

State's activity upon preparing for the work ability reform

*Is the state ready to launch and maintain the new
work ability support system?*

Dear readers,

The work ability reform brings about a fundamental change for the society. As a result of the reform, the state will begin assessing the remaining work ability of a person with health damage instead of assessing incapacity for work. If the person was previously granted incapacity for work, they promptly became incapacitated for work who is of no help when it comes to performing work in the eyes of the state. As such, pension had to be paid and social assistance had to be offered even to a person in their prime working age instead of them generating profit for the society. The person's ability to perform a job other than what they had been doing previously was also left unnoticed.

We are now in a situation where there are approx. 100,000 persons receiving pension for incapacity for work, and the increase in the number of persons receiving pension for incapacity for work in Estonia has been the fastest among the OECD countries over the last decade. The current system did not satisfy persons with reduced work ability, employers nor was it sustainable for the state. In light of it all, the need for changes is clear.

Those carrying out the reform have said that the new system assesses the abilities and needs of each person with health damage separately, prepares them for going to work, involves employers and creates a comprehensive administrative system to manage all this.

Although the implementation of these principles has been in the works for a long time, it is still too early to say whether the work ability reform can meet the expectations set for it on the basis of the preparations and bring about the changes as planned. The first prerequisite for us to look back at a successful work ability reform in years to come are preparations that have been carried out thoroughly and well. Preparations and, more broadly, the subsequent fate of the reform largely depend on the central government, local authorities and undertakings who should hire persons with reduced work ability.

The audit indicated that parties to the reform have successfully prepared for the launch of the new system in several aspects: the Estonian Unemployment Insurance Fund is prepared to carry out an assessment of work ability and offer services, the Estonian National Social Insurance Board has the capacity to offer technical aids and the person is ensured to have assistance both upon applying for the assessment of work ability and subsequent contestation of the decision.

The main issues consist of the uneven ability of the local authorities to offer social services and the partial preparedness of employers to hire persons with reduced work ability.

Efforts are often aimed at dealing with the consequences and bringing a person with reduced work ability back on the labour market. To ensure the success of the reform, it is also necessary to pay attention to maintaining the health and preserving the work ability of people.

The National Audit Office of Estonia recognises the persons carrying out the reform for their efforts to date, but now it's time to take another step and start addressing the reasons for people becoming incapacitated for work. More than 14,000 people become newly incapacitated for work every year, and it's determining the causes for this that will help break this trend.

Over the last 20 years, the majority of governments have deemed it necessary to agree on the obligations of parties upon maintaining work ability and on the liability for the reduction thereof. So far, this hasn't amounted to much and dozens of different versions of the draft legislation on occupational accident and disease insurance have never made it off the desks of officials. In order to avoid health damage to people, everyone has their own role to play – the state, employers and foremost the person themselves.

It should be determined how to guide employers to make efforts in the name of a safe working environment. How to ensure that employees first maintain their health and at the same time know and dare to demand appropriate working conditions? How to even out the ability of local authorities to offer support, improve their interaction with the central government and ensure sustainable financing? The result should be an efficient prevention system involving all parties that would support the employment of people at least until their retirement age. It is important that establishing such a system is part of the work ability reform and there are no delays in developing thereof.

A handwritten signature in blue ink, appearing to read 'Alar Karis', with a long, sweeping diagonal stroke extending upwards and to the left.

Alar Karis
Auditor General

On 2 February 2017

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Is the state ready to launch and maintain the new work ability support system?

Summary of audit results

In its audit “The state’s activities in supporting the disabled and people receiving pensions for incapacity for work” of 2010, the National Audit Office advised the state to change the system of helping people receiving pensions for incapacity for work in such a manner that the person’s work ability is assessed instead of the loss of such ability.

The state started preparing the reorganisation of the system in 2011 and the Estonian Unemployment Insurance Fund started assessing work ability as of 1 July 2016.

What did we audit?

The National Audit Office assessed in the audit:

- whether the state is prepared to assess work ability for the implementation of the new organisation;
- whether the state is prepared to offer people who have lost their work ability the services they need;
- whether employers are prepared to hire people who have lost work ability and keep them at work;
- whether the new system of supporting work ability is financially sustainable.

Why is this important to taxpayers?

The objective of the work ability reform is to support a more active participation in society by people who have lost work ability and to help them find work.

There were 97,459 persons receiving pensions for incapacity for work in Estonia at the start of 2016. The number of persons receiving pension for incapacity for work has increased by 61% from 2005-2015. More than 300 million euros per year is spent on pensions for incapacity for work and social tax incentives.

According to calculations, the establishment and implementation of the new system for assessing and supporting work ability will cost 199 million euros from 2014-2020. European Union funds comprise 169 million euros of this amount. 30 million euros will come from the budget of the state and the Estonian Unemployment Insurance Fund.

What did we find and conclude on the basis of the audit?

As a result of the work ability reform, the system of helping people who have lost work ability will be financed from unemployment insurance funds instead of pension insurance.

The National Audit Office is of the opinion that the state is partly ready for the implementation of the system of supporting work ability: the Estonian Unemployment Insurance Fund is prepared to provide labour market services and capable of assessing work ability, and the Social Insurance Board is ready to provide services and aids. The development of information systems should be completed and the capacity of local governments to provide social services should improve to ensure that the system of supporting work ability functions without problems. The preparedness of employers to hire people who have lost work ability should also be increased.

It is still unclear how the new system will be financed as of 2021, when the currently used EU funds will run out.

The provision of the services of the Social Insurance Board and the Unemployment Insurance Fund to people who have lost work ability got off to a good start and work ability can be assessed in all counties. Labour market services, social rehabilitation and sheltered employment have been provided without problems since 2016. The employment of case managers qualified to help people who have lost work ability by the Unemployment Insurance Fund has contributed to this. The accessibility of aids has also improved, as the Social Insurance Board started providing them instead of the 15 country governments. Centralising the service has put an end to waiting lists – people who have lost work ability generally receive the necessary aids within the prescribed 30 days.

The Unemployment Insurance Fund had entered into contracts with 12 service providers and enough experts had been trained by the start of the system of supporting work ability. The Ministry of Social Affairs has entered into a contract with the University of Tartu, which requires the latter to train more expert physicians from 2016-2018 should the need for them arise.

