

SOCIAL POLICY AND SOCIAL WELFARE IN SLOVAK REPUBLIC

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Abstract:

This article deals with social welfare question in Slovak Republic in historical context of social policy development as well as with analysing conditions for implementation of social welfare after Slovakia joined European Union. Our preface brings a survey of basic terminology related to social policy and social welfare. The first part focuses on historical development of social policy and social welfare. The second part and the conclusion describe principles applied to social welfare through social insurance and indicates problems with rising levies, going to the national budget, and other problems with social funds usage and fulfillments.

Key words: social policy, social insurance, levies to insurance funds

JEL Classification: H55

PREFACE

In last decades there has been an abiding conviction that the mechanisms of free market based on general access to information with no protection of the government interests, represent the guarantee of rising productivity on the market as well as in whole economy.

Lately it is more likely that free market mechanisms are not successfully used for collective goods. Due to that fact and because of its heterogeneity, public sector represents the main guarantee and the provider. This can be applied to various social phenomena such as: unemployment, poverty, social exclusion that are being permanently unsolved and differently interpreted. Even economic sciences are not rigid and consensual when presenting their opinions about development rate of "social guarantee" so that they would keep and improve economic development of national and perhaps even global economy.

"Social policy determines objective, legal, institutional assumptions and conditions for economic development by setting positive working and living environment for creating economic values, mainly by means of education policy, housing policy, health policy, employment policy etc. naturally appearing in human activity and as well as cultivation."

Nowadays mainly in consequence of the recession and unfavourable demographic development, it is necessary to discuss the theme of social welfare realised through social insurance. This article deals therefore with social welfare in SR in context of historical development of social policy as well as conditions for implementation of social welfare after Slovakia joined European Union.

HISTORICAL DEVELOPMENT OF SOCIAL WELFARE

Social welfare is an organic part of social policy, being the means of goals and tasks realisation in social policy. State economic policy is closely related and linked to social policy. State social policy is closely related and linked to social policy which provides sources and impulses for its development. The models of social development in the state are shown in chart no.1.

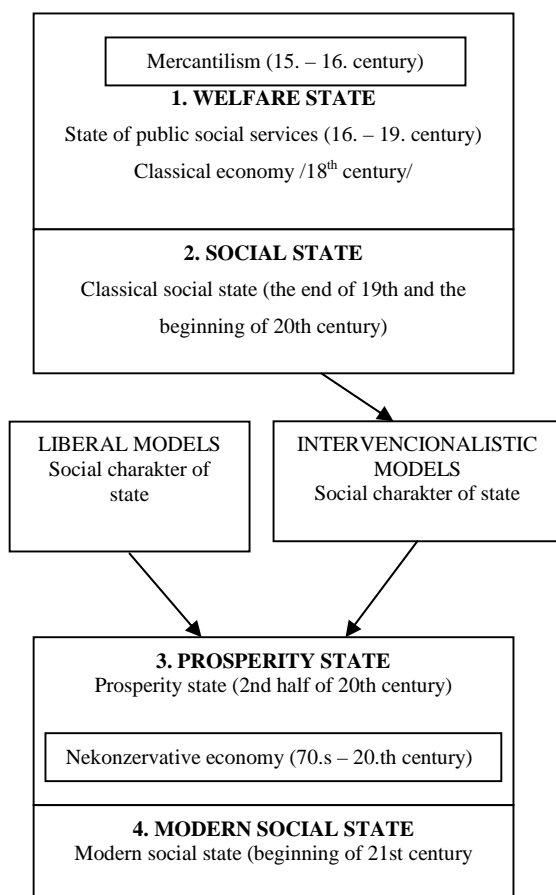


Figure no. 1 . The models of social development character in the state

Since the 90's of the last century European social policy follows the action programs also known as the Green and White Book (1993, 1995), which recommends certain social "convergence". In the years 1992-1999 the process of social policy development, affected by two different principals, included in the contract of European Society (ES) following the Maastricht Treaty (1992) and Amsterdam contract of social policy (which Great Britain did not attend), based on the principles of European Social Charter (1961,1996) and Charter of Fundamental Labor Rights (1989).

Social policy and social security in EU countries is apart from above stated normative adjustments influenced by the social policy of individual countries from European economic area (EEA) and mainly by international organisations such as the United Nations Organisation, the International Labour Organisation and the Council of Europe.

SOCIAL POLICY OF SLOVAK REPUBLIC

According to the model of Modern social state, the social policy character of Slovakia could be classified as transitive middle European type, focusing at maintaining employment and development of economy, where the state represents a guarantee of minimal social network and a partial employer.

Nowadays the social policy and the social welfare in Slovakia are implemented according to the act § No. 461/2003 Coll. relating to social insurance legislation, defining social insurance, its scope, legislation, organisation and state supervision upon administration and legal actions in social insurance cases. This does not apply to Police Forces, National Security Authority, professional military soldiers and emergency soldiers whose social welfare is modified according to specific regulations. The act preserves established Social insurance and its administration. However, the act has been amended several times enlarging the scope of social insurance for unemployment benefits

payments and pension insurance. The latter was divided into a 2nd pillar pension saving system and a 3rd pillar old-age pension saving system. Social Insurance governs various types of social benefits illustrated in Table 1.

