

International Labour Office
Central and Eastern European Team

**Combating Poverty and
Social Exclusion
Volume 2
A Case Study of Slovenia**

**Nada Stropnik
Tine Stanovnik**

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Contents

| | |
|--|-----------|
| Foreword | 7 |
| Executive summary | 11 |
| CHAPTER 1 | |
| Introduction | 17 |
| CHAPTER 2 | |
| Slovenian households in 1993 and 1997-1999 | 21 |
| 2.1 Structure of households | 21 |
| 2.2 Income sources | 26 |
| 2.3 Relative importance of income sources | 34 |
| CHAPTER 3 | |
| Income inequality in Slovenia | 43 |
| 3.1 Income distribution | 43 |
| 3.2 Distribution of households at high risk of poverty | 45 |
| 3.3 Income inequality in 1997-1999 as compared to 1993 | 48 |
| 3.4 Decomposition of inequality by income components | 49 |
| CHAPTER 4 | |
| Poverty in Slovenia | 53 |
| 4.1 Change in poverty rates between 1993 and 1997-1999 | 53 |
| 4.2 Aggregate impact of social benefits on poverty incidence | 57 |

| | |
|--|------------|
| CHAPTER 5 | |
| Contribution and limits of social benefits in alleviating poverty and income inequality | 61 |
| CHAPTER 6 | |
| Policy recommendations | 67 |
| Appendix 1 | |
| Additional table and figures | 69 |
| Appendix 2 | |
| Changes in social policy between 1993 and 1997–1999 | 79 |
| Appendix 3 | |
| Data and methodology | 109 |
| Bibliography | 111 |

Foreword

This is the second of two volumes examining poverty and social exclusion in the transforming economies of Central and Eastern Europe. The studies were undertaken as part of the ILO project *Strengthening Social Security in Central and Eastern Europe through Research and Technical Cooperation*, sponsored by the French government. The research component of the project analyses the restructuring of social security schemes in selected countries, giving particular attention to their efficacy in addressing poverty issues arising or persisting in the course of the transformation. The studies examine both social policy formation in the region's new multiparty democracies and early experience with implementation of reforms. Their broad goal is to offer countries still debating reform timely and relevant accounts of the experience of neighbors with similar efforts. They aim as well to inform the governments' social partners as they seek to shape their countries' policies.

These two volumes examine poverty, deprivation, and social exclusion, with particular attention to the efficacy of social security benefits in preventing and addressing these conditions. The remaining volumes produced under the research component of the project examine old age pension reform, disability pension reform, and the impact of social security reforms (pensions, maternity, and child care benefits) on gender equality. These studies will appear in the summer of 2002.

The poverty studies examine trends in two advanced EU-applicant countries, Hungary and Slovenia. Reflecting the differing states of knowledge and availability of data in the two countries, the studies take different approaches. The Hungarian study (Volume 1) consists of a survey which focuses exclusively on poor households, the first such survey undertaken in Hungary in three decades. It provides an in depth profile of income, expenditures, and unmet needs in poor households, thereby complementing regular household surveys of the Hungarian population at large. The Slovenian study, in contrast, relies on statistical analysis of existing data. It

uses a newly merged data set to compare the situation in the late 1990s (1997-1999) with that earlier in the decade (1993). In this way, the study reveals trends in poverty and income inequality and evaluates the impact of social benefit reforms.

This volume is the work of Dr. Nada Stropnik and Prof. Dr. Tine Stanovnik of the Institute for Economic Research in Ljubljana. Both have extensive experience in income and poverty research, and they designed this study to build on and update previous studies. Their findings are presented in six chapters. Following an Introduction (Chapter 1), Chapter 2 describes changes in household income in Slovenia during 1997-1999 compared with 1993. The next two chapters use these data to chart trends in inequality (Chapter 3) and poverty (Chapter 4). The core of the study, Chapter 5, analyzes the role of social benefits in reducing poverty and income inequality, again comparing the two periods. Chapter 6 offers policy recommendations to address the problems with social benefits identified earlier. A set of detailed appendices provide more statistical data and describe the reforms in social benefits which were undertaken prior to 1997-1999.

The study reveals several important trends. First, it shows that income inequality decreased in Slovenia during 1997-1999 relative to earlier periods. While inequality had been increasing continuously since 1983, a clear shift occurred in the period under examination, as reflected in three different statistical measures. Thus, the late 1990s may mark a turning point toward greater income equality in Slovenia.

At the same time, the study shows that this favorable trend was not so much the result of an across-the-board narrowing of incomes, but resulted primarily from a relative reduction in wealth at the upper end of the income scale. At the lower end, no lessening of poverty was found. Instead poverty rates increased during 1997-1999 by all measures utilized. The situation of the unemployed deteriorated most markedly, with significantly greater numbers in poverty than in 1993. Families with children experienced a small but significant increase in poverty. Moreover, the poorest Slovene households had less earned income than in the earlier period, while earnings in those households in which someone worked became a more important source of income than before. Together these trends point to the danger of a bifurcation of income sources, with wages becoming concentrated among a smaller workforce and a growing poor population increasingly dependent on social benefits. The authors see reducing unemployment as a key strategy for avoiding this scenario.

Third, the study shows that social benefits play a significant role in poverty alleviation in Slovenia: during 1997-1999, they caused the poverty rate among households to be 3.3 percentage points lower than it otherwise would have been,

that is, 8.1 percent rather than 11.4 percent without social benefits.¹ However, the anti-poverty impact varied considerably by type of benefit. Already quite important in Slovenia, pensions became an even more significant income source during 1997-1999 relative to 1993, especially for those in the three lowest income deciles. Unemployment insurance, by contrast, decreased in importance in all but the two lowest income deciles, where its importance rose dramatically. This reflects policy changes which shortened the duration of unemployment compensation and placed heavier emphasis on unemployment assistance and social assistance. Child benefits became much more widely available due to a higher income ceiling on entitlement, and they took on greater importance for families with an unemployed member. However, the average benefit declined during the period due to the combination of continuing income testing and the broadening of eligibility to higher income families. Social assistance continued to be a relatively unimportant income source, received by only 2.7 percent of Slovene households. However, this trend is expected to change as a result of significant reforms of social assistance enacted in 2000.

The authors recommend certain measures to improve social benefits and avoid future erosion of their value. These include eliminating reliance on the so-called guaranteed wage in determining eligibility and benefit levels, as this figure has fallen far behind wage and price growth; increasing the income threshold used in eligibility determination for certain social benefits to a more realistic level; and increasing the eligibility for and level of educational grants for low-income families.

We wish to express our appreciation to the Ministry of Labour and Solidarity of the Government of France whose financial support has made this study possible. Beyond the Ministry's financing for the project, we value the French government's recognition of the importance of social security as a tool in the protection of the most vulnerable and as a way forward in the struggle against social exclusion.

We at ILO Budapest hope that, by casting light on recent trends in poverty, income inequality, and social exclusion in selected countries, these studies will help to highlight these issues as critical ones for the CEE region.

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¹ This calculation excluded pensions, which are analysed separately in the study given their great importance in Slovenia.

Executive summary

Research on poverty and income inequality in Slovenia using the Household Expenditure Survey databases began in the late 1980s. Those years marked a major turning point for the Slovenian political system and economy. On the one hand, the former communist ideology, which sought to maintain full employment and limited income differentiation, was losing popular support. On the other hand, the process of political, social, and economic transformation resulted in growing unemployment that was almost invariably accompanied by poverty. Unlike the poverty of the communist period, which was limited to marginal population groups, this new poverty affected a broad segment of the population without regard to educational level or work experience.

This study analyses the situation and developments in Slovenia during a period of intensive transition, 1993-1999. Its main objective is to quantify the effect of changes in social policy on poverty and income inequality. Other objectives are to identify the determinants of poverty in Slovenia and social groups at high risk of poverty, to explore the causes of income differentiation in the 1990s, and in particular to analyse the redistributive role of social benefits. For purposes of this study, social benefits comprise unemployment benefits, war-related invalidity benefits, sickness benefits, maternity/parental leave wage compensation, social assistance, birth grant, parental allowance, child benefits, childcare supplement and educational grants. Pensions are analysed as a separate income source due to their frequency and size. These benefits and recent changes in them are described in Appendix 2.

The research compared two Household Expenditure Survey data sets: one from 1993 (3,270 households) and a merged dataset for 1997, 1998 and 1999 (3,867 households). The standard OECD equivalence scale was used for transforming household income into so-called equivalent household income. Because this latter measure recognizes economies of scale in households, its use allows for comparisons across households of different size and composition. The household

income taken into account is current monetary disposable income, which comprises income from employment, occasional work and self-employment, pensions, social benefits, income from capital and property rights, and intrafamily financial gifts and transfers. The data and methodology used in the study are described in Appendix 3.

Following the introductory chapter, Chapter 2 analyzes the composition of Slovenian households in terms of the socio-economic status of their members and the structure and importance of their income sources. The major findings are a relative decrease in employed persons between 1993 and 1997-1999, particularly in the lower deciles of the income distribution, as well as a decrease in persons active in agriculture, persons with occasional income, and dependants. At the same time, increases occurred in the relative portion of unemployed persons, pensioners, and self-employed other than in agriculture. Most of these patterns constitute an extension of pre-existing trends, as Slovenia has been experiencing a reduction in employees and dependants over the past 20 years, along with an increase in pensioners. The increase in the unemployed is more recent, with its roots in the late 1980s. A decrease in the share of persons active in agriculture is mainly due to the diminishing importance of agriculture in the Slovenian economy.

In general, it was found that the higher the portion of employees in a household, the higher its income; and this pattern was even more pronounced in 1997-1999 than in 1993. The unemployed were more concentrated in the bottom of the income distribution (half of them were in the lowest two income deciles in 1997-1999). This concentration can be explained in part by the expiration of their entitlement to a relatively generous wage-related unemployment compensation and a consequent shift towards the lower rate benefits: unemployment assistance and social assistance. The opposite was true for pensioners: a shift of households with pensioners towards higher income deciles in the period between 1993 and 1997-1999 was registered.

Income from employment accounted for 60% of total household income in Slovenia in 1997-1999, pensions for 25%, and self-employment income and social benefits for 6% each. Social benefits were more important in 1997-1999 than in 1993 for households in all income deciles, and particularly for those in the bottom decile. As for the relative importance of various income sources for recipient households, income from employment accounted for 75% of income of recipient households in 1997-1999; self-employment income 33%; pensions

54%; unemployment benefits 19%; health insurance related cash benefits¹ 18%; and social assistance 16% – to name just the most important ones.² In the period between 1993 and 1997-1999, pensions became a more important income source for the recipient households in most income deciles. Had there been no pensions, the recipient households situated in the three lowest income deciles would have been the biggest losers. Their income would have been lower by 58-66%. Even the households in the top income decile would have had less than half of their actual income. Social benefits as a whole have remained an important income source for the recipient households at the bottom of the income distribution where they accounted for one fifth to one third of the total household income in 1997-1999; however, their importance was lower than in 1993 in all income deciles.

Chapter 3 focuses on income inequality in Slovenia. Unemployment was identified as an important factor influencing the position of a household in income distribution, while having a child up to age 18 was not. The general conclusion is that, following a decade of constant increase in income inequality – as registered in previous surveys in 1983, 1988, and 1993 – inequality has decreased considerably in the period between 1993 and 1997-1999. Income differentiation has, however, increased among households with unemployed members. As expected, due to the targeting of social benefits toward lower income households, the post-transfer income distribution was more equal than the pre-transfer distribution (the Gini coefficients being 0.236 and 0.257, respectively). The household representing the 90th percentile in the income distribution disposed of 3.22 times the equivalent income of the household representing the 10th percentile; had there been no social benefits, the ratio would have been 3.83.

Chapter 4 analyses the incidence of poverty among Slovenian households. Poor people are defined as those living in households with equivalent income below 40%, 50%, 60% or 70% of the median equivalent household income. Population groups and household types with above average poverty risk are investigated in more detail. The aggregate impact of social benefits on poverty incidence is estimated through the comparison of poverty rates evaluated on the basis of the household (post-transfer) current monetary disposable income and

¹ Health insurance related cash benefits comprise the sickness benefit, maternity/parental leave wage compensation, birth grants, etc.

² These numbers do not add up to 100 percent because they measure the importance of various incomes for households that receive them, which differ from source to source.

on the basis of the household current monetary disposable income minus social benefits.

No matter which poverty line is applied, the poverty rates for the total population of Slovenia were somewhat higher in 1997-1999 than in 1993. If 50% of the median equivalent income is taken as a poverty line, 8.1% of households and 8.0% of people in Slovenia were living in poverty in 1997-1999 as compared to 7.7% and 7.1%, respectively, in 1993. In the absence of social benefits, the poverty rate for households would have been higher by 2.9 percentage points in 1993 and by 3.3 percentage points in 1997-1999. This indicates the strong impact of social benefits on alleviating poverty and also points to the increased importance of social benefits in 1997-1999 as compared to 1993. The impact of social benefits on poverty rates was greatest for households with unemployed members. This was mainly due to unemployment benefits, child benefits, social assistance, educational grants and health insurance related cash benefits (in 1997-1999 only). Had there been no social benefits, the poverty rate (at 50% of the median equivalent household income) for these households would have been 14.8 percentage points higher in 1993, and 12.5 percentage points higher in 1997-1999.

In the period between 1993 and 1997-1999, the relative income situation improved for low-income pensioners and persons aged 60 and over, while it worsened for the unemployed and children up to age of 18. Pensioners were the only population group among those analysed where the poverty rate fell below the average for the total population, while in 1993 it had still been somewhat above this average. Pensions, being the main income source of pensioners, obviously remained stable both in real and relative terms. This was a regular and adequately indexed income source, which cannot be said of most others, and it was relatively generous as well. On the other hand, one is struck by both the extent and change in poverty among the unemployed. If the poverty line is set at 50% of median household equivalent income, 35.5% of the unemployed lived in poverty in 1997-1999 as compared to 22.5% in 1993. The poverty rate for the unemployed was 3.2 times higher than average in 1993, and 4.4 times higher than average in 1997-1999. The poverty incidence among children up to age of 18 has remained higher than that for all persons and has somewhat increased.

Both the contribution and limits of social benefits in alleviating poverty and income inequality are summarized and further discussed in Chapter 5. In this

context, the appropriateness of the coverage, targeting, and level of individual benefits is evaluated.

Chapter 6 offers some policy recommendations derived from the results of the empirical research. These are formulated with the goal of decreasing the extent of poverty in Slovenia and improving the economic position of the population groups at risk. First, it is recommended that legislation governing unemployment assistance and national educational grants should be amended to eliminate the linkage of benefit levels and income ceilings for entitlement to the so-called guaranteed wage. Due to inadequate indexing of the guaranteed wage over the past decade, this linkage has reduced the number of eligible persons and decreased the real value of benefits. The income ceiling for entitlement to the national educational grant should be increased in order to allow more students from low-income families to apply, since education has a long-term effect on the alleviation of poverty and social exclusion. The need to follow a logical order in structuring the system of social benefits is stressed as well – that is to define basic benefits first and then complement them with other benefits; this procedure would avoid the curious situation in which, for instance, child benefit is higher than the minimum income for a child. It is also suggested that an equivalence scale be incorporated into legislation governing social benefits for the purpose of evaluating the household standard of living. This would have the effect of recognizing economies of scale resulting from living in a household, with the aim to increase the impact of social benefits on poverty alleviation.

The authors offer their research with the hope that it will enhance public understanding of the connections between social benefits on one side and poverty incidence and income inequality on the other, thus contributing to more efficient social policy in Slovenia.

Chapter 1

Introduction

Since the late 1980s, research on poverty and income inequality has been performed regularly in Slovenia. This project builds on the findings of a number of studies which used the Slovenian 1993 Household Expenditure Survey (HES) data, first of all on Stanovnik and Stropnik (1998), Stanovnik and Stropnik (2000), and Stanovnik, Stropnik and Prinz (2000). It uses the latest survey results available – that is, for the period 1997-1999 – and compares them with the previous survey data from 1993.

In many respects, the economic and social situation in Slovenia has improved since the beginning of the 1990s. Slovenia has been experiencing economic growth since 1993. The economy has been restructured, output has been increasing steadily, albeit at a modest rate, and new markets have been found to compensate for the loss of the internal market of the ex-Yugoslavia. Slovenia's gross national product per capita in purchasing power parity is close to that of two European Union members (Greece and Portugal), and was at 68% of the EU average in 1998 (*Benchmarking Slovenia*, 2000). The number of employed persons returned to the 1993 level in 2000, reversing a trend of continuous decline earlier in the 1990s. The labour force participation rate is above the EU average, and the participation rate of women is among the highest in Europe. The number of the registered unemployed has decreased, but the high unemployment rate remains one of the major challenges for employment policy in the future. Since 1993, the ILO unemployment rate has been lower than the EU-15 average and slightly above the average of the OECD countries. Following a large increase in the first years of transition, the share of pensioners in the total population has stabilized. During the observed transition period, Slovenia has managed to retain its comprehensive social welfare system, with the share of social protection in GDP hovering at around 24%.

Since the previously cited studies showed an increase in poverty and income inequality in the early years of transition, it is quite important to assess more recent developments. This study aims at providing such an assessment, particularly focusing on the role of social benefits in the alleviation of poverty and reduction of income inequality. Special attention is paid to the consequences of changes in social policy between 1993 and 1999. The aim of these changes was to increase horizontal equity among similarly situated individuals, prevent strategic manipulation of the social security system, and increase incentives for labour market participation. The latter two objectives particularly relate to unemployment benefits and social assistance. Only in the pension system were budgetary considerations dominant in inducing reform (a major pension restructuring law went into effect in January 2000). Changes in benefits that contribute to family policy (parental allowances, childcare supplements, and child benefits in particular) caused an increase in this category of expenditure. This was quite consistent with the goal of the changes, which was to improve the financial position of families with children – primarily those that are in an unfavourable position due to unemployment, low earnings, non-entitlement to wage compensation during maternity/parental leave, or the presence of a seriously ill or handicapped child. The rules governing national educational grants changed several times in different directions, but the final outcome was an increase in the income ceiling for entitlement and a slight increase in the benefit level. These changes were aimed at promoting the relevance of educational grants for students from low-income families and at compensating for a decrease in grants financed by enterprises. New war related invalidity benefits were implemented, which resulted in a relatively high number of new beneficiaries. This was meant as an almost symbolic compensation for a part of non-material damage suffered during the war.

For the purpose of this study, social benefits comprise:

- Unemployment benefits¹
- War related invalidity benefits
- Sickness benefits
- Maternity/parental leave wage compensation
- Social assistance

¹ The term “unemployment benefit” is used for both unemployment compensation and unemployment assistance, if not specified otherwise.

- Birth grants
- Parental allowances
- Child benefits
- Childcare supplement
- Educational grants

Since pensions in Slovenia (old age, disability and survivor) are mostly insurance-based and financed through contributions, and also - compared to most of other social benefits - widespread, received in a relatively long continuous period and fairly generous, they are not treated as social benefits. However, they will be analysed in this study as a separate, and very significant, income source for the elderly and disabled population.

In order to understand the impact of social benefits on poverty and income inequality, and particularly the differences in their impact in 1997-1999 as compared to 1993, basic features of social benefits as well as changes introduced during this period are briefly presented in Appendix 2. Among the social benefits, unemployment benefits and child benefits underwent major reforms in terms of eligibility, benefit levels, impact on family income, and the number of recipient families. Accordingly, these two benefits are analysed in more detail than the others.

Although various social benefits alleviated the extent of poverty, they were not able to eradicate it. It is of the utmost importance for social policymakers to have quantification and evaluation of the impact of social benefits on poverty and income inequality in order to provide better targeting of social benefits. The objectives of the research project were thus set as follows:

- a. Identify the determinants of poverty in Slovenia
- b. Identify social groups at high poverty risk
- c. Explore the causes of income differentiation in Slovenia in the 1990s
- d. Analyse the redistributive role of social benefits and pensions
- e. Identify the consequences of changes in social policy in Slovenia between 1993 and 1997-1999

In order to achieve these objectives, the situation of specific population groups and household types is analysed and compared. Particular attention is given to those that were shown to be potentially vulnerable by previous research. These are households with:

- Unemployed members
- Children up to age 18
- Persons aged 60 and over

Information on data sources and the methodology applied in this research is provided in Appendix 3.

Chapter 2

Slovenian households in 1993 and 1997–1999

2.1 Structure of households

As seen in both Table 1 and Figure 1, employees accounted on average for 35% of household members in Slovenia in 1993, while pensioners accounted for 22%, dependants for 31%, the unemployed for 5%, persons active in agriculture for 3%, persons active in other occupations (i.e. self-employed other than in agriculture) for 4% of household members, etc. The major changes in household structure during the period 1993-1999 are: a) a relative decrease in the share of employees, persons active in agriculture, and persons with occasional income and dependants; and b) an increase in the share of persons active in other occupations, the unemployed and pensioners. We have been witnessing the same trend in the shares of employees, pensioners and dependants in the last 20 years, while the observed trend in the share of the unemployed started in the late 1980s. A decrease in the share of persons active in agriculture is mainly due to the diminishing importance of agriculture in the Slovenian economy.

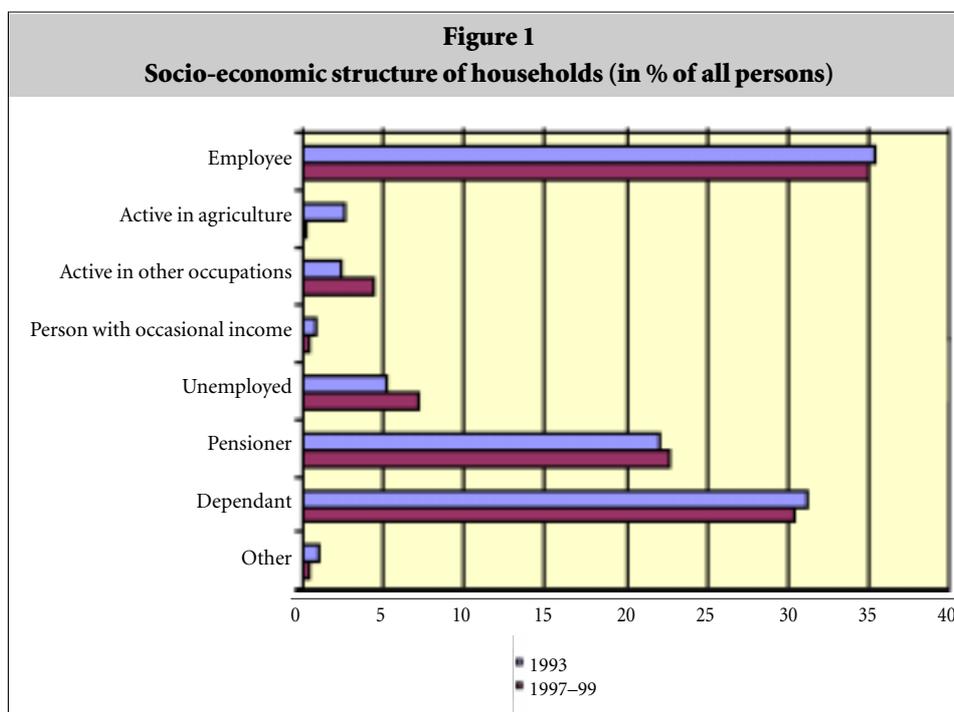
Table 1 Structure of households by socio-economic status of household members and income deciles, 1993 and 1997-1999 (%)

| Income deciles | 1993 | | | | | | | | | | 1997-1999 | | | | | | | | | |
|----------------|-----------|-----------------------|-----------------------------|--------------------------------|------------|------------|-----------|-------|-------|-----------|-----------------------|-----------------------------|--------------------------------|------------|------------|-----------|-------|-------|--|--|
| | Employees | Active in agriculture | Active in other occupations | Persons with occasional income | Unemployed | Pensioners | Dependant | Other | Total | Employees | Active in agriculture | Active in other occupations | Persons with occasional income | Unemployed | Pensioners | Dependant | Other | Total | | |
| 1 | 13.9 | 8.6 | 0.6 | 1.8 | 11.4 | 26.3 | 34.9 | 2.5 | 100.0 | 12.1 | 0.9 | 4.7 | 0.2 | 21.8 | 21.5 | 36.7 | 2.2 | 100.0 | | |
| 2 | 23.4 | 4.6 | 0.8 | 0.5 | 8.8 | 24.9 | 35.1 | 1.9 | 100.0 | 19.6 | 0.3 | 5.9 | 0.3 | 13.5 | 23.2 | 36.9 | 0.4 | 100.0 | | |
| 3 | 30.3 | 2.1 | 0.6 | 0.9 | 6.0 | 26.1 | 33.8 | 0.2 | 100.0 | 26.9 | 0.2 | 3.4 | 0.7 | 8.0 | 25.2 | 35.2 | 0.3 | 100.0 | | |
| 4 | 34.1 | 2.8 | 1.2 | 0.9 | 4.9 | 20.5 | 34.9 | 0.8 | 100.0 | 34.4 | 0.0 | 3.4 | 0.5 | 6.4 | 20.9 | 34.0 | 0.4 | 100.0 | | |
| 5 | 37.9 | 2.4 | 0.7 | 0.5 | 5.3 | 19.7 | 32.7 | 0.8 | 100.0 | 34.3 | 0.3 | 4.3 | 0.4 | 6.5 | 21.7 | 32.2 | 0.3 | 100.0 | | |
| 6 | 38.4 | 1.8 | 1.7 | 0.7 | 4.8 | 24.4 | 27.7 | 0.6 | 100.0 | 37.8 | 0.1 | 4.1 | 0.5 | 3.7 | 24.9 | 28.8 | 0.0 | 100.0 | | |
| 7 | 39.6 | 0.9 | 2.2 | 0.9 | 3.7 | 22.9 | 29.3 | 0.6 | 100.0 | 41.8 | 0.0 | 3.3 | 0.3 | 4.0 | 23.0 | 27.4 | 0.1 | 100.0 | | |
| 8 | 42.5 | 1.0 | 5.6 | 0.6 | 2.9 | 18.0 | 28.2 | 1.0 | 100.0 | 45.4 | 0.0 | 4.4 | 0.3 | 2.9 | 20.7 | 26.2 | 0.0 | 100.0 | | |
| 9 | 46.8 | 1.0 | 7.1 | 1.2 | 1.8 | 14.9 | 26.8 | 0.3 | 100.0 | 46.9 | 0.0 | 3.5 | 0.3 | 2.1 | 23.0 | 24.1 | 0.2 | 100.0 | | |
| 10 | 35.2 | 2.5 | 2.3 | 0.8 | 5.2 | 21.9 | 31.1 | 0.9 | 100.0 | 50.5 | 0.0 | 5.6 | 0.6 | 1.2 | 22.4 | 19.8 | 0.0 | 100.0 | | |
| Total | 34.8 | 0.2 | 4.3 | 0.4 | 7.1 | 22.6 | 30.3 | 0.4 | 100.0 | | | | | | | | | | | |

Sources: HES 1993 and 1997-1999, own calculations.