The information systems required for the assessment of work ability do not work as planned and additional work is required to obtain the assessment results. The information system SKAIS 2, which is necessary for exchanging information about services and allowances, was not completed by the deadline, i.e. the end of 2016. The temporary solution SKAIS 1 was developed due to the delays. This has caused extra expenses in the amount of 1.2 million euros, but has not solved all of the problems. For example, the solution cannot be used to make mass requests for pension data that the Unemployment Insurance Fund needs in order to pay out work ability allowances correctly. This may result in payouts that are not justified.

Also, some of the data required for the assessment of work ability are missing from the health information system and the quality of the existing data is poor. As a result of this, the Unemployment Insurance Fund has to send additional requests for information to health care establishments in almost half of all assessment cases. The inadequate information system increases the administrative burden and the amount of time required for

various activities, and results in people being asked to provide information that the state already has.

The different capacity of local governments to provide social services was not considered when the work ability reform was planned. Local governments are obliged to provide social services to persons who have lost work ability. Local government associations confirm that the preparedness of local governments to provide these services is different and some of them are unable to provide all of them. Local government associations are of the opinion that the services of support persons and personal assistants generate more problems than others in relation to the implementation of the work ability reform, as the low wages and lack of people mean that finding suitable service providers is difficult, especially in rural areas.

Organisations representing local governments have repeatedly emphasised that the development of social services and providing them on a large scale requires more money. According to the Ministry of Social Affairs, local governments can apply for funding in the amount of 31 million euros from EU structural funds for the development of social services. Local government associations find that this may not help reduce the differences in the capacity of local governments to provide services, because writing projects is expensive and primarily affordable for larger local governments. Also, even if a local government obtains the money, it is not obliged to spend it on helping people who have lost work ability. For example, the local government may spend it on the development of services necessary for old-age pensioners or children.

The preparedness of employers to hire people who have lost work ability is modest. According to the survey commissioned by the Ministry of Social Affairs, 31% of employers are prepared to hire people who have lost work ability, 44% considered it impossible and the rest were unsure. Although the supply of workforce on the market will increase as a result of the work ability reform and the support measures encourage employers to hire people who have lost work ability, the organisations representing employers see no reason to expect that this will motivate employers to create new jobs and hire employees from amongst previously unemployed incapacity pensioners. In the opinion of employers, the fact whether a person is hired or not depends primarily on the correspondence of the person's skills and knowledge to the employer's needs.

How the new system of supporting work ability will be funded when the EU support runs out has not been agreed in the state. The system of supporting work ability will cost the state *ca* 73 million euros more until 2020 than it would have had to spend without implementing the work ability reform. In the longer term, the costs of the system depend on whether and how many persons who have lost work ability will start working and how much they will earn. The one-off activities related to reforming the system and the labour market services provided to the persons who have lost work ability will be financed with the support of EU funds from 2014-2020. When the draft of the Work Ability Allowance Act was processed in 2014, it was known that a replacement for the EU funds allocated to the system must be found from 2020 onwards. It must be decided whether the money will be obtained from the state budget or the unemployment insurance, or whether a combination of

the two sources will be used instead. According to the Ministry, the development of specific proposals will start in 2018-2019. In the opinion of the National Audit Office, the decision about the possible changes in the system should be made earlier in order to give reassurance to employers and persons who have lost work ability.

What did we recommend as a result of the audit?

The main recommendations made by the National Audit Office are as follows:

- manage the development of the SKAIS 2 information system more efficiently by creating measures that would guarantee the timely completion of the planned development activities and the completion of SKAIS 2 by October 2017. The failure to meet interim deadlines should be tied to the right to demand a bigger contractual penalties, if necessary;
- consider the different need of local governments to develop and provide social services during the development of the local government funding model in the course of the administrative reform in such a manner that persons who have lost work ability can obtain the services they need. The number of persons who have lost work ability and the capability of local governments to provide services should be considered upon funding;
- develop alternatives for funding the system of supporting work ability and submit them to the Government for consideration by the end of 2018.

Responses of the auditees: the Minister of Health and Labour and the Minister of Social Protection thanked the National Audit Office for its recommendations. The ministers also pointed out that analyses and/or assessments must often be carried out before changes can be made. They went on to emphasise that the activities that help implement some of the recommendations have already been included in the work plan.

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New procedure for the assessment of work ability

1. The National Audit Office of Estonia assessed the efficiency of the preparations for the new work ability support system with the audit. The audit included all the basic activities concerning the launch and functioning of the system and parties responsible for these activities who significantly affect the achievement of the objective of the system. Read the overview introducing the area in appendix A.
2. The objective of the work ability support system is to support a more active participation of persons with reduced work ability in the society and help them find work.
3. The following institutions are responsible for the completion and functioning of the work ability support system:
 - Ministry of Social Affairs whose task is to ensure the operation and development of the methodology for assessing work ability, timely completion and reliability of information systems, developing measures necessary for preventing incapacity for work, developing benefits and measures aimed at employers, and the financial sustainability of the entire system. In the process of carrying out the reform, the Ministry shall also have to take into account the varying capability of local authorities to offer social services and ensure that they have all the necessary information for planning the services;
 - Estonian Unemployment Insurance Fund whose task is to organise the assessment of work ability, process challenges filed against the decisions of assessing work ability and offer labour market services, and ensure the timely completion and operation of information systems of the institution;
 - Estonian National Social Insurance Board whose task is to organise the provision of technical aids and to provide sheltered employment and social rehabilitation (read more about the services in appendix B);
 - Labour Inspectorate whose task is to advise employees and employers in issues concerning the working environment.
4. **In the opinion of the National Audit Office of Estonia, the Estonian Unemployment Insurance Fund is prepared to assess work ability in all counties, as there are service providers for assessing work ability in all the locations. The new methodology for assessing work ability has been previously tested and the efficiency of the methodology has been determined as a result thereof. Service providers are also ensured to have training programmes on assessing work ability carried by the University of Tartu.**
5. The objective of the state was to find service providers for assessing work ability to all counties in the course of a procurement and teach doctors to use the new methodology for assessing work ability.

Are all the counties prepared to assess work ability?

