

**Reply of Lithuania**  
**to the questionnaire on recent adjustments of public expenditure and the impact on those living in extreme poverty addressed to States by the Independent Expert on the question of human rights and extreme poverty**

**Question 1**

During the economic crisis, an increasing number of the country's population has encountered socioeconomic problems. Solutions to these problems are related to the effective functioning of the state social assistance system provided to families raising children and poor residents. In 2009, seeking to solve the financial problems of the state related to overcoming the economic decline and having regard to the decreased revenues in the state budget, obligations of the state concerning child benefits and social support for pupils were revised. Payment of a child benefit and social support for pupils was limited financially, the provisions concerning the amount of this support was specified with due regard to the financial resources of the state. But expenditure related to cash social assistance for poor residents increased.

On 9<sup>th</sup> December 2009 The Seimas (Parliament) of Republic of Lithuania adopted the Temporary Law on Social Benefits' Re-calculation and Payment (No. XI-537), which reduced certain amounts of benefits.

**Question 2**

In 2009 Government started discussions and took actions for seeking possibilities to reduce social insurance pensions and other social security expenditures in order to balance the budget of State Social Insurance Fund Board of the Republic of Lithuania. Therefore, to legitimise this reduction, the Government submitted the Temporary Law on the Re-calculation and Payment of Social Benefits which was named as an "anti-crisis law" to the Seimas for approval and from 1<sup>st</sup> of January 2010 the Law came into force. The Temporary Law is to be in force for two years until 31 December 2011. These measures are expected to enable the State Social Insurance Fund to cut its budget expenditure by LTL 589 million, including LTL 307 million due to the re-calculation of pensions and LTL 282 million due to the limitation of the pension amount for persons who have insured income.

The need for cash social assistance has been growing during the economic decline. In 2009 the bigger share of expenditure on social assistance (57.5 per cent) was made for benefits to families or cohabitants raising and (or) fostering children. Expenditure from the state budget on social benefit, compensations for heating and water expenses, reimbursement for a credit, taken out for the renovation (modernisation) of a multi-dwelling building, and interests for persons entitled to the compensation for heating expenses amounted to 26 per cent of the overall social assistance expenditure. The overall amount of benefits paid for a family or cohabitants and children by the state as well as assistance of other types amounted to LTL 1,045.5 million in 2009, which is an increase by LTL 152.9 million (17.1 per cent) as compared to 2008. The growth in the expenditure on assistance was caused by the increased number of recipients of social benefit and compensations for heating and water expenses, which was affected by the increased unemployment rate and decreased income of residents.

Expenditure related to cash social assistance for poor residents increased by 60 per cent in 2009 as compared to 2008 (an increase of 140 per cent during the first–third quarters of 2010 as compared to the thir–third quarters of 2009). In 2009 benefits for families or cohabitants with children

amounted to LTL 601.1 million which is an increase by 1 per cent as compared to 2008 (decreased by 55,4 per cent during the first–third quarters of 2010 as compared to the thirteenth–third quarters of 2009). In 2009, as compared to 2008, expenditure on social assistance for pupils (free meals, assistance for the acquisition of school supplies) increased 10 per cent, despite the fact that as of 1 January 2009 free lunch has been provided only to pupils from low-income families. The provision of free lunch to all pupils studying according to pre-school or primary curricula was renounced.

### **Question 3**

Temporary Law on Social Benefits' Re-calculation and Payment determined the reduction for state social benefits (state social insurance pensions for old-age, state social insurance pensions for incapacity for work, state social insurance pensions for widows and orphans, early old-age pensions, compensations for special working conditions, maternity, paternity benefits, maternity (paternity) benefits also).

This Law applies to such state social benefits as for old-age pensions, incapacity for work pensions (for those who lost 45-70 per cent incapacity for work), early old-age pensions that are above the limit set by Law (650 LTL) and state social pensions for orphans that is above the half of set limit by Law (325 LTL). These pensions were recalculated and reduced in order to have sufficient income for protecting the most vulnerable social groups. Moreover some type of benefits have exceptions when reduction is not applied: beneficiaries of state social insurance pensions for old-age who have big level of special needs (in other words, when the severe disability is identified after retirement age), beneficiaries of state social insurance pension for incapacity for work, who have total incapacity 75 -100 per cent. As a result of the recalculation of pensions, pensions for persons who do not have insured income decreased on average by 7.88 per cent.

