

Ideal Model of the Social Services Sector

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Goal, rules and conditions of sectoral reforms

Belarus' social services sector in the transition period should encompass healthcare, social security, the pension system and housing maintenance and utility services.

Reform objectives include establishing a system of institutions that warrant quality health services and adequate old-age pensions, provide social security for the needy, and offer utility and housing maintenance services at affordable prices.

The guiding principles of the social sector reform should be:

- a) efficiency;
- b) social justice that rules out allocation of benefits to those who do not meet certain criteria;
- c) availability and affordability of services guaranteed by various means (salaries, wages, pensions and social assistance).

The general condition for implementing the principle of efficiency should be to reduce overheads in each sector, transfer the infrastructure to private hands or mixed management involving local authorities, and review benefits and social security contributions. Social programs should be financed by the central and local authorities, employers, employees and charities.

During the reform, all social sector's functions should be transferred to local authorities. Central government should be responsible for regulation, statistics and analysis, personnel training and the provision of research data. It would be advisable to combine various regulatory authorities responsible for healthcare, pension system and social security in one ministry, and thus cut down on staffing in administration.

The sections below outline measures that should be taken in each segment of the social sector in line with the above-mentioned principles.

Healthcare

The healthcare reform should prioritize encouraging people to take care of their own health.

Freely available services should include visiting a doctor, emergency aid in all health facilities irrespective of ownership, treatment for epidemic diseases in hospitals, and treatment of low-income patients at public health facilities. Other services should be paid for by patients or health insurance funds. The government should advocate a legal and economic set-up for developing health insurance schemes.

During a transition period of eight to ten years, local authorities may finance additional free-of-charge services for low income groups. To improve quality, the government should create incentives for private healthcare establishments.

Social security

The first step is to revise eligibility criteria for awarding social benefits and merge all social security funds.

Eligible beneficiaries should be those who, for a number of reasons, have no other income to live off or whose income is below the subsistence minimum. These are non-working disabled persons, large families with incomes below the subsistence minimum, people in retirement age with low pensions and the temporarily unemployed. All other benefits should be stopped.

The social security system should be funded by the government, while contributions computed as a share of the payroll should be replaced by a tax. The social security expenditure item should be protected from subsequent budget cuts.

Pension system

Within five to ten years, it is necessary to set up non-state pension funds. These funds should accumulate contributions of employers and employees. Before accumulating sufficient amounts of money, the funds may be managed by local authorities or local authorities and companies. Most likely, these should be regional funds with largest local enterprises becoming their major shareholders.

The current pension system should remain in place for some time while, at the end of the reform, pensions should be directly contingent on the claimant and his/her employer's contributions. Contributions should constitute ca. 3–5% of wages provided that the income tax is reduced.

Housing

Despite its complexity, the housing sector reform should be implemented over a relatively short period. The reform should be aimed at full recovery of housing maintenance and utility costs from tenants, and building a system of billing per unit/household.

Providers of housing maintenance and utility services should be immediately privatized, i.a. by long-term lease. The primary target for privatization should encompass transportation services and housing management enterprises, while regional suppliers of power, heat and electricity can be reformed gradually. The profit margin in the housing and utility sector should not exceed the average profit margin prevalent in the economic environment. Local authorities and consumer organizations should monitor profit margins in the sector.

Targeted housing allowances provided from social funds should protect vulnerable groups. Towards the end of a three-to-five year transition period, consumers should be in a position to cover housing maintenance and utility costs fully.

The social services sectoral reform as a whole and its adaptation to the market environment will take between five and ten years. The reform's duration will depend on the sector's initial condition.

The main idea of the reform is to restructure and privatize housing management enterprises and make the transition to market-oriented management principles.

Priorities, stages and financing of social services sectoral reforms

The goal of the reform is to achieve European standards of living. The main indicators to determine the standards are life expectancy and life quality. The reform should cover healthcare, social security, the pension system and the municipal/council housing sector. The reform should aim at boosting efficiency and ensuring social justice, including equal access to social assistance and social and welfare services.

Measures to attain these objectives include privatization of all social sector institutions that may be privatized, cutting administration costs, and monitoring demand for social services. Since most services are delivered specifically to households, the local authorities should shoulder responsibility for the reform and for maintaining the social sector in normal condition.

Healthcare

The following steps should be taken within two or three years to reform the health sector.

All clinics and hospitals that provide services for a fee should be transformed into joint-stock companies and leased to the staff, with a staff option to buy out the lease.

