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Social protection in the 10 new Member States

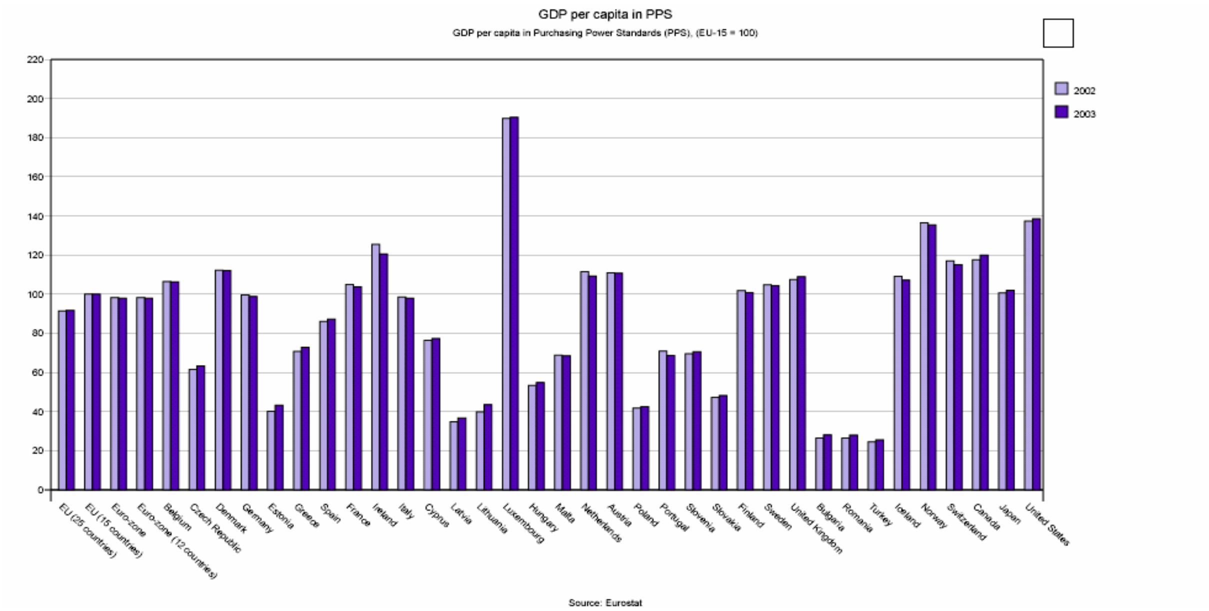
The enclosed Missoc-info has as main objective to give a short overview of the different social security systems as they for the moment exist in the 10 new member states of the European Union. The basic intention is to provide the reader with an overview of the basic principles of the different social security branches in the countries concerned. It is not our intention to give an overview of the evolutions in the systems during the last years.

However we noticed that there was a huge lack of information on the social protection systems in these 10 new member states. For that reason we decided to make a Missoc-info which provides practical information to all these people who have an interest in the social protection systems in these states, as institutions, academic people, employers or employees who envisage to go working in these countries. The information is given on the basis of a questionnaire that provides the reader with a first impression of the different models. It is clear that for further details we refer to the Missoc tables.

Before we have a close look at the different principles of the systems, we have however also to pay attention to some economic background elements of these systems, compared to the other, rather "old" member states of the European Union. In this respect it cannot be neglected that there are differences in GDP per capita.

Country	**GDP in % EU (2000)**	**GDP in % EU (2004)**	**Years needed for GDP 75% EU-Average**
Slovenia	71,6	85,3	1
Hungary	52,0	64,0	11
Czech Republic	60,1	68,0	15
Estonia	38,0	47,6	19
Latvia	29,3	36,5	27
Slovakia	48,1	55,9	30
Lithuania	29,2	35,2	31
Poland	38,9	45,0	33