All benefits have been recalculated and reduced when smaller amount of insured income of current year has been approved in 2009 (the insured income for current year changed from 1,448 LTL in 2009 to 1,170 LTL in 2010).

The amendments of the Law on Sickness and Maternity Social Insurance came into force from the 1<sup>st</sup> of July 2010. Due to this all current and newly granted maternity (paternity) allowances were reduced by 10 per cent (from the 1<sup>st</sup> of July 2010 allowances amounting to 90 per cent of the former salary are to be granted during the first year of raising a child and allowances making up 75 per cent during the second year). The ceiling of maternity/paternity benefits were reduced to 4,680 LTL (four amount of insured income for current year). Newly granted maternity (paternity) allowances will be reduced from the 1<sup>st</sup> of July 2011 as well. There will be a possibility to choose. Allowances amounting to 100 per cent of the former salary are to be granted during the first year of raising a child. If persons decide to raise a child for two years: allowances amounting to 70 per cent of the former salary are to be granted during the first year of raising a child and allowances making up 40 per cent during the second year.

An additional reduction of old-age pensions, retirement pensions and compensations for special working conditions are carried out by this Temporary Law for those who work and have insured income. The pensions and compensations are reduced progressively, depending on the amount of person's insured income of the previous calendar month. As a result of the application of the Temporary Law, pensions for persons who have insured income on average decreased by 24.58 per cent. However, for receivers, whose insured income is bigger than 4200 LTL, the state social recalculated pension is reduced by 70 per cent.

Another action for reducing social security expenditures was reduction of rate for contributions to second stage pension funds. It was reduced from 5.5 to 3 per cent of the employee's salary from 2009 and later from the 3<sup>rd</sup> quarter again it was reduced from 3 to 2 per cent of the employee's salary. The reduced contribution rate is valid till the economic and financial situation in the country is recovered.

Till 1 March 2009, a child benefit was paid without taking account of the amount of family income. In 2009 seeking to solve the financial problems of the state related to overcoming the economic decline and having regard to the decreased revenues in the state budget, obligations of the state concerning child benefits were revised.

Since 1 March 2009 the payment of child benefits to children older than 3 years of age after having evaluated family income was established. A family raising one or two children shall be paid a child benefit for each child between the ages of 3 and 18 years and older who study according to general education curricula and/or vocational training curricula seeking to acquire initial qualification, but no longer than 21 years, if the monthly income per family member is less than LTL 1,050 (3 amount of the state supported income (hereinafter referred to as SSI)).

After payment of a child benefit was limited financially, the provisions concerning the amount of this benefit, its granting and payment procedure had to be specified with due regard to the financial resources of the state. Since 1 January 2010 a child benefit amounting to 0,4 basic social benefit (hereinafter referred to as BSB) (LTL 52) is paid to children from two to seven years of age, and until 18 years of age in large families, if the average family's income per person per month of the previous calendar year does not exceed 1,5 amounts of SSI (LTL 525). A benefit is paid to children of large families until every child attains 18 years of age; however, elder children of the majority age should study for no longer than until they attain 24 years of age. Children from birth to the age of two years shall be granted and paid a child benefit amounting to 0,75 BSB (LTL 97,5), if parents do not receive a social insurance maternity (paternity) benefit or this benefit does not exceed LTL 525.

In 2008, on average 624,2 thousand children received monthly child benefit (93 per cent of all children in Lithuania), in 2009 – 495,3 thousand children (71 per cent), in 2010 – 160 (25 per cent). Expenditure related to child benefit decreased by 2,6 per cent in 2009 as compared to 2008 (a decrease of 71,2 per cent during the first–third quarters of 2010 as compared to the first–third quarters of 2009).

Having regard to the difficult economic situation in the country, which has led to the insufficient amount of funds for covering the expenditure on free lunch of all primary school and pre-school pupils, as of 1 January 2009, the right to free meals is granted only to pupils from low-income families, if the income per family member per month does not exceed 1,5 amounts of the SSI (LTL 525). Since 1 January 2010 seeking to ensure that all pupils from low-income families are provided with free lunch, free breakfast may be granted only in exceptional cases, having evaluated the living conditions of a family.