The government should encourage tax allowances and lower office rental rates to foster the opening of new private clinics. It may retain control of health facilities operating as part of public scientific research institutions.

For some time, the existing clinics should be managed by municipalities, yet with the use of the fee-for-service payment method. The system of general practitioners and specialists should be transformed into a mixed GP-cum-specialist system. Unlike in the current system, where each patient is assigned to a particular doctor, the mixed system should offer patients a choice. At the early stage, patients should be given an opportunity to choose from among doctors who work under contracts with clinics of their due jurisdiction and, in a more distant future clinics, too, should be given the freedom of choice, subject to available opportunities to contract any doctor on terms and conditions applicable to any legal contract.

Physicians practicing as general practitioners should be allowed to obtain a license for private practice outside their clinic of due jurisdiction.

With the exception of emergency cases, patients should be referred to specialists only on the GP's recommendation. Care at specialized clinics and hospitals should be provided both on patients' request and GP's recommendation.

Local authorities should set up medical commissions to oversee performance of general practitioners, monitor the quality of service, control prices and suggest methods of payment for services. Under close supervision of the above-mentioned commissions, local authorities should set up medical aid (Medicaid) funds to purchase services of general practitioners, specialists, clinics and hospitals.

The most important aspect of the health sector reform is the establishment of a fair and equitable payment system. At the early stage, the funds should collect monies allocated by the central and local governments and fees charged by health facilities for their services.

Prior to such payment system being launched, local authorities should have at least one year's notice to set up local insurance funds to accumulate contributions from local residents aged over 18. The contributions may be withheld by employers or paid by the beneficiaries themselves. Student health insurance fees should be paid by education facilities, the government, or withheld by other sources of funds that provide for their tuition (bank loans, charity funds,

parents and disposable income). By the same token, employment centers should pay insurance fees for the jobless entitled to benefits.

Each resident would be issued with a health insurance policy to be used to obtain medical care outside of his/her domicile, regardless of reasons for claiming services elsewhere than indicated by home address.

Since it takes some time to accumulate enough funds to purchase health services for the general population, the purchasing functions should be shared between authorities, insurance funds and patients.

At the early stage, Medicaid funds should purchase services of local doctors in the patient's due medical jurisdiction and up to 50 percent of services of GPs. Insurance funds should cover up to 50 percent of services provided by specialized clinics and health facilities. Wealthier individuals should also bear the other half of the costs. The insurance funds' share in purchasing treatment for those with medium income should be higher, between 60 and 70 percent, and up to 80 percent for low income beneficiaries. The insurance funds' coverage should not exceed the individual account balance by more than 30–40 percent.

A system thus structured flags up the issue of those who – for valid reasons – cannot support their individual accounts from personal income. A solution may be to collect health insurance fees from all persons under 50 upon the insurance scheme's launch. Medicaid funds would cover 100 percent of services by local doctors within one's medical jurisdiction and up to 80 percent of the healthcare costs in specialized establishments for those under 18 and over 50. The same applies to the disabled regardless of age. Therefore, the respective shares of Medicaid, insurance funds and patients will depend directly on their disposable income, government subsidies and possible donations.

All uninsured residents capable of taking up employment may rely on Medicaid funds for services of local doctors within their medical jurisdiction. Medicaid and insurance funds would not purchase medicines from pharmacies, with the exception of epidemic and particularly serious diseases. Pharmaceuticals and treatment for such diseases should be government-funded.

Regulations governing insurance funds may provide for allowances to be paid to beneficiaries on reaching certain age, provided they have a positive outstanding balance on their individual accounts.

The health sector reform should be governed by a special law that would stipulate a procedure for establishing insurance and Medicaid funds, as well as central and local budget allocations for healthcare. The law should define indicators used to assess the performance of the healthcare system as a whole, and local health facilities in respective medical jurisdictions regardless of ownership. Key indicators should include life expectancy, infant mortality, incidence of serious diseases, the total amount and proportion of expenditure out of Medicaid and insurance funds, and patients using healthcare services. The indicators should discourage providers from overcharging patients or limiting access to adequate care.

It is necessary to raise salaries of medical workers to 130–150 percent of the average wage, provided that the monies allocated to the Medicaid scheme and insurance funds are spent effectively.

Public healthcare expenditure should require commitment of ca. eight to ten percent of the total consolidated budget expenditure.