GDP per capita CEC-countries by comparison with EU-average



Differences in GDP: Average per capita is lower in new Member States

1. Medical care:

Concerning the systems of health care, none of the countries have a reimbursement system. Some of the countries know a benefits in kind system (Czech Republic, Slovakia, Lithuania, Poland, Hungary, Estonia and Slovenia) while others have a national health system (Latvia, Malta and Cyprus). Most of the countries allow the patients to contract free their medical providers or hospitals, while some countries do not oblige patients to register with one general practitioner (Cyprus, Estonia, Lithuania, and Slovenia). Others like the Czech Republic and Slovakia foresee that the patient has to go to the doctor with whom the health insurance agency has concluded a contract (in the Czech Republic they can change once every three months, in Slovakia twice a year). In Latvia and Poland they may change not more than twice a year from physician, in Hungary only once.

None of the countries also know a separate long-term insurance care scheme. While some countries have no such system (Slovakia, Malta, Latvia, Cyprus, Czech Republic); others foresee a (restricted) system provided through other schemes, in particular the health care system (Lithuania, Hungary, Poland, Slovenia).

Health care		
	Type of system: reimbursement / benefits in kind / national health service?	Free choice of medical provider?
Czech Rep.	Benefits in kind	Yes (contract with health insurance agency)
Estonia	Benefits in kind	Yes
Cyprus	National health service	Yes
Latvia	National health service	Yes, twice a year
Lithuania	Benefits in kind	Yes (if private, contracted doctors)
Hungary	Benefits in kind	Yes (if private, contracted doctors)
Malta	National health service	Yes (practice not used)
Poland	Benefits in Kind	Yes
Slovenia	Benefits in kind	Yes, among doctors having concluded a contract with IHIS
Slovakia	Benefits in kind	Yes (contract with health insurance agency)

2. Sickness: Cash Benefits

Who is covered for these benefits? The employed workers, wage earners, are as a matter of fact all insured under the sickness benefit schemes. Some special voluntary systems have been introduced in some of the countries (Czech Republic, Lithuania, and Poland) in particular for the self-employed people. Most of the countries concerned also exclude certain categories of people, as e.g. unemployed people, however with certain exceptions. Two more fundamental conditions have to be fulfilled in all these countries: being insured (belonging to a regime) and being in receipt of a medical certificate. It has to be noticed that really minimal contribution periods are asked for from wage earners. Most of the countries do not ask for any insurance period. Some countries however (Cyprus, Lithuania, Malta) know an insurance period before receiving full benefits.

Concerning cash benefits the first day of sickness is often considered as a waiting period during which a person insured is not covered by the sickness benefit scheme. During that period there could be an obligation or not to pay any sickness cash benefits, which immediately implies the important link that exists between the obligations of the employer and the social security institutions. Most of the countries have no waiting period. Some other countries have one like Estonia (1 day, covered by the employer), Latvia (1 day, not covered by the employer), Malta and Cyprus (3 days, Malta covered by employer) and Slovakia 10 days but covered by the employer (however with different amounts depending on how many days).

The length during which cash benefits are paid differs to a big extent between the various countries. This could reflect the way the benefits relate to invalidity benefits for persons who are confronted with long term incapacity.

We could however find out different groups. Groups where the sickness cash benefits are more or less limited to about 6 months, like Estonia, Cyprus, Lithuania, Malta, Poland while others have a maximum of approximately 1 year (Czech Republic, Latvia, Hungary, Slovenia, Slovakia).

What is the importance of the benefits which have been paid out? Quite a number of countries do not pay a uniform amount, but let it depend on certain criteria and situations. In most countries the amount depends on a percentage of the average income (Slovakia, Estonia, Latvia, Lithuania, Poland, Slovenia, and Cyprus). In the Czech Republic and Slovakia a maximum contribution floor exists. On the other hand in Malta the sickness benefits are a flat rate amount, depending on the family situation. Attention should be paid to the fact that some countries indeed pay out benefits for everybody on the basis of fixed percentages, which can however also pay lower than those provided for in other countries, as well due to the fact that lower percentages are foreseen, as to the fact that a ceiling of salary is foreseen. This could lead to the result that the rate of replacement which is in reality paid out is of course lower for those persons who have higher incomes.