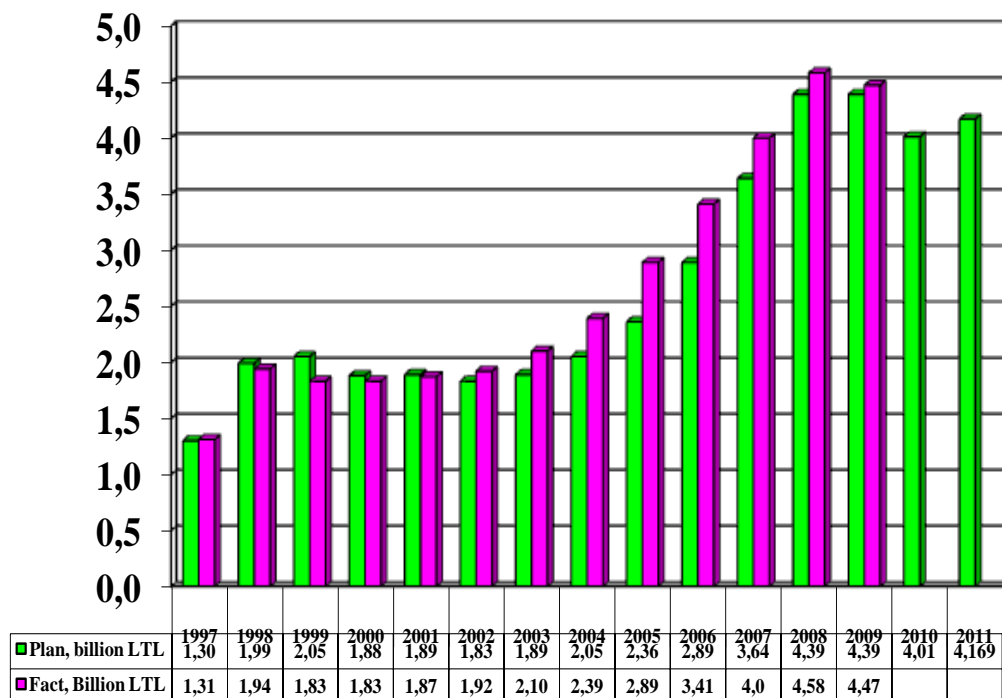
In 2009, as compared to 2008, the number of pupils who received free lunch fell from 210 thousand to 136 thousand (a decrease of 35 per cent); however, an increase in the number of pupils who received free breakfast was recorded – from 58 thousand to 85 thousand pupils (an increase of 47 per cent). The increasing unemployment rate determined the increase in the number of pupils from low-income families who receive free meals (in 2009, as compared to 2008, the number of pupils from low-income families who received free lunch grew by 46 per cent), which also led to an

increase in expenditure on this type of assistance. In 2009, as compared to the previous year, expenditure on free meals for pupils grew 4 per cent.

During the first–third quarters of 2010, as compared to the first–third quarters of 2009, the number of pupils who received free lunch grew from 110 thousand to 143,5 thousand (an increase of 30,5 per cent); however, an decrease in the number of pupils who received free breakfast was from 69 thousand to 10,8 thousand pupils (a decrease of 84,3 per cent). Expenditure related to free meals during mentioned period decreased by 5,5 per cent.

The economic crisis directly affected the collection of the Compulsory Health Insurance Fund’s (the CHIF) budget. A picture below presents the dynamics of CHIF budget expenditures (comparison between plan and fact).

**Dynamics of CHIF budget expenditures, LTL.**



The measures which Lithuanian Government designed to assure the sustainability of Lithuanian healthcare system and universal coverage of all population:

1. The State has increased it’s contribution for persons who are insured by the State by 23 % (calculating the rate of contribution in LTL) for the year 2010 and this has partially mitigated the loses of CHIF budget during the economic crisis period.

As the costs of healthcare services are approved in points, the value of one point has been revised in May, 2009. It was estimated that 1 point is equal to 0.89 LTL (formerly 1 point was equal to 1 LTL). Since 1 January 2010 the value of 1 point has been reduced to 0.81 LTL.