Notes:

1. Active in other occupations are self-employed other than in agriculture.
2. Columns may not sum to 100 due to rounding.



Sources: HES 1993 and 1997-1999, own calculations.

Roughly speaking, the share of employed household members has decreased in the lower part of the income distribution, while high-income households had more employed persons in 1997-1999 as compared to 1993 (see also Figure A1 in Appendix 1).

Not surprisingly, the opposite was the case with unemployed persons: from 1993 to 1997-1999, their share in the lowest income decile increased from 11% to 22% of all household members. In this period, households in eight income deciles experienced a rise in the share of unemployed members, with the largest changes occurring in the lowest income groups. This can be explained by the expiration of entitlements to unemployment compensation and a consequent shift towards benefits with lower rates – i.e. unemployment assistance and social assistance.

As far as dependants are concerned, their share increased in low income groups and decreased in high income groups in 1997-1999 as compared to 1993. On average, 30% of household members were dependants in 1997-1999. Above-

average shares were prevalent in the lower half of the income distribution, while the lowest share was 20% in the top income decile.

In 1997-1999 there were relatively more pensioners at the top of the income distribution as compared to 1993, while their share decreased in the lower third of households. This indicates a shift of households with pensioners towards higher income groups.

There is no discernible regularity in the proportion of persons active in other occupations. In 1997-1999, these persons still accounted for less than 6% of the total in all income deciles, despite relatively high increases above previous levels in all but the two top deciles. In 1993, the share of persons active in agriculture was relatively high in the lowest two income deciles, which was not the case in 1997-1999 as the share of persons active in farming keeps decreasing in Slovenia.

Table 2 shows the distribution of household members across income deciles. This allows for a different interpretation of the data. We highlight some of the more interesting features regarding the socio-economic status of household members:

- *Employees* are very underrepresented in the bottom three income deciles.
- *Persons active in agriculture* are highly concentrated in the bottom decile.
- The position of *persons active in other occupations* changed considerably in 1997-1999 as compared to 1993, when they were highly represented in the top two deciles. As their number increased (from 2.3% to 4.3% of all household members), they were obviously more frequently engaged in less lucrative and less profitable businesses in 1997-1999 as compared to 1993. It is also possible that this group of active persons was seriously underreporting its income.
- *Persons with occasional income* show a very irregular distribution in both 1993 and 1997-1999.
- The *unemployed* have a very high and increasing share in the low income deciles – 38% of all unemployed were situated in the lowest two deciles in 1993 and 50% in 1997-1999.
- It seems that the income position of *pensioners* has improved, as their distribution has shifted from lower deciles into higher income groups.
- *Dependants* show a more unequal distribution in 1997-1999 than in 1993.

Table 2 Distribution of household members by socio-economic status and income deciles, 1993 and 1997-1999 (%)

| Income deciles | 1993 | | | | | | | | | |
|----------------|-----------|-----------------------|-----------------------------|--------------------------------|------------|------------|-----------|-------|-------|--|
| | Employees | Active in agriculture | Active in other occupations | Persons with occasional income | Unemployed | Pensioners | Dependant | Other | Total | |
| 1 | 3.7 | 31.5 | 2.3 | 20.8 | 20.6 | 11.2 | 10.5 | 25.9 | 9.4 | |
| 2 | 6.7 | 18.0 | 3.4 | 6.5 | 17.2 | 11.4 | 11.3 | 21.0 | 10.0 | |
| 3 | 8.6 | 8.3 | 2.8 | 10.9 | 11.5 | 11.9 | 10.8 | 2.0 | 10.0 | |
| 4 | 10.1 | 11.6 | 5.4 | 11.0 | 9.9 | 9.8 | 11.7 | 9.4 | 10.5 | |
| 5 | 11.5 | 10.0 | 3.4 | 6.4 | 11.1 | 9.6 | 11.3 | 9.5 | 10.7 | |
| 6 | 10.7 | 6.8 | 7.2 | 7.8 | 9.0 | 10.9 | 8.7 | 6.7 | 9.8 | |
| 7 | 11.2 | 3.4 | 9.4 | 10.6 | 7.1 | 10.4 | 9.4 | 6.8 | 10.0 | |
| 8 | 12.8 | 2.6 | 11.9 | 4.4 | 4.6 | 10.1 | 8.9 | 3.7 | 10.1 | |
| 9 | 12.4 | 4.1 | 25.3 | 7.5 | 5.9 | 8.5 | 9.4 | 11.8 | 10.3 | |
| 10 | 12.3 | 3.6 | 28.9 | 14.0 | 3.2 | 6.3 | 8.0 | 3.3 | 9.2 | |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | |
| | 1997-1999 | | | | | | | | | |
| 1 | 3.4 | 47.7 | 10.8 | 5.3 | 30.3 | 9.4 | 11.9 | 53.1 | 9.9 | |
| 2 | 5.7 | 14.9 | 14.2 | 6.6 | 19.6 | 10.5 | 12.5 | 8.9 | 10.2 | |
| 3 | 7.2 | 11.4 | 7.5 | 17.4 | 10.5 | 10.4 | 10.8 | 7.9 | 9.3 | |
| 4 | 10.4 | 0.0 | 8.5 | 12.3 | 9.6 | 9.7 | 11.8 | 10.4 | 10.5 | |
| 5 | 11.0 | 18.8 | 11.3 | 10.0 | 10.3 | 10.7 | 11.9 | 9.1 | 11.2 | |
| 6 | 11.3 | 7.2 | 10.0 | 13.5 | 5.4 | 11.4 | 9.9 | 2.4 | 10.4 | |
| 7 | 12.3 | 0.0 | 8.0 | 8.1 | 5.8 | 10.4 | 9.3 | 3.7 | 10.3 | |
| 8 | 12.8 | 0.0 | 10.2 | 7.7 | 4.1 | 9.0 | 8.5 | 0.0 | 9.8 | |
| 9 | 12.7 | 0.0 | 7.8 | 6.5 | 2.8 | 9.6 | 7.5 | 4.7 | 9.4 | |
| 10 | 13.1 | 0.0 | 11.8 | 12.6 | 1.6 | 8.9 | 5.9 | 0.0 | 9.0 | |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | |

Sources: HES 1993 and 1997-1999, own calculations.

Notes:

1. Active in other occupations are self-employed other than in agriculture.

2. Rows may not sum to 100 due to rounding.

2.2 Income sources

Table 3 and Figures 2 and 3 show the structure of income sources for each income decile. The main conclusions are the following:

- *Income from employment* slightly increased its share in household income, from 58.6% to 60.4%. But it is worrisome that its share within household income decreased in lower income groups.
- The proportion of *income from occasional work* in household income decreased from 2.7% to 1.5%. This income was taxed at a low rate until 1994 and was a convenient bypass for various forms of income; the wealthy mostly took advantage of this “amenity”. Following the changes in taxation, this form of income seems to have become less attractive for the highest income groups.
- In our view, a decrease in *self-employment income* was caused to a considerable extent by an increase in underreporting.
- *Pensions* increased their share in the total, and pensioners as a group have moved up the income ladder. In the top income decile, pensions accounted for 11.4% of household income in 1993, but by 1997-1999 they represented almost 20% of income in this group.
- *Social benefits* were more important in 1997-1999 than in 1993 for households across the income spectrum, and particularly for those in the bottom decile. *Social assistance* remained an unimportant income source, mostly due to its low level.³ It represented a notable share of household income only in the bottom income decile (4.4% in 1993 and 4% in 1997-1999).
- Although rather low, *unemployment benefits* were still relatively important for people in the lowest income decile, where their share in the total household income was higher in 1997-1999 than in 1993.⁴
- The same applies to *child benefits*, but we note that between 1993 and 1999, child benefits went through important changes in both the entitlement rules and their level.⁵

³ In the survey, social assistance includes the parental allowance as well.

⁴ Note that unemployment compensation is not income-tested, while unemployment assistance is targeted at unemployed persons with low income and who have previously received unemployment compensation.

⁵ In the HES, child benefits include the childcare supplement as well.

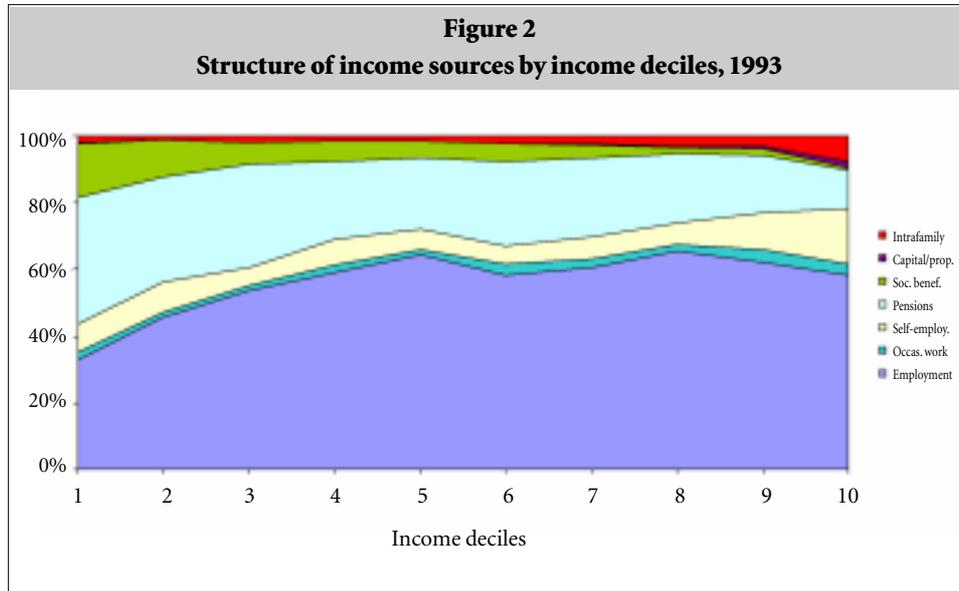
- *Health insurance related cash benefits* (which comprise the sickness benefit, maternity/parental leave wage compensation, birth grants, etc.) increased, for which no logical explanation could be found in data on sickness leave and maternity/parental leave. A detailed inquiry has shown that the reason for the change was of a purely administrative nature.⁶
- *Educational grants* also increased their share in all income deciles, but the changes were small.
- *War related invalidity benefits* remained an almost negligible income source in all income deciles.
- *Income from capital and property rights* somewhat increased its small share, from 0.6% of household income to 0.9%. This is because privatization approached its completion by the end of the period, and dividends were paid out to a large number of small shareholders.
- The share of *intrafamily financial gifts and transfers* decreased, mostly due to the improved quality of the survey. Income from this source was overestimated in the 1993 survey as respondents – most probably – falsely declared certain income as intrafamily financial gifts and transfers. In 1997-1999, income from this source was somewhat more concentrated in the bottom two deciles, which is quite plausible.

⁶ Namely, maternity/parental leave wage compensation was allocated among income from employment in 1993. This was the last year when such wage compensation was paid by employers, who then requested a refund from the National Health Insurance Institute. Following the enactment of the Family Benefits Act and starting from 1994, this wage compensation has been paid by the centres for social work. It was not possible to correct the 1993 Household Expenditure Survey data in this respect.

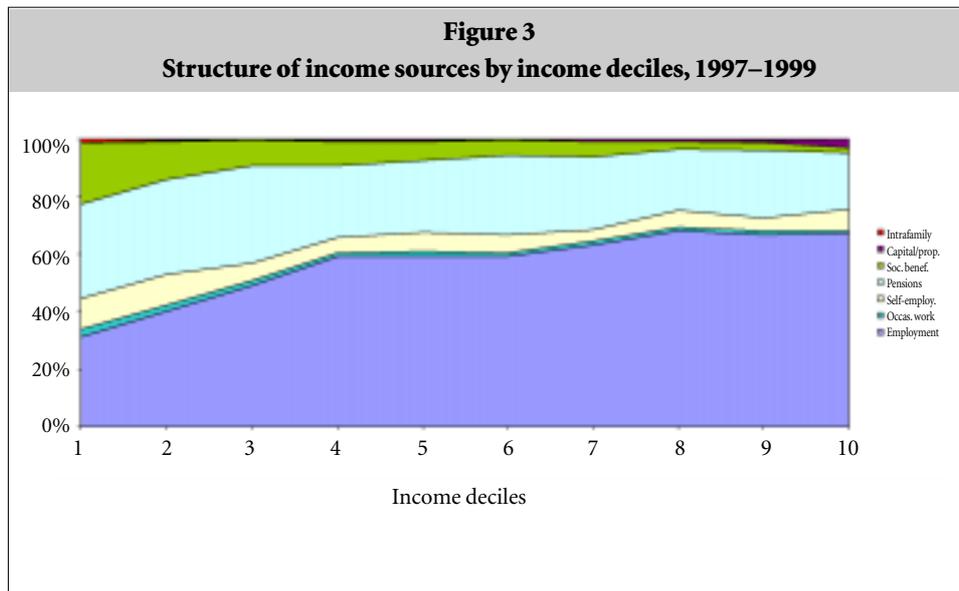
Table 3 Structure of income sources by income deciles, 1993 and 1997-1999 (%)

| Income deciles | 1993 | | | | | | | | | | | 1997-1999 | | | | | | | | | | | | | | |
|----------------|------------------------|-----------------------------|-----------------------------|----------|--|-----------------------|------------------------|-------------------|----------------|--------------------|---|---|-------|------------------------|-----------------------------|-----------------------------|----------|--|-----------------------|------------------------|-------------------|----------------|--------------------|---|---|-------|
| | Income from employment | Income from occasional work | Income from self-employment | Pensions | Health insurance related cash benefits | Unemployment benefits | War related invalidity | Social assistance | Child benefits | Educational grants | Income from capital and property rights | Intrafamily financial gifts and transfers | Total | Income from employment | Income from occasional work | Income from self-employment | Pensions | Health insurance related cash benefits | Unemployment benefits | War related invalidity | Social assistance | Child benefits | Educational grants | Income from capital and property rights | Intrafamily financial gifts and transfers | Total |
| 1 | 33.1 | 2.3 | 8.3 | 37.8 | 0.3 | 4.7 | 0.4 | 4.4 | 4.9 | 1.6 | 0.2 | 2.0 | 100.0 | 31.0 | 2.7 | 11.0 | 32.8 | 2.1 | 6.2 | 0.2 | 4.0 | 6.4 | 2.2 | 0.0 | 1.5 | 100.0 |
| 2 | 45.4 | 1.6 | 9.1 | 31.5 | 0.6 | 4.9 | 0.7 | 1.3 | 2.6 | 1.1 | 0.0 | 1.1 | 100.0 | 39.8 | 2.6 | 10.5 | 32.7 | 2.6 | 3.8 | 0.3 | 0.9 | 3.9 | 2.2 | 0.1 | 0.6 | 100.0 |
| 3 | 53.5 | 1.5 | 5.4 | 31.2 | 0.3 | 2.3 | 0.5 | 0.4 | 1.8 | 1.3 | 0.0 | 1.8 | 100.0 | 49.1 | 1.4 | 6.2 | 34.0 | 1.4 | 1.8 | 0.3 | 0.3 | 3.0 | 1.9 | 0.2 | 0.4 | 100.0 |
| 4 | 59.0 | 2.3 | 7.5 | 23.3 | 0.3 | 2.6 | 0.4 | 0.7 | 1.2 | 1.0 | 0.0 | 1.5 | 100.0 | 58.9 | 1.6 | 5.4 | 24.7 | 1.8 | 2.0 | 0.6 | 0.2 | 2.5 | 1.3 | 0.4 | 0.6 | 100.0 |
| 5 | 64.3 | 1.7 | 5.9 | 21.4 | 0.5 | 2.2 | 0.2 | 0.4 | 0.7 | 0.9 | 0.0 | 1.7 | 100.0 | 59.2 | 1.7 | 6.7 | 25.0 | 1.0 | 1.9 | 0.2 | 0.0 | 2.2 | 1.2 | 0.3 | 0.6 | 100.0 |
| 6 | 58.4 | 3.1 | 5.6 | 25.4 | 1.8 | 1.8 | 0.1 | 0.3 | 0.4 | 0.7 | 0.2 | 2.2 | 100.0 | 59.1 | 1.5 | 6.2 | 27.3 | 1.5 | 1.2 | 0.2 | 0.1 | 1.5 | 0.9 | 0.2 | 0.4 | 100.0 |
| 7 | 60.7 | 2.6 | 6.6 | 23.8 | 0.7 | 0.8 | 0.8 | 0.5 | 0.6 | 0.6 | 0.2 | 2.3 | 100.0 | 62.9 | 1.2 | 4.4 | 25.3 | 1.5 | 1.5 | 0.2 | 0.0 | 1.5 | 0.5 | 0.6 | 0.2 | 100.0 |
| 8 | 65.3 | 2.2 | 6.3 | 20.7 | 0.6 | 0.5 | 0.3 | 0.1 | 0.0 | 0.4 | 0.3 | 3.2 | 100.0 | 68.1 | 1.5 | 5.4 | 21.4 | 0.7 | 0.8 | 0.1 | 0.0 | 1.0 | 0.4 | 0.5 | 0.2 | 100.0 |
| 9 | 62.2 | 3.7 | 11.0 | 17.3 | 0.5 | 0.9 | 0.0 | 0.0 | 0.1 | 0.6 | 0.7 | 3.0 | 100.0 | 66.7 | 1.5 | 4.1 | 23.8 | 0.7 | 0.6 | 0.0 | 0.0 | 0.6 | 0.7 | 0.8 | 0.6 | 100.0 |
| 10 | 57.9 | 3.5 | 16.6 | 11.4 | 0.2 | 0.1 | 0.2 | 0.0 | 0.0 | 0.3 | 1.9 | 7.6 | 100.0 | 66.8 | 1.1 | 7.5 | 19.7 | 0.9 | 0.3 | 0.0 | 0.0 | 0.1 | 0.4 | 2.9 | 0.1 | 100.0 |
| Total | 58.6 | 2.7 | 9.4 | 21.1 | 0.6 | 1.4 | 0.3 | 0.4 | 0.7 | 0.7 | 0.6 | 3.4 | 100.0 | 60.4 | 1.5 | 6.3 | 24.9 | 1.2 | 1.4 | 0.2 | 0.3 | 1.6 | 0.9 | 0.9 | 0.4 | 100.0 |

Sources: HES 1993 and 1997-1999, own calculations.
Note: Columns may not sum to 100 due to rounding.



Sources: HES 1993 and 1997-1999, own calculations.



Sources: HES 1993 and 1997-1999, own calculations.

The structure of income sources differed among groups of households depending on the structure of households (Appendix 1, Table A1). Thus, compared to the average Slovenian household, in 1993 households with an unemployed member had relatively less income from employment, self-employment and pensions, but more income from occasional work, social assistance and child benefits. This reflects the fact that unemployed persons mostly lived in households with persons of active age and children. Not having regular employment, they performed occasional work more often than others. Suffering a loss of income, they were entitled to social assistance and child benefits, which at that time were a kind of social assistance as well. In 1997-1999, however, an increase in the share of pensions can be observed. The relative importance of unemployment benefits has decreased, as has income from self-employment and occasional work. Child benefits accounted for a higher share in income of these households due to the rise in child benefit levels, particularly for low-income households.

Normally, for households with children up to age 18, child benefits accounted for a higher than average share of income. A change in regulations meant an increase in the importance of these benefits by 1997-1999. Also, households with children up to age 18 had relatively more income from work and less pensions than Slovenian households on average, since children live in younger households. Due to the corrected registration of maternity/parental leave wage compensation, the share of health insurance related cash benefits was higher in 1997-1999 than in 1993.

Households with persons aged 60 and over had a much higher share of pensions in their income than an average Slovenian household, and this share increased between 1993 and 1997-1999. The changes in other income sources were quite small; only an increase in the share of income from capital and property rights should be noted.

The distribution of income sources across income deciles is shown in Table 4 (see also Appendix 1, Figure A2). Here are the main findings:

- There were small changes in the distribution of *income from employment* across income deciles, with its share in the lowest three deciles decreasing.
- *Income from occasional work* was more evenly spread across income levels in 1997-1999 than in 1993, due to a sharp decrease in the two top deciles and a significant increase in the lower half of the income distribution. This is most

probably due to legislative changes introduced in late 1993, which significantly increased taxation of this income source.

- The share of *self-employment income* has decreased significantly in the two top income deciles.
- The distribution of *pensions* has shifted toward higher income groups.
- *Health insurance related cash benefits* were much more evenly distributed in 1997-1999 than in 1993. The lowest four and the top income decile have increased their shares in these benefits in particular.
- The shares of *unemployment benefits* have increased at the bottom and top of the income distribution. Obviously, more unemployed had very low income in 1997-1999 than in 1993. The increase in high-income deciles may be explained by the new beneficiaries of unemployment compensation among people living in households with high income. These may have been either partners of the well-off, or young unemployed people living together with their parents.
- A shift in *war related invalidity benefits* was noted from high-income towards middle-income deciles.
- In 1997-1999, *social assistance* was better targeted than in 1993 – that is, much more concentrated in the low income deciles. The explanation may be that young unemployed people declared themselves as living independently from their parents when they applied for social assistance, while in fact they shared resources as members of the same household. The Household Expenditure Survey registered the actual situation, that is, persons living in households.
- Profound changes in the eligibility to *child benefits* were very well reflected in the distribution of this benefit across income deciles. In 1993, the child benefit was just a kind of basic social protection (social assistance), evident from a steep decrease in the share of this benefit from the bottom to the sixth income decile in 1993. The presence of child benefits even in higher income groups was due to the difference between family and household income: the beneficiaries were probably children from nuclear families with low income of their own, but living in households where other persons had high income. In 1997-1999, the child benefit was less a social assistance disbursement and more a family policy benefit. It was allocated to the great majority of children, though it was still income dependent. Its distribution was more even than in 1993, due to a high income ceiling for entitlement.

- Income-dependent *national grants* accounted for the majority of educational grants in 1997-1999, while in 1993 there had been a substantial number of non income-dependent grants paid by enterprises in order to attract needed staff. This is well evident in the shift of grants towards lower income deciles.
- The share of *income from capital and property rights* was relatively high in the top income decile in 1997-1999, but its share has increased in the middle of the income distribution since 1993. This is the first tangible result of privatization, namely the disbursement of dividends to shareholders.
- In 1993, almost half of *intrafamily financial gifts and transfers* were located in the top income decile. The 1997-1999 situation was quite different: such gifts and transfers ranged from 5.0% to 19.3% across income deciles, and the distribution was more scattered. Nevertheless, the poor received a considerably larger amount of this income than in 1993.