6. The Estonian Unemployment Insurance Fund is responsible for organising the assessment of work ability and the Ministry of Social Affairs for the operation and development of the methodology.
7. The estimated cost of assessing work ability during the period from 2016 to 2020 is 18.4 million euros.¹
8. The new system of assessing work ability launched on 1 July 2016 as planned. In order to find service providers for assessing work ability, the Estonian Unemployment Insurance Fund organised three separate procurements, and as a result of the procurement procedure, suitable service providers were found for all the counties. Contracts were entered into with a total of 12 service providers (e.g. hospitals, clinics, rehabilitation and medical centres) who have to ensure a functional expert team.²
9. The procurement of the training programme for the methodology for assessing work ability organised by the Ministry of Social Affairs was won by the Centre for Continuing Education of the Institute of Clinical Medicine at the University of Tartu who in cooperation with the authors of the methodology trained 16 doctor-lecturers. They, in turn, will train doctors in medical institutions offering the service of assessing work ability to the Estonian Unemployment Insurance Fund.
10. The training contract with the University of Tartu has been entered into for three years. If, for example, a doctor with the necessary skills decides to leave the service provider during this time and another doctor without the necessary competence for assessing work ability is hired, the University of Tartu is prepared to train the new doctor. The plan is to train up to 248 doctors to assess work ability during 2016–2018.
11. 118 doctors had been trained by the end of 2016. Training courses will continue to take place: if the volume of assessments should increase, the University of Tallinn is prepared to train more.
12. The Ministry of Social Affairs has assured that elaborating and developing the methodology will continue parallel to implementing the methodology for assessing work ability in the current form. In 2018, the Ministry plans to analyse the operation of the assessment of work ability in more detail.
13. **In the opinion of the National Audit Office of Estonia, the state's preparedness to assess work ability with the help of the health information system is only partial, because the health information system lacks some of the necessary data and the quality of existing data is poor. As such, the administrative load of the Estonian Unemployment Insurance Fund is increasing and people have to wait for the decision of the assessment of work ability for a longer time.**
14. With regard to assessing work ability, the objective is to carry out the maximum number of assessments with the help of the health information

Does the health information system enable assessing work ability?

¹ Appendix no. 3 of the explanatory memorandum to the draft legislation for amending the Work Ability Allowance Act and other laws in connection with this, <https://www.riigiteataja.ee/akt/117122015001>.

² Members of the expert team must definitely include a) a physiotherapist or an occupational therapist and b) a speech therapist or a special education teacher.

system. Liability for the operation of the health insurance fund lies with the Ministry of Social Affairs, and the total cost of the system is 22.2 million euros.³

15. So far, the Estonian National Social Insurance Board has used the data of the health information system to assess both disabilities and permanent incapacity for work. The National Audit Office of Estonia investigated the degree to which the Estonian National Social Insurance Board has been able to make decisions to date solely on the basis of the data from the health information system.

16. The results indicated that in 2014, a decision could be made with regard to working-aged people using the data of the health information system in 48% of the cases. According to the Estonian Unemployment Insurance Fund, the situation hasn't improved much and it turns out in nearly half of the cases of assessing work ability that the data in the health information system has poor quality or is missing entirely. This necessitates requesting data from health care institutions and doctors, and the time for assessing work ability increases for the person.

Functional status shows the person's ability to perform duties and cope in their everyday life.

17. Testing the assessment of work ability also revealed that missing or substandard data in the health information system extends the assessment time and impedes achieving an objective result. For example, it was highlighted that there is no adequately detailed information regarding the **functional status** of patients.⁴

18. According to the data of the Estonian Unemployment Insurance Fund, there were slightly more than 5,200 people who entered the process of assessing work ability in the second half of 2016. This means that the Estonian Unemployment Insurance Fund has to submit an additional inquiry with regard to up to 2,600 people. The volume of extra work is likely to increase even more in 2017, because in addition to new entrants, those applying for a repeat expert assessment whose deadline for the expert assessment of work ability ends in 2017 will also want their work ability assessed. Unless the quality of data in the health information system improves, the current number of employees will not be sufficient according to the Estonian Unemployment Insurance Fund.

19. Entering substandard data in the health information system is possible due to the fact there are no mandatory data field checks that have allowed doctors to leave the fields necessary for assessing work ability empty. Additionally, not all family physicians submit data to the health information system: 92% of them submit data, while the rest of the family physicians use paper documents.

20. The Ministry of Social Affairs has acknowledged the problem of missing data and poor quality of data in the health information system and added technical control mechanisms to the information system that were missing before in the course of development work in order to

³ The cost includes expenses during the period 2005–2013 (15 million euros) and during the period 2014–2016 (7.2 million euros). Audit “Activities of the state upon implementing the e-health system” of the National Audit Office of Estonia in 2014; explanatory memorandums to state budgets of 2014–2016.

⁴ Kristiina Kamenik, Mari Kreitzberg, Hede Sinisaar. Analysis of the results of piloting the methodology for assessing work ability. Ministry of Social Affairs, 2015

alleviate the problem. As such, the mandatory data fields must be filled in after making changes and the information system will not allow the person entering data to move on without it. If data is missing in the mandatory field, the information system will display an error with the request to fill in the mandatory data field. The Ministry of Social Affairs is also developing a monitoring and validating module for the health information system in order to ensure better data quality.

Have the information systems been completed on time and do they hasten the process of assessing work ability?

SKAIS 2 – project for updating public services of social protection, the aim of which is to optimise the working processes of the Estonian National Social Insurance Board for offering state pensions, benefits, compensatory allowances and various services (rehabilitation, special welfare, victim support), develop an information system to support thereof and create new means and channels for public services. In the course of the work ability reform, the Estonian Unemployment Insurance Fund requires data from SKAIS 2, because data cannot be duplicated in different information systems upon developing the information system.

SKAIS 1 – information system on the old platform of the Estonian National Social Insurance Board that supports the working process of the Board's public services, incl. the work of the state pension insurance register

21. In the opinion of the National Audit Office of Estonia, the state is not prepared to commence using all the information systems to the planned extent on time, because the information system SKAIS 2 was not completed by the deadline. This has affected data exchange, which increases administrative load.

22. According to the original objective of the Ministry of Social Affairs, information systems of both the Estonian Unemployment Insurance Fund and the Estonian National Social Insurance Board were supposed to be ready for launching the work ability support system by 1 July 2016. While the information systems of the Estonian Unemployment Insurance Fund were completed on time, SKAIS 2 was not. The new deadline for the completion of SKAIS 2 was 1 January 2017.