Pension system

The pension system reform is necessitated by insufficient social security provided to retirees, the falling worker-to-pensioner ratio, and the need to ease the strain that the current high social tax of 35 percent puts on the economy.

Belarus should gradually transform the centralized state pension system into one based on individual accounts. In other words, people should take care of their own future pensions. At the same time, the government should bear the cost of pensions for those who, for some reason, failed to set aside money for old age.

The pension reform may take as long as eight to ten years because, apart from the time factor, it requires that a specific economic environment should be in place. Considering that changes in the public pension scheme are extremely

unpopular with the general public, efforts should start now to make people realize that they should be saving money for retirement once they turn 18.

The first step towards this goal would be to specify what types of pension schemes and sources of funds for pensions will be present in the reformed system, followed by enacting laws, setting up economic mechanisms to safeguard savings on private retirement accounts, and decisions as to who will manage these accounts.

On the basis of experience in countries that have been reforming their pension systems, and primarily Estonia, the following types of benefits seem to be recommendable in Belarus.

'Occupational' pensions payable at a specified age and directly related to the size of salary earned over a specified period of service and years worked. The eligibility criteria should be set out in a law, which may be based on Belarus' legislation currently in force.

The following arguments speak in favor of the existing legislation. Firstly, laws are generally in line with their declared objectives. And, secondly, the pension system should be conservative as most of the retirees are accustomed to laws in force during their active employment.

Therefore, considering the budget and non-budget resources available, the average 'occupational' benefit may amount to 70–80 percent of the average remuneration and the benefit formula should be based on the premise that people do not usually work longer than 35–45 years. The formula should include a basic minimum level of 50 percent of the salary earned over a period of five to ten years, with one percent added for service in excess of 20–25 years, if the retirement age difference for men and women is retained.

Depending on resources available, the stipulated minimum service time may be shortened by one year, for instance, in order to increase the bonus for extra service and the overall amount of benefit.

Old-age benefits are minimum pensions guaranteed to those who reach specified age regardless of years of service. This pension is paid to a relatively small group who, for one reason or another, has not achieved the minimum length of service. The benefit formula should be in a relation to 'occupational'

pensions. The pension should account for 40 to 50 percent of the average salary, with no extra allowances added. The old-age pension would constitute two thirds of the 'occupational' benefit, which is fair and would boost the propensity to save up for one's future benefits.

Disability benefits may be claimed by those who lost fully or partially their capacity to work from the age of 18. The benefits should be granted to all disabled persons on reaching 18 years of age, irrespective of whether they are supported by other wealthier family members, live in low income families, or receive care at healthcare or other facilities. The benefits should be financed from State or local governments' revenue. The benefits should be calculated in such a way as to accommodate the claimants' need for food, clothing, utilities and medicines. Therefore, they should be slightly above old-age benefits, at ca. 50 to 60 percent of average remuneration.

In cases of workers losing the capacity to work due to an occupational accident, benefits are financed by the employers until beneficiaries reach retirement age. These benefits should equal the beneficiary's average salary. At retirement age, those with a disability caused by an occupational accident receive an 'occupational' pension.

'Survivor' benefits should be paid to children under 18 who lose a parent on the condition that the average household income per capita is below the average remuneration level. 'Survivor' benefits are very similar to social security benefits and are designed to prevent social inequality. The size of a survivor benefit may vary, but it should not be higher than the nation's average wage. It may be in relation to the lost parent(s)'s monthly income. It is possible to provide for the benefit to be claimed irrespective of the other parent's or custodian's income, if the other parent has suffered while in duty. If a parent's loss is linked to his/her employment contract-related circumstances, the benefit may be funded by the employer regardless of their form of ownership.

All types of non-standard/privilege benefits, such as higher pensions granted for outstanding services, should be abolished. Supplementary services should be rewarded by high salaries, later to be taken into account when computing the pension.

Retirement age should be set statutorily in relation to life expectancy and the nation's health. The current retirement age – 60 for men and 55 for women – is optimal for Belarus. Benefits could be claimed earlier in selected occupational groups with hazardous working conditions, or for those with sufficient number of years of service, such as 35 for men and 30 for women.

Belarus should set up a network of pension insurance funds to keep records of retirees entitled to one or several benefits and manage individual accounts where contributions or regular pension subsidies are deposited. Benefits should not be capped.