2.3 Relative importance of income sources

The importance of individual income sources is indicated by their share in the total income of the recipient households. In order to estimate the relative importance of individual income sources, the analysis in Section 2.2 is first complemented with information on the percentages of all households declaring income from individual income sources. This is provided in Table 5. Conclusions based on Table 5 concerning the situation in 1997-1999 as compared to 1993 are presented in Figure 5 and Figure A4 in Appendix 1. In the following discussion we refer to Table 6 as well though this table is described in more detail later in this section.

In general, fewer households had income from employment, occasional work, social assistance and intrafamily financial gifts and transfers in 1997-1999 as compared to 1993 (see Figure 4, and Figure A3 in Appendix 1). On the other hand, more households had income from health insurance related cash benefits,⁷ war related invalidity, child benefits, educational grants and income from capital and property rights, while the importance of unemployment benefits, self-employment income and pensions remained about the same. The greatest increase occurred in the percentage of households receiving child benefits, followed by those receiving income from capital and property rights. The greatest decrease occurred in income from intrafamily financial gifts and transfers, followed by income from employment. The drop in employment income is the result of a decrease in the number of persons employed in 1997-1999 as compared to 1993.⁸

In terms of the importance of these income sources for recipient households, in general it can be said that income from employment and pensions accounted for a somewhat higher share of total household income in 1997-1999 than in 1993. But income from all other sources, including social benefits as a whole, carried a relatively smaller weight for recipient households in the later period.

Income from *employment* remained the most frequent income source for Slovenian households, with a very pronounced difference between the bottom and the top decile. In 1997-1999, about 80% of households in the top three deciles had

⁷ This was almost entirely a consequence of the incorrect classification of the maternity/parental leave wage compensation in 1993.

⁸ It was only in 2000 that the number of persons in employment reached its 1993 level.

Table 5 Households declaring a given income source by income deciles, 1993 and 1997-1999 (%)

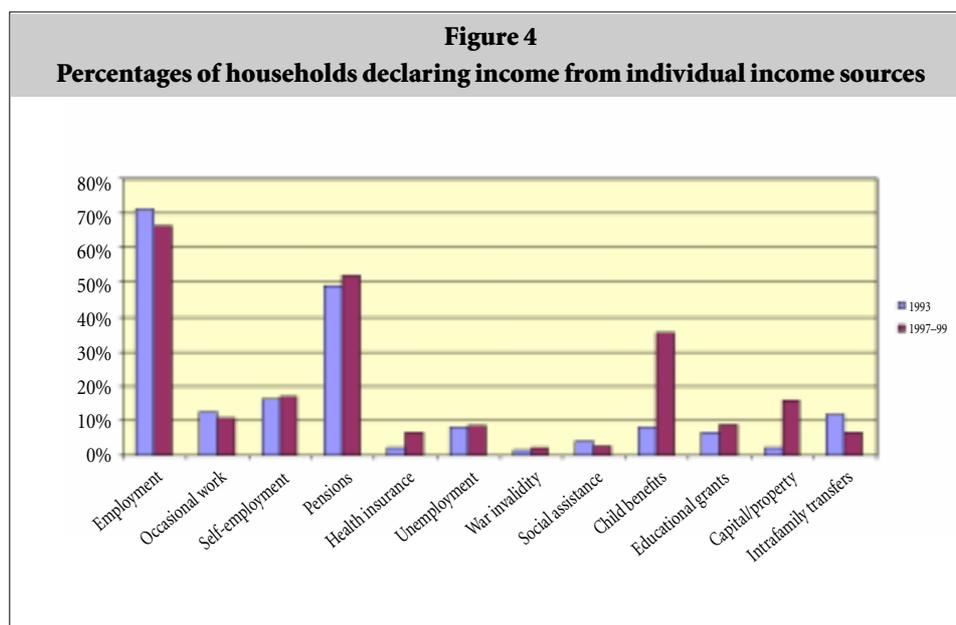
| Income deciles | 1993 | | | | | | | | | | | 1997-1999 | | | | | | | | | | | | |
|----------------|------------------------|-----------------------------|-----------------------------|----------|--|-----------------------|------------------------|-------------------|----------------|--------------------|---|---|------------------------|-----------------------------|-----------------------------|----------|--|-----------------------|------------------------|-------------------|----------------|--------------------|---|---|
| | Income from employment | Income from occasional work | Income from self-employment | Pensions | Health insurance related cash benefits | Unemployment benefits | War related invalidity | Social assistance | Child benefits | Educational grants | Income from capital and property rights | Intrafamily financial gifts and transfers | Income from employment | Income from occasional work | Income from self-employment | Pensions | Health insurance related cash benefits | Unemployment benefits | War related invalidity | Social assistance | Child benefits | Educational grants | Income from capital and property rights | Intrafamily financial gifts and transfers |
| 1 | 36.9 | 9.7 | 22.9 | 60.8 | 1.3 | 9.2 | 1.7 | 14.1 | 17.8 | 5.8 | 2.0 | 12.5 | 34.3 | 8.9 | 24.8 | 54.6 | 7.5 | 17.4 | 1.6 | 12.7 | 33.6 | 9.5 | 3.8 | 6.8 |
| 2 | 60.5 | 8.0 | 20.2 | 62.3 | 2.1 | 16.2 | 1.9 | 7.6 | 16.9 | 6.5 | 0.5 | 9.5 | 49.0 | 12.0 | 22.6 | 60.1 | 10.9 | 14.2 | 1.8 | 6.3 | 37.9 | 12.6 | 6.7 | 7.6 |
| 3 | 64.5 | 9.3 | 14.1 | 60.0 | 1.6 | 7.5 | 1.9 | 3.1 | 11.5 | 10.7 | 0.6 | 9.6 | 51.6 | 7.9 | 12.5 | 61.5 | 5.8 | 6.8 | 1.7 | 2.5 | 36.7 | 13.4 | 9.6 | 7.3 |
| 4 | 73.6 | 10.3 | 15.5 | 48.3 | 0.8 | 11.5 | 1.5 | 3.5 | 10.9 | 7.2 | 0.9 | 8.4 | 70.1 | 9.7 | 16.0 | 53.3 | 8.7 | 10.1 | 4.1 | 2.2 | 45.1 | 11.2 | 11.4 | 7.6 |
| 5 | 79.4 | 12.2 | 13.7 | 47.2 | 3.0 | 11.2 | 1.0 | 3.3 | 8.9 | 8.6 | 0.2 | 9.6 | 72.4 | 11.0 | 20.2 | 50.6 | 6.2 | 10.4 | 2.0 | 0.7 | 45.1 | 10.5 | 12.7 | 7.9 |
| 6 | 74.3 | 15.0 | 11.2 | 51.0 | 5.1 | 8.4 | 1.1 | 3.1 | 4.8 | 7.7 | 0.8 | 12.2 | 69.8 | 11.2 | 17.5 | 54.6 | 7.7 | 6.6 | 1.8 | 1.1 | 40.7 | 6.7 | 14.5 | 7.0 |
| 7 | 76.6 | 12.8 | 12.6 | 47.3 | 2.4 | 4.6 | 1.6 | 2.6 | 5.9 | 7.1 | 1.0 | 11.7 | 76.7 | 9.9 | 13.0 | 51.6 | 8.4 | 8.6 | 2.7 | 0.9 | 37.2 | 5.7 | 16.8 | 4.4 |
| 8 | 83.0 | 12.7 | 12.1 | 44.6 | 2.0 | 4.5 | 1.6 | 1.4 | 1.7 | 3.9 | 3.0 | 15.7 | 79.0 | 10.8 | 14.0 | 42.8 | 5.0 | 3.5 | 1.4 | 0.4 | 38.0 | 5.0 | 24.7 | 4.9 |
| 9 | 79.9 | 18.4 | 19.6 | 36.3 | 1.3 | 5.7 | 0.7 | 0.1 | 2.0 | 6.9 | 3.0 | 13.1 | 78.1 | 13.5 | 11.5 | 46.3 | 3.9 | 3.2 | 1.6 | 0.2 | 27.7 | 6.1 | 22.2 | 6.3 |
| 10 | 80.5 | 15.6 | 21.9 | 31.3 | 2.4 | 2.0 | 1.1 | 0.7 | 1.7 | 3.9 | 8.5 | 15.6 | 81.0 | 13.3 | 17.0 | 43.0 | 2.8 | 2.2 | 2.4 | 0.0 | 12.7 | 6.4 | 36.1 | 6.7 |
| Total | 71.0 | 12.4 | 16.4 | 48.9 | 2.2 | 8.1 | 1.4 | 4.0 | 8.2 | 6.8 | 2.1 | 11.8 | 66.2 | 10.8 | 16.9 | 51.8 | 6.7 | 8.3 | 2.1 | 2.7 | 35.5 | 8.7 | 15.8 | 6.6 |

Sources: HES 1993 and 1997-1999, own calculations.

income from employment, compared to only one third of households in the bottom income decile. On average, 66.2% of all households had income from employment. Income from employment was received by a smaller percentage of households in 1997-1999 than in 1993, but for these households it represented a somewhat more important income source (see Table 6).

The second most frequent income source was *pensions*, which were present in 51.8% of households in 1997-1999. The importance of pensions increased even in the tenth decile, where 43% of households received pensions, up from 31% in 1993. Pensions were not only received by a higher percentage of households, but they also accounted for a slightly higher percentage of income in recipient households in 1997-1999 than in 1993 (see Table 6).

The presence of *child benefits* in household income has changed considerably. In 1993, such income was registered in 8.2% of households, but by 1997-1999 it was an income source for 35.5%. In 1997-1999, even 13% of households in the top decile received child benefits. In 1993, however, the recipient households were mostly in the low income deciles. The shift was due to a change in the income group targeted by the child benefit. The frequency of child benefits in individual income deciles of course also depends on the presence of children in the



Sources: HES 1993 and 1997-1999, own calculations.

households. However, the child benefit accounted for a smaller percentage of total income of recipient households – its average share decreased from 10% to only 4% (Table 6).

Income from *self-employment* was present in 16-17% of households both in 1993 and 1997-1999. Between 1993 and 1997-1999, the presence of self-employment income spread particularly among households in the middle of the income distribution. The importance of this income source within the income structure of recipient households decreased.

Income from *capital and property rights* saw the greatest increase in its presence in household income in the period 1993-1999. In 1993, only 2.1% of all households had income from this source, but by 1997-1999 this had extended to 15.8% of households. However, it accounted for a smaller percentage of total income among recipient households. As explained, this was the result of dividends being paid out to the large number of new small shareholders following privatization.

Occasional work was a less frequent income source in 1997-1999 than in 1993, due to the already noted changes in taxation of this income source. The decrease was most visible among higher-income households, which received the largest benefit from the low taxation of occasional work in 1993. This income source also represented a lower percentage of income in recipient households.

The percentage of households whose members received *educational grants* increased from 6.8% to 8.7% over the period. The importance of educational grants for the recipient households remained about the same. The fact that ever fewer grants were awarded by enterprises and that national educational grants were income tested was well reflected in the changed shape of the frequency distribution of educational grants across income deciles. In 1997-1999, grants were more present in households in the lower half of the income distribution.

Unemployment compensation and assistance were received by almost the same proportion of households in 1993 and 1997-1999. However, we can see that the percentage of recipient households decreased in all but two income deciles, including the lowest one. The importance of these benefits for recipient households was also about the same in the two periods.

Health insurance related cash benefits were received by 2.2% of all households in 1993, rising to 6.7% in 1997-1999. An increase was registered in all income deciles, but the magnitude of change was greater in the lower half of the distribution. As we have noted, this is mainly due to maternity/parental leave wage compensation being registered as income from employment in the 1993

Household Expenditure Survey. While the number of recipient households increased in the period, this income source accounted for a smaller share in their total income.

The percentage of all households receiving *intrafamily financial gifts and transfers* decreased considerably. A large part of the explanation lies in the fact that in 1993 this income source represented a convenient “catch all” for murky transfers. After a turbulent transition period, this income source has become more “normal”. This income source represented a lower percentage of income in households where it was present.

Somewhat surprising are data on the share of households receiving *social assistance*. Bearing in mind an increase in both the number of claimants and the share of social assistance in GDP, one would expect an increase rather than a decrease in the percentage of households that were social assistance beneficiaries. At least, one would not expect the percentages of beneficiaries to decrease in the lower half of the income distribution. The only logical explanation is underreporting of this income, most probably due to a stigma associated with it. The importance of social assistance for the recipient households remained about the same over the period.

War related invalidity benefits were a more frequent income source in 1997-1999 than in 1993. This somewhat surprising trend was due to the implementation of new laws granting benefits to new groups of persons affected by World War II as well as the Slovenian fight for independence in 1991. Households in the poorest three deciles did not profit, likely because people living in these households were less informed about their possible entitlements and less able to claim the benefit by successfully navigating the required administrative procedure. The importance of these benefits within household income was less in 1997-1999 than in 1993.

The above information is not sufficient to evaluate the importance of individual income sources for recipient households. Part of the additional explanation is given by the structure of income sources of households in individual income deciles (Table 3). However, much more informative are data on how much the household income would have decreased had there been no income from a given source (Table 6 and Figure A4). The following analysis was done for individual income sources and income deciles, considering the change in the period 1993-1999.

| Figure 5 Changes in importance of income sources in 1997-1999 as compared to 1993 | | | |
|--|--|---|--|
| | Received by a smaller percentage of households | Received by about the same percentage of households | Received by a larger percentage of households |
| Less important for recipient households | <ul style="list-style-type: none"> - Income from occasional work - Intrafamily financial gifts and transfers | <ul style="list-style-type: none"> - Self-employment income - | <ul style="list-style-type: none"> - Income from capital and property rights - Health insurance related cash benefits - War related invalidity - Child benefit |
| About the same importance for recipient households | <ul style="list-style-type: none"> - Social assistance | <ul style="list-style-type: none"> - Unemployment benefits | <ul style="list-style-type: none"> - Educational grants - Pensions |
| More important for recipient households | <ul style="list-style-type: none"> - Income from employment | | |

Note: "Less important" income sources are defined as those that account for a lower share of total income among recipient households.

Over the period 1993-1999, the importance of *income from employment* increased for recipient households and represented 64-79% of their total income in 1997-1999. The dependence on income from employment increased almost continuously from the bottom to the top income decile.

In 1997-1999, a loss of *income from occasional work* would have particularly struck households in the two bottom deciles, since it accounted for 20-27% of total income in households where it was present, more than in 1993. Recipient households in other income deciles relied less on this income source in 1997-1999.

Had there been no *income from self-employment*, households declaring income from this source would have had by 27-39% lower income in 1997-1999. Dependency on this income source increased in the lowest three income deciles, while it has decreased at higher income levels.

Had there been no *pensions*, the recipient households situated in the three lowest income deciles would have been the biggest losers. Their income would have decreased by 56-65% in 1993 and by 58-66% in 1997-1999. Even households in the top income decile would have had only 52% of their actual income. In most

income groups, pensions became a more important income source for the recipient households.

Social benefits as a whole have remained an important income source for recipient households at the bottom of the income distribution, where they accounted for 33% of total household income in 1997-1999. However, their importance was lower than in 1993 in all income deciles. Since social benefits include various kinds of benefits – contributory and non-contributory, universal and income-dependent – it is necessary to look at each of these separately.

Health insurance related cash benefits were, as a whole, a less important income source for recipient households in 1997-1999 than in 1993, but still quite important – almost equalling unemployment benefits in households where they were present. In the top income decile, these benefits accounted for a full one-quarter of disposable monetary income of recipient households.

The importance of *unemployment benefits* remained almost the same – i.e. relatively high. This reflects the fact that the shorter duration of the entitlement was compensated for by a higher share of recipients of unemployment compensation, as compared to unemployment assistance.

It is interesting to note a considerable decrease in the importance of *war related invalidity benefits* for recipient households despite the extension of these rights, particularly due to the new Law on War Victims. This leads to the conclusion that the level of these benefits was low and, on average in the three-year period and per recipient household, lower in 1997-1999 than in 1993.

The importance of *social assistance* did not change for recipient households over the period – neither on average nor in the three lowest income deciles. This is logical considering that the regulation of the entitlement and the benefit level were unchanged in 1993-1999.

Despite a considerable increase in *child benefits* – both in total and per child – we can observe that the average importance of this benefit for recipient households decreased by more than a half in 1997-1999 as compared to 1993. This could be attributed to the extension of this right to middle-income families, for which child benefits represented a negligible share of household income (the higher the income, the lower the amount of benefit). However, a decrease in the importance of child benefits was registered in all income deciles, which can only be explained by a relative increase in the importance of some other income sources, which were much higher than the child benefit in absolute terms as well.

Educational grants have, on average, retained the same importance, with smaller differences by income deciles.

In 1993, *income from capital and property rights* was quite important for households having this kind of income, particularly for those in the upper half of the income distribution (in the sixth income decile it accounted for 30% of the total household income). But by 1997-1999 the loss to be suffered had there been no income from this source would have been almost negligible – it was an important income source only in the top income decile, where it accounted for 7% of total income in households where it was present.

Intrafamily financial gifts and transfers were an important income source only for recipient households in the bottom income decile, where they accounted for 27% of household income in 1997-1999. Since 1993, a dependency on income from this source has decreased for recipient households in all other income deciles, the share of this income varying between 2% and 9%.

Chapter 3

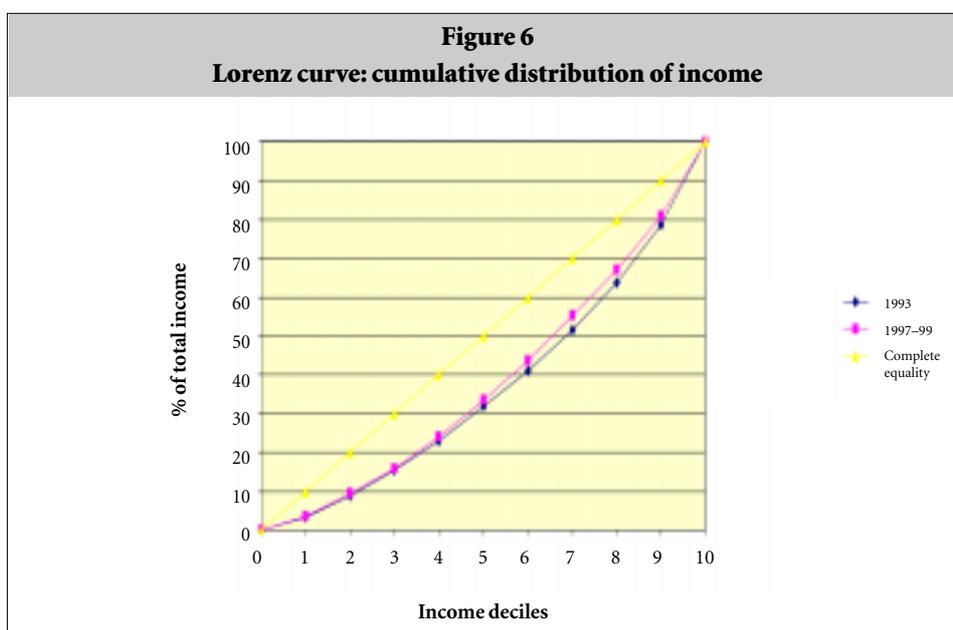
Income inequality in Slovenia

This section analyzes income inequality in Slovenia in 1997-1999, starting with the characteristics of income distribution. The contribution of individual income components to overall income inequality is quantified, and the impact of social benefits on income inequality explored. The situation in 1997-1999 is compared to that in 1993.

3.1 Income distribution

The cumulative distribution of income is presented by the Lorenz curve in Figure 6.⁹ As can be seen, income inequality decreased over the period 1993-1999.

⁹ The Lorenz curve shows the cumulative proportion of total income (y-axis) disposed of by cumulative share of households (x-axis), with households ranked according to their household equivalent income (see Appendix 3).



Sources: HES 1993 and 1997-1999, own calculations.

Table 7 identifies the reasons for this shift, by plotting the shares of total income by income deciles. As we can see, the income shares of the first seven deciles have increased – except for the third decile, where the income share remained unchanged. In contrast, the income shares of the top three deciles decreased.

Table 7
Income shares by income deciles (%)

| Income deciles | 1993 (1) | 1997-1999 (2) | Differences (2-1) |
|----------------|----------|---------------|-------------------|
| 1 | 3.4 | 3.6 | 0.2 |
| 2 | 5.5 | 5.8 | 0.3 |
| 3 | 6.5 | 6.5 | 0.0 |
| 4 | 7.7 | 8.1 | 0.4 |
| 5 | 8.8 | 9.6 | 0.8 |
| 6 | 9.2 | 10.2 | 1.0 |
| 7 | 10.4 | 11.3 | 0.9 |
| 8 | 12.2 | 12.1 | -0.1 |
| 9 | 14.9 | 13.6 | -1.3 |
| 10 | 21.4 | 19.3 | -2.1 |
| Total | 100.0 | 100.0 | 0.0 |

Sources: HES 1993 and 1997-1999, own calculations.

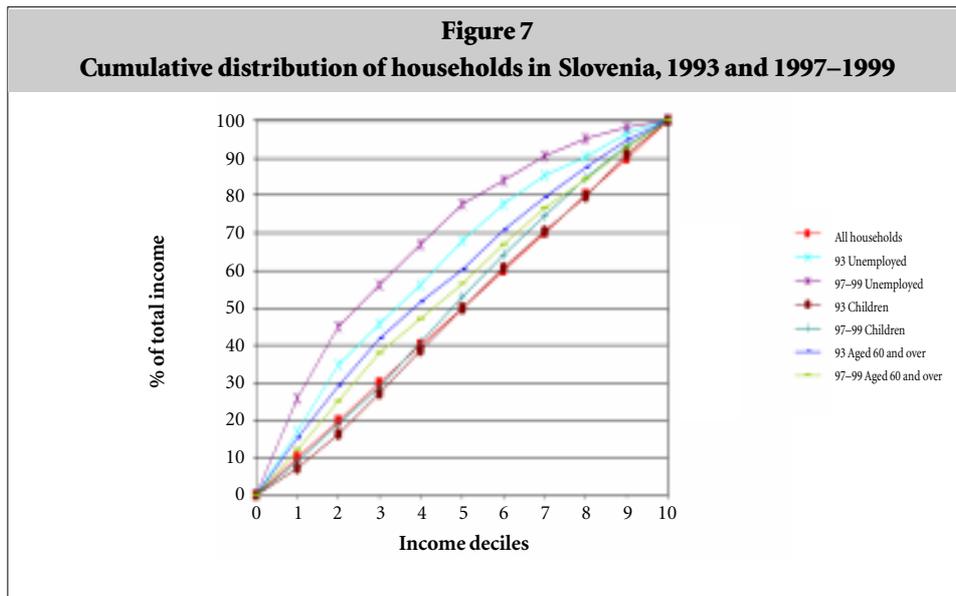
Note: Rows may not sum to 100 due to rounding.

3.2 Distribution of households at high risk of poverty

The distribution of three groups of households will be analysed in more detail. These are households that are generally supposed to be at the highest risk of poverty – those with unemployed members, with children up to age 18, and with persons aged 60 and over.

It is evident from Figure 7 that households with unemployed members and those with a person aged 60 and over were over-represented in lower income deciles. This is particularly true for households with unemployed members, which saw their situation worsen between 1993 and 1997-1999. As for households with persons aged 60 and over, their share decreased in the bottom two income deciles by 1997-1999, while they account for a greater share in the upper half of the income distribution.

The distribution of households with children up to age 18 was rather uniform. In 1993, these households were under-represented in the bottom two income deciles, showing that they were not at high risk of poverty. By 1997-1999 their situation had worsened. It is true that households with children were still slightly under-represented in the bottom income decile, but their shares in the two top deciles decreased considerably.



Sources: HES 1993 and 1997-1999, own calculations.

Additional information is obtained from the structure of households by income deciles. In Table 8 the shares of individual groups of households within each decile are presented. In 1993, 14% of all households had an unemployed member, and the share of these households increased to 18% in 1997-1999. About a quarter of all households in the bottom income decile had an unemployed member in 1993, but by 1997-1999 an unemployed member was present in 46% of all households in the bottom decile! The shares of households with unemployed members increased in the five lowest income deciles.