23. The Ministry of Social Affairs is liable for carrying out the developments of SKAIS 2. The Estonian Unemployment Insurance Fund is liable for the timely completion of its own information systems. Together with the amount planned from the state budget of 2017, the total budget for SKAIS 2 is 8,619,900 euros. Funds from the European Union (EU) constitute 4.1 million euros thereof.⁵

24. Despite the extended deadline, SKAIS 2 will not be fully completed by 1 January 2017 either. The development of SKAIS 2 has been impeded by 1) a change in the time of starting to use the EU funds; 2) the inability of the main developer to carry out the work and the subsequent withdrawal and taking the work over by the partner developer; 3) complexity of business logic: the state pays out 110 different pensions and there are dozens of benefits – from family allowances to death grants, victim support and state support for winners of Olympic Games; 4) underestimating the volume and complexity of work concerning the information systems of social insurance at the Ministry of Social Affairs; 5) issues concerning project management: the development of SKAIS 2 was led by the Ministry of Social Affairs who is not going to use the new system itself, while the Estonian National Social Insurance Board was not ready for a project of this magnitude; 6) time pressure arising from the work ability reform and other reasons.⁶

25. In order to temporarily improve the situation, a temporary development of the information system of the Estonian National Social Insurance Board was established for the so-called old information system **SKAIS 1**. Development work on SKAIS 1 was completed on 1 July 2016, but they have been carried out only to the extent necessary for launching activities associated with the new services and the assessment. For

⁵ According to the data of the Ministry of Social Affairs, software development and obtaining necessary licences constitute 7,496,713 euros and quality and support services of the project constitute 274,387 euros of the total budget.

⁶ Reviews of the contracting entity and developer to the supervisory board

example, the development enables transmitting data of the Estonian National Social Insurance Board regarding the provision of special welfare and terminating the payment of pension for incapacity for work to the Estonian Unemployment Insurance Fund. To date, the temporary solution of SKAIS 1 has cost 1,150,000 euros.

26. This development does not resolve all the bottlenecks. For example, the Estonian Unemployment Insurance Fund has highlighted that the solution in use does not enable mass inquiries regarding pension data. This, in turn, does not enable the information system of the Estonian Unemployment Insurance Fund⁷ that was completed on time to automatically confirm and pay out work ability allowance. The Estonian Unemployment Insurance Fund requires all the pension data of the person because if the person is receiving some other type of pension, this will affect the person's right to receive work ability allowance.

27. The Estonian Unemployment Insurance Fund can request the necessary data as individual inquiries. This means that an employee of the Estonian Unemployment Insurance Fund can submit an inquiry by manually confirming each individual payment. However, the Estonian Unemployment Insurance Fund has renounced this option because there would have to be thousands of such inquiries and the Estonian Unemployment Insurance Fund is not able to do so due to great time expenditure.

28. The second option is to exchange data using an MS Excel file in an encrypted format, and the Estonian Unemployment Insurance Fund has opted to use this option. In this case, the risk of a mistake is higher, because this type of data exchange doesn't necessarily ensure that all the data affecting the right of receiving work ability allowance reaches the Estonian Unemployment Insurance Fund. This may cause unfounded payments and, according to the Estonian Unemployment Insurance Fund, demanding the person to pay the money back later is more difficult. Although the person may have acted as required and submitted their data correctly, this solution may cause confusion and additional administrative load both for the Estonian Unemployment Insurance Fund and the applicant. According to the Estonian Unemployment Insurance Fund, the reason is that SKAIS 2 will not be completed by the deadline.

29. The Ministry of Social Affairs has also admitted that data exchange is inadequate to a large extent and causes a greater administrative load for the Estonian Unemployment Insurance Fund.⁸

30. The Ministry of Social Affairs, the Estonian Unemployment Insurance Fund and the Estonian National Social Insurance Board are of the opinion that the issues should find a solution once SKAIS 2 is completed. However, SKAIS 2 will not be able to resolve all the issues immediately either, because it is implemented in stages by different modules. The Ministry of Social Affairs assured the National Audit Office of Estonia⁹ that the first module will be implemented on 1 January 2017. The work ability support system presumes the operation of all

⁷ TETRIS, information system of assessing work ability and work ability allowance

⁸ Memorandum prepared by the Ministry of Social Affairs for the meeting of the government cabinet of 10 March 2016

⁹ E-mail of the Ministry of Social Affairs of 27 July 2016

modules. The completion of all the modules of SKAIS 2 is planned for October 2017.

31. Recommendation of the National Audit Office of Estonia to the Minister of Social Protection: Improve the management of the development of the information system SKAIS 2 by developing measures to ensure the completion of the planned developments on time and the completion of SKAIS 2 by October 2017 at the latest. If necessary, bind the failure to comply with interim deadlines to the right to demand a higher contractual penalty.

Response of the Minister of Social Protection: The completion of SKAIS2 later than planned does not affect the implementation of the work ability reform. The work ability reform has been implemented in full as of January of this year, and data exchange between SKAIS2 and the Estonian Unemployment Insurance Fund has been ensured. The volume of the SKAIS2 project has been very extensive and, as such, realising the project has proven to be very complicated. Both Tieto as the contractor and the state as the contracting entity underestimated the complexity and volumes of the project when planning SKAIS2.

The developer has accepted financial liability and compensated for the costs associated with the delay in the project's timeframe.

Henceforth, the SKAIS2 project will continue in stages. It was agreed in autumn 2016 that the first priority is realising four services that ensure the viability of the project by the beginning of 2017.

In order for the project to succeed, both the developer and the Estonian National Social Insurance Board have brought in extra manpower to the project management and development alike. The state project manager has also been replaced.

The contracting entity's IT competence and architectural perspective is strengthened by the Health and Welfare Information Systems Centre that commenced its activity on 2 January 2017. Supervision of the project is carried out regularly, and the next meeting of the supervisory board where the subsequent action plan is approved is to take place on week 6 of this year.

Has the person whose work ability has been assessed ensured support for filing a challenge?

Challenge is a complaint, the processing of which can be initiated by a person who finds that his/her rights have been violated or freedoms have been restricted with an administrative act or in the course of administrative proceedings.