In the first few years of the reform, the funds may and, indeed, should be run by the State and be region-specific, and reflect the country's administrative division. The only condition is that the funds should not be fragmented. Given the country's current administrative structure, the government should set up regional pension insurance funds. This should not be too labor-intensive or costly as there already is a system of establishments in Belarus to administer retirement benefits.

Also, the government should create incentives for private pension funds which should cover all retirees entitled to occupational benefits in the future. The main advantage of private pension funds is that, apart from merely collecting contributions, they invest money and generate capital gains. Therefore, along with paying pensions to contributors, these funds should guarantee that the outstanding individual account balance not claimed as benefit payments may be inherited by legal successors.

The state-run regional pension insurance funds can be founded by large enterprises operating in the region. As private sector funds develop, members of state-run pension funds may transfer their individual accounts to private funds.

A company that withholds private fund contributions from employee earnings should also transfer the employer's share of contributions. The pension reform implies replacing employers' contributions to the so-called social insurance funds with much smaller contributions to pension funds. All social assistance should be funded from general tax revenue.

Pension funds should be financed from: a) general State revenue in proportion to earlier contributions into centralized and non-budgetary funds, b) employers' contributions in proportion to the payroll, and c) employees' contributions.

As an employee's service period during which he/she contributes to the public PAYGO system shrinks, the market share of the public scheme will decrease while the private sector's share will rise.

Full transition will take approximately 40–45 years, i.e. with the final disappearance from the system of retirees who began working in the pre-reform public PAYGO pension scheme. It is possible to speed up the transition by budgeting transfers to private pension funds equivalent to benefits payable to those who retire in a given fiscal year.

Particular care should be taken to develop a legal framework for private pension funds to govern fund management, investment activity, the payment of benefits and inheritance rights.

In general, legislation should include the following basic provisions.

Private pension funds should be established as joint-stock companies, with local authorities holding a controlling stake. Their supervisory boards should include representatives of non-governmental organizations, or parties with voting rights, or factions present in local governments. The requirement for the State to hold a controlling stake may be abandoned once the pension reform is complete and enough experience is gained in operating a modified pension system. The legislation must specify explicitly what type of investments the private pension funds are allowed to make in the domestic financial market (e.g. only in Treasury bonds and bank deposits). No more than 15–20 percent of the total assets should be allowed to be held in bank deposits.

Old-age, disability and 'survivor' benefits may be financed by state-run pension funds, or transferred to social security agencies for the period until the beneficiary retires.

Social security

The role of social security is similar to that of the pension system, since both are designed to provide financial assistance to those who are not involved in producing goods or supplying services, and who have no subsistence income.

The purpose for the social security reform is to ensure transition from the former ('Socialist') system of assistance, which was an integral part of the centralized distribution system, to targeted social support.

It would be difficult to reform the former system because of its extensive coverage and multitude of forms. For instance, government subsidies to keep low retail prices of staple goods (bread, dairy products, sugar etc.) are a form of social assistance provided regardless of the final beneficiaries' income. It would be better to start by drawing a line between the old and new functions of social security. Therefore, the first step should be to stop paying all budget-funded social benefits and identifying groups that need social support.

There are two notable types of social benefits: financial assistance provided in the form of regular allowances, and services provided by various facilities such as hospitals, health resorts, old age homes etc. It is necessary to make sure that financial benefits and services provided by various facilities under social assistance do not duplicate each other.

With these requirements in focus, the key elements of the social security system should primarily be to provide assistance to families that bear high costs of performing what is essentially their seminal social function. In particular, these are large families with more than two children. Assistance should be provided in the form of regular benefits regardless of family income. Assistance may also be provided to large low income families so as to bring their income up to the country's average. Other forms of assistance are possible such as vacations for entire families or the children.

Secondly, assistance should target the non-working population (retirees, disabled persons) who bear the additional cost of health services that may not be borne out of private income. Social security agencies may pay treatment bills for such people, including pharmaceuticals and treatment at health resorts. Social workers may also provide at-home services to those beneficiaries.

Thirdly, social assistance should cater to people who suffered losses or damage due to the State defaulting on its public functions. Claimants may include crime victims, if the perpetrator is not found or is in no position to pay damages. The amount of such assistance depends on the extent of damage and the nature of crime. For instance, social security funds may reimburse crime victims for expenses incurred to recover good health and compensate for a part of damages to victims of burglary.

Fourthly, social assistance may be available to people who find themselves in critical circumstances regardless of cause (homeless or temporarily out of work), and who are not entitled to other benefits. To assist these people, social security agencies should run a network of welfare facilities such as shelters, shops, canteens, where they can obtain accommodation, clothes and food.