Table 8
Shares of selected groups of households as percentages of all households in an income decile, 1993 and 1997-1999

| Income deciles | Households with unemployed member | | Households with children aged 18 and under | | Households with persons aged 60 and over | |
|----------------|-----------------------------------|-----------|--|-----------|--|-----------|
| | 1993 | 1997-1999 | 1993 | 1997-1999 | 1993 | 1997-1999 |
| 1 | 24.3 | 46.1 | 35.2 | 38.5 | 60.0 | 50.3 |
| 2 | 24.7 | 34.4 | 45.0 | 42.1 | 55.6 | 52.1 |
| 3 | 15.2 | 20.2 | 47.0 | 40.8 | 48.6 | 52.2 |
| 4 | 14.5 | 19.2 | 54.3 | 49.6 | 38.7 | 37.8 |
| 5 | 16.7 | 19.6 | 53.5 | 52.0 | 34.3 | 38.3 |
| 6 | 14.0 | 10.9 | 49.1 | 46.0 | 40.6 | 42.2 |
| 7 | 10.5 | 11.7 | 47.2 | 44.5 | 33.7 | 39.4 |
| 8 | 6.9 | 8.3 | 47.7 | 42.1 | 31.6 | 31.6 |
| 9 | 9.0 | 5.3 | 48.5 | 37.2 | 28.8 | 33.8 |
| 10 | 4.9 | 3.4 | 42.0 | 27.8 | 20.7 | 31.0 |
| Total | 14.1 | 17.9 | 46.9 | 42.1 | 39.2 | 40.9 |

Sources: HES 1993 and 1997-1999, own calculations

Note: A household may appear in more than one group of households.

In 1993, children up to age 18 were present in relatively similar percentages of Slovenian households (42-54%) in all income deciles except the bottom one. Households with children were most frequent in the middle of the income distribution. Children up to age 18 were present in 47% of all households in 1993, and in 42% of households in 1997-1999. In this period of time we can observe a relatively high decrease in the share of households with children in the top two income deciles.

The share of households with persons aged 60 and over slightly increased between 1993 and 1997-1999. In 1993, the share of these households in the bottom decile was three times the share in the top decile. In 1997-1999, the differences in shares of households with persons aged 60 and over were smaller across income deciles. Considering the increase in the number of the aged, this change can be understood as a consequence of the relatively improved financial situation of these households.

3.3 Income inequality in 1997-1999 as compared to 1993

In Table 9, three aggregate measures of income inequality are presented: the Gini coefficient (based both on total household income and total household income excluding social benefits), the 90/10 percentile ratio and the 75/25 percentile ratio.¹⁰ In computing these measures, households were taken as units through the utilization of household equivalent income.¹¹

Table 9
Income inequality measures, 1993 and 1997-1999

| Income inequality measures | 1993 | 1997-1999 |
|---|--------|-----------|
| Gini coefficient | 0.2696 | 0.2356 |
| Gini coefficient (without social benefits) | 0.2915 | 0.2568 |
| 90/10 percentiles | 3.38 | 3.22 |
| 90/10 percentiles (without social benefits) | 3.92 | 3.83 |
| 75/25 percentiles | 1.83 | 1.77 |
| 75/25 percentiles (without social benefits) | 1.94 | 1.89 |

Sources: HES 1993 and 1997-1999, own calculations.

Note: Social benefits excluded from household income are: health insurance related cash benefits, unemployment benefits, war-related invalidity benefits, social assistance, child benefits and educational benefits.

Following a decade of constantly rising income inequality (as measured by the Gini coefficient) – as registered in 1983, 1988, and 1993 – a considerable decrease was observed in 1997-1999. This holds true no matter which measure is applied. It is also evident from Table 9 that the post-transfer income distribution was more equal than the pre-transfer one, so we can conclude that social benefits were

¹⁰ The Gini coefficient represents twice the area between the Lorenz curve and the line of complete equality (see Figure 6). It shows how equally (or rather, unequally) income is distributed. The nearer its value to zero, the more equal the income distribution. The 90/10 ratio (also labelled the decile ratio) shows the ratio of equivalent income in a household situated at the 90th percentile to that of a household situated at the 10th percentile. Ten percent of all households have income higher than a household at the 90th percentile, while the converse is true for a household at the 10th percentile – 90% of households have a higher equivalent income. The 90/10 ratio thus gives a measure of the extremes of the income distribution whereas the 75/25 ratio gives a measure of income inequality of households situated more toward the middle of the income distribution.

¹¹ For an explanation of household equivalent income, see Appendix 3.

targeted toward lower income households. The income situation of Slovenian households would have been much worse in the absence of social benefits.

A household at the 90th percentile in the income distribution disposed of 3.38 times the equivalent income of a household representing the 10th percentile in 1993. In 1997-1999, however, the ratio was 3.22. Had there been no social benefits, the ratio would have been 3.83 in 1997-1999.

Normally, the observed impact of social benefits is much weaker when the 75th and the 25th percentiles are compared. In 1997-1999, the 75/25 ratio was 1.77; by excluding social benefits, this ratio would increase to 1.89. Again, these ratios are lower than the corresponding ratios in 1993.

3.4 Decomposition of inequality by income components

3.4.1 Methodology

A question that logically follows the preceding statements regarding the size and change in aggregate income inequality concerns the contribution of various income components to overall income inequality – i.e. whether a given component acts to increase inequality or even out the distribution of income. According to an analytical decomposition, first derived by Rao (1969), the Gini coefficient can be decomposed as:

$$(1) \quad G = \sum_{k=1}^K \frac{m_k}{m} C_k$$

where:

G = Gini coefficient of income inequality

μ = mean of total income

μ_k = mean of factor income k

C_k = concentration coefficient (“concentration ratio”) of factor income k .

Though most of these terms are well known, we shall nevertheless briefly describe them. The concentration coefficient for a given income component k was

computed as follows. First, we constructed a concentration curve by arranging income units (households) in ascending order of the total disposable monetary income and plotting the cumulative proportions of the factor income k against the cumulative proportions of income units. One minus twice the area beneath the concentration curve is the concentration coefficient. If the concentration curve lies mostly above the 45-degree line, the value of the concentration coefficient will be negative; in this case we say that the income component k is an *absolute income equalizer*. This means that the poor receive (in absolute terms) more of a given income source than the rich. If the value of the concentration coefficient is less than the value of the Gini coefficient, we say that the given income component k is a *relative income equalizer*. This means that this income source represents a larger share of total income for poorer households than for richer households but the rich receive – in absolute terms – more of this income source than the poor.

The value of the Gini coefficient is one minus twice the area beneath the Lorenz curve. Thus the Gini coefficient can be viewed as a particular example of the concentration coefficient, since the Lorenz curve is but a particular example of the concentration curve. Namely, for the Lorenz curve we plot not the cumulative proportion of factor income k against the cumulative proportion of income units (ranked according to their equivalent income), but simply the cumulative proportion of total income against the cumulative proportion of income units (ranked according to their equivalent income).

3.4.2 Results of decomposition

Table 10 shows the values of the concentration coefficients for each income component in 1993 and 1997-1999, as well as the shares of a given factor income in total income (i.e. the μ_k/μ , for each k).

Pensions were a strong relative income equalizer both in 1993 and 1997-1999, since the concentration coefficients for this income component were positive but much smaller than the Gini coefficient of income inequality. In other words, this income source was – relatively speaking – more important for the poor than for the rich. Overall, we can say that *social benefits* were an absolute income equalizer both in 1993 and 1997-1999, meaning that the poor received more of this income source – in absolute terms – than the rich. In 1993, this was particularly true for social assistance and child benefits, and also for unemployment benefits and educational grants. The absolute equalizing impact of social assistance was considerably higher in 1997-1999, while the impact of child benefits decreased, quite expectedly given the legislative changes in these benefits.

Table 10
Concentration coefficients and factor income shares in total income,
1993 and 1997-1999

| | Concentration coefficient | | Factor income share | |
|---|---------------------------|-----------|---------------------|-----------|
| | 1993 | 1997-1999 | 1993 | 1997-1999 |
| Income from employment | 0.30501 | 0.30960 | 0.58615 | 0.60286 |
| Income from occasional work | 0.40096 | 0.13287 | 0.02714 | 0.01519 |
| Self-employment income | 0.43987 | 0.16883 | 0.09397 | 0.06302 |
| Pensions | 0.09985 | 0.15602 | 0.21085 | 0.25042 |
| Health insurance related cash benefits | 0.19555 | 0.05623 | 0.00552 | 0.01224 |
| Unemployment benefits | -0.20568 | -0.18613 | 0.01431 | 0.01436 |
| War related invalidity benefits | 0.07359 | -0.05449 | 0.00325 | 0.00193 |
| Social assistance | -0.44134 | -0.70331 | 0.00437 | 0.00257 |
| Child benefits | -0.37404 | -0.20977 | 0.00738 | 0.01615 |
| Educational grants | -0.00272 | -0.08290 | 0.00688 | 0.00915 |
| Income from capital and property rights | 0.76940 | 0.67017 | 0.00617 | 0.00795 |
| Intrafamily financial gifts and transfers | 0.56250 | -0.01952 | 0.03400 | 0.00416 |
| Total current monetary disposable income | 0.26960 | 0.23557 | 1.00000 | 1.00000 |

Sources: HES 1993 and 1997-1999, own calculations.

Note: The concentration coefficient for the total current monetary disposable income is the Gini coefficient.

These findings conform very much to our expectations. It would be quite bizarre if, say, pensions derived exclusively from the public pension system were not relative income equalizers. Also, the very function of the social policy schemes would be negated if social benefits – social and unemployment assistance in particular – were not absolute income equalizers.

As for other income components, the values of concentration coefficients also meet our expectations. The only exception is *intrafamily financial gifts and transfers*, which experienced a change in both their impact and intensity. While in 1993 these had a relatively strong impact on the increase in income inequality (although with a negligible final effect due to the small size of income from this source), such transfers became an unimportant income equalizer in 1997-1999.

The largest concentration coefficient in both 1993 and 1997-1999 is that of *income from capital and property rights*, but its cumulative effect was not important due to the very low factor income share. Quite a large concentration coefficient can be observed for *income from occasional work* and *self-employment income* in 1993, while in 1997-1999 they acted as relative income equalizers.

The absolute contribution of each income component in total inequality, i.e. the values of $(\mu_k/\mu) C_k$, can be observed in Table 11. This table also shows the relative contributions of each income component, i.e. the values

$$(2) \frac{(\mu_k/\mu)C_k}{G}$$

This represents the share of the income component k in total income inequality.

Obviously, the most important absolute and relative contribution towards income inequality is from *income from employment*. In 1997-1999, its absolute contribution was 0.18664 and relative contribution 79.2%. The second and third – but much less – important contributions (with a positive sign) were those from *self-employment income* and *pensions*. The absolute contribution of pensions was 0.03947, while their relative contribution towards income inequality was 16.1%. As already mentioned, the absolute (and hence also relative) contribution of the income component overall *social benefits* was negative, but it was very modest as well. The contribution of unemployment benefits alone was almost half the contribution of all other social benefits.

Table 11
Absolute and relative contributions of income components in total income inequality, 1993 and 1997-1999

| | Absolute contribution | | Relative contribution | |
|---|-----------------------|-----------|-----------------------|-----------|
| | 1993 | 1997-1999 | 1993 | 1997-1999 |
| Income from employment | 0.17878 | 0.18664 | 0.66313 | 0.79229 |
| Income from occasional work | 0.01088 | 0.00202 | 0.04036 | 0.00857 |
| Self-employment income | 0.04134 | 0.01064 | 0.15334 | 0.04517 |
| Pensions | 0.02105 | 0.03907 | 0.07808 | 0.16585 |
| Health insurance related cash benefits | 0.00108 | 0.00069 | 0.00401 | 0.00293 |
| Unemployment benefits | -0.00294 | -0.00267 | -0.01091 | -0.01133 |
| War related invalidity | 0.00024 | -0.00011 | 0.00089 | -0.00047 |
| Social assistance | -0.00193 | -0.00181 | -0.00716 | -0.00768 |
| Child benefits | -0.00276 | -0.00339 | -0.01024 | -0.01439 |
| Educational grants | -0.00002 | -0.00076 | -0.00007 | -0.00323 |
| Income from capital and property rights | 0.00475 | 0.00533 | 0.01762 | 0.02263 |
| Intrafamily financial gifts and transfers | 0.01913 | -0.00008 | 0.07096 | -0.00034 |
| Total current monetary disposable income | 0.26960 | 0.23557 | 1.00000 | 1.00000 |

Sources: HES 1993 and 1997-1999, own calculations.

Chapter 4

Poverty in Slovenia

This section will present and analyse poverty rates in Slovenia in 1997-1999. Population groups and household types with high poverty risk are identified, and the impact of social benefits on poverty rates and risk groups is investigated. The situation in 1997-1999 is compared with that in 1993, also taking into account the changes in social policy introduced between 1993 and 1997-1999.

Poverty status is evaluated on the basis of household (post-transfer) current monetary disposable income, as well as on the basis of household current monetary disposable income minus social benefits. This enables identification of the impact of social benefits on poverty. Poor people are defined as those living in households with income (per equivalent adult) below 40%, 50%, 60% or 70% of the median household income (per equivalent adult).

4.1 Change in poverty rates between 1993 and 1997-1999

For the purpose of our analysis, we measure poverty by the share of households and the share of people living in households with equivalent income below 40%, 50%, 60% or 70% of the median equivalent household income. No matter which poverty line we apply, the poverty rates for the total population of Slovenia were somewhat higher in 1997-1999 than in 1993 (Tables 12-13, Figure 8). The relative income situation has improved for pensioners and persons aged 60 and over, while it has worsened for the unemployed and children up to age 18.

If 50% of the median equivalent income is taken as the poverty line, 8.1% of households and 8.0% of people in Slovenia were living in poverty in 1997-1999 as compared to 7.7% and 7.1%, respectively, in 1993. There is nothing surprising in this finding, although income inequality was seen to be decreasing. Namely, the Gini coefficient as well as the 90/10 and 75/25 percentile ratios take into account

Table 12 Poverty incidence in 1993 and 1997-1999 (persons, %)

| Poverty line as % of median equivalent household income | All persons | | Pensioners | | Unemployed | | Children aged 18 and under | | Persons aged 60 and over | |
|---|-------------|---------|------------|---------|------------|---------|----------------------------|---------|--------------------------|---------|
| | 1993 | 1997-99 | 1993 | 1997-99 | 1993 | 1997-99 | 1993 | 1997-99 | 1993 | 1997-99 |
| 40 | 3.7 | 4.2 | 3.8 | 3.3 | 13.6 | 23.6 | 4.2 | 4.8 | 7.3 | 5.3 |
| 50 | 7.1 | 8.0 | 8.7 | 5.7 | 22.5 | 35.5 | 7.4 | 9.4 | 14.1 | 10.0 |
| 60 | 12.9 | 13.9 | 16.3 | 11.5 | 33.5 | 48.3 | 13.2 | 16.7 | 25.0 | 17.6 |
| 70 | 20.6 | 21.1 | 23.2 | 19.4 | 45.5 | 63.1 | 21.5 | 24.6 | 33.6 | 28.4 |

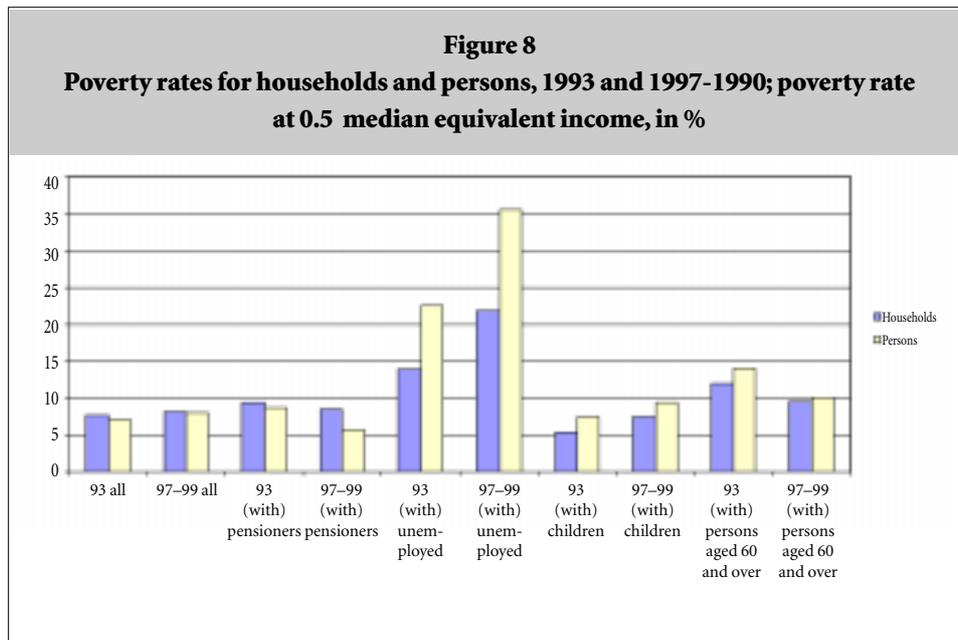
Sources: HES 1993 and 1997-1999, own calculations.

Table 13 Poverty incidence in 1993 and 1997-1999 (households, %)

| Poverty line as % of median equivalent household income | All households | | Households with pensioners | | Households with unemployed members | | Households with children aged 18 and under | | Households with persons aged 60 and over | |
|---|----------------|---------|----------------------------|---------|------------------------------------|---------|--|---------|--|---------|
| | 1993 | 1997-99 | 1993 | 1997-99 | 1993 | 1997-99 | 1993 | 1997-99 | 1993 | 1997-99 |
| 40 | 4.0 | 4.6 | 4.2 | 4.8 | 7.3 | 12.7 | 2.8 | 3.6 | 6.2 | 5.5 |
| 50 | 7.7 | 8.1 | 9.3 | 8.4 | 13.9 | 21.8 | 5.3 | 7.4 | 12.0 | 9.6 |
| 60 | 13.8 | 13.8 | 17.8 | 15.0 | 23.3 | 34.5 | 10.5 | 13.5 | 21.4 | 16.8 |
| 70 | 21.1 | 21.1 | 26.3 | 23.9 | 35.7 | 47.0 | 17.8 | 20.3 | 30.8 | 26.5 |

Sources: HES 1993 and 1997-1999, own calculations.

the whole income distribution. In accessing the poverty rate, only the lower part of the income distribution is relevant. Obviously, the upper part of the income distribution has improved more in terms of equality (see Table 7).



Sources: HES 1993 and 1997-1999, own calculations.

4.1.1 Pensioners

Pensioners were the only population group among those selected where the poverty rate fell below the average rate for the total population, while in 1993 it was still somewhat above average. Households with pensioners also showed a similar decreasing trend in poverty, although poverty figures remained higher than those for all households.

Pensions, being the main income source of pensioners, obviously remained stable both in real and relative terms. They were regularly received and adequately indexed, which cannot be said of most of other income sources. Pensions are also relatively generous in Slovenia, even by the standards of the continental (Bismarckian) system. Average net old-age pensions amounted to 74.5% of the average net wage in 1993, 75.4% in 1997, and 76.8% in 1999. However, the average pensions differ considerably for old-age, disability and survivor pensioners.

4.1.2 The unemployed

Looking at the poverty rates in Tables 12 and 13, one is struck by both the extent and change in poverty among the unemployed. If the poverty line is set at 50% of the median household equivalent income, 35.5% of the unemployed lived in poverty in 1997-1999, as compared to 22.5% in 1993. The poverty rate for the unemployed was 3.2 times higher than average in 1993, and 4.4 times higher than average in 1997-1999. Households with unemployed members also had a very high risk of poverty in comparison to other households, and were the highest among selected household types. Almost half of households with unemployed members were situated in the bottom two income deciles in 1997-1999.

What requires explanation is the large difference between poverty rates for the unemployed and for households in which they lived – the former were considerably higher. As seen from Tables 1 and 8, unemployed persons accounted for 22% of all persons in the bottom income decile in 1997-1999, while households with an unemployed member accounted for 46% of all households in the bottom decile. For now, we can state that one of the reasons for the considerable difference in poverty rates is that households with more than one unemployed member are mostly (or almost exclusively) located in the lower income deciles. This surely is an issue that requires further analysis.

4.1.3 Children aged 18 and under

The main findings concerning poverty among children in Slovenia in the period 1993-1999 are as follows (see Table 14):

- Poverty incidence among children has remained higher than that for the population as a whole.
- Poverty incidence among children increased somewhat in the examined period.
- The difference between poverty rates for children up to age of 18 and the population as a whole also increased slightly.

Increased poverty rates in 1997-1999 as compared to 1993 are the common characteristic both of children up to age 18 and the households in which they live. However, poverty incidence was lower among these households than on average for all households in both 1993 and 1997-1999.

Table 14 Comparison of poverty incidence among children aged 18 and under (percentage points)

| Poverty line as % of median equivalent household income | Difference between poverty rates among children in 1997-1999 and 1993 | Difference between poverty rates among children and those for all persons, 1993 | Difference between poverty rates among children and those for all persons, 1997-1999 |
|---|---|---|--|
| 40 | 0.6 | 0.5 | 0.6 |
| 50 | 2.0 | 0.3 | 1.4 |
| 60 | 3.5 | 0.3 | 2.8 |
| 70 | 3.1 | 0.9 | 3.5 |

Sources: HES 1993 and 1997-1999, own calculations.

4.1.4 Persons aged 60 and over

As mentioned above, the income position of people aged 60 and over improved over the period 1993-1999. However, poverty incidence among this population group has remained higher than average in Slovenia. This is true for households with persons aged 60 and over as well. It is evident from Table 15 that poverty incidence was somewhat greater for elderly women than for men, though the income position of elderly women improved in the period.

Table 15 Poverty rates for persons aged 60 and over

| Poverty line as % of median equivalent household income | Persons aged 60 and over (1) | 1993 | | Difference between poverty rates (2-1) | 1997-1999 | | Difference between poverty rates (2-1) |
|---|------------------------------|----------------------------|-----|--|------------------------------|----------------------------|--|
| | | Women aged 60 and over (2) | | | Persons aged 60 and over (1) | Women aged 60 and over (2) | |
| 40 | 7.3 | 8.0 | 0.7 | 5.3 | 6.5 | 1.2 | |
| 50 | 14.1 | 14.9 | 0.8 | 10.0 | 10.4 | 0.4 | |
| 60 | 25.0 | 28.0 | 3.0 | 17.6 | 18.0 | 0.4 | |
| 70 | 33.6 | 36.8 | 3.2 | 28.4 | 30.0 | 1.6 | |

Sources: HES 1993 and 1997-1999, own calculations.

4.2 Aggregate impact of social benefits on poverty incidence

In this section we turn to the joint impact of all social benefits on poverty rates among population groups and household types; in other words, poverty rates based on household income without social benefits will be analysed. The results

Table 16 Poverty incidence, income without social benefits (% of persons)

| Poverty line as % of median equivalent household income | All persons | | Pensioners | | Unemployed | | Children aged 18 and under | | Persons aged 60 and over | |
|---|-------------|---------|------------|---------|------------|---------|----------------------------|---------|--------------------------|---------|
| | 1993 | 1997-99 | 1993 | 1997-99 | 1993 | 1997-99 | 1993 | 1997-99 | 1993 | 1997-99 |
| | 40 | 6.4 | 7.5 | 5.5 | 3.5 | 35.6 | 39.8 | 8.0 | 9.4 | 8.7 |
| 50 | 10.6 | 12.3 | 10.5 | 7.1 | 44.5 | 49.9 | 12.1 | 16.0 | 15.3 | 11.0 |
| 60 | 16.3 | 17.3 | 18.0 | 12.4 | 53.9 | 58.9 | 17.4 | 21.3 | 25.8 | 17.9 |
| 70 | 24.3 | 24.5 | 25.5 | 18.5 | 64.9 | 69.2 | 27.0 | 29.9 | 35.5 | 26.7 |

Sources: HES 1993 and 1997-1999, own calculations.

Note: Social benefits excluded from household income are: health insurance related cash benefits, unemployment benefits, war-related invalidity benefits, social assistance, child benefits and educational grants.