32. In the opinion of the National Audit Office of Estonia, the Estonian Unemployment Insurance Fund is prepared to process a challenge filed against the result of assessing work ability and to review the decision. Challenging the decision of assessing work ability has been organised analogously to the challenging process that has been applicable to date¹⁰ – the person can file the action with the Estonian Unemployment Insurance Fund and, if necessary, the case manager will help to prepare thereof.

¹⁰ The system applicable to date allowed challenging the decision of determining permanent incapacity for work made by the Estonian National Social Insurance Board by filing a challenge with the Estonian National Social Insurance Board.

33. The objective of the state is to enable a person applying for an assessment of work ability¹¹ to challenge the decision and help the person in preparing the challenge.

34. Liability for accepting and processing the challenges lies with the Estonian Unemployment Insurance Fund. Processing the challenge at the Estonian Unemployment Insurance Fund is free of charge for the person who filed the challenge.

35. According to the applicable administration, the challenge is first reviewed by an expert doctor working at the Estonian Unemployment Insurance Fund¹², and if necessary, the case is forwarded to the health care provider who gave the expert opinion for review. If the person is not satisfied with the answer, they have the option to turn to the court.¹³

36. At the same time, there is no independent subsidiary body or network located outside the Estonian Unemployment Insurance Fund that a person with reduced work ability could turn to for help and advice. In the opinion of the Estonian Association of Caregivers, the importance of an independent support system for persons with reduced work ability in the process of challenging the assessment of work ability has been underestimated in the course of preparations for the work ability reform.

37. For example, in states that have implemented a similar reform (e.g. United Kingdom and Hungary), there are many cases where persons with reduced work ability have been left without allowance and subsequently necessary help. The need for support from an advisory and independent party has been great in those states.

38. The Estonian Association of Caregivers has pointed out that there have been many requests for assistance from persons with reduced work ability in Estonia even before the reform, and the number of people is sure to increase after the reform.

39. The National Audit Office of Estonia investigated how many challenges have been filed with the Estonian National Social Insurance Board in connection with assessing work ability at this time and how many of the challenges have been satisfied. It was revealed that the number of challenges arising from the decision of permanent incapacity for work in 2015 was 1,056. Over the last three years, the number of challenges has increased by 24%, while the number of expert assessments for determining permanent incapacity for work has increased by 7%.¹⁴ If the number of challenges that were satisfied or partially satisfied was 357 in 2013, the number in 2015 was 663, i.e. it has increased 1.8 times.

¹¹ The initial decision regarding the assessment of work ability is made by the Estonian Unemployment Insurance Fund by basing the decision on the opinion of an expert doctor.

¹² If a person files a challenge with the Estonian Unemployment Insurance Fund, they are contacted if necessary and asked to specify the challenge and clarify who could be turned to in order to receive more information and evidence. If the person doesn't submit evidence themselves, the Estonian Unemployment Insurance Fund shall collect it.

¹³ If the person doesn't wish to file a challenge with the Estonian Unemployment Insurance Fund, it is also possible to turn directly to the court.

¹⁴ Database of the Estonian National Social Insurance Board as at 31 December 2015

Activity requirement is the obligation of a registered unemployed person to actively look for work, incl. participate in labour market services. The person regularly notifies the Estonian Unemployment Insurance Fund of compliance with the activity requirement.

40. The work ability reform may bring about an increase in the number of additional challenges, because the target group is facing a new situation where partial work ability leads to the obligation to comply with **activity requirements** and receiving and the amount of allowance depends on the decision of assessing work ability. It also has to be taken into account that, among others, persons suffering from mental and behavioural disorders who may have difficulties in assessing the adequacy of the situation and who would require assistance from a party they trust also turn to the Estonian Unemployment Insurance Fund.¹⁵

41. **Recommendation of the National Audit Office of Estonia to the Minister of Health and Labour:** Analyse the need among persons receiving pension for incapacity for work and new entrants for a consultation opportunity independent from the body assessing work ability, and after determining the need, consider setting up an online environment as an option where persons with reduced work ability could turn to with their questions and where other individuals or competent institutions could share their advice and experiences.

Response of the Minister of Health and Labour: The recommendation of the Ministry of Social Affairs is for the Estonian Chamber of Disabled People to perform the role of providing consultation service to persons with reduced work ability. The Estonian Chamber of Disabled People has, in principle, expressed its preparedness to offer consultation service to persons with reduced work ability. The Ministry of Social Affairs and the Estonian Chamber of Disabled People cooperate in order to determine in which form, to which extent and how the provision of consultation service is funded.

The administrative authority also has the obligation to provide explanations and assist the person. The task is held by the employees of the Estonian Unemployment Insurance Fund, Estonian National Social Insurance Board and the Ministry of Social Affairs alike. These institutions analyse feedback and challenges filed by persons with reduced work ability and plan changes to the organisation of work and notification accordingly. Representative and umbrella organisations for disabled persons also have a good cooperation with the Ministry and intermediate bodies, and these organisations continuously share information with their members. There are already different environments online that enable persons with reduced work ability to submit their questions and have discussions: blog by the Ministry of Social Affairs at the address somblogi.wordpress.com that enables commenting on posts; Facebook pages of the Estonian National Social Insurance Board, Estonian Unemployment Insurance Fund and the Ministry of Social Affairs that publish posts concerning the topic and reply to comments posted by readers. Additionally, persons with reduced work ability have created Facebook pages themselves where they can comment on topics concerning the work ability reform and share their experiences (for example, information channel for disabled people, human rights of disabled people / about the work ability reform, and more).

¹⁵ 1/3 of persons receiving pension for incapacity for work suffer from mental and behavioural disorders.

Services supporting persons with reduced work ability

Is the Estonian Unemployment Insurance Fund prepared to provide labour market services to persons with reduced work ability?

42. The National Audit Office of Estonia assessed how services preparing the person for work, helping them with finding a job and supporting them in going to work have been ensured for persons with reduced work ability. The duty of providing thereof lies both with the state (the Estonian Unemployment Insurance Fund and the Estonian National Social Insurance Board) and with the local authority.