A maximum amount of benefits is foreseen in Lithuania, Czech Republic, Slovakia and Malta. Only in Cyprus and Malta the amount differs according to the family situation.

3. Maternity

Concerning maternity benefits we have in particular been looking at those benefits given to pregnant women, as well as at the question whether there also exists a particular flat rate amount in case of birth. Who can benefit from these maternity benefits? Some countries do not pose any minimal insurance period (Poland, Malta, Slovenia, Latvia), which of course allows a great number of women to ask for maternity benefits. Some other countries ask for a certain contribution period. In the Czech Republic and in Slovakia this qualifying period is the longest with 270 days. Surprisingly however, it is also noticed that the duration of maternity benefits differs to a huge extent between the different states. Some have a very long period, the Czech Republic and Slovakia have 28 weeks, while others have a particular short duration of benefits. Poland makes a difference between the children, with 16 weeks for the first child, and 18 weeks for each subsequent child. Various countries also foresee extra periods in case of multiple births (Latvia, Lithuania, Estonia, and Poland).

How important are maternity benefits? Some countries foresee that the mother is guaranteed further payment of 100 % of their income during the whole period covered (Latvia, Lithuania, Estonia, Slovenia and Poland). In the Czech Republic the benefit is 69 % of the assessment base but reduced after 15 days.

4. Employment injuries and occupational diseases

Work injuries and occupational diseases systems are organised in different ways, partly according to the tradition in the countries concerned. Several mechanisms have been observed:

- first it could be the responsibility of the employer to pay the damage. The role of the state would then be limited just to fix the responsibility of the employer, as well as to control if the employer has respected his obligations;
- secondly, it could be that a social insurance regime has been set up for work injuries and professional diseases: sometimes this can be done by setting up a complete autonomous

and distinct regime where the administration is entrusted to specialised institutions, or either as being part of the general system for social insurance, however with specific conditions for contributions, as well as the level of benefits;

These systems are of course organised in very different ways. Many of the member states have specific regimes for work injuries and professional diseases.

In some countries (Poland, Slovenia, Malta) there exists no immunity from the employer against actions from his employees. Concerning occupational diseases, all systems work with a list of occupational diseases and none of the systems know a definition of a mixed system.

5. Family allowances

How long are family allowances paid? For family allowances the maximum age is determined on explicit principles or implicit concerning the dependence of the child, the professional activity of the parents taking care of the child and also the number of members of the family. Some countries just look whether the child is still at the charge of its parents. For this reason, benefits could be paid out until the child finishes its higher education. Most of the countries however determine a maximum age and therefore start from the idea that the dependence takes an end at the age where the child leaves secondary school or around that age. However, most of these countries also foresee prolongations in case the youngster decides continuing studying after secondary school.

Almost all the countries have a social assistance scheme (Malta, Lithuania, Cyprus, Slovakia, Slovenia, and Poland) where four of them have a universal scheme (Czech Republic, Hungary, Latvia, Estonia).

In only a few countries the family allowances raise parallel with the age of the children (Czech Republic and Poland), due to the fact that it is believed that costs raise along with the children age. However, some countries limit or even stop paying the family allowances in case the income raises (Malta, Poland, Slovenia, and Czech Republic). Different mechanisms are used in that respect. In some countries the amount of benefits is reduced in parallel with the raise in income of the beneficiary. Other countries pay lump sum amounts linked to one or more revenue ceilings. Persons whose income is higher than these revenue ceilings receive less or even no benefits at all. Also the base of calculations is quite different. In some countries the amount differs according to the number of children (Estonia, Malta, Latvia, Hungary, Slovenia, Cyprus and Czech Republic) or depending on the age (Poland, Czech Republic, Estonia). Lithuania and Slovakia on the other hand look at each head: they pay the same amount of benefit (lump sum), regardless the age, the income or the number of the members of the family. The Czech Republic has a very complicated method of calculation. The amount depends on family income in the previous year and is calculated by multiplying the child's personal-needs amount by a determined coefficient.

Apart from the traditional family allowances, countries also foresee benefits for those parents who stay at home for taking care of the education of their child. In this case too, the maximum age of the child until which benefits can be asked, differs to a big extent between 1 year in Lithuania, 2 years in Poland and Latvia, 3 years in Slovakia and Estonia, 4 years in Czech Republic (even up to 7 years in case of severe ill child) and 6 years in Slovakia. Parental leave benefits however do not exist in Malta. Only in Poland they are means-tested.

Family benefits (child benefits)					
	Insurance system/universal/ or social assistance	Variation with number of children	Variation with age	Means-tested	Financed by
Czech Rep.	Universal	Yes	Yes	Yes	State budget
Estonia	Universal	Yes	Yes	No	State budget
Cyprus	Social assistance	Yves	No	No	State budget
Latvia	Universal	Yes	No	No	State budget
Lithuania	Social assistance	No	No	No	State budget
Hungary	Universal	Yes	No	No	State budget
Malta	Social assistance	Yes	No	Yes	State budget
Poland	Social assistance	No	At present no, from 1/9/05 yes	Yes	State budget
Slovenia	Social assistance	Yes	No	Yes	State budget
Slovakia	Social assistance	No	No	No	State budget

6. Unemployment benefits

The national unemployment systems differ, with respect to the organisational aspect, the methods of financing, the necessary conditions and other criteria allowing a right to the benefits. Two different principles can be highlighted: the principle of insurance and the principle of assistance. In principle, insurance systems reserve the right to unemployment benefits to people who have fulfilled a sufficient number or paid contributions. The level of unemployment benefits is often proportional to the former salary. The duration of the right to benefits is most of the time limited and may also be linked to the length of working or insurance period. Also the principle of need has hardly any influence on the level of the duration of the benefits. On the other hand these social assistance schemes are based on the aspect of need and are for that reason independent of former salary or of the length of the contributions.

In addition to the unemployment insurance scheme, two countries have a separate unemployment allowance scheme (Estonia, Malta) that provides a flat-rate means-tested allowance. The other countries have a general social assistance scheme for those who do not fulfil the conditions to open a right to unemployment benefits or who have received all possible unemployment rights.

The criteria for opening the right to insurance for unemployment are of course quite important. In order to be admitted to the right of unemployment benefits and receive them, the unemployed normally must have worked during a certain period (working period) within a period of reference. The shorter is the working period and the longer the reference period, the more the system is open and vice-versa. In some countries where the working period is rather short, one can easily apply for unemployment benefits (like e.g. Cyprus (26 weeks) but the reference period is also short:12 months). If one looks at the ratio between working period and reference period, one could perhaps argue that the Hungarian system is the most open

(200 days to 4 year). Also the Czech Republic with a ratio of 1 to 3 is rather flexible. Much more difficult are those countries with a flat-rate amount of benefits (Malta, Poland with almost 1 to 1) or Slovakia (3 to 4).

Most countries have an earnings-related system, while others a flat-rate amount (e.g. Poland and Malta). The level of unemployment benefits is generally linked to the former earned income, however exceptions exist to this principle, where some countries apply lump sums. Even in systems where the level of benefits is determined by the salary received, the level of benefits is not always strictly proportional to the former income, due to different ceilings integrated in the systems. A minimum level of unemployment benefits would raise the replacement rate for those unemployed who have beforehand received a rather low income. Vice versa, a limit of benefits would reduce the replacement rate.

Most countries deliver unemployment benefits, which are proportional to the individual salary received. The amount differs considerably between 40 % of the average monthly wage up to 70 %. In some countries the percentage is decreasing with the length of the unemployment period (Czech Republic, Estonia and Slovenia). In other countries (Lithuania, Latvia) the amount also raises in proportion to the insurance period of the person concerned.