2. CHIF resources were relocated to assure the access to the prioritised healthcare services:

- Given high priority for the primary health care and prevention in order to assure the access for health care and in order to solve most of the patient’s problems at a primary healthcare level:

- As the payment method for the primary healthcare is 85% capitation fee + 15% fee for service payment (for the extra services based on activity results, for example – early diagnostics of cancer, etc.), the bonus payment for such extra services (according to the activity based results) was

preserved and value of 1 point used for payments stayed equal to 1 LTL (in order to motivate healthcare providers to provide more services remunerated on fee for service basis),

- The value of the point used for the payment of primary healthcare services provided in the rural areas stayed at the same value (1 LTL),

- The competence of family physicians was expanded and more funds earmarked for that purpose;

- Prioritised payment for out-patient care, day surgery, day care and short term in-patient treatment – in order to optimise healthcare services and to stimulate the provision of more efficient services and make a shift from hospital to outpatient care;

- Priority for the out-patient rehabilitation versus inpatient rehabilitation.

3. Activities to reduce the pharmaceutical costs were implemented (reduced prices of generics, expansion of the positive pharmaceutical list was postponed, price volume agreements with healthcare providers were concluded);

4. The plans concerning the introduction of new healthcare services in to the list of services covered from CHIF budget were suspended.

#### **Question 4**

The rates of remuneration approved by the Laws of the Republic of Lithuania and Government Resolutions were not reduced in 2010, however, the reduced rates decisions whereon were adopted in 2009, when the economic and financial situation was difficult:

– the basic salary coefficients reduced by 10 per cent as of 1 August 2009 were applicable to state politicians, the basic salary coefficients reduced from 2.5 to 10 per cent were applicable to state officials (Law No. XI-361 of 17 July 2009);

– the salary rates reduced by 8 per cent as of 1 August 2009 were applicable to all judges (Law No. XI-362 of 17 July 2009);

– the salary rates reduced as of 1 August 2009 were applicable to civil servants, i.e. basic salary coefficients were reduced from 0.6 to 7.5 per cent for higher categories (11–20) of civil servants, the bonus for the first qualification class was also reduced down to 30 per cent (50 per cent previously), for the second qualification class – down to 20 per cent (30 per cent previously), for the third qualification class – down to 10 per cent (15 per cent previously) (Law No. XI-363 of 17 July 2009).

In July 2009, the Seimas of the Republic of Lithuania adopted the Law on the Base Rate of the Basic Salary of State Politicians, Judges, State Officials and Civil Servants of the Republic of Lithuania Applicable in the Year 2010 under which the base rate of the basic salary in the year 2010 was set at 450 Lt.

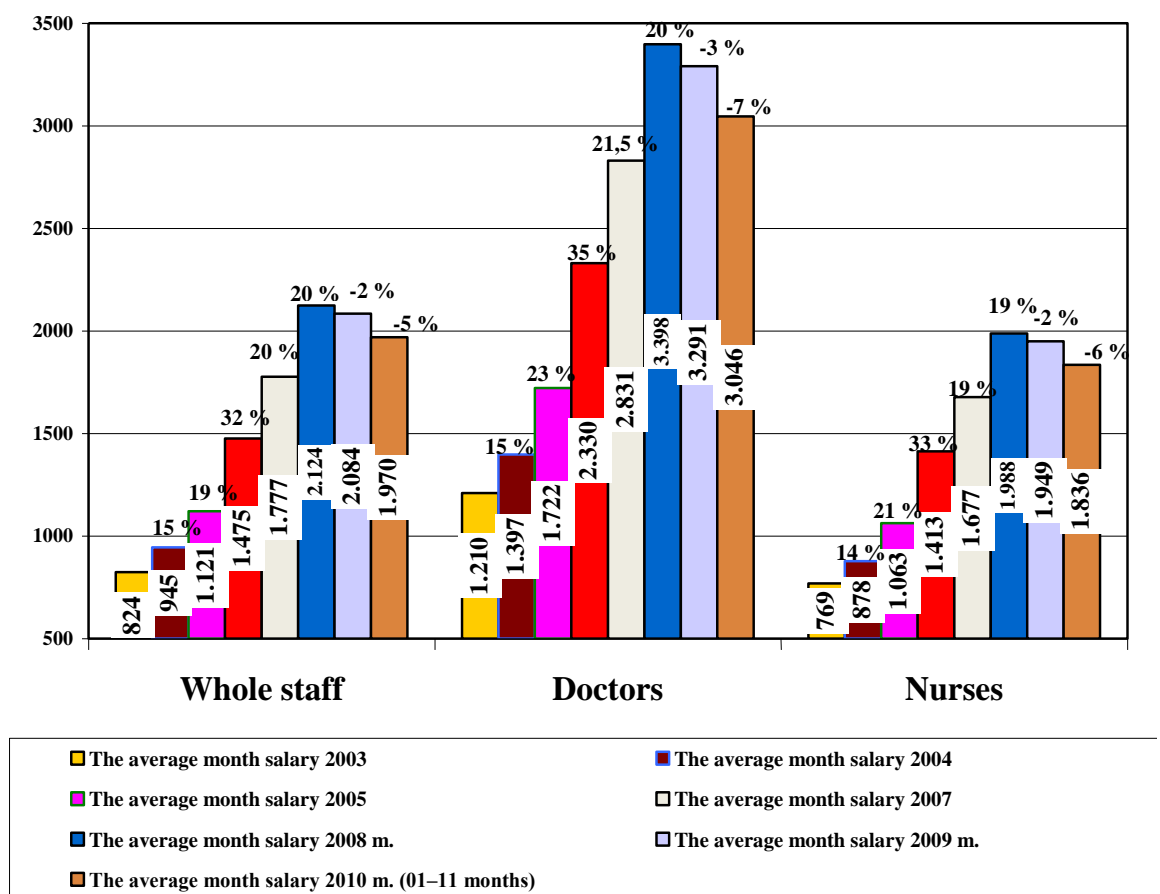
In 2010 the basic monthly salary reduced by 4.7 per cent as of 1 September 2009 (from 128 Lt to 122 Lt) was applicable (Resolution of the Government No. 844 of 19 August 2009 on Approval of Basic Monthly Salary and Basic Hourly Wage) to the calculation of the salaries of employees of budgetary establishments and organisations (including employees of healthcare and educational establishments) employed under employment contracts.

The employees of budgetary establishments also were subject to salary rates reduced as of 1 September 2009, i.e. the personal bonuses were reduced by 30 per cent for the employees receiving a higher salary (heads of budgetary establishments and organisations, their deputies, heads of structural divisions and their deputies), the rates of bonuses and additional pays for other employees were reduced by 10 per cent; the maximum salary coefficients established by Resolution of the

Government of the Republic of Lithuania No. 511 of 8 July 1993 on Improvement of the Remuneration Procedure for Employees of Budgetary Establishments and Organisations were reduced by 12 per cent to the heads of establishments and their deputies, as well as by 1.5 per cent to the heads of structural divisions and their deputies. The salary coefficients of specialists, servants and workers were not reduced.

The Picture below presents the dynamic of average salary of healthcare professionals in 2003-2010, LTL

### The dynamics of average salary of healthcare professionals in 2003-2010, LTL



### Question 5

Having regard to big unemployment rate (see the data of 1<sup>th</sup> table) the amendments of the law have been adopted extending the period of entitlement to unemployment benefit by 2 months in the territories of municipalities where the average ratio of the registered unemployed in the latest quarter and the most recently announced number of the working-age population is 1.5 and more times higher than the country's average ratio. Following new aspects of the labour market policy the list of additionally supported persons on the labour market has been supplemented with young persons at the working age (until 29 years of age) and individuals starting their working carrier for the first time according to the acquired qualification. Also duration of the period for supporting the acquisition of working skills has been extended from 3 to 5 months and up to 12 months for persons starting their working activities according to the acquired qualification for the first time. Certain measures have also been taken to encourage the self-employed to independently deal with

unemployment issues. For self-employed persons subsidies were introduced for covering the expenses of business licence and social insurance contributions. The amount of the subsidy reaches 0,25 of the minimal monthly wage set by the Government (currently it amounts to LTL 200) for each business licence per month.

In 2010 the economy of Lithuania has started to recover a little bit (see two tables below).

**Table 1. Labour force, employment and unemployment (%) 2007-2010 m. quarters**

Total	2007 Q1	2007 Q2	2007 Q3	2007 Q4	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3
unemployment rate, %	5,0	4,1	3,9	4,2	4,9	4,5	5,9	7,9	11,9	13,6	13,8	15,6	18,1	18,3	17,8
employment rate, %	63,9	65,4	66,0	64,4	63,9	64,6	65,0	63,8	61,0	60,3	60,4	58,7	56,8	56,7	58,5

Data of the Statistics Department under the Government of the Republic of Lithuania

**Table 2. Annual CPI (December as compared to December of previous year) by year 2007 – 2010**

Classification of Individual Consumption by Purpose (COICOP)	2007M12	2008M12	2009M12	2010M12
<b>01 Food and non-alcoholic beverages</b>	115.5	110.9	95.6	106.1
<b>02 Alcoholic beverages, tobacco</b>	106.5	115.3	121.7	102.2
<b>03 Clothing and footwear</b>	94.2	93.6	91.7	97.0
<b>04 Housing, water, electricity, gas and other fuels</b>	114.1	123.3	94.4	114.5
<b>05 Furnishings, household equipment and routine maintenance of the house</b>	102.9	105.5	98.7	97.0
<b>06 Health</b>	109.1	111.7	114.4	100.3
<b>07 Transport</b>	109.6	96.2	110.5	108.4
<b>08 Communication</b>	92.7	98.1	97.3	96.4
<b>09 Recreation and culture</b>	99.5	102.4	99.6	98.3
<b>10 Education</b>	109.4	109.5	114.2	99.6
<b>11 Restaurants and hotels</b>	111.8	116.2	101.0	99.8
<b>121 Personal care</b>	104.8	108.0	103.7	99.0
<b>123 Personal effects n.e.c.</b>	109.2	108.3	97.8	99.9
<b>124 Social protection</b>	101.3	132.8	172.0	140.9
<b>125 Insurance</b>	97.4	101.7	94.7	102.9
<b>126 Financial services n.e.c.</b>	122.6	142.5	111.7	96.5
<b>127 Other services n.e.c.</b>	114.4	105.6	103.9	100.5

Data of the Statistics Department under the Government of the Republic of Lithuania

## Question 6

On 30 June 2010, the Seimas of the Republic of Lithuania adopted Law No. XI-942 on the Base Rate of the Basic Salary of State Politicians, Judges, State Officials and Civil Servants of the Republic of Lithuania Applicable in the Year 2011 under which the base rate of the basic salary was set at 450 Lt, i.e. the same rate as applied in 2010.

The application of maximum salary coefficients to heads of budgetary establishments and organisations (including employees of healthcare and educational establishments), heads of structural divisions and their deputies as well as the rates of bonuses and additional pays to

employees reduced pursuant to Resolution of the Government of the Republic of Lithuania No. 843 of 19 August 2009 on Amendment of Resolution of the Government of the Republic of Lithuania No 511 of 8 July 1993 on Improvement of Remuneration Procedure for Employees of Budgetary Establishments and Organisations (Official Gazette, 2009, No. 100-4185) was extended till 31 December 2011. On 30 June 2010, the laws were adopted which also extended the application of the reduced basic salary coefficients to state politicians, state officials, judges and civil servants till 31 December 2011.

The Temporary Law on Social Benefits' Re-calculation and Payment is valid till 31<sup>st</sup> of December of 2011 or till the economic recession in the country is over (when the economic and financial situation in the country is recovered and there is the sufficient amount of resources for paying restored state social benefits).

As CHIF budget revenue collection improved during 2010, the value of one point has been revised twice during the year 2010. It was estimated that 1 point is equal to 0.84 LTL since July and in October the value of one point was restored to 0.89 LTL.

## **Question 7**

According to the Law on Cash Social Assistance for Poor Families and Single Residents the disadvantaged layer of the population receive social benefit in order to ensure minimum funds to meet their basic physiological needs as well as compensations covering heating, hot and cold water expenses as partial reimbursement for dwelling maintenance.

Seeking to support families raising school-age pupils in accordance with the Law on Social Assistance for Pupils, pupils from low-income families are entitled to free meals at school and assistance for pupils in the preparation for school.

Families raising children are provided with state assistance stipulated in the Law on Child Benefits (a lump-sum child benefit (birth or adoption grant), a child benefit, a benefit to a conscript's child, a guardianship (curatorship) benefit, a lump-sum settlement benefit, a lump-sum pregnancy grant). A child benefit is paid to low income family's children from two to seven years of age, and until 18 years of age in large low income families. Children from birth to the age of two years are paid a child benefit if parents do not receive a social insurance maternity (paternity) benefit or this benefit does not exceed LTL 525.

Lithuanian Compulsory Health Insurance System relies on the principle of solidarity. The National Health Insurance Fund under the Ministry of Health provides the universal insurance for population and pools more than 87 % of total public expenditure on health and covers the costs of healthcare services required by the person in case of illness regardless of the amount of social tax paid for the person concerned. All persons are covered by Compulsory Health Insurance on individual basis. A general principle of social health insurance is that income is pooled through income-related contributions plus a pre-defined transfer from the state budget. Due to that, almost 98 percent of the Lithuanian population is insured by Compulsory Health Insurance and it enables to ensure access to services for all categories of the population, including vulnerable groups.

People covered by the Lithuanian Compulsory Health Insurance are:

1. Employed and self-employed persons who pay compulsory health insurance contributions themselves or share this duty with their employers (employed persons);

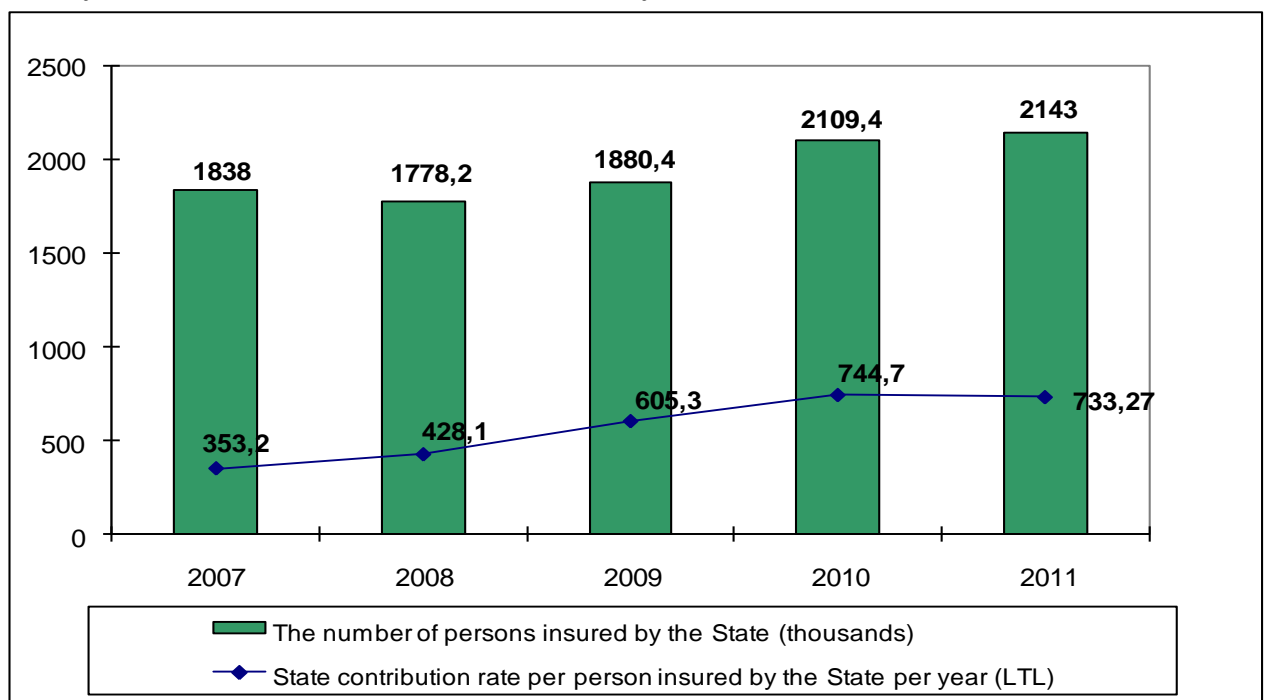


2. Persons insured by the State (the compulsory insurance health contributions are paid by the State). The State pays compulsory health insurance contributions for non-active in the labour market people (that means for vulnerable and low income groups also), who permanently reside in Lithuania. For example, State pays compulsory health insurance contributions for under age people, students, pensioners, unemployed people of working age who are registered with the employment service, women who are granted maternity leave and unemployed women during the period of pregnancy 70 days before child birth (after 28 pregnancy weeks and further) and 56 days after child birth, one of the parents (adoptive parents) raising a child under 8 years of age, as well as one of the parents (adoptive parents) raising two or more under-age children, people supported by the State who receive social benefit; disabled people and others.

Whereas the State takes responsibility for non-active in the labour market people and covers them with Compulsory Health Insurance all residents of Lithuania have an equal access to full scope of healthcare.

The picture below represents the dynamics of number of persons insured by the State and the State contribution's rate. Number of persons insured by the State was declining every year until 2008 but in 2009 it started to go up. The number of persons insured by the State increased mainly due to the growing unemployment. It is predicted that the number of non active population insured by the State will reach 2,143 mln in absolute figures in 2011 and that means more than 66 percent of total population.

**The Dynamics of Number of Persons Insured by the State and the State Contribution's Rate**



**Question 8**

For carrying out the assessment of the economic crisis UNDP Lithuania has mobilized partnership among the Ministry of Social Security and Labour of Lithuania (MSSL), Labour and Social Research Institute, social policy experts of Vilnius University and the European Commission

Representation in Lithuania. In 2009 they made a research “The Assessment of Long Term Impact of the Economic Crisis on Social Exclusion Situation in Lithuania”.

In 2010 the follow-up project “Development of Recommendations on Short-Term Policy Measures for Lithuanian Social Assistance System’s Reform Based on the Analytical Work Carried on Work Incentives VS. Welfare Dependency” was made.

Administrations of municipalities collect and accumulate data about the social assistance granted to the poor residents, pupils and families with children. Municipalities carry out the analysis of data about persons who receive social assistance, the use of funds and calculate the additionally required funds or funds that will not be used during the current year. All information about provided social assistance and expenditure on this type of assistance is submitted to the Ministry of Social Security and Labour which carry out an analysis.

The main indicators which have been used to monitor the situation about expenditure related to social assistance:

- the amount of benefits paid for a family or cohabitants and children;
- the number of recipients of cash social assistance (recipients of social benefit and compensations for heating, cold and hot water);
- the average amount of a monthly social benefit for person;
- the number of pupils provided with free meals at school and assistance for the acquisition of school supplies.

It is evident that the need for cash social assistance has been growing during the economic decline. The growth in the expenditure on social assistance was caused by the increased number of recipients of social benefit, compensations for heating and water expenses and social support for pupils, which was affected by the increased unemployment rate and decreased income of residents.

## **Question 10**

The Temporary Law on Social Benefits’ Re-calculation and Payment not only determined the reduction for certain state social benefits, but also established certain limited amounts of maternity (paternity) benefits, state pension and state social insurance pension, which shall not be reduced in order to protect most vulnerable groups. As it was answered under Questions No. 2 and 7 the expenditure related to cash social assistance for poor residents increased a lot during the crises. According to the Law on Cash Social Assistance for Poor Families and Single Residents the disadvantaged layer of the population receive social benefit in order to ensure minimum funds to meet their basic physiological needs as well as compensations covering heating, hot and cold water expenses as partial reimbursement for dwelling maintenance.

Certain measure were taken improving the system of social services, therefore much more people have got social services during the crisis. Legislation has also been amended in order to encourage informal help and action of foster families. Special subsidies have been allocated to municipalities, which enabled to organise more various forms of social care, for instance daily social care at person’s home, short time social care. Recently a lot of attention has been paid at the raising of qualification of social workers and improvement of quality of social services.

Besides, during the economic crises the activities of NGO’s increased, organising support for low income people with food, clothes and working with social risk families, children.

**Question 11**

In 2009, when taking decisions specified in the reply to question 4, the negotiations with the representatives of trade union organisations concerning the results of the salary reduction for various social groups which were taking place in the Government of the Republic of Lithuania at that time were taken into consideration. On 29 October 2009, the National Agreement was concluded between the Government, business and social partners wherein the reduction of salaries in budgetary establishments was agreed upon. The National Agreement remained in force till 31 December 2010.