43. **In the opinion of the National Audit Office of Estonia, the Estonian Unemployment Insurance Fund is prepared to provide labour market services to persons with reduced work ability. The Estonian Unemployment Insurance Fund has employed case managers that have received respective training and established specific labour market services for persons with reduced work ability. On 1 January 2016, the provision of labour market services intended for persons with reduced work ability launched and has so far functioned without problems.**

44. The objective of the Estonian Unemployment Insurance Fund is to offer labour market services and assistance based on individual approach to all unemployed persons registered with the Estonian Unemployment Insurance Fund, incl. persons with reduced work ability.

45. In 2015, the Estonian Unemployment Insurance Fund spent 43.9 million euros on labour market services and allowances. During the period 2015–2020, nearly 143 million euros has been budgeted for offering necessary active labour market services to persons with reduced work ability, majority of which is EU aid and 21 million of which constitutes self-financing by the Estonian Unemployment Insurance Fund.

46. So far, the Estonian Unemployment Insurance Fund has been able to carry out the plans set out, because the provision of both labour market services that were offered before and labour market services offered as of 2016 (e.g. work rehabilitation, sheltered employment) has thrived (see descriptions of services in more detail in appendix B).

47. All 232 advisers of the Estonian Unemployment Insurance Fund have completed basic training necessary for advising persons with reduced work ability and training on the methodology for assessing work ability. 48 of them have received separate training on working with persons with reduced work ability.

48. The majority of labour market services offered by the Estonian Unemployment Insurance Fund are not directly aimed at persons with long-term health damage, rather it's all registered unemployed persons irrespective of their state of health that have the right and the opportunity to use the services. Persons with reduced work ability also receive specific services that help to overcome or minimise impediments associated with the disability or illness to commencing work and working. For example, if an employee requires more instructions or assistance at work due to disability or an illness, they can use the service of working with a support person (see a list of all the labour market services in appendix B).

49. From January to September 2016, the Estonian Unemployment Insurance Fund had an average of 4,960 persons with reduced work

ability registered per month. During the same period, 6,539 persons with reduced work ability started to receive labour market services. Among all labour market services intended for all unemployed persons, work-related training offered to persons with reduced work ability was provided the most, i.e. in 1,958 cases, followed by work placement in 740, work trial in 574 and wage subsidy in 514 cases. Among the new specific labour market services intended for persons with reduced work ability, work rehabilitation was offered the most during the aforementioned period, i.e. in 642 cases, commuting benefits were offered in 183, sheltered employment in 177, peer support in 7 and compensation for an accompanying person in 1 case.¹⁶

Is the Estonian National Social Insurance Board prepared to offer technical aids and services to persons with reduced work ability?

50. **In the opinion of the National Audit Officer of Estonia, the Estonian National Social Insurance Board is prepared to offer technical aids and services to persons with reduced work ability, as the provision that commenced in 2016 has been free of problems.**¹⁷

51. The prerequisite for a successful work ability reform is the ability to offer the necessary services and technical aids to persons with reduced work ability quickly and in a flexible manner.

52. As of 1 January 2016, the Estonian National Social Insurance Board is responsible for purchasing, renting and managing technical aids. The Board also has to provide sheltered employment and social rehabilitation service (see appendix B).

53. 44.9 million euros have been budgeted in 2015–2020 for improving the availability of technical aids and developing the sheltered employment service. Costs are covered using the funds from EU Structural Funds. Additional to it will be costs of social rehabilitation that are covered from the state budget.¹⁸

54. Previously, the system of distributing technical aids was organised through county governments, which made the availability of technical aids and conditions for recipients of technical aids unequal by counties. For example, according to the previous system, some county governments could have run out of money before the end of the year, which is why the waiting time for people in the county to get the technical aid extended and they only had the opportunity to get the technical aid in the new year.

55. Following the changes, the person is able to turn to all the companies working with technical aids in Estonia with whom the Estonian National Social Insurance Board has entered into a contract. They no longer have

¹⁶ Some services (e.g. work rehabilitation, peer support, commuting benefits) are also offered to employees and/or persons looking for work.

¹⁷ The unexpected rise in the price of technical aids that was covered in the media at the start of the year concerned the technical aids for disabled children, regarding which a certain company raised their prices, which came as a surprise to the Ministry of Social Affairs. Because the audit assessed the availability of technical aids for working-aged people, the case concerning the technical aids for children was not taken into consideration in giving an assessment.

¹⁸ The Estonian National Social Insurance Board shall pay the service provider for social rehabilitation according to the needs of each individual person, but no more than 483 euros (up to 2,325 euros to working-aged persons with a mental disorder) per calendar year. In the event that the service is offered as a rehabilitation programme, the maximum annual amount for a 16-year-old and older person is 1,000 euros.

to be restricted to companies with whom a county government of their residence has entered into a contract. Availability and options are also improved by the fact that contracts for a service volume that specify which companies technical aids can be purchased from are no longer entered into with companies. The freedom of choice supports the receipt of a technical aid that is dependent on the needs of the person and of higher quality.

56. 6,725 working-aged persons have received a technical aid from January to the end of September 2016. There is no waiting list for working-aged persons to receive technical aids, and the technical aid is ensured within the prescribed 30 days.

57. As at the end of September 2016, 6,729 working-aged persons had been sent for social rehabilitation. As at the end of October 2016, there was no waiting list for the social rehabilitation service. According to the Ministry of Social Affairs, the possibility of waiting lists in the future is not excluded.

58. 427 persons were sent to receive the sheltered employment service from January to September 2016, and there have been no problems in the provision of the service.

Has the state accounted for the different capability of local authorities to offer social services?

59. **In the opinion of the National Audit Office of Estonia, the state has partially accounted for the different capability of local authorities to offer social services that support looking for a job and going to work upon implementing the work ability reform, because some of the duties of local authorities have been planned to be temporarily carried out with the help of measures of the Estonian Unemployment Insurance Fund with the aim of giving time to local authorities to establish the necessary social services. The problem is that several local authorities have difficulties with offering services to the necessary extent and no additional funds that would cover the expenses associated with the work ability reform are intended for local authorities.**

60. The prerequisite for a successful work ability reform is that local authorities are capable of offering social services specified in the Social Welfare Act (see a more detailed list of services in appendix B) as needed.

61. The task of local authorities is to offer, among others, social transport, support person and a personal assistant service, i.e. services that affect the success of the work ability reform the most.