Table 17 Poverty incidence, income without social benefits (% of households)

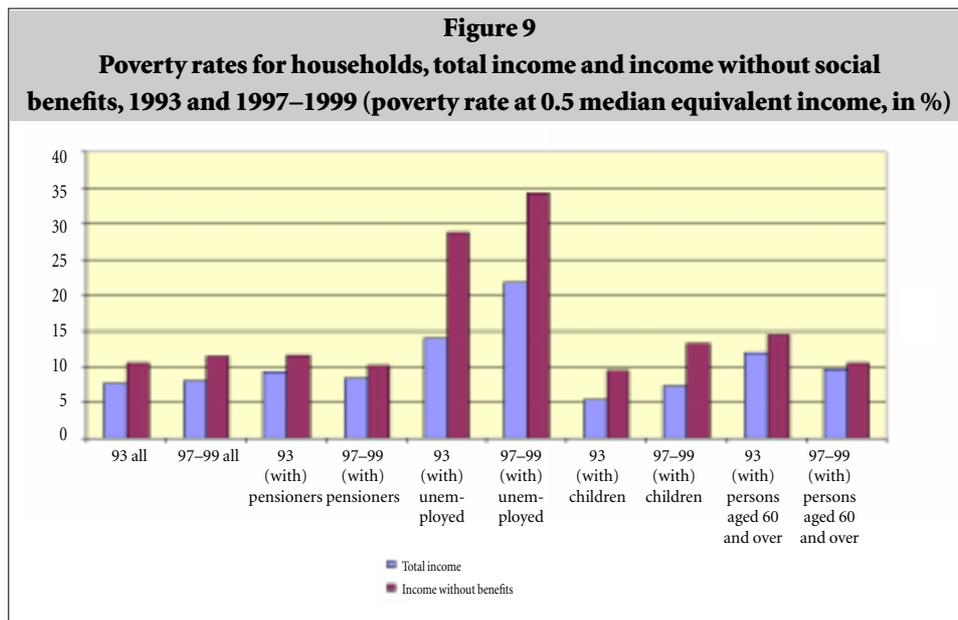
| Poverty line as % of median equivalent household income | All households | | Households with pensioners | | Households with unemployed members | | Households with children aged 18 and under | | Households with persons aged 60 and over | |
|---|----------------|---------|----------------------------|---------|------------------------------------|---------|--|---------|--|---------|
| | 1993 | 1997-99 | 1993 | 1997-99 | 1993 | 1997-99 | 1993 | 1997-99 | 1993 | 1997-99 |
| | 40 | 6.7 | 7.1 | 6.2 | 5.8 | 18.6 | 23.4 | 6.0 | 7.9 | 8.0 |
| 50 | 10.6 | 11.4 | 11.6 | 10.2 | 28.7 | 34.3 | 9.5 | 13.2 | 14.4 | 10.5 |
| 60 | 16.6 | 16.4 | 19.5 | 16.0 | 37.3 | 43.6 | 14.2 | 18.1 | 22.8 | 17.0 |
| 70 | 24.1 | 23.2 | 28.2 | 23.4 | 49.9 | 54.4 | 22.5 | 25.2 | 31.9 | 25.0 |

Sources: HES 1993 and 1997-1999, own calculations.

Note: Social benefits excluded from household income are: health insurance related cash benefits, unemployment benefits, war-related invalidity benefits, social assistance, child benefits and educational grants.

are presented for both persons and households in Tables 16 and 17. However, since the situation was similar for both, the analysis will refer to households only.

In Figure 9, pairs of poverty rates are compared: the first columns in each pair are poverty rates calculated on the basis of household income, while the second columns are poverty rates based on household income *minus* social benefits. The situations in 1993 and 1997-1999 are compared as well.



Sources: HES 1993 and 1997-1999, own calculations.

If the poverty line is set at 50% of the median equivalent household income, in the absence of social benefits the poverty rate would have been 2.9 percentage points higher in 1993 and 3.3 percentage points higher in 1997-1999. This indicates a strong impact of social benefits on alleviating poverty, and also points to the increased importance of social benefits in 1997-1999 as compared to 1993.

Social benefits had a somewhat higher impact on the alleviation of poverty among households with pensioners and households with persons aged 60 and over in 1993 than in 1997-1999. But it must be clearly stated that the impact of social benefits on these households was small. The opposite was the case with poverty among households with children. There, the impact of social benefits was strong, mostly due to the maternity/parental leave wage compensation, the wider availability and higher level of child benefits, and a higher amount of educational grants (see also Appendix 2, Table A4). These impacts were particularly felt at

lower income levels. Consequently, the poverty rate (at half the median equivalent household income) would have been 5.8 percentage points higher in 1997-1999 had there been no social benefits.

As for social benefits allocated to the elderly, health insurance related cash benefits, unemployment benefits, war related invalidity benefits and social assistance had less importance for low-income households with persons aged 60 and over in 1997-1999 than in 1993. This was partly compensated by a somewhat higher importance of child benefits, obviously received by three-generation households. Due to that, the impact of social benefits on poverty rates was quite small.

It is evident from Table 18 (and as compared to Table 15) that social benefits had a small impact on poverty rates among women aged 60 and over as well. Obviously, social benefits (which, according to the definition applied, do not include pensions) account for a small share in the total income of households where women aged 60 and over live.

Table 18 Poverty rates for persons aged 60 and over, household income without social benefits (%)

| Poverty line as % median equivalent household income | 1993 | | | 1997-1999 | | |
|--|------------------------------|----------------------------|--|------------------------------|----------------------------|--|
| | Persons aged 60 and over (1) | Women aged 60 and over (2) | Difference between poverty rates (2-1) | Persons aged 60 and over (1) | Women aged 60 and over (2) | Difference between poverty rates (2-1) |
| 40 | 8.7 | 9.2 | 0.5 | 6.0 | 7.1 | 1.1 |
| 50 | 15.3 | 15.9 | 0.6 | 11.0 | 11.2 | 0.2 |
| 60 | 25.8 | 29.0 | 3.2 | 17.9 | 18.0 | 0.1 |
| 70 | 35.5 | 38.6 | 3.1 | 26.7 | 26.2 | -0.5 |

Sources: HES 1993 and 1997-1999, own calculations.

The impact of social benefits on poverty rates was greatest in households with an unemployed member. Had there been no social benefits, the poverty rate (at 50% of the median equivalent household income) would have been 14.8 percentage points higher in 1993 and 12.5 percentage points higher in 1997-1999. This was mainly due to unemployment benefits, child benefits, social assistance, educational grants and health insurance related cash benefits (in 1997-1999 only). Low-income households with an unemployed member received considerable income through unemployment benefits, but less in 1997-1999 than in 1993. Less people were entitled to lower benefits, which they received for a shorter period of time.

Chapter 5

Contribution and limits of social benefits in alleviating poverty and income inequality

This research project provided an evaluation of the positive impact as well as the limits of social benefits in alleviating poverty and income inequality in Slovenia. It also showed the effect of changes resulting from social policy measures implemented between 1993 and 1997-1999. Though the changes introduced were aimed at improving the system of social protection, they may have caused serious short-term hardship for certain population groups. In 1997-1999, for instance, elderly unemployed persons missing up to three years until retirement received unemployment assistance (without supplements for dependants) rather than unemployment compensation, and during this period they were not paid contributions for pension insurance.

The coverage, targeting and amount of social benefits influenced poverty rates through entitlement to these benefits. Of course, the number of social benefits available – i.e. the variety of risks and family situations covered – also played an important role. Only efficient targeting and relatively high benefits, covering the majority of risks and situations, can redistribute income to such an extent as to significantly reduce poverty and income inequality.

One more feature of some social benefits should be pointed out here, which influenced our findings regarding their impact on poverty. The entitlement to child benefits and other income-dependent benefits (except social assistance) is judged on the basis of per capita income, while we have ranked households according to their equivalent income. This means that households other than those with a single member were treated by social legislation as worse off than would have been the case had economies of scale been applied. The bigger the household, the greater the difference between its economic position according to our ranking (which takes into account the standard OECD equivalence scale) and its financial situation as perceived by those who decide on entitlements to and levels of social benefits. This

is one reason why we find households entitled to income-dependent social benefits even in the highest income groups. The other reason is the difference between the income of households in which people live and share income, and families whose income is usually taken into account when ascertaining eligibility and the level of social benefits. The bias is almost exclusively one-way: families that apply for benefits live in households that enjoy a higher standard of living than can be ascertained from their own income. Our analysis takes households as units of observation, while it is families that are entitled to social benefits.

Since this study is policy-oriented, the impact of social benefits on alleviating poverty will be evaluated only taking into account the situation as of 1997-1999 and not that of 1993 as well.

Health insurance related cash benefits (mostly sickness benefits and maternity/parental leave wage compensation) are by their very nature of the utmost importance for recipient households, since they provide income to those who are temporarily unable to earn income. These benefits prevent poverty among most families with sick breadwinners or other family members in need of care, and families with newborns. Being received by a relatively small percentage of households, they should be judged from the viewpoint of those who depend on them. In 1997-1999, these benefits were received by 2.1% of all households and accounted for 17.7% of the disposable income of recipient households. As far as benefit levels are concerned, they seem adequate since the sickness benefit amounts to 80-100% of the wage received in the last 12 months, and the maternity/parental leave wage compensation amounts to 100% of that wage.

Considering the number of the unemployed and their characteristics, these people would have suffered a huge decrease in income had there not been *unemployment benefits*. In 1997-1999, unemployment benefits were received by 8.3% of all households, accounting for 8.5% of total income of households with an unemployed member. This was a smaller share of households than in 1993 (9.9%), but these benefits accounted for almost the same share of income in recipient households. This reflects the fact that: a) a lower share of the unemployed were entitled to unemployment benefits in 1997-1999 as compared to 1993; and b) the proportion of unemployment compensation among all unemployment benefits was considerably higher, meaning that the average benefit was higher.

Unemployment compensation is reasonably high, but it is received for a shorter period of time. However, legal amendments in 1998 decreased the unem-

ployment compensation level indirectly through the basis for calculation of the benefit, and directly by denying supplements for dependants and decreasing the minimum and maximum benefit levels. Unemployment assistance is not high enough to provide recipient families with means that would keep them out of poverty in absolute terms. It has also been decreasing in real terms due to its linkage to the guaranteed wage.¹² Larger families, single-earner families and those without (sufficient) income from other sources thus have to rely on social assistance as well, as have the long-term unemployed and unemployed youth.

Strict eligibility rules, introduced in 1998, exclude those beneficiaries from receiving unemployment benefits who cannot prove they are actively seeking work, who do not accept work offered, or who break other rules defined by law. This lowers the positive impact of unemployment benefits on poverty incidence. A property test was introduced as well in ascertaining the entitlement to social assistance.

War related invalidity benefits include a number of related benefits. In 1997-1999, they were received by 2.1% of households and accounted for 9.3% of income in these households. At the national level, the impact of these benefits is very small, but it is considerable for the recipient households and does contribute to lowering income inequality.

Social assistance was received by 2.7% of all households, and accounted for 16.3% of disposable income in recipient households. It was a relatively important income source for recipient households in the lowest income decile in 1997-1999, accounting for 33.5% of their income. We may expect that its direct and indirect impact on poverty alleviation will increase in the future, as social assistance legislation changed in 2001, eliminating a number of drawbacks. Social assistance is no longer linked to the guaranteed wage, and the minimum income is set at a more appropriate level (e.g. it is now 26% higher for a single person or for the first adult in a household). It is adjusted annually in line with the consumer price

¹² The guaranteed wage used to be the lowest possible pay for a full-time job in Slovenia. It has lost its connection to the labour market, but has remained a basis for determining the level of some social benefits, without its name being adapted to its only remaining function. Until mid-1997, the government had a discretionary right to adjust the level of the guaranteed wage, and during that period its real value decreased considerably. It amounted to 43% of the average gross wage in 1991, and to only 24% in 1997. Since mid-1997, the guaranteed wage has been adjusted once a year according to the consumer price index (as a rule, by 85% of the rise in consumer prices). In 1999, the guaranteed wage was equal to 23% of the average gross wage.

index. The new minimum income for a family is obtained by multiplying the basic amount of minimum income by the weighted number of family members.¹³ The weight for the first adult in the family is 1, for every other adult 0.7, and 0.3 for every child below 18 or older child in regular schooling that parents are obliged to maintain. In the case of a single parent family, the minimum income is increased by 0.3 of the basic amount of minimum income. Eligibility may be on the condition of signing a contract between the centre for social work and the beneficiary on active addressing of the beneficiary's socio-economic problem, in which his or her activities and obligations are defined (e.g. obtaining medical treatment), as well as conditions for the termination of entitlement to social assistance in case of an unjustified failure to carry out the contract.

In Slovenia, *child benefits* are very high for children in low-income families, both in real terms and as compared to wages and other social benefits. Consequently, they act as an absolute income equalizer, meaning that in absolute terms the poor receive more from this benefit than the well off. In 1997-1999, the relative contribution of the child benefit to the decreasing of income inequality was the greatest among all selected social benefits. Due to the high level of the benefit, the 2001 amendments to the Law on Social Assistance and Services set the minimum income for children at a low level (0.3 of the minimum income for the first adult in a family). This may have negative consequences for the future efficacy of both social assistance and the child benefit. Strong targeting of the child benefit to low-income families will thus have a lesser impact on poverty reduction than was expected by those who proposed the high benefit levels, because it will be partly neutralized by lower social assistance for children. This situation demands that the child benefit be considered jointly with social assistance when investigating the income position of families. This would somewhat resemble regulation in the 1980s, when the child benefit was just one category of social assistance benefit.

A new Law on Parenthood and Family Benefits was passed in November 2001. It keeps child benefits at their former high level, and will gradually implement increases: 10% higher child benefits for children in single-parent families, and 20% higher benefits for pre-school children over one year of age who are not

¹³ The basic level of minimum income was derived from the basket of food needed for healthy nutrition and the consumption pattern of the 40% of Slovenian households at the lower end of income distribution.

included in subsidized childcare programmes. Both additions may be considered as contributing to the income of families at high risk of poverty. In the first case, the “reserve” breadwinner is missing, while in the second case a high percentage of beneficiaries will be families where the mother is not employed.

In 1997-1999, *educational grants* were received by 8.7% of households and represented 8.9% of their income, which is far from negligible but it is very modest when observed at the national level.

Chapter 6

Policy recommendations

Based on the above research results, specific proposals can be made as to what changes in social policy would likely decrease the extent of poverty in Slovenia and improve the economic position of the population groups at risk.

First of all, the remaining linkage of the level of social benefits or income ceilings for entitlement to the guaranteed wage should be removed from legislation governing unemployment assistance and national educational grants as soon as possible. The inadequate level of the guaranteed wage, being a consequence of unsuitable indexation throughout the years, has reduced the number of eligible persons and decreased the real value of benefits. For instance, the current income ceiling for entitlement to the national educational grant was equal to 41.5% of the average wage in 1993 and to only 29.6% in 1999. The educational grant for a university student with very good study results and studying in a place other than that of permanent residence was equal to 28.7% of the average wage in 1993 and to 20.5% in 1999.

When social assistance and child benefits are revised, policymakers should take into account the logical order of building up social legislation. A sensible minimum income level should be defined first, and then the child benefit set at an appropriate (acceptable) level as compared to other social benefits (and social assistance in particular). Currently, the child benefit for the third and subsequent child in a two-parent family is 1.9 times the minimum income for a child. The benefit is higher than the minimum income in almost half the income brackets defined for child benefit entitlement, which is not logical. It is also higher than half of minimum income for a child in the higher income brackets, which leads to the false conclusion that, in all these cases, the child benefit covers more than the minimum costs of living of children.

The income ceiling for entitlement to educational grants should be increased in order to allow more students to apply. It is now equal to 130% of the guaran-

teed wage per family member, or about 27% of the average wage. Financial support to students from low-income families should be available due to the long-term effect of education on the alleviation of poverty. The introduction of favourable student loans did not result in the expected response by students, so it seems that this measure will not achieve its aim. Educational grants are a very welcome social benefit, since they not only make education at the secondary and university level (more) affordable for children from low-income families, but also contribute to the long-term alleviation of poverty and social exclusion among these children. They may be described as benefits breaking the so-called vicious circle of poverty.

An equivalence scale is built only in legislation governing social assistance. If equivalent household income were to replace per capita income in defining income ceilings for entitlement or income brackets, income-dependent benefits would be better targeted. Thus the impact of social benefits on poverty alleviation would be greater.

Undoubtedly, understanding the connections between social benefits on one side and poverty incidence and income inequality on the other is essential for creating efficient social policy. The implementation of our policy recommendations is expected to further contribute to the alleviation of poverty and income inequality in Slovenia. Without sufficient knowledge of the impact of social benefits and adequately defined measures, it is hardly possible for social policy to be successful.

There are, of course, limits to what social benefits can do in alleviating poverty and reducing income inequality. A sensible long-term goal would be to deal with the causes of long-term poverty. This would mean strong and sustainable support for pro-employment measures, such as additional programmes for acquiring new skills and opportunities for job sharing.

As for inequality, our research has shown that 66% of the total income inequality in 1993 and as much as 79% in 1997-1999 was caused by income from employment (and additional 5% in 1997-1999 by self-employment income). Social benefits "neutralized" only 2% of income inequality resulting from other income sources in 1993 and 3% in 1997-1999. It is evident from these figures that social benefits can decrease inequality only to a very limited extent. Income inequality is mostly driven by the most important element of income – that is wages, which are, except the minimum ones, outside the reach of social policy.

Appendix 1

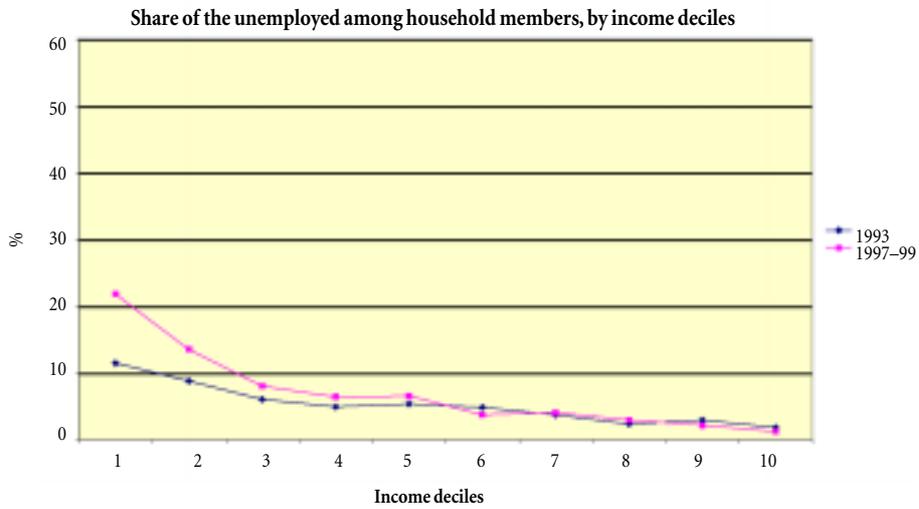
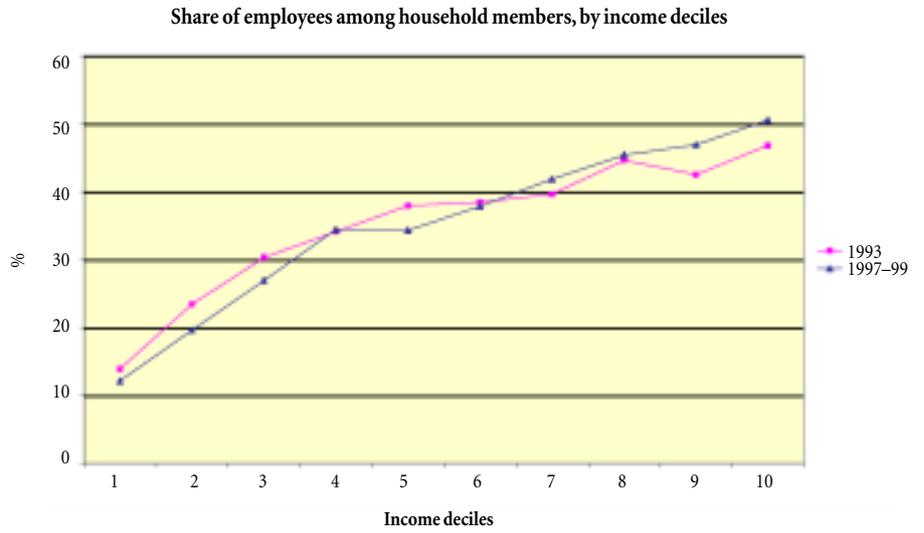
Additional tables and figures

Table A1 Structure of income sources, 1993 and 1997-1999 (%)

| Household type | Year | Income from employment | Income from occasional work | Income from self-employment | Pensions | Health insurance related cash benefits | Unemployment benefits | War-related invalidity benefits | Social assistance | Child benefits | Educational grants | Income from capital and property rights | Intrafamily financial gifts and transfers |
|---------------------------------------|-----------|------------------------|-----------------------------|-----------------------------|----------|--|-----------------------|---------------------------------|-------------------|----------------|--------------------|---|---|
| All households | 1993 | 58.6 | 2.7 | 9.4 | 21.1 | 0.6 | 1.4 | 0.3 | 0.4 | 0.7 | 0.7 | 0.6 | 3.4 |
| | 1997-1999 | 60.4 | 1.5 | 6.3 | 24.9 | 1.2 | 1.4 | 0.2 | 0.3 | 1.6 | 0.9 | 0.9 | 0.4 |
| Households with unemployed member | 1993 | 53.7 | 6.0 | 7.3 | 12.4 | 0.3 | 9.9 | 0.4 | 1.5 | 1.9 | 0.9 | 0.7 | 4.8 |
| | 1997-99 | 56.7 | 4.2 | 5.0 | 17.2 | 1.4 | 8.5 | 0.2 | 1.3 | 2.9 | 1.4 | 0.8 | 0.4 |
| Households with children 18 and under | 1993 | 69.9 | 3.2 | 11.8 | 6.2 | 0.6 | 1.6 | 0.1 | 0.4 | 1.3 | 0.8 | 0.6 | 3.5 |
| | 1997-99 | 74.8 | 1.4 | 7.1 | 7.8 | 2.0 | 1.1 | 0.0 | 0.2 | 3.0 | 1.2 | 0.8 | 0.5 |
| Households with persons 60 and over | 1993 | 31.0 | 1.2 | 7.6 | 52.7 | 0.8 | 0.8 | 0.9 | 0.6 | 0.3 | 0.5 | 0.3 | 3.1 |
| | 1997-99 | 33.0 | 0.9 | 4.8 | 56.6 | 0.6 | 0.6 | 0.4 | 0.3 | 0.9 | 0.5 | 1.1 | 0.3 |

Sources: HES 1993 and 1997-1999, own calculations.
 Note: Columns may not sum to 100 due to rounding.

Figure A1
Share of employees, the unemployed, pensioners and dependants among all household members



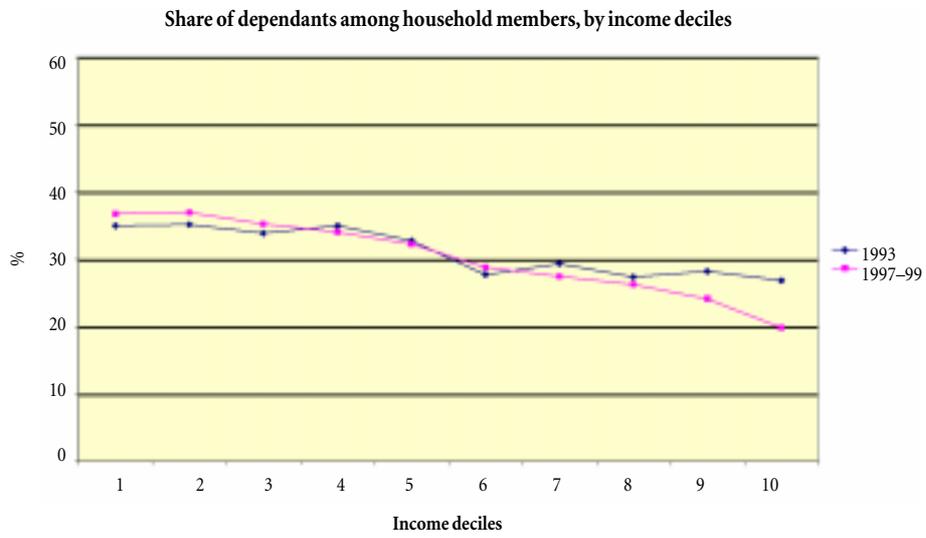
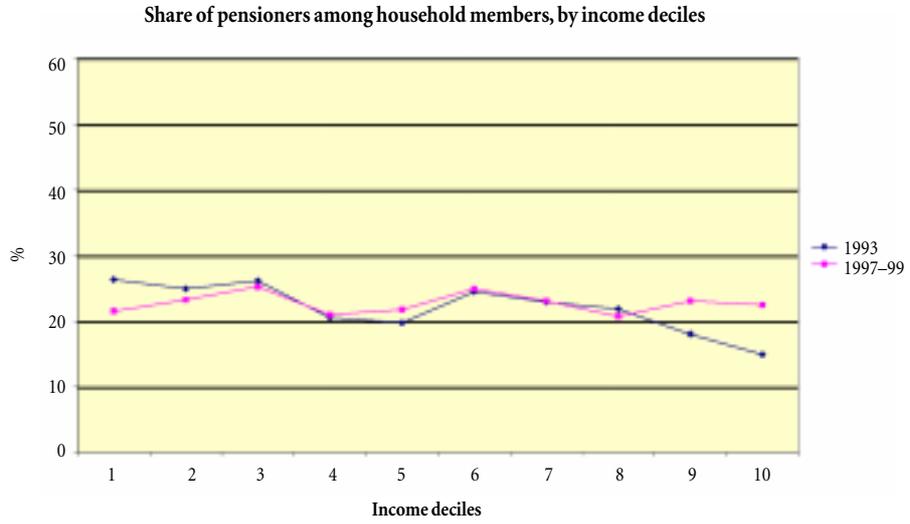
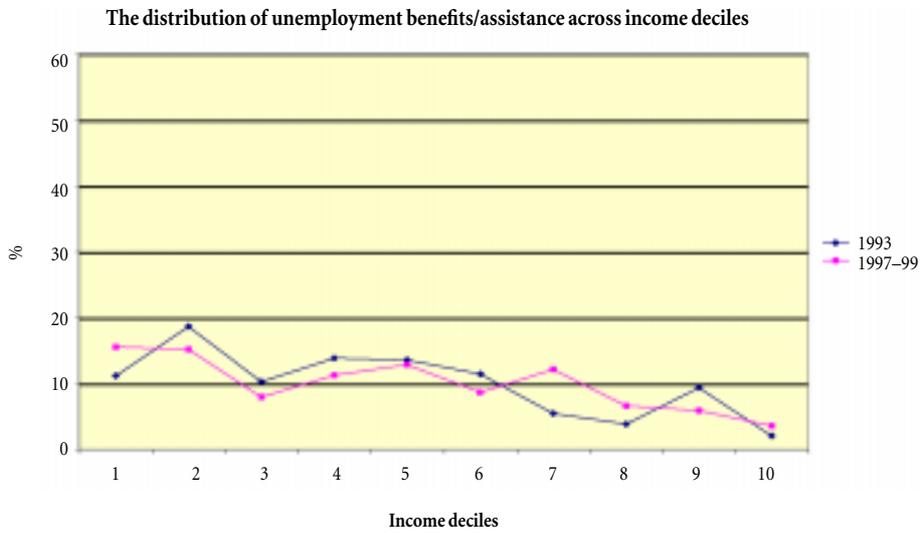
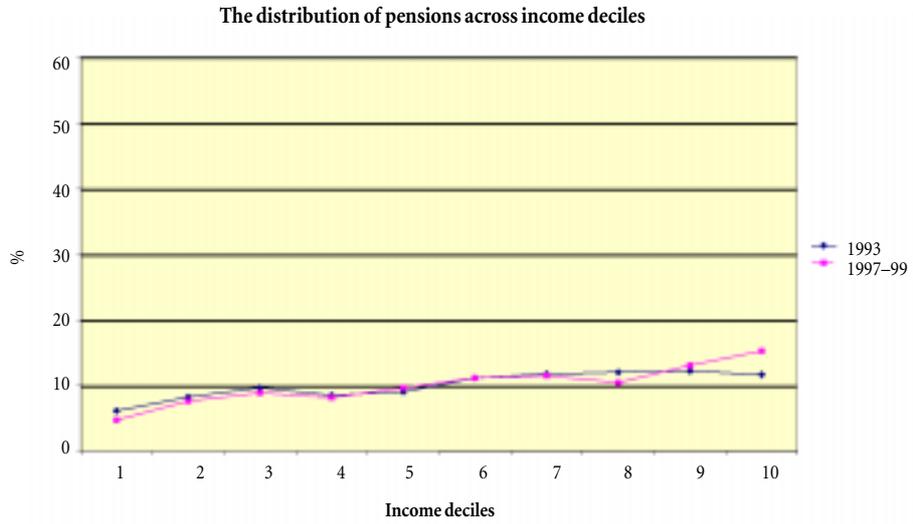
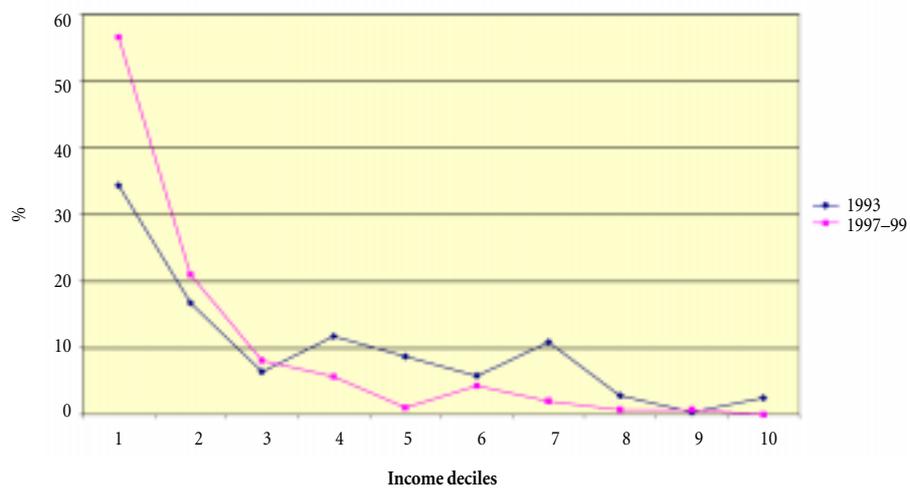


Figure A2 The distribution of income sources, 1993 and 1997-1999



The distribution of social assistance across income deciles



The distribution of child benefit across income deciles

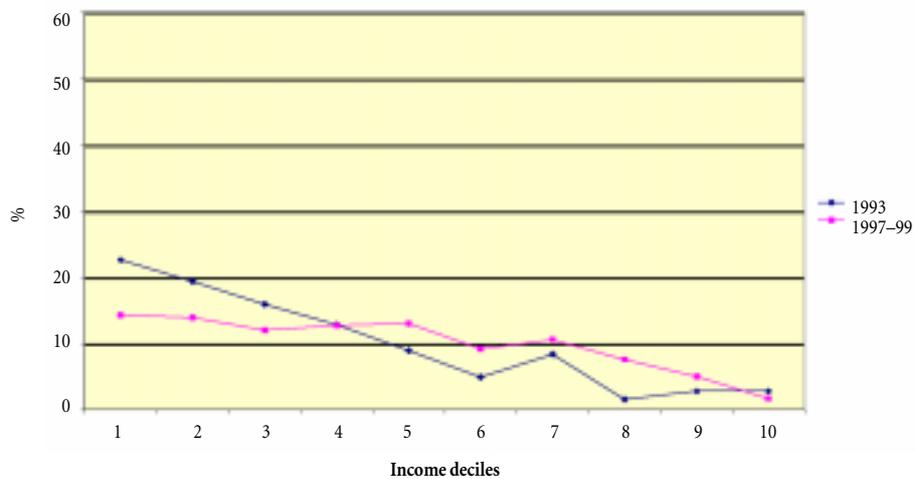
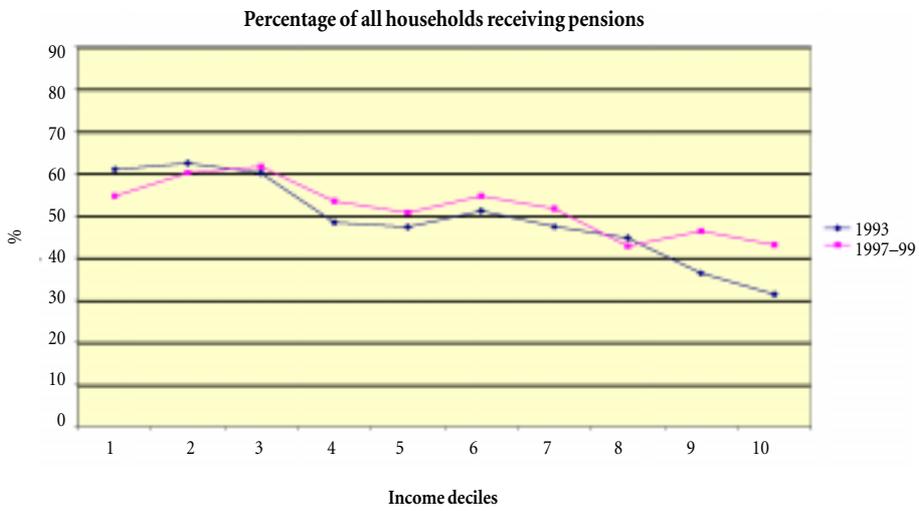
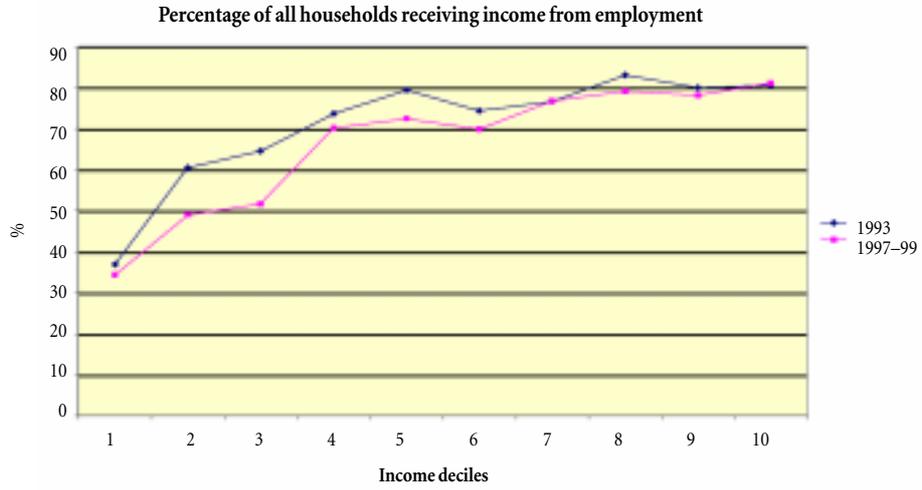


Figure A3 Households declaring given income sources



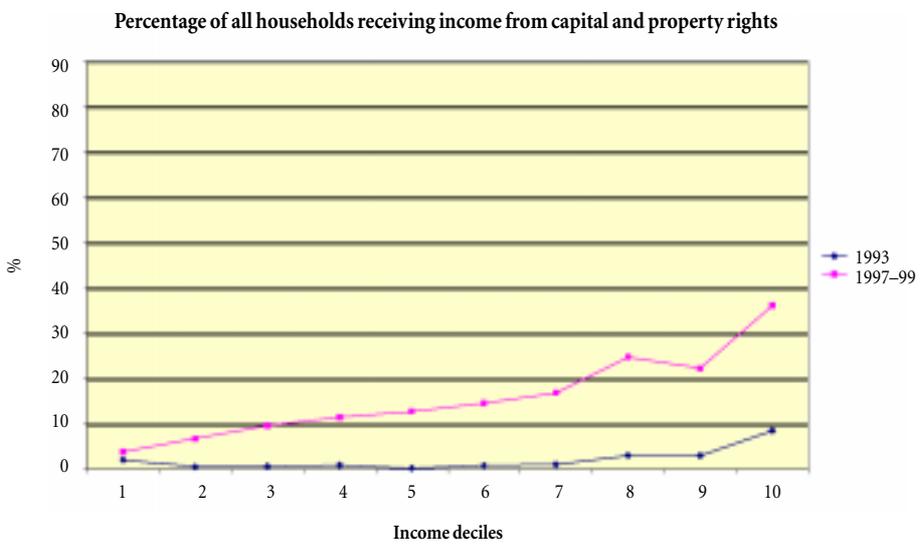
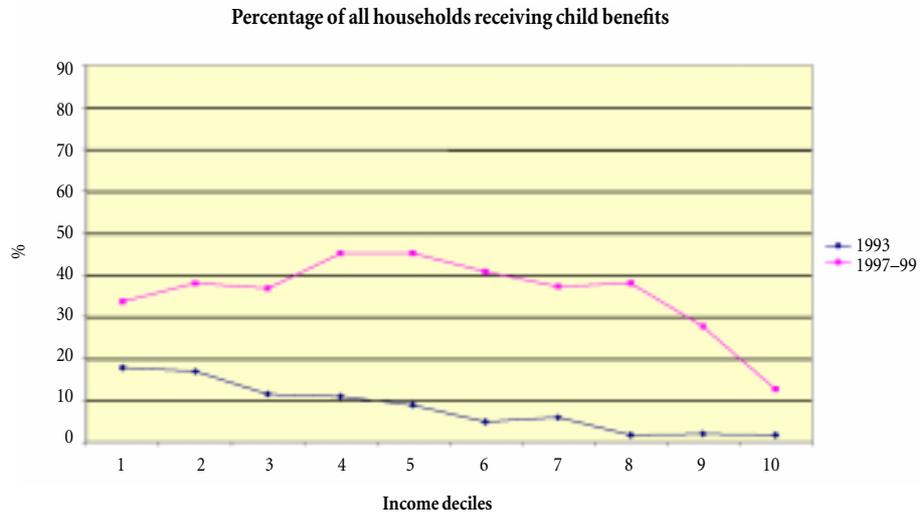
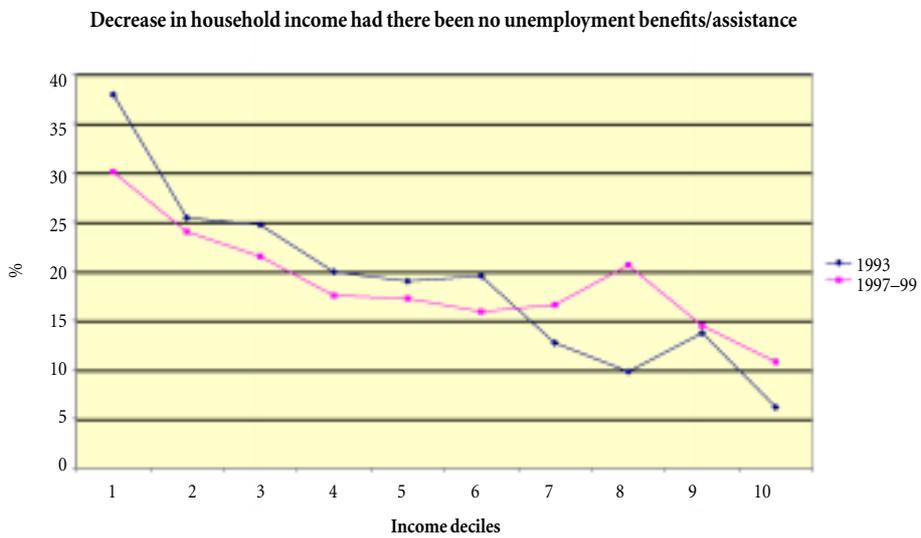
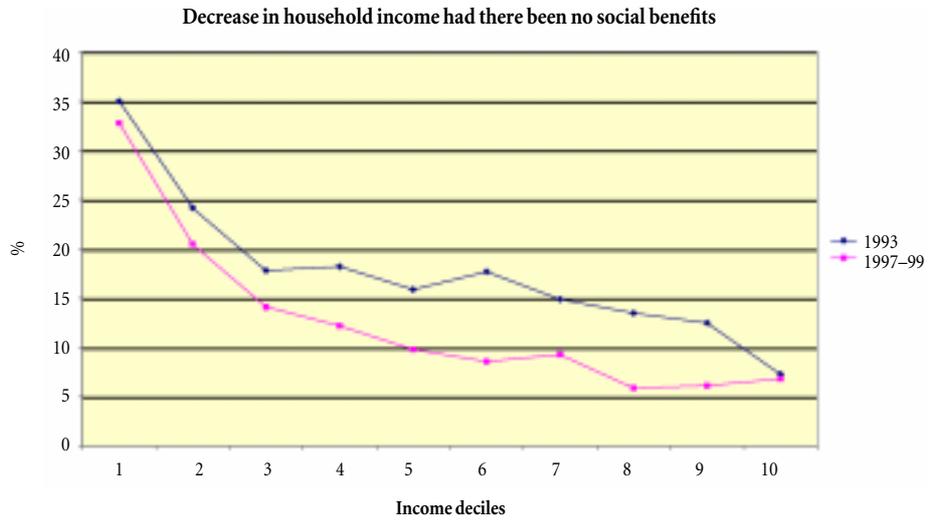
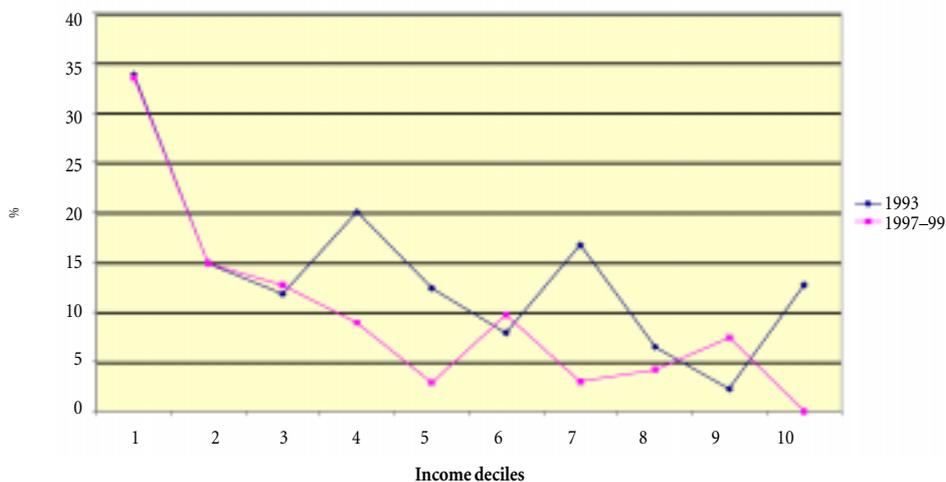


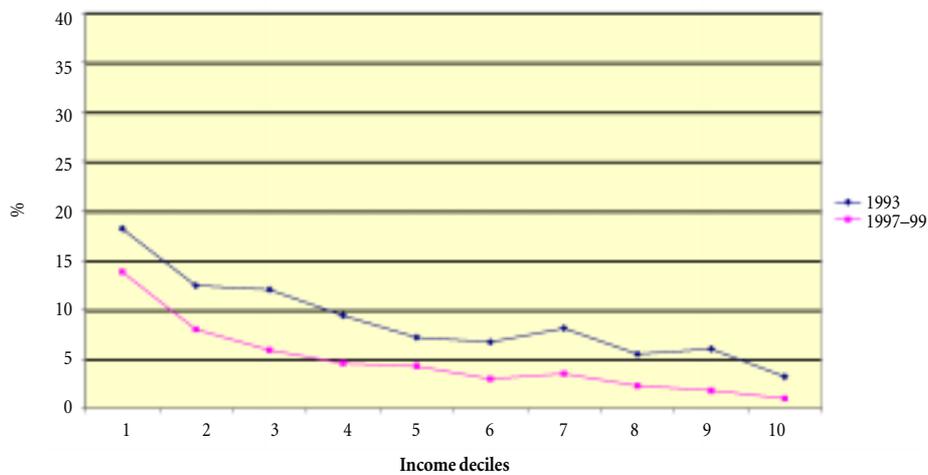
Figure A4 Estimated decrease in household income without a given income source (for recipient households)



Decrease in household income had there been no social assistance



Decrease in household income had there been no child benefits



Appendix 2

Changes in social policy between 1993 and 1997-1999

1. Unemployment benefits

In the 1990s, unemployment became a massive phenomenon in Slovenia, affecting also young people and households across the entire income spectrum. The steepest increase in unemployment was registered in 1991 and 1992, but since then rates have remained fairly stable. The number of registered unemployed persons began decreasing in 1999, mostly as a result of the 1998 amendments to the Law on Employment and Unemployment Insurance, which imposed more stringent conditions for unemployment registration and retaining unemployment status.

Unemployment in Slovenia is quite high, but not exceptionally high within a European context. According to the ILO definition, it was at about 7% in 2000. The major long-term problem is structural unemployment, i.e. a discrepancy between jobs on offer and the skills of those unemployed.

There are large differences between registered unemployment and unemployment according to the Labour Force Survey (LFS – Table A2). Registered unemployment was twice as high as the survey-based unemployment in 1993, while in 1998-1999 it was 1.8 times as high. This can be partly explained by the extent of the informal economy in Slovenia. The weak monitoring of active job searches and the actual unemployment status of the beneficiaries produced an upward bias in National Employment Office unemployment figures. Current legislation is more successful in extracting those jobless people from the registers who are not really looking for employment, but who in 1993 would have been stimulated by social benefits such as unemployment payments and social assistance to officially register as unemployed.

Table A2 Unemployed persons and beneficiaries of unemployment compensation and unemployment assistance

| | 1993 | 1997 | 1998 | 1999 |
|--|---------|---------|---------|---------|
| Registered unemployed ⁽¹⁾ | 129,087 | 125,189 | 126,080 | 118,951 |
| LFS-based unemployed ⁽¹⁾ | 85,000 | 72,000 | 77,000 | 73,000 |
| Persons receiving unemployment compensation ⁽²⁾ | 42,582 | 37,152 | 36,082 | 31,227 |
| Persons receiving unemployment assistance ⁽²⁾ | 20,052 | 3,734 | 2,818 | 3,283 |

Sources: *Annual reports*, National Employment Office; *Monthly Statistical Review*, Statistical Office of the Republic of Slovenia

Notes: (1) annual average; (2) end of year.

From the point of view of social protection measures and the purpose of this study, it is the registered unemployed that are relevant, and not persons unemployed according to the LFS survey, because only those registered may apply for unemployment benefits (and social assistance as well, if capable of work).

Surprisingly, those unemployed according to the LFS were not a subset of the registered unemployed. Some 17% of unemployed persons according to the LFS were not registered with the National Employment Office, whereas 46% of those registered as unemployed did not comply with at least one criterion of the ILO definition of an unemployed person. Mostly, non-compliance centred around the requirement that unemployed persons are those who have “actively sought work in the past four weeks” (Stanovnik, 2001).

The number of persons receiving (earnings-related) unemployment compensation and (income-dependent) unemployment assistance – an average of some 62,600 in 1993 and 37,800 in 1997-1999 – was lower than the number of the registered unemployed. This was mostly due to the fact that: a) some unemployed persons did not meet benefit qualifying conditions (e.g. because of their youth) or had exhausted their benefit entitlements (e.g. the long-term unemployed); and b) the total period of entitlement to benefits was shortened significantly. Some of the unemployed were beneficiaries of social assistance if they lived in families with no income or income below the threshold for entitlement – the unemployed accounted for about two thirds of social assistance claimants.

The share of beneficiaries among the registered unemployed has been decreasing as well, particularly the share of unemployment assistance beneficiaries. On the other hand, the share of unemployment compensation claimants among all beneficiaries of unemployment benefits has increased considerably,

from 68% to 91%, meaning that the average amount of unemployment benefit was higher in 1997-1999 than in 1993.

Only about one third of the registered unemployed actually received unemployment benefits in 1997-1999 (see Table A2). This leads to the conclusion that other elements of the unemployment package (specifically health and pension insurance provided by the Employment Office) pushed some Slovenes to register as unemployed, as observed by World Bank experts (World Bank, 1999).

Unemployment affects some groups disproportionately. Persons below the age of 26 (with a 18-19% unemployment rate) accounted for 38% of all registered unemployed persons in 1993. This fell to 26% in 1999, partly due to increased university enrolment, and partly due to educational and training programmes offered as active employment policy measures. Persons with incomplete or only basic education and skills accounted for 45% and 47% of all unemployed persons in 1993 and 1999, respectively. The above-50 age group accounted for 24% of the registered unemployed in 1999, while the long-term unemployed (those out of work for more than 12 months) accounted for three quarters of the total.¹⁴ The proportions of long-term and elderly unemployed persons were still increasing in 1997-1999.

High youth unemployment is a particular problem. On the one hand, young people are deprived of a possibility to earn a living, acquire work experience and accumulate working years. But on the other hand, they do not fulfil the eligibility conditions for unemployment benefits – namely the duration of employment prior to unemployment. Thus they have to rely on social assistance.

Women are struck by unemployment more frequently than men in Slovenia. Since 1999, women have accounted for a slightly higher share among the unemployed than men, reflecting a high employment rate among women. Women do not usually leave the labour market after giving birth to a child, which is not necessary since they are entitled to a one-year of maternity/parental leave with 100% wage compensation. In addition, childcare is available and affordable also for children below the age of three. Despite the overall preponderance of women, it is true that in the beginning of the transition period (i.e. the end of the 1980s to the early 1990s), most redundancies occurred in industries where the

¹⁴ The proportion of the unemployed who have been out of work for more than two years was also quite high, at about one third of all unemployed.

male workforce prevailed, and in some years the male unemployment rate exceeded that of women.

Due to poor job prospects, older unemployed people often opted for early retirement (either old-age or disability), rather than for social assistance, after the expiration of their insurance-based unemployment benefits. Early retirement was encouraged and subsidized by the government, with the aim of protecting older workers from greater hardships brought about by transition reforms.¹⁵ Another possible motivation was to “make room” for the employment of young workers. In addition, the state also saved resources on reintegrating older people into the labour market. In the medium and long term, however, this option proved to be less than optimal because it accelerated an increase in the inactive population, putting more pressure on pensions and the active population. In 1990 alone, about 15,000 redundant workers used the program for early retirement. The number of retirees also increased considerably in 1991 and 1992. The ratio of contributors to pensioners decreased from 2.75 in 1989 to 2.48 in 1990, 1.79 in 1993 and 1.73 in 1997. This meant lower unemployment figures, particularly among people over the age of 50.

In the early 1990s, eligibility and entitlement to unemployment benefits were quite generous. Unemployment being almost negligible prior to the end of the 1980s, eligibility conditions were not too strict in Yugoslavian legislation, and the level of benefits was rather high.¹⁶ This was preserved in the 1991 Slovenian law, perhaps motivated by the need to preserve social peace in a turbulent period of political, economic and social transition.

As noted before, for many of the registered unemployed it was the status rather than the unemployment benefits themselves that was attractive. Unemployed status

¹⁵ Qualifying individuals had to have sufficient years of service, and had to buy any missing pension credits (at a price that had no bearing to the actuarial fair price). As a rule, employers paid the missing pension credits for early retirees, and the government refunded the employers about 50% of the costs. “Early retirement was certainly a good deal: pension levels for early retirees were only slightly reduced in comparison to their normal retirement levels (there was a penalty of one percentage point of a full pension for each missing year of pension credits) – and even the reduction was effective only until they reached normal retirement age... For some groups of workers, pension levels at retirement even exceeded wages received immediately before retirement” (World Bank, 1999, p. 113).

¹⁶ I.e. 70% of the wage in the first three months, and 60% thereafter.

included not only cash financial assistance but also the payment of contributions for health, pension and disability insurance during the period of entitlement. The long period of entitlement to unemployment compensation (3-24 months) served to discourage an active job search early in the period, in particular by those with low educational attainment and thus low employability, and by those over 50 years of age. This led to their gradual slipping into the gap of long-term unemployment and poverty. A distinctive pattern was discovered: the longer the period of entitlement, the higher the possibility of persistence in unemployment. On the other hand, the majority of those who took up a job did so just before the cessation of the entitlement to unemployment compensation (Vodopivec, 1995). Employers often forced the unemployed to take informal employment until their benefits expired, and only then were they willing to offer formal employment, which brings a range of fringe benefits (Vodopivec, 1996, p. 27).

A high increase in the number of unemployed persons in the early 1990s – along with a decrease in the number of those paying contributions and a decrease in the contribution rate designed to enhance the competitiveness of the Slovenian economy¹⁷ – caused a situation in which it was no longer possible to maintain high benefit levels for a long entitlement period. In addition, ILO Convention No. 168 as well as EU recommendations and research findings concerning the behaviour of the unemployed also called for changes in legislation. In October 1998, important changes and amendments to the Law on Employment and Unemployment Insurance were adopted. Following Convention No. 168, active employment measures were given priority over passive ones. The older and long-term unemployed were granted a higher degree of protection due to their low employability, while for others the conditions became much more severe. One-off payments of unemployment cash assistance were abolished. Efficient monitoring of the fulfilment of obligations by unemployed persons was introduced. At the same time, they were offered more help in finding a new job, including education and retraining.

The amendments to the law introduced changes in the definition of an unemployed person. Only those capable of work are now counted as unemployed. These individuals may not be retired persons or students, and they must

¹⁷ In 1993, both employers and employees paid 2.35%, 1.70% or 0.70%, depending on the month of that year, of the gross wages for unemployment insurance, while in 1997-1999 employers were paying 0.06% and employees 0.14% of gross wages.

be registered at the Employment Office within 30 days of the termination of their employment contract, as well as available for and actively seeking employment. The unemployment must be involuntary and not the fault of the unemployed person, unless they left their job due to non-payment by an employer. Stricter conditions were introduced both to attain and keep entitlement to benefits. To be eligible for benefits, a person must have been employed for at least 12 months in the 18 months prior to the termination of employment. Previous rules had required only nine months of uninterrupted employment.

Unemployment compensation is earnings-related, and is not subject to personal income tax. In 1998, the basis for determining the level of unemployment compensation was increased from a three- to a twelve-month average gross wage of the unemployed person prior to unemployment. The benefit levels as a percentage of the basis remained unchanged (70% in the first three months and 60% thereafter). However, prior to the 1994 legal changes, the beneficiary was also entitled to supplements for dependants amounting to 10% of the net guaranteed wage per dependant, up to 50% in total.

The minimum benefit level is equal to the guaranteed wage net of contributions and taxes, or about 26% of the net average wage (in 1993, this was set at 80% of the gross guaranteed wage, and in 1994-1998 at 80% of the net guaranteed wage). The maximum level is three times the lowest possible unemployment compensation (in 1993 five times the minimum level, and in 1994-1998 four times the minimum).

The duration of entitlement to unemployment compensation now depends on the insurance record and the beneficiary's age. The maximum entitlement period for those below 51 was shortened from 24 to 12 months (Table A3). During that period, beneficiaries are paid health, pension and disability insurance.

Table A3 Duration of entitlements to unemployment compensation

| Duration of the entitlement | Insurance record prior to 1998 legal amendments | Insurance record after 1998 legal amendments |
|-----------------------------|---|--|
| 3 months | 9 or 12 months* in the last 18 months | 1-5 years |
| 6 months | 30 or 50 months* in the last 5 years | 5-15 years |
| 9 months | At least 5 but less than 10 years | 15-25 years |
| 12 months | At least 10 but less than 15 years | Over 25 years |
| 18 months | At least 15 but less than 20 years | Over 25 years and over age of 50 |
| 24 months | 20 years or more | Over 25 years and over age of 55 |

Source: Law on Employment and Unemployment Insurance (1991), and amendments.

* The first figure refers to uninterrupted employment while the other refers to interrupted employment.

According to the 1991 law, unemployed persons with less than three years to go before fulfilling the conditions for retirement were able to receive unemployment compensation until retirement. In effect, this meant that they could receive unemployment compensation for five years (two years on the basis of their insurance record, plus three extra years before retirement). In 1998, this option was limited and the age of the beneficiary was included as a criterion.

After the exhaustion of unemployment compensation entitlements, the affected person can apply for unemployment assistance. In 1998, the period of entitlement to unemployment assistance was extended from six to 15 months.¹⁸ Unemployment assistance amounts to 80% of the net guaranteed wage (some 21% of the net average wage). An income test is applied, and income per family member in the last three months may not exceed 80% of the guaranteed wage and the value of family assets may not exceed SIT 3.6 million.¹⁹ The beneficiaries have their health insurance contributions paid by the employment office, but the payment of pension insurance contributions was abolished. Older unemployed persons lacking three years or less until retirement (and having poor chances of getting a job) could see this prolonged until the fulfilment of retirement conditions. As a result of these changes, unemployment assistance replaced

¹⁸ In 1991-1993 this could be 12-33 months, since the total period of receiving unemployment benefits (unemployment compensation and unemployment assistance) was set at up to 36 months. The average entitlement period was 19 months in 1993. When the potential duration of unemployment assistance was shortened to six months at the end of 1993, the number of recipients declined considerably (see Table A2).

unemployment compensation as the major type of social disbursement for unemployed persons approaching pensionable age (Stanovnik, 2001). This substitution is cost effective in the sense that unemployment assistance provides lower benefits and is means-tested. An increase in the number of recipients of unemployment assistance in 1999 was also due to an increase in the maximum duration of entitlement. Unemployed persons who are above 55 and are within three years of retirement have their pension and disability insurance contributions paid by the employment office until they retire.

One of the major shortcomings of the 1991 law was its very low level of monitoring regarding the actual fulfilment of the obligation to maintain an active job search. The 1998 amendments to the law encouraged cooperation among employment offices, centres for social work and tax authorities. Proven activity in seeking work is a condition for maintenance of the status, and checking on the fulfilment of this obligation has now become much more efficient. The beneficiaries have to be contactable three hours per day, and evidence of an active job search has to be produced at the employment office. This includes writing applications for a job. The unemployed person has to accept a “suitable” job offered. After expiry of half of the entitlement period, the standard becomes an “appropriate” job offered.²⁰ The beneficiary must also participate in active employment policy measures such as public works and educational or training programs, according to his or her employment plan – a document that unemployed persons must sign within two months of registration at the employment office, detailing steps on how they are to improve their job chances. Since the 1998 amendments to the law, the scope of what unemployed jobseekers can legitimately refuse as unsuitable has been reduced.

Sanctions have been tightened as well, such as benefit suspension for those who refuse a job or work without justified reason, who refuse to participate in suitable training or work experience programs, or who do not appear at labour

¹⁹ Excluded are shares in a value of up to SIT 2 million, an apartment or house in which the beneficiary is living, as well as farm and forest land up to a certain limit.

²⁰ An “appropriate” job differs from “suitable” one in two elements. First, it is in a wage bracket up to one grade lower and its location is up to 1.5 hour’s ride from the person’s residence by public means of transport (and not up to one hour’s ride, as in case of suitable job). Or, residential facilities may be provided at another place in this category. Second, an “appropriate” job is not related to education and skills, but to work performed within the 12 months prior to unemployment.

offices at regular intervals. Benefits are denied to those who do not seek employment actively, in order to prevent a passive attitude towards their status that could result in long-term unemployment and poverty. The most radical sanction is a total loss of the benefit, which is applied if a beneficiary rejects a suitable job, or rejects unpaid temporary work without justified reason in case of natural disaster, etc. A 50% reduction in the unemployment benefit follows in the period of two months if an appropriate job is not accepted. The reduction is by 30% in the period of two months if an appropriate temporary or periodic paid work, or a temporary or periodic work of a humanitarian nature or other similar unpaid appropriate work up to 64 hours per month is rejected. These sanctions reflect the intention of the law to guarantee employment rather than social security, and have been strictly applied. The impact of the most radical sanction is evident from a decrease in the number of beneficiaries.

In 1993, it was possible to combine casual earnings (for instance, under so-called contract employment) and collect unemployment compensation. In the period 1994–1998, the entitlement period to wage compensation was shortened by the period in which the monthly earned income exceeded two times the net minimum unemployment compensation. However, there was virtually no monitoring of the accuracy of reported earnings. No wonder that the level of the earnings reported with the highest frequency was just below the threshold (Vodopivec, 1996).

The 1998 amendments changed this rule. Unemployment benefit is currently decreased by 50% of earnings realized during entitlement to the benefit, unless these earnings are below SIT 10,000. Social security contributions continue to be paid as before. If, however, an unemployed person provides for children below age 18 or older children in regular schooling, the unemployment compensation is increased for each child by 10% of the full unemployment compensation.²¹ (Of course, the benefit received cannot exceed the full benefit.) An unemployed person seeking full-time employment and getting a part-time job keeps his or her entitlement to the proportional share of unemployment compensation until its expiration.

The tightened eligibility and entitlement conditions have affected the number of registered unemployed persons. Consequently, their numbers and also the

²¹ That is, the one to which the beneficiary would have been entitled had he not earned any income.

numbers of those entitled to financial support have decreased (see Table A2). Those without a serious intention to find a job in the formal sector can hardly maintain unemployed status.

In 1993, expenditure on unemployment benefits accounted for 1.22% of GDP. This percentage has been decreasing, partly due to the loss of entitlements by the long-term unemployed, and partly due to the tightening of regulations in 1998. In the period 1997-1999, unemployment benefits as a percentage of GDP decreased from 0.9% to 0.81%.

2. War-related invalidity benefits

In November 1995, the Law on War Veterans, the Law on Disabled Persons of War and the Law on War Victims were enacted, granting relatively high benefits. While the first two replaced several laws that were in force until then, the Law on War Victims introduced benefits for a new group of beneficiaries. The funds allocated to war-related benefits on the basis of the first two laws have been decreasing in real terms as compared to the period prior to the implementation of new laws.

The novelty introduced by the Law on War Veterans was an inclusion of prisoners of World War II and active armed participants in the 1991 independence war among war veterans. However, since the eligibility is limited by age (over 50), many of potentially entitled persons have not yet applied for the status of a veteran. The statistics are given in Table A4.

As compared to the former legislation, veterans have lost some rights (a one-time benefit, for instance), while some other benefits have decreased in nominal terms (e.g. a regular annual one-time benefit and attendance supplement). The veterans' supplement was decreased in real terms by 6.4% due to a lower income threshold and higher quotient for evaluating farmers' income. This supplement depends on the year of joining the National Liberation Movement and is adjusted twice a year according to the consumer price index. Related benefits are an attendance supplement, free public transport four times a year and the refund of travel costs associated with spa treatment. The law denied family members the right to benefits after the death of a veteran. Only those who were beneficiaries of the war veteran supplement and pension supplement prior to the implementation of the new law were allowed to keep them.

According to the Law on Disabled Persons of War, military and civilian war disabled persons and peace-time military disabled persons (in obligatory army

Table A4 Number of beneficiaries and expenditure on social benefits (expenditure in SIT million, current prices)

| | 1993 | | 1997 | | 1998 | | 1999 | |
|---|---------------|-------------|---------------|-------------|---------------|-------------|---------------|-------------|
| | Beneficiaries | Expenditure | Beneficiaries | Expenditure | Beneficiaries | Expenditure | Beneficiaries | Expenditure |
| Unemployment benefits | 62,632 | 17,527 | 40,886 | 25,749 | 38,900 | 28,950 | 33,510 | 28,687 |
| Disabled persons of war | 13,023 | 3,886 | 8,290 | 4,808 | 10,244 | 7,351 | 9,951 | 6,678 |
| War veterans | 10,167 | 876 | 4,482 | 1,573 | 4,930 | 1,499 | 4,838 | 2,946 |
| War victims | - | - | 14,433 | 3,024 | 24,098 | 4,627 | 28,038 | 6,335 |
| Childcare supplement ⁽¹⁾ | - | - | 3,705 | 495 | 4,132 | 576 | 4,442 | 631 |
| Sickness benefit ⁽²⁾ - number of days | 12,118,903 | 9,582 | 11,426,620 | 19,093 | 10,861,435 | 20,484 | 10,693,470 | 22,562 |
| Maternity/parental leave wage compensation | 18,873 | 12,123 | 16,916 | 21,202 | 16,374 | 22,570 | 16,181 | 24,542 |
| Birth grant | 19,634 | 316 | 17,916 | 433 | 17,637 | 429 | 17,295 | 452 |
| Parental allowance | 1,899 | 79 | 2,734 | 566 | 2,616 | 574 | 2,563 | 603 |
| Social assistance ⁽³⁾ | 17,544 | 2,496 | 35,646 | 8,939 | 34,351 | 8,566 | 33,196 | 8,929 |
| Child benefit ⁽¹⁾ | 147,478 | 7,312 | 408,536 | 25,117 | 410,864 | 26,705 | 405,040 | 35,939 |
| Educational grants ⁽⁴⁾ | 65,411 | 5,614 | 62,943 | 13,042 | 63,755 | 12,795 | 61,395 | 13,779 |

Sources: *Statistical Yearbooks*, Statistical Office of the Republic of Slovenia; *Annual Report*, National Employment Office; *Business Reports*, Health Insurance Institute of Slovenia.

Notes: (1) Beneficiaries are children. (2) Only expenditure by the National Health Insurance Institute. (3) Social assistance funds include attendance allowance. (4) Information on grantees is for school years 1993-1994, 1996-1997, 1997-1998 and 1998-1999. Expenditure is per calendar year, and only refers to the national educational grant and the Zois grant.

service), as well as their families, are entitled to a cash benefit and a number of related benefits due to a disability related to war or army service.

There are 10 new different benefit levels depending on the kind and degree of disability. The highest personal war invalidity allowance (received by 100% war invalids of the first group of invalidity) is equal to the basis, which was fixed at the level of SIT 92,600 at the end of 1995, an increase of more than 28% as compared with former regulations. This was due to a shift from the former Yugoslavian to the Slovenian level of wages, which served as the basis for the benefit level. The war invalidity allowance is adjusted twice a year. Related benefit entitlements are a supplement due to special invalidity, attendance supplement, invalidity supplement, supplement during professional rehabilitation, family invalidity allowance, family supplement, a discount on public transport five times a year and a refund of travel costs associated with climatic health care, all of which are determined as percentages of the basis.

The number of beneficiaries has been – quite understandably – decreasing due to a high average age of the beneficiaries (most of them being World War II veterans). However, in some cases the number of eligible family members increased after the death of a war invalid; most often, these were widows who fulfilled the conditions (age, dependent person, etc.). The number of peacetime military invalids has increased only slightly.

Until 1995 there was no legislation on war victims. The criterion for eligibility to the benefit is very broad; it covers persons who suffered during World War II and during the first four months of Slovenian independence in 1991. Mostly due to the first group, the number of entitled persons is large. This law may be a unique example in Europe of such a “flat-rate” treatment of war victims. For the eligible persons – as compared to war veterans – a greater number of benefits are available. First of all, these is a life-long monthly indemnity and a one-time payment of non-material war damage. The period of suffering taken into account may have lasted beyond the end of the war until the person came back to the country. The indemnity is adjusted in the same way as pensions, and its level is determined in absolute amounts, these being (per month of hardship suffered):

- Persons in a concentration camp or prison, SIT 300
- Exiles and internees, SIT 200
- Working internees or refugees, SIT 120 (all at 1995 prices)

In 1993, expenditure on war related invalidity benefits accounted for 0.33% of GDP, increasing to 0.44% of GDP in 1999. This clearly reflects the consequences of the implementation of the Law on War Victims.

3. Sickness benefits

In the period under study, there were no important changes in the regulation of sickness benefits. Slovenia is one of the few countries in Europe where there is no time limit for sickness leave, which may last several years (in 1998, the longest entitlement period registered was 12 years). In accordance with collective wage agreements, employers normally have to pay sickness benefits for up to 30 working days of absence due to illness or injury. Thereafter, the National Health Insurance Institute pays the benefit. The sickness benefit amounts to a percentage of the beneficiary's average monthly wage in the previous calendar year:

- 100% for absence due to occupational diseases, injuries at work, the donation of organs or blood, quarantine ordered by a physician, war invalids and civilian invalids of war
- 90% for absence due to illness
- 80% for absence due to injury unrelated to work, nursing of an immediate family member, or accompanying a sick person if prescribed by a physician

The Law on Health Care and Health Insurance places a ceiling and floor on the sickness benefit. Thus, sickness benefits may not be less than the guaranteed wage or higher than the wage that the person would receive if working. Benefits are adjusted monthly, according to the increase in the average wage in Slovenia.

The data show a 9% decrease in the average number of days of sickness leave in 1997-1999 as compared to 1993. Wage compensation paid by the National Health Insurance Institute amounted to 0.67% of GDP in 1993, 0.65% in 1997 and 0.63% in 1998. According to estimates, at least as much was paid by employers (Ministry of Labour, Family and Social Affairs, 2000).

4. Maternity/parental leave wage compensation

There were only minor changes in the regulation of maternity/parental leave in the period 1993-1999. The total leave associated with childbirth in Slovenia was normally one year (365 days), of which three months (105 days) could be used exclusively by the mother.²² Either the mother or the father could use the rest of the nine months, either as 260 days of full-time leave or as 520 days of a half-time leave combined with a part-time work (half of the normal working hours per day). After parental leave, a return to the former job was guaranteed.

The parental leave wage compensation, to which those covered by health insurance were entitled during their absence from work, amounted to 100% of the average monthly gross wage of the entitled person during the 12 months prior to the leave. The minimum level, first set at the level of the guaranteed wage, was changed to the minimum wage at the end of 1995.²³ At the same time, the upper limit was defined as the highest wage possible according to the legislation governing wages. Prior to that, space was left for abuse. The average amount paid in the 1990s amounted to about 70% of the national average net wage. This can be explained by the fact that beneficiaries were mostly women at the start of their careers (in 1999 only 0.6% of fathers were on parental leave), meaning that they occupied lower paid jobs, often in labour-intensive sectors where wages were below the national average.

The amount of disbursements of this benefit paid through the National Health Insurance Institute amounted to 0.83% of GDP in 1993, 0.73% in 1997 and 0.68% in 1999. This is mostly due to a decrease in the number of births, by 12% in the observed period.

²² In case of multiple births, it was three months longer for each additional child. In case of a birth of a handicapped child, it was prolonged until the child is 15 months old. In case of premature birth it was prolonged for as many weeks as pregnancy had been shorter than 37 weeks.

²³ Currently, the guaranteed wage amounts to 21% of the average wage and the minimum wage amounts to 39% of the average wage.

5. Social assistance

Means-tested financial assistance to needy individuals – also available to those capable of work – did not change in the period 1993-1999, and was regulated by the 1992 Social Assistance and Services Act. The Act distinguished between two groups of eligible individuals: a) persons permanently unable to work and those above 60 years of age, for whom social assistance was the only source of income, and b) persons who were, for reasons beyond their control, temporarily unable to secure sufficient minimum means for themselves and their families to live. The benefit level for the first group of beneficiaries amounted to 60% of the guaranteed wage.²⁴ For the second group, it amounted to the difference between their own (family) income and the level of the minimum income,²⁵ which was:

- 29% of the guaranteed wage for children up to age 7
- 34% of the guaranteed wage for children aged 7-14
- 42% of the guaranteed wage for children from age 15 to the completion of their regular schooling
- 52% of the guaranteed wage for adults

The beneficiaries of social assistance who were incapable of working due to old age, disease or disability, and for whom assistance by another person was indispensable, were entitled to an attendance supplement. Those beneficiaries who rented an apartment were entitled to a rent allowance.

It was only in 1998 that closer cooperation and exchange of information between centres for social work and the employment offices was established. The conclusion of a contract between the beneficiary and the centre for social work on actively resolving the social problem of the beneficiary became a condition for the entitlement to social assistance, and centres for social work checked the applicant's current status at the employment office. Social assistance beneficiaries enjoy priority in employment and training.

The levels of social assistance were the result of a political decision, and not based on any assessment of a basket of commodities necessary for subsistence.²⁶ Research has shown that the minimum income was only sufficient to cover the costs of low nutrition, with nothing remaining to meet other basic needs. This

²⁴ See footnote 12.

²⁵ The minimum income is the level of income, which is deemed sufficient to cover minimum needs. It acts as an income ceiling for entitlement to social assistance.

meant that social assistance beneficiaries were not really pulled out of absolute poverty. If the proper poverty threshold had been taken into account, both the level of social assistance and the number of beneficiaries would have been higher.

The average number of beneficiaries in 1997-1999 more than doubled as compared to 1993 (see Table A4). This was primarily due to a new and rapidly increasing group of entitled persons: the unemployed. Having exhausted their insurance-based unemployment benefits (unemployment compensation and unemployment assistance), the long-term unemployed turned to centres for social work for assistance. In the late 1990s, about 70% of beneficiaries were unemployed. Among them were also first-time job seekers. Since parents are not obliged to provide for their adult children, these may apply for social assistance regardless of their parents' economic position.

Not only the number of beneficiaries but also total expenditure on social assistance has increased since 1993. In 1993, such expenditure amounted to 0.17% of GDP, rising to 0.31% in 1997, and then settling to 0.26% in 1998 and 0.25% in 1999. The real value of the minimum income nevertheless decreased. The reason was its linkage to the guaranteed wage, which was not suitably indexed.²⁷ For example, in 1997 the minimum income amounted to only 86% of its 1993 level.

On the other hand, in spite of the fact that this benefit was linked to the guaranteed wage, the actual average monthly amount of social assistance per eligible person was increasing, and in real terms was 30% higher in 1997 than in 1993. This points to a worsening financial situation of families in Slovenia, as the gap between actual family income and the minimum income increased. In other words, there were ever more eligible persons who had very low or no income – more than two thirds of beneficiaries had no income. Also, two thirds lived in single-person households; half of these were under 26, and half had only primary education or less.

²⁶ This changed in September 2001 with the implementation of the amendments to the Law on Social Assistance and Services.

²⁷ See footnote 12.

6. Birth grants

The birth grant is a benefit related to a newborn child, and can be either an in-kind or a cash benefit, depending on the choice of the mother or other person who cares for the child. The value of the birth grant depends on the prices of the goods included in the basket of goods represented by the grant, and is adjusted by the index of retail prices of these goods. The cash benefit represents the average cost of goods included in three alternative kits. However, if bought at market prices, these goods would in fact cost about 40% more, and therefore, most parents (about two thirds of the total) opt for the in-kind benefit. This is even more the case since 1995, when a third alternative of the package contents was introduced.²⁸

The 1993 Family Benefits Act (implemented in 1994) denied birth grants to parents having only temporary residence in Slovenia. Until November 1994, any mother who had permanent residence in Slovenia was entitled to the benefit. The right was then transferred to children born in Slovenia, with the father's permanent residence counting as well as the mother's. The argument for the change was that there are cases of childbirth where the woman, under immigration regulations, can obtain neither permission for permanent residence in Slovenia nor Slovenian nationality. However, if the child's father is a Slovenian national with permanent residence in Slovenia, as a rule, this will hold for the newborn child as well. Because of this, it was not considered fair that such couples be denied birth grants for their newborns.

In mid-1998, the birth grant amounted to about SIT 25,000 (a quarter of the average net wage in Slovenia). Birth grants amounted to 0.02% of the GDP in 1993 and to 0.01% in 1997-1999. Other statistical data are provided in Table A4.

²⁸ The first two alternatives include the most essential goods for a newborn child, while the third also includes goods appropriate for an older child, and is thus preferred by parents who already have other children as well.

7. Parental allowance

Since 1994 (under the 1993 Family Benefits Act), a parental allowance has been granted to persons who were not eligible for insurance-based wage compensation during parental leave. Until the end of 1993, a similar benefit existed and was called social assistance to mothers. However, eligibility was limited to female secondary school and university students, as well as the registered unemployed – housewives and some farmers were excluded. The benefit was received for 84 days. Since 1994, eligibility is held by a mother who meets three criteria:

- Slovenian nationality
- Permanent residence in Slovenia
- Failure to meet the conditions for the right to wage compensation during parental leave, or any other wage compensation or pension

The duration of entitlement is the same as for the paid parental leave for persons insured for childbirth protection, i.e. 365 days. The right ceases if the entitled person enters into employment or self-employment during the period of entitlement. On the basis of a written agreement with the mother, after 105 days of the maternity leave the father of a child may obtain the right under the same conditions if he is unemployed not of his own volition or through his own fault.

In 1997-1999, the parental allowance amounted to 52% of the guaranteed wage. In 1997, this was SIT 18,296 on average (20% of the average net wage at the time). In 1999, it was SIT 20,518 (19% of the average net wage).

The introduction of full coverage of persons not eligible to wage compensation in 1994 resulted in an increase in the number of recipients by about 40%. This change resulted in a 3% increase in total expenditures related to maternity/parental leave, while expenditures for non-insured parents increased by 28 times due to both the number of beneficiaries and a considerable increase in the benefit level. Parental allowances amounted to 0.02% of the GDP in the 1990s. Other statistical data are provided in Table A4.

8. Child benefit

Child benefit entitlement and levels have changed several times since 1993. In 1993, the child benefit was a part of social assistance, and children in families with a per capita income up to 43% of the average net wage were entitled. The child benefit was granted to about a quarter of all children aged 0-15, while older children up to 26 years of age were eligible if they continued education.

Following the adoption of the Family Benefits Act in December 1993, the child benefit was granted from May 1994 to April 1996 to children from families with per capita income up to 50% of the average gross wage of all employed persons in Slovenia. Children in the lowest income bracket (up to 25% of the average wage per family member) were entitled to a child benefit amounting to 22% of the guaranteed wage, as compared to 7% of the guaranteed wage received per child in the highest income bracket (45-50% of the national average wage per family member).

From May 1996 until April 1999, the income ceiling was raised to 110% of the national average gross wage per family member. As a consequence, the number of children receiving child benefits increased by 70%. Child benefits remained the same for the lowest income brackets, while those for children from medium-income families (with income per a family member amounting to 35-50% of the average wage) were increased. The benefit was also introduced for children from families receiving an income of 50-110% of the average wage per family member, in the amount of 7% of the guaranteed wage. These changes produced a 52% increase in child benefit expenditure.

The next amendments to the Law on Family Benefits were implemented in May 1999. They were intended to regulate the entitlement to the child benefit until April 2001, when a new law was expected to be passed. Several major novelties were introduced (Table A5):

- A lower income ceiling of 99% of the national average income per family member, down from 110%
- Differentiated benefit levels depending on whether the child was the first, second, third or subsequent in a family
- Higher benefit levels (by 38% on average), particularly for children in families with the lowest income and increasing numbers of children
- Considerably larger differences among benefits at different income levels

Table A5 Child benefits, May 1999-April 2001

| Income per family member as a percentage of the average wage | Benefit according to birth order (SIT) | | |
|--|--|---------|----------|
| | Child 1 | Child 2 | Child 3+ |
| below 15% | 15,000 | 16,500 | 18,000 |
| 15.1%-25% | 12,825 | 14,175 | 15,525 |
| 25.1%-30% | 9,775 | 10,925 | 12,075 |
| 30.1%-35% | 7,700 | 8,800 | 9,900 |
| 35.1%-45% | 6,300 | 7,350 | 8,400 |
| 45.1%-55% | 4,000 | 5,000 | 6,000 |
| 55.1%-75% | 3,000 | 4,000 | 5,000 |
| 75%-99% | 2,600 | 3,600 | 4,600 |

Source: Family Benefits Act (1993), 1999 amendments.

The number of children receiving the child benefit (see Tables A4 and A6) clearly reflects changes in the criteria for entitlement. Also, the economic situation affected the income of the population at large, and therefore the number of families entitled to the benefit.

Table A6 Child benefits, beneficiaries and total spending in GDP

| Year | Average annual number of children receiving child benefit | Index (1993 = 100) | Share in GDP (%) |
|------|---|--------------------|------------------|
| 1993 | 147,478 | 100 | 0.53 |
| 1997 | 408,536 | 277 | 0.86 |
| 1998 | 410,864 | 101 | 0.83 |
| 1999 | 405,040 | 99 | 0.98 |

Source: *Statistical Yearbook 2000*, Statistical Office of the Republic of Slovenia.

In 1993, 28% of children in the relevant age group received child benefits. The change in income testing in May 1994 resulted in an increase by one third. In 1995, the number of beneficiaries increased again, partly due to a worsening of the economic situation of families in Slovenia and partly because it was the first calendar year in which the full effect of the new legislation was felt.

A large increase in the number of the child benefit recipients in 1996 was mainly due to a higher income threshold for entitlement, set at 110% of the average wage per family member. Since this amendment became effective in May

1996, its full effects were felt only in 1997. The ministry responsible for family affairs estimated that the number of children entitled to the benefit would increase to approximately 513,000, a figure which would exclude only about 10% of children from the wealthiest families from receiving a child benefit. During 1997, however, data revealed that on average, only 408,536 children received the benefit, approximately 80% of those who were potentially entitled to it. The same ratio was estimated in 1998.²⁹ Nevertheless, the eligibility criteria made the child benefit very close to a universal benefit. Children to whom this benefit was denied lived in families with high income. In May 1999 the number of eligible children decreased by 20,000, to about 380,000.³⁰

Table A7 shows the structure of recipients according to the amount of child benefit received in 1997. Approximately one quarter of the beneficiaries came from families with income per family member amounting to 25% of the average wage (the same share was estimated for May-December 1999). Another quarter came from families with an income amounting to 55-110% of the average wage per family member (in May-December 1999, 20% of all children were from families with a per capita income amounting to 55-99% of the average wage). The remaining recipients were fairly equally distributed across other income groups, with a concentration in the bracket of 30-40% of the average wage (35-45% in May-December 1999). However, the reported data on income are not necessarily a reliable indicator of the actual economic situation of families. It is probably safe to assume that complete data on income would have increased the number of children in higher income groups, which means that they would have received a lower level of child benefit than they actually did. The reason for this was that some income of these families emanated from the shadow economy, and was therefore not officially registered.

²⁹ A number of reasons for this have been suggested. Less educated people or those with lower incomes are generally assumed to be insufficiently aware or informed of their social entitlements, as well as unable to understand the procedures for the implementation of these rights. At the same time, people from these groups may well perceive that to give proof of their economic situation is something of a stigma. On the other hand, higher income groups may have not been sufficiently motivated to apply due to the low amount of the child benefit. If these families had received a child benefit amounting to 7% of the guaranteed wage, this would hardly have had any impact on their total income.

³⁰ Note that the figure in Table A4 is the average number of children receiving child benefit in 1999.

As seen in Table A7, in 1997 the largest share of child benefits (36.7%) was received by the lowest income group (24.2% of all recipients), while the highest income group (22.5% of total recipients) received only 10.8% of the total child benefits.

Table A7 The structure of recipients of child benefit in 1997

| Income per family member, % of average wage | Child benefit, % of guaranteed wage | Child benefit, % of average net wage (November 1997) | Distribution of 1997 recipients across income groups (%) | Distribution of benefits by income group (estimate, in %) |
|---|-------------------------------------|--|--|---|
| below 25 | 22 | 8.2 | 24.2 | 36.7 |
| 25.1 – 30 | 19 | 7.1 | 9.0 | 11.7 |
| 30.1 – 40 | 16 | 6.0 | 20.1 | 22.2 |
| 40.1 – 45 | 13 | 4.9 | 9.4 | 8.4 |
| 45.1 – 55 | 10 | 3.7 | 14.8 | 10.2 |
| 55.1 – 110 | 7 | 2.6 | 22.5 | 10.8 |

Source: Stropnik, 1998.

A clearer picture of the amount of the child benefit and the importance of this income source in the disposable income of families is obtained by comparing benefits with the annual average net wage. In 1997, families with income per family member below one quarter of the average wage received a child benefit amounting to roughly one month's average net wage, while the annual amount of the lowest benefit per child amounted to just below one third of the average net monthly wage. The latter amount posed a question regarding the effectiveness and rationale of the benefit.

The child benefit accounted for 0.53% of GDP in 1993, increasing to 0.86% of GDP in 1997 and 0.98% in 1999. The total amount of child benefit payments in 1997 was double that of 1993 in real terms, while the number of recipients increased by 180%.

There was (and is) much discussion on the need to make the child benefit more selective in order to better target children and families in need. Those who oppose this approach argue that family policy is not social assistance, thus it should be based on the presence of dependent children in families rather than on a means test. It is true that in the 1990s the guaranteed minimum income in Slovenia was very low, and that family benefits to a great extent took over the tasks of social assistance. The new legislation on social assistance, passed in 2001, fixed the minimum income at a more appropriate level, e.g. by increasing the basic level by 26% (for a single person or the first adult in a family).

9. Childcare supplement

In May 1996, a childcare supplement was introduced for seriously ill and for physically or mentally handicapped children in order to compensate for part of the higher costs associated with the care and protection of such children. Eligible children must be citizens of Slovenia with a permanent residence in the country. A child has a right to the childcare supplement for the period recommended by a medical expert commission, but not longer than until his or her 18th birthday, or until age 26 if in schooling. A child is not entitled to the childcare supplement while in an institution providing free care.

Prior to 1994, children with disorders in physical and mental development were entitled to a higher child benefit. But at that time, the child benefit was just one of several social assistance measures aimed at guaranteeing families the minimum income. Under the 1993 Law on Family Benefits, the amount of the child benefit for children with disorders in physical and mental development was raised by 50%. That is, depending on family income, the child benefit was increased by 3.5-11% of the guaranteed wage. However, only those receiving the child benefit were eligible, meaning that children from families with income per family member over 50% of the average wage were denied both benefits.

The childcare supplement is a monthly cash benefit amounting to 30% of the guaranteed wage (some 11% of the average wage net of contributions and taxes), or to 20% of the guaranteed wage for children in free full-day care (less than 5% of all claimants). The number of beneficiaries has been increasing by 7-12% a year, as more parents take advantage of this benefit. The funds allocated to the childcare supplement have amounted to 0.02% of GDP since 1997. Comparison with earlier years is not possible because this benefit was initially part of the social assistance scheme, and then part of the child benefit.

10. Educational grants

Three regulations governed educational grants in the period 1993-1999. The first covered the 1992-1993 school year, the second one from the 1993-1994 school year, and the last one starting from the 1999-2000 school year. There are three main kind of educational grants in Slovenia:

- National educational grants
- Zois educational grants
- Enterprise grants

The *national educational grant* is intended to narrow differences in the economic position of students during their schooling at secondary and high schools, and to stimulate undergraduate education among young people from low-income families. This grant also seeks to compensate for a decrease in enterprise grants over the course of the 1990s. The entitlement is income-tested, and has changed several times since 1993. The national educational grant consists of:

- A basic grant (from 14% of the guaranteed wage for secondary-school students and 21% of the guaranteed wage for university students, up to a maximum of 32% and 39% of the guaranteed wage, respectively, depending on income per family member)
- A supplement for students attending school in a place other than their permanent residence, to cover the costs of lodging or transport (40% of the guaranteed wage)
- A supplement for attained excellent results in schooling (7% or 13% of the guaranteed wage for secondary students and 7-19% of the guaranteed wage for university students)

Until the 1999-2000 school year, the basic grant was decreased by the amount of the parents' contribution toward covering the costs of schooling. In the period from 1993-1999, the grant could be exceptionally increased in case of a particularly unfavourable financial situation in the family, but not by more than 20% of the guaranteed wage. Besides multidirectional changes in the benefit level, income ceilings for entitlement changed in the period 1993-1999 as well. In the Law on Employment and Unemployment Insurance (1991), the income ceiling for entitlement to the national educational grant was set at 80% of the guaranteed wage per family member (currently about 17% of the average wage). The 1993

amendment to the Law on Employment and Unemployment Insurance raised the income ceiling for entitlement to:

- 100% of the guaranteed wage per family member for students attending school at their place of permanent residence, or
- 130% of the guaranteed wage per family member for students attending school in a place other than that of their permanent residence.

A 1998 amendment equalized the income ceiling for all students at the level of 130% of the guaranteed wage per family member (currently about 27% of the average wage).

The number of recipients of the national educational grant did not adequately follow the increasing number of students and the worsening of their financial situation. In the observed period, the number of recipient students was highest in the 1993-1994 school year (47,830) and has been decreasing since then (39,762 in the 1999-2000 year). The major reason is the income ceiling for entitlement, which has been decreasing in real terms due to its linkage to the guaranteed wage. The number of applicants has been around 66,000 for several years now.

The *Zois educational grant* is a national educational grant intended for exceptionally talented secondary and university students. In the 1996-1997 school year, the income ceiling was eliminated as a condition for eligibility, resulting in an increase in the number of Zois grants awarded. The grant amounts to 38% of the guaranteed wage. For those studying abroad, it may amount to a maximum of 150% of the guaranteed wage under a 1997 amendment. Supplements and most other regulations are the same as for the national educational grant.

In 1992-1993, the number of recipients was about 7000, and this has increased since then. At the end of 1998, the number of the secondary school and university students was almost the same (some 5100 in each category). Of all those awarded the grant, 1.7% were studying abroad.

The *enterprise educational grants* were the most important grants in Slovenia until 1990. Their decrease started in the 1990s – i.e. in the period of economic transition when many enterprises could no longer afford these expenses. In 1992-1993, the number of grantees was 14,000, and this stabilized at about 8,000 in the second half of the 1990s. An important feature of these grants is that they are not income dependent. Their minimum level is fixed by law at the level of 20% of the net guaranteed wage for secondary school students and 30% for university students. Otherwise, enterprises set the rules themselves, since they also finance the grants. The goal is to ensure adequately qualified staff to meet their future

needs, in accordance with their development plans. This is particularly important for attaining professionals in short supply.

Of all university students in Slovenia, 41% received one of these three educational grants in the 1997-1998 school year, while this percentage decreased to 38% in the following year. In 1993, the share of grantees was 58%. After a period of increase in the mid-1990s, expenditure on national educational grants and the Zois grants reached its 1993 level in terms of percentage of GDP, at 0.39%.

11. Pensions

Unlike most other central and eastern European countries in transition, pensions in Slovenia have remained a remarkably stable source of income during the 1990s. This can clearly be observed from Table A8, which shows fairly small oscillations in the replacement rate. A “quantum leap” in pension expenditures occurred in the early transition (1992), caused by a very large inflow of early retirement pensioners. Thereafter, pension expenditures stabilized as a percentage of GDP, although at an admittedly high level.

Table A8 Pension expenditures and replacement rates, 1993-2000

| Year | Pension expenditure (% of GDP) | Replacement rate (%) |
|------|-----------------------------------|-------------------------|
| 1993 | 14.1 | 74.5 |
| 1994 | 14.5 | 77.2 |
| 1995 | 14.7 | 77.9 |
| 1996 | 14.7 | 75.8 |
| 1997 | 14.9 | 75.4 |
| 1998 | 14.3 | 75.6 |
| 1999 | 14.4 | 76.8 |
| 2000 | 14.6 | 76.1 |

Sources: *Annual Reports*, Institute for Pension and Disability Insurance; Ministry of Labour, Family and Social Affairs, 1997; *Bulletins*, Bank of Slovenia.

Note: Replacement rate refers to average net old-age pension/average net wage. “Net” is equal to “gross” minus social security contributions and income tax.

The period 1993-1999 was marked by gradual and incremental changes in the pension system. Thus, the 1992 Pension and Disability Insurance Act (1992 PDIA) introduced the earliest possible retirement for men at age 55 and for women at age 50, gradually increased to 58 and 53 years respectively by 1998. Although conditions for early retirement were made more stringent, this did not prove to be a sufficient deterrent for retirement at the earliest possible date. Various amendments followed in 1994 and 1996, concerning changes in the indexation rule and limiting the possibility of self-employed persons to choose their base for contributions.

After prolonged preparations, a new Pension and Disability Insurance Act (1999 PDIA) was passed in December 1999, effective in 2000. This act introduced a number of elements that improved the pension system in terms of horizontal equity. The gender gap regarding eligibility and benefits was considerably narrowed. Not only were accrual rates equalized, but also the eligibility criteria for women are now very close to those for men. For example, in the 1992 PDIA, the earliest entrance into the pension system for a woman was at age 53, conditional on 35 years of pension qualifying period. The 1999 PDIA increased the age criterion to 58, and the pension qualifying period to 38, only two years less than the criterion for men (see Table A9). Actuarial fairness is also being more closely observed, since there are penalties for retirement prior to and bonuses for retirement after the so-called full pensionable age of 63 for men and 61 for women. Unlike provisions in previous laws, the reductions are permanent. The period for calculation of the pension base has now been extended to the best eighteen years (instead of the previous ten years). The act further diminished the possibilities of the self-employed in “tampering” with their contribution base. Somewhat paradoxically, an even greater emphasis was laid on the principle of vertical equity (solidarity). Thus, the ratio between two comparable pensions (i.e. of two pensioners entering the pension system under the same conditions, where both have met the pension qualifying period) cannot exceed 4:1. This is a considerably narrower spread than the previous 4.8:1. A further redistribution element lies in the fact that social security contributions are not capped.

Table A9 Basic characteristics of the 1992 and 1999 Pension and Disability Insurance Acts (eligibility criteria and benefits)

| 1992 PDIA | 1999 PDIA |
|--|--|
| Eligibility criteria | |
| Men: ¹ age = 58, p.q.p. = 40 | Men: age = 58, p.q.p. = 40 |
| Women: ² age = 53, p.q.p. = 35 | Women: ² age = 58, p.q.p. = 38 |
| Men: ¹ age = 63, p.q.p. = 20 | Men: age = 63, p.q.p. = 20 |
| Women: ² age = 58, p.q.p. = 20 | Women: ² age = 61, p.q.p. = 20 |
| Men: age = 65, ins.p. = 15 | Men: age = 65, ins.p. = 15 |
| Women: age = 55, ins.p. = 15 | Women: ² age = 63, ins.p. = 15 |
| Minimum insurance period | |
| 15 years | 15 years |
| Pension base | |
| Best 10-year average of net wages ³ | Best 18-year average of net wages ³ |
| Accrual rates | |
| Men: 35% of pension base for first 15 years, then 2% for each additional year, up to 40 years of p.q.p. | Men: 35% of pension base for first 15 years, then 1.5% for each additional year of p.q.p. |
| Women: 40% of pension base for first 15 years, 3% for each additional year up to 20 years, then 2% for each additional year up to 35 years of p.q.p. | Women: 38% of pension base for first 15 years, then 1.5% for each additional year of p.q.p. |
| Pension indexation | |
| Growth of net wages | growth of net wages |
| Minimum pension base | |
| 64% of national net wage | Set nominally, but effectively at approx. 64% of national net wage |
| Maximum pension base | |
| 310% of national net wage | 4 times the minimum pension base |
| Early retirement | |
| Men: age = 55, p.q.p. = 35 | No special provisions, but certain categories of workers can obtain a pension without deductions for retirement before full pensionable age ⁵ |
| Women: age = 50, p.q.p. = 30 and other required conditions ⁴ | |
| Deductions for early retirement | |
| 1% for each 'missing' year of insurance. Deductions temporary and lifted when age criteria fulfilled. | n.a. |
| Purchase of insurance period | |
| Employer can purchase (for employee) up to five years, under certain conditions. ⁶ | Employer can purchase (for employee) up to five years, under certain conditions. ⁷ |
| Employee can purchase years of university education and military service. | Employee can purchase years of university education and military service. |

Abbreviations: p.q.p. = pension qualifying period; ins.p. = insurance period; n.a. = not applicable

Notes: (1) The increase in pensionable age for men under the 1992 PDIA was gradual, and was completed in 1998.

All figures refer to final values. (2) The increase in the pensionable age and pension qualifying period for women was very gradual. Figures refer to the final values, which will in some cases be achieved in twenty years. (3)

Indexed for inflation. (4) 'Other conditions' include bankruptcy of firm, disability, long-term unemployment. (5)

Article 55, 1999 PDIA. (6) Article 214, 1992 PDIA. (7) Articles 195–199, 1999 PDIA.

Source: Kuhelj, 2000, and the 1992 and 1999 PDIA.

The main novelty introduced in the first pillar is flexible retirement, with penalties and bonuses. Retirement prior to the age of 63 for men and 61 for women entails penalties. However, this is only a general rule, and not valid for certain groups of insured persons.

Compared to the 1992 PDIA, eligibility criteria have been tightened, particularly for women, and benefit levels considerably reduced. Provided an insured person is not subject to penalties, his or her pension will be 72.5% of the pension base after 40 years of work. This compares to 85% under the 1992 PDIA. Considering further that the pension base in the 1999 PDIA is the best 18-year average of wages (instead of the 10-year average under the 1992 PDIA), the reduction in pensions is even greater than the ratio of 72.5% to 85% might imply. One must of course bear in mind that the new rules for eligibility and benefits are being introduced only gradually. The basic characteristics of the pension system, according to the 1992 PDIA and 1999 PDIA, are presented in Table A9.

Appendix 3

Data and methodology

This study is based on the Household Expenditure Surveys (HES), which contain data on the social and demographic characteristics of household members, household income and expenditure, housing, the ownership of consumer durables, etc. Until 1993, these surveys were undertaken by the Statistical Office of Slovenia at regular five-year intervals and proved to be of a satisfactory quality, as evidenced by research studies quoted in the introductory chapter. The methodology changed in 1997 due to Eurostat harmonization requirements, but this had no negative consequences for the comparability of the previous and new datasets. Since 1997, data have been collected on an annual basis. The new samples are smaller, so that three annual surveys have to be merged in order to produce a larger dataset of the former size, allowing for statistical analyses of population subgroups. In our case, these are the surveys for 1997, 1998 and 1999 (representing the first merged Slovenian dataset). The first HES merged dataset contains 3867 households, which is comparable with the 1993 HES (3270 households, or about 0.5% of the total).

In order to allow comparisons across households of different size and composition, household income was weighted using the so-called standard OECD equivalence scale. The first adult in the household was assigned the weight 1, all other adults 0.7 and each child (below 16 years of age) was assigned the weight 0.5. The sum of values for household members produced the number of equivalent adults. The household income divided by the number of equivalent adults is the equivalent household income.

The current monetary disposable household income is used as the measure of resources. This definition of income includes income from employment, income from occasional work, self-employment income, pensions, social benefits, income from capital and property rights, and intrafamily financial gifts and transfers. It does not include benefits in kind such as a household's own consumption of

agricultural produce or imputed rent. Also, it does not include savings withdrawals or loans received. It is after tax, meaning that direct taxes and social security contributions are not included.

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