social transfers is significantly influenced by the legislative norms and the economic activity of the inhabitants.
2. Child care benefit in Latvia functions in the so-called mixed system, namely, for the employed taking care of a child up to one year of age the child care benefit is calculated and allocated according to the principle of state social insurance, while for the unemployed - the child care benefit is a typical social benefit with a constant amount.
3. In 2002 the child care benefit on average per one household member in the cities was LVL 5.10, and in the countryside LVL 5.14, while in 2005 it already has increased up to LVL 12.75 in the cities, but in the countryside only to LVL 8.78.
4. From 2001 to 2004 the proportion of child care benefit recipients of the potentially possible number has decreased from 79% to 75.1%. It can be concluded that this benefit could not perform the economic functions, and parents choose to work in order to provide the family income.
5. The child care benefit increases significantly starting from 2005, which can be explained by changes in the legislation, when both the minimum and the maximum amount of child care benefit was increased. The average child care benefit in 2007 reached LVL 88.31.
6. The monthly minimum wage, average gross monthly salary and average salary of contributions by socially insured persons in Latvia in the period from 1998 to 2006 have a tendency to grow, which provides a possibility to increase the amount of child care benefit in the country.
7. Starting from 2008 the social benefit system is being improved – a new social insurance benefit – parent benefit – is introduced; this benefit does not have a fixed maximum limit and that will provide the parents of a child with income equivalent to their salary before the birth of a child, thus it will more successfully perform its economic and social functions.

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