To ensure that assistance effectively targets the needy, social security agencies should have an extensive network and operate under strict control of the authorities and public and non-governmental organizations. In areas where real assistance is provided, social workers should form the backbone of a social security network. Local social security agencies are entirely responsible for the allocation of money provided by local governments for social assistance. They should manage all social facilities within their area.

Local authorities, non-governmental organizations and political parties represented in local councils should form boards to supervise and provide guidance to social security agencies. These may be the same boards that supervise the pension system as both have largely the same sources of funds (local revenue), goals (supporting low income people), and beneficiaries (pensioners and disabled persons).

Charities should play a special role in the social security system. Since the authorities may not interfere with their activity, they should seek to establish effective cooperation by creating a legal framework and providing statistics on people in need.

Towards completion of market-oriented economic reforms, charitable organizations may assume some functions of the public social security network in providing assistance beyond the public system's confines.

Housing maintenance and utilities

The housing services sector will be part of the social service sector only for a limited period. The reform aims at ceasing to provide services free of charge, as was the case before. However, the housing and utilities reform implies changes in the social service sector, and should be seen against a broader context of economic reforms.

In the Soviet economy, housing subsidies were part of a universal distribution system based on public ownership of the housing stock, land and infrastructure. Since most of public housing has been privatized, the archaic system of subsidies is in need of changes aimed at establishing adequate economic relations in the housing management sector. Considering inefficiency and high cost of the current housing management system, the reform should be put to work in the shortest possible period, probably two to three years. There is an urgent need to determine how many households will be entitled to housing benefits when utility rates rise.

Services provided by Housing Management Enterprises include electricity, heat, water and gas supply, the cleaning of common areas, garbage disposal, maintenance of sewage mains, water and heat supply systems and elevators.

The first step should be to decide what part of the housing stock should be in private hands vs. run by municipalities. The private sector should include privatized housing, as well as real estate and land owned by companies. Municipalities should manage public housing and other buildings, including land occupied by these buildings.

The second step is to transform the HMEs and similar organizations into public/joint-stock companies. The companies should lease and buy out all municipal property that they need for managing and maintaining housing in the long run. They should become owners of municipal housing units to be rented to tenants.

The third stage consists in transforming utility companies into joint-stock companies.

Tenants and companies should contract services, rates and payment terms with HMEs. The HMEs should contract utility companies and services providers.

Tenants, condominiums and companies should have an opportunity to select HMEs or, alternatively, contract providers directly.

HMEs should provide local authorities with information on the cost of maintenance services and utilities, so that the latter may decide whether tenants in a certain area need some sort of assistance. The authorities may decide to pay a portion of the bill, especially at the early stage of the reform, or offer assistance to certain categories of residents in the form of coupons used to pay housing and utility bills only.

Local authorities should also fix all housing and utility rates, including occupancy rent. For that purpose, regional executive authorities should establish special economic boards to fix local rates as a function of the national average cost of electricity, gas, heat and water, and the average profit margin prevalent in the country's economy. Such pilot economic boards are already operating within regional authorities and have some experience.

The principle of social justice calls for phasing out all public transport subsidies as transport services are not used by all to the same degree. Additional expenses for public transportation may be offset for certain groups of people via higher pensions and benefits, so that consumers will have a choice of taking a public bus, or simply walking.

In short term, local authorities should sell off public transport operators, with the exception of the rail operator whose privatization needs parliamentary approval. The authorities should take a cautious and well-considered approach to privatization of the Belarusian Railroads due to the size of assets and its role in the nation's economy.

The government should encourage competition among transport companies so that they provide better and cheaper services.

It should be noted that Belarus' housing management infrastructure and public transportation services are ready for market-oriented reforms. Many enterprises have already been transformed into joint-stock companies, however still controlled by the State. The main goal is to increase cost recovery from tenants and make housing management enterprises profitable.

Reforms in the social services sector, especially in the healthcare system, by means of privatization will certainly be controversial for the larger part of the general public and some politicians. Therefore, efforts should be taken to communicate reform goals and objectives clearly via the mass media, with support from positive experience gained in pilot projects.

The current government may take steps to reform selected segments of the social services sector, and a future democratic government would have to adjust its program to the resulting circumstances. Deterioration of the economic environment may trigger off more problems for the reformist government.