The maximum duration of benefits depends in all the countries (from 3 months in Slovenia up to 18 months in Poland) on the basis of different criteria, in particular the length of insurance. The Czech Republic, Slovak Republic, Cyprus, and Latvia use a maximum duration, which is uniformely applicable. The most used criterion is the length of the former professional career, and Poland is in a particular position, due to the fact that they link it to the geographical situation.

7. Retirement pensions

Concerning the first pillar most of the countries have a pay-as-you-go pension system with defined benefits even if the structure of the systems differs. Only a few countries, notably Slovenia, Poland and Latvia, have a defined contribution scheme, however still the pay-as-you-go financing principle is maintained and the schemes are with notional defined contributions. Most of these systems cover both employed as well as independent persons: the self-employed and the inactive.

Qualifying period in most of the countries is at least 15 years. Qualifying period for full pension is up to 38 years or even 40 years of service in Slovenia, in case the beneficiary claims pension already at the age of 58. Malta and Cyprus have very short qualifying periods of 3 years. Countries with notional defined contributions schemes have special arrangements (Poland has no qualifying period at all).

The condition of qualifying period is combined with the condition of reaching the retirement age. Generally, this fluctuates around the age of 62 and reaches 65 only in Cyprus, so the legal retirement age in average is below the "old" EU member states. Slovenia has the lowest retirement age, 58, however only on the condition of 38 worked years, otherwise the age is up to 63 for women and 65 for men in case they worked only 15 years. The legal retirement age of women in most of the countries is being raised and is still in a transitional period. Even after the transition will have been finished, retirement age will still be lower for women than for men in the Czech Republic.

The way of calculations, as well as indexations, varies considerably. All countries reflect earnings in the calculation of pension benefits. Some countries have a system, which is non-linear in its structure. This could either be the result of the non-linear level or because different elements have been used in the formula, as a lump sum minimum part and a part, which is proportional to the length of service and earnings level. At least three countries have a flat rate basic pension amount incorporated in the formula and, on the top of this basic amount, the earnings-related component comes to question. Latvia and Poland use a more complicated pension formula, employing also the life expectancy factor in it.

As mentioned already, only a few countries have for the moment a defined contribution system for their basic first pillar regime. The first pillar in that respect clearly reflects the paid contributions for calculating the benefits, and as such limits the redistribution and solidarity effect of pensions. But even in these countries the first pillar remains financed by repetition (pay as you go) schemes.

Most of the countries in question use a combined indexation of pensions, based on consumer price index and a wage growth factor. That in many countries reflects the fact that economies are still in transition: Czech Republic, Poland, and Slovakia; combination of price and wage indexation is also used in Malta (depending on the type of pension) and in Cyprus.

It is clear that there is also a certain development in the pension systems of the different states towards a multi-pillar system. Still, there is a different concept in terms of financing by repetition, public and private capitalisation, compulsory and voluntary or even in terms of the concept itself of the regime, defined contribution or defined benefit.

Concerning the second pillar, different countries have installed a compulsory system: Estonia, Latvia, Slovenia, Hungary and Poland for the new entrees to the labour market. All second pillars are mostly capitalized and use individual accounts. The Czech and the Slovak Republic have a complementary voluntary second pillar system, which uses tax incentives for employers to insure their employees. Malta has not yet any second pillar system.

The new member states have widely varied tax regimes of pensions from first and second pillar. Some countries tax both, pensions from the first as well as from the second pillar: Estonia, Slovenia, Poland and Latvia. On the other hand, there are two countries not taxing any pension benefits – Czech and Slovak Republics. Other countries use a combination, taxing one or the other pillar's pension.

8. Invalidity pensions

The risks in pension systems in general are clear: old age, invalidity and survivorship. Some countries have a system where invalidity also covers invalidity resulting from work injuries. Some countries have rather high incidence of invalidity pensions, e.g. in the Czech and Slovak Republics the percentage of retirement pensions used for invalidity pensions is relatively high. Such pensions have most of the time been used as an instrument of labour market policies during restructuring of industry and higher unemployment rates. In all the systems the amount of benefits depends on the length of insurance period (a so-called B –system for Regulation 1408/71).

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