62. In order to develop social services, the plan is to use the funds from EU Structural Funds¹⁹ to the extent of 31 million euros in 2014–2020. The Ministry of Social Affairs has witnessed that local authorities are able to apply for funds in order to develop social services on a project-basis, but the prerequisite for it is a functional cooperation of local authorities upon developing social services – funding is possible only if the project includes at least 5,000 residents. In the opinion of the Ministry

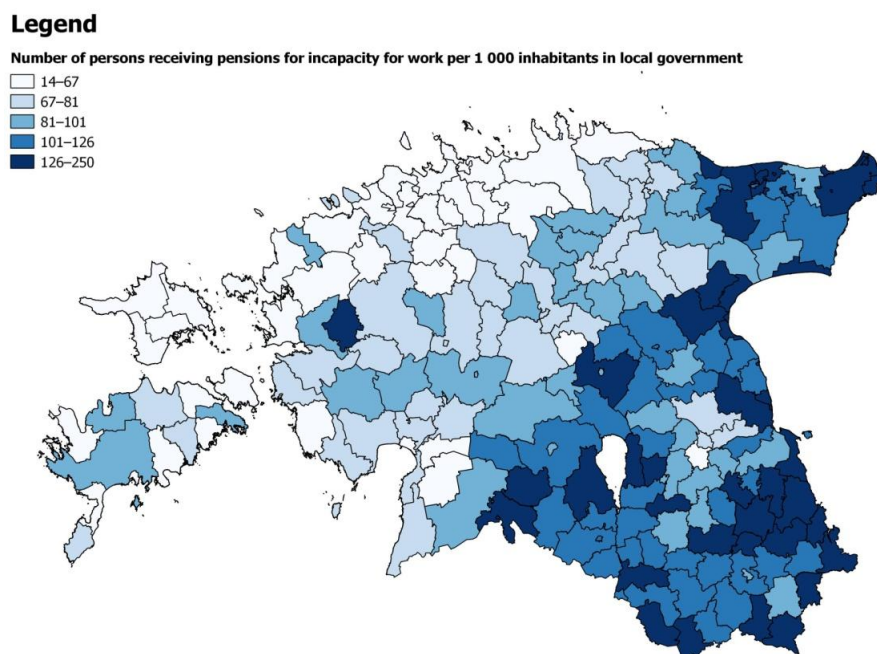
¹⁹ Measure 2.2 “Welfare measures to support employment” of the European Social Fund

of Social Affairs, this should also promote the involvement of less capable local authorities.²⁰

63. Despite the obligations arising from the law, not all local authorities are prepared to offer social services to the required extent. Because in the new work ability support system, persons with partial work ability must perform the activity requirements in order to receive work ability allowance, the burden on local authorities to provide services will also increase, as persons with reduced work ability often require support to comply with the requirements. Individuals also require assistance once they are hired.

64. How much the burden on some local authority increases depends on how many persons receiving pension for incapacity for work there are among residents of the local authority (see figure 1) and which disease groups the people living there fall under. For example, there are more than one-third of persons suffering from mental and behavioural disorders among persons receiving pension for incapacity for work with regard to whom a greater need for social services may be assumed (see appendix C). If we look at the division of their places of residence by local authorities, we see that it differs multifold: for example, if there were 6 cases of mental and behaviour disorders per 1,000 residents in the Rae Rural Municipality in 2015, there were 234 respective cases in the town of Mustvee. Multifold differences are evident in other disease groups as well. In addition to the different capability of local authorities even before the work ability reform, the aforementioned is one of the reasons for the different preparedness of local authorities to offer social services.

Figure 1. Number of persons receiving pension for incapacity for work per one thousand residents in the local authority as at 31 December 2015



Source: National Audit Office of Estonia on the basis of the data from the Estonian National Social Insurance Board and Statistics Estonia

²⁰ The Ministry of Social Affairs has prescribed the specified condition in the activity of the measure “Welfare services supporting the employment of elderly persons, persons with special needs and difficulties in coping and their family members”.

65. Representatives of both the Association of Estonian Municipalities²¹ and the Association of Estonian Cities²² have emphasised that in connection with the work ability reform, the need for social services will increase significantly, because the capability of local authorities to offer these varies. The demand for support persons and personal assistants is expected to increase the most. For example, disabled persons also require a personal assistant at work, and ensuring this is the duty of local authorities. The problem is finding support persons and personal assistants foremost in rural areas, because there are very few of them or almost none at all. Finding suitable persons is also inhibited by the small wages paid to the support person or personal assistant. So, if the employment and activity of disabled persons and persons with reduced work ability increases, the burden on local authorities will also generally increase.

66. The survey "Analysis of developing social services in counties 2016-2020" commissioned by the Ministry of Social Affairs in 2016 also revealed that the support person service is necessary, but the provision thereof hasn't been organised well to date. According to the data of 2014, 44% of local authorities were offering the support person service.²³ All counties are planning to improve the support person service, as the average planned increase of the target group is 50%.

67. According to the data of 2014, 22% of local authorities were offering the personal assistant service.²⁴ 10 of 15 counties have considered it important to improve the personal assistant service, and the average planned increase of the target group is 60%.

68. The analysis also revealed that the severest problem is the provision of social transport.²⁵ At this stage, the service is not offered systematically, because transport is generally organised by social workers themselves based on opportunities available to them. All counties have the need for the improvement of social transport and it could be considered to be a basic service for ensuring the accessibility of both the social welfare and health care system. While at this stage, more than 6,600 people per year have used the social transport service, determining the needs in county governments has indicated that more than 9,000 people require the social transport service, i.e. the planned increase of the target group is nearly 40%.

69. According to the representative organisation of local authorities at earlier budget negotiations, one of the main reasons for the impediment of the development and provision of social services is lack of funds.²⁶ Representatives of the Association of Cities have pointed out that the work ability reform has not added funds to local authorities and the

²¹ Interview of the National Audit Office of Estonia with the Association of Estonian Municipalities on 31 May 2016

²² Interview of the National Audit Office of Estonia with the Association of Estonian Cities on 15 June 2016

²³ Data of the S-Web (online system based on the social welfare reports of local authorities) of the Ministry of Social Affairs

²⁴ Data of the S-Web of the Ministry of Social Affairs

²⁵ Social transport means the provision of transport to all persons in need, incl. elderly people, least privileged families, etc., not only to disabled people.

