Organisation of payment of the parental benefit

Audit report No. OSIII-2-6/05/76 of 15 July 2005

Summary

The purpose of the parental benefit is to compensate for the income foregone due to raising children and to support combining work and family life. The parental benefit is paid by the Social Insurance Board through its regional Pension Boards as of the beginning of 2004. In 2004 the total parental benefits paid amounted to 441 million Estonian kroons.

Main observations

During the audit the State Audit Office did not find that the parental benefit had been allocated incorrectly, but the State Audit Office did find several shortcomings in the system.

During the period of receiving the parental benefit persons earning income do not notify the Pension Board thereof, as a result of which the benefits paid exceed the permitted level and must be reclaimed later. Although the law obligates the beneficiaries of the parental benefit to notify the Pension Board about any and all circumstances pertaining to the payment of the benefit and the size thereof, they often fail to do so.

The data moves slowly and reclaiming the benefit is problematic. The data about earning income, which is subject to social tax, is sent from registers to the Tax and Customs Board with a delay of several months. During the audit the State Audit Office found several instances where the beneficiary had earned higher income, but the respective data had not reached the Pension Board yet. Therefore, the Pension Boards could not start making the recalculations at the right time. Since the income data reaches the Pension Boards so late, the payment of the parental benefit is often already over and the overpaid benefit cannot be withheld from future payments of the benefit, but must be reclaimed from the beneficiary. This is a complicated process, because it requires coming to an agreement with the beneficiary.

The agreements, which are made with the recipients of the benefit, often have a long repayment period. The State Audit Office found that the agreements made for reclaiming the overpaid benefit are made for a surprisingly long term. The State Audit Office does not consider it right that the repayment term is up to 10 times longer than the period of receipt of the income. The current regulation does not establish any limits to the repayment term stipulated in the repayment agreement.

The system of payment of the benefit does not rule out the possibility that the benefit is paid to the parents of children who have been placed in an orphanage or who have been temporarily placed in a shelter. By questioning the employees of orphanages and a shelter and comparing their data with the data of parental benefits the State Audit Office discovered that the payment of the benefit had been continued in eight events even when the child had been placed in an orphanage (five events) or a shelter (three events).

Main suggestions

To the Minister of Social Affairs in cooperation with the Minister of Finance

- Find a solution for improving the exchange of data between the Tax and Customs Board and the Social Insurance Board so that the accrual of social tax to the Tax and Customs Board is immediately visible in the pension insurance register, too.

To the Minister of Social Affairs

- Initiate amendment of the Parental Benefit Act with the goal of imposing sanctions on the beneficiary if the latter has failed to notify about the income earned or other circumstances, which affect the size of the benefit or the right to receive the benefit.

- Demand that the social welfare institutions always provide the Social Insurance Board with the data about the children without parental care who have been placed in them, in order to improve

the supervision over the payment of the benefit to the parents of children who have been placed in an orphanage and prevent payment of the benefit to those who do not actually raise the child. Find a solution regarding payment of the benefit to the parents of children who have been placed in a shelter, because although a shelter is meant as a temporary solution for children, they often remain there for a longer period. At the same time, their parents receive the benefit for raising the child.

To the Director-General of the Social Insurance Board

- Demand that the Pension Committees, when drafting their decisions and entering into written agreements, reason the unreasonably long terms for repayment of the overpaid parental benefit.

- Ensure that if the agreement is not fulfilled, precepts along with a warning for reclaiming the benefit are immediately submitted.

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In a reply the Minister of Social Affairs stated that the Ministry of Social Affairs is planning on informing the public about the obligations of a beneficiary and notify the Pension Boards about the income earned, but they do not intend to impose sanctions on the beneficiaries who fail to notify the Social Insurance Board about their income earned during the period of receiving the benefit. The Ministry would also like to harmonise the administrative practice pertaining to withholding the benefit and imposing penalty payments. The Ministry of Social Affairs also plans on notifying the social welfare institutions and the child protection officials and social workers of local authorities about the obligation to notify the local Pension Board of children being below the age of three years whom parents do not maintain.

In a reply the Minister of Finance noted that the Tax and Customs Board has expressed its readiness to find a solution for speeding up the data exchange process in cooperation with the Social Insurance Board. The Ministry of Finance also plans on taking steps to resolve the bottlenecks indicated in the audit report in connection with recalculation of the overpaid income tax and the funded pension payments.

The Director-General of the Social Insurance Board agreed with the suggestions of the State Audit Office and stated that the attention of the directors of the Pension Boards has been drawn to the fact that the deadline of repayment of the overpaid parental benefit would not usually exceed three calendar years and that if the agreement on reclaiming the benefit is not performed, a precept along with a warning must be made for reclaiming the overpaid amount.

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