Table no. 1. Types of social insurance

Type of insurance	Reason for insurance
Sickness insurance:	- Insurance in case of income loss or reduction or providing income as a result of temporary sick leave, pregnancy and maternity leave.
Pension insurance:	- Old age pension is an insurance providing income at retirement age and in case of death, - Invalidity pension is an insurance in case of reduction of capacity to perform gainful activity due to a long term unfavorable health condition and in the case of death
Accident insurance:	- The benefit provided to a damaged employee or death because of the work accident, occupational disease.
Guarantee insurance:	- The insurance in case of the employer's insolvency - The benefit is provided for the employee to contribute to basic fund for pension insurance
Unemployment insurance:	- Insurance in case of losing job and income resulting in unemployment and therefore the unemployment benefit is provided

Social Insurance revenues are mainly levies paid for social insurance, annuity assurance and other benefits from national budget of the Slovak Republic. Other revenues are those coming from the assets of social insurance as well as administrative funds. Increases of the revenues is due to increasing minimum and maximum base of assessments, which serve as the bases for the calculation of fund levies.

Table no. 2. Insurance funds revenues

Revenue in billions Sk	2004	2005	2006	2007	2008
Revenues in ordinary year	114,98	113,25	135,01	147,66	159,46
- for sickness insurance	10,01	8,23	9,43	10,28	11,82
- for pension insurance	68,59	58,76	74,72	80,30	83,36
- for invalidity insurance	13,94	20,49	22,18	24,71	27,81
- for accident insurance	2,48	2,87	3,07	3,42	3,79
- for guarantee insurance	0,54	0,85	1,04	1,45	1,55
- for unemployment insurance	6,28	6,25	6,64	7,36	8,28
- for solidarity reserve fund	7,13	15,38	17,47	19,59	22,16
- other revenues and revenues from administration funding	6,01	0,42	0,46	0,55	0,69

Social insurance expenses comprise of social insurance and annuity assurance benefits; benefits for accident insurance and unemployments benefits. Administration funding has been established for the financing all costs related to all activities of the Social Insurance Institute. On the

Base assessments are limited from the "top". Maximum possible base assessments are used for sickness insurance and guarantee insurance nowadays amount to 1084,55€ The highest possible base assessment for pension insurance, invalidity insurance and unemployment insurance is the amount of 2892,12 € There is no highest possible base of assessment set for an accident insurance.

The employee pays from the base assessment together 9,4 % into sickness, pension, invalidity and unemployment funds. The employer pays together 25,2 % into the same funds as the employee, plus into a accumulated solidarity surplus, as well as guarantee and accident insurance. A retired person (beneficiary of old age pension or early age pension) does not pay either invalidity insurance or unemployment insurance)

A retired person (beneficiary of old age pension or early age pension) does not pay either invalidity insurance or unemployment insurance. If the beneficiary of invalidity pension is not able to perform 70% of his gainful activity, he does not pay the insurance of unemployment. These levies are not even paid for him by the employer.

Not all the **free lancers** have the compulsory insurance. Only half of the people, registered as free lancers in tax office, are obliged to pay insurance to Social Insurance. These payments depends on the their revenue earned in the previous year.

Base assessments of freelancers is a half of the tax base levied in previous year (tax base = gross incomes lowered by legitimate expenses), while the amount is divided by months of entrepreneurship in previous year and could be lowered by life insurance payments.

Base assessments are limited from the "top" the same way as with employees. The freelancer pays from the base assessment together with 30,4 % for sickness, pension, invalidity insurance and reserve fund. A retired entrepreneur does not pay invalidity insurance.

In contrast with the employees free lancers can have the lowest base assessment; nowadays it is a set amount 319,58 € The lowest possible amount is then 96,90 €per month. This means that this amount has to be paid to Social Insurance every month also by the freelancer who had a higher turnover but in total made a loss or reached a symbolic tax base; this also applies when he or she pays the insurance as an employee.

The **social insurance is not paid** from profit shares, bonuses paid by the owners of commercial companies, associations or members of statutory authorities as well as from the bonus for a Member of Parliament who is not being vacated from his legislative role, capital revenues (e.g. interests from deposits and loans), occasional revenues, (mandate contracts, contracts of artwork, other not named contracts), rent incomes and royalties.

EXPECTED CHANGES IN SOCIAL WELFARE

Canceling the system of insurance funds will be considered after carrying out levy bonus, which will be paid by the citizens as the only solidarity levy. Compulsory system will stop being meritorious and will become fully solidarity. Existing benefits from social insurance will be replaced by a state social benefit set at the amount of minimum living wage. Special benefits will be paid to mothers with small children (an alternative to existing maternity leave and parental contribution) and invalids (an alternative to invalidity pension and other existing social contributions provided)

Base of the assessment for levy bonus payment will be the same as the tax base of the employee. In gross income of the employee all taxable revenues will be included. A gross income of the employee will be increased by all the levies previously paid by the employer excluding guarantee and accidental insurance. For example, if the employee earns gross 1000 €per month after carrying out levy bonus he or she will have gross 1342 €per month.

The base for tax calculation and solidarity levy will represent new gross income including an amount of levy bonus (state social contributions), which belongs to the employee and his family. From this base, solidarity levy will be calculated with the rate 9%.

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Summary

This article we tried to discussed social welfare question in Slovak Republic in historical context of social policy development by analyzing existing conditions of social welfare after Slovakia. It brings a survey of basic terminology related to the topic: social policy and social welfare and the principles applied to social welfare through social insurance. We deal with existing high levies going to the national budget and other problems with social funds usage and fulfillment.