²⁶ Interview of the National Audit Office of Estonia with the Association of Estonian Cities on 15 June 2016

explanatory memorandum to the draft legislation of the Work Ability Allowance Act has attempted to circumvent the increase in the volume of work for local authorities, because otherwise, sources of funding should also have been indicated.

70. Although funds can also be applied for on a project-basis, the Association of Estonian Municipalities²⁷ has emphasised that writing a project is expensive for local authorities and doing so is possible foremost for larger local authorities that employ a designated person or local authorities that have the money to outsource the service of writing a project.

71. At the same time, there is no surety that the specific project application is accepted and money is granted, which is why some local authorities have abandoned the idea to apply for funds. The Association of Estonian Municipalities has also pointed out that if the project application is accepted, the granted funds are temporary and, afterwards, the local authority must ensure the sustainable operation of the developed services. However, the local authorities have no confidence in that they can ensure the latter.

72. In the event of receiving the money, the local authority is not necessarily obligated to use it to help persons with reduced work ability. The local authority may use the funds for developing services necessary for retirement-aged people or children, for example.

73. The Estonian Unemployment Insurance Fund has also pointed out that in order for the work ability reform to succeed, all parties have to be prepared and local authorities have an important role to play, because they have to ensure social services that would enable being active. Receiving social services is also often a prerequisite for receiving services of the Estonian Unemployment Insurance Fund.

74. Paying an allowance by the state to local authorities for the provision of social benefits and services depends on the number of residents in local authorities (350 euros per resident), and the great variability in the structure of the population of local authorities is not taken into account. For example, how many disabled people or persons with reduced work ability are living in the local authority is not taken into account. Local authorities that have more persons receiving pension for incapacity for work and new entrants to the work ability support scheme generally also have a greater need to offer social services. No additional funds are intended for it.

²⁷ Interview of the National Audit Office of Estonia with the Association of Estonian Municipalities on 31 May 2016

For your information

If the employment or service relationship has been entered into for an unspecified term, a support person can assist the individual for up to 1,000 hours in the course of one year. An employment relationship that has been entered into for a specified term must last at least six months in order to use the service of working with a support person. If, upon performing work, the individual continues to need the guidance of a support person due to reduced work ability after one year, the service may continue to be provided for up to a quarter of the working time of the employee per month.

Source: Estonian Unemployment Insurance Fund

75. The Ministry of Social Affairs has developed measures that help to partially resolve the problem. Commuting benefits that a person with reduced work ability can use for up to 12 months during a period of three years has been planned for the Estonian Unemployment Insurance Fund. In addition, the Estonian Unemployment Insurance Fund also provides the service of both individual performance and working with a support person (see more details in appendix B). The Estonian Unemployment Insurance Fund is not taking over the duties of local authorities, rather is attempting to find individual solutions until local authorities are able to offer social services to the required extent themselves. However, the Ministry of Social Affairs is not planning to address the topic of additional funding for social services at this stage. According to the Ministry, the lack of funds for offering services is an annual statement of case for local authorities.

76. **Recommendation of the National Audit Office of Estonia to the Minister of Social Protection in cooperation with the Minister of Public Administration:** Upon planning state financing for a local authority, take into account their different needs in developing and offering social services so that persons with reduced work ability could receive the required services. Financing should take into account the number of persons receiving pension for incapacity for work living in the local authority and the capability of local authorities to offer services.

Response of the Minister of Social Protection: In the course of administrative reform, the model of financing local authorities is prepared by the Ministry of Finance. Upon preparing the financing model, the Ministry of Social Affairs has the opportunity to make suggestions to the Ministry of Finance, and the recommendation of the National Audit Office of Estonia to take the number of people potentially in need of social services (persons with reduced work ability, but also elderly, etc.) living in the region has merit. More specific solutions will come to light following the administrative reform once the final number and size of local authorities has become clear. We would like to point out that the Ministry of Social Affairs is planning to support local authorities in developing social services during the period following the administrative reform in 2018 from the funds of the European Social Funds, and 10 million euros has been planned to that effect. We are also in the process of preparing solutions for supporting local authorities in organising the social transport service, insofar as the social transport service is one of the most important basic services. We have made it an objective to establish a nationwide service model that can be used by all local authorities and that includes both an information technological solution and operator service. The model should ensure the convergence of social transport rides and the integration thereof with public transport in order to ensure that the provision of the service is as effective as possible. After creating the service model, we are planning to support local authorities that join the model.

The Ministry of Social Affairs is also waiting for information from the task force on reducing administrative load established at the Government Office that is coming up with specific recommendations to improve the situation of family caregivers by the end of 2017. We believe it's possible that recommendations for solutions regarding the family care reform

could bring about changes to the organisation of social services and financing the payment of allowances at local authorities.

Response of the Minister of Public Administration: We are drawing attention to the fact that the general capability of local authorities will improve as a result of the administrative reform, which will have a positive effect on, among others, the availability of social services. If the state budget prescribes an allowance to local authorities in order to improve the services for persons with reduced work ability, the funds will be distributed on the basis of figures associated with the services. A greatly varying share of residents with incapacity for work of the overall number of residents in the local authorities raises questions. The living environment in different regions in Estonia certainly doesn't vary so much as to cause an up to 10-fold difference in the indicator between local authorities. As such, the statistics of persons receiving pension for incapacity for work has to be analysed thoroughly.

Is the availability of information guaranteed for local authorities to plan and carry out prevention?

77. In the opinion of the National Audit Office of Estonia, local authorities do not have access to all the necessary information in order to be prepared to offer social services to persons with reduced work ability and to carry out prevention. In order to plan and offer social services and carry out prevention, local authorities would also require personal data collected in the databases of the Estonian Unemployment Insurance Fund and the Estonian National Social Insurance Board regarding the persons living in their territory.

78. The Social Welfare Act prescribes an obligation on local authorities to offer services, the objective of which is, among others, to prevent the onset or aggravation of social problems. Compliance with the obligation presumes that local authorities have access to the information necessary for planning. The Ministry of Social Affairs is liable for ensuring thereof.

79. Pursuant to the aforementioned Act, the local authority is obligated to determine the need for assistance of a person who turned to them for assistance. Provision of assistances presumes case management handling, where the local authority enters relevant data in the information system **STAR** and sees previously entered data regarding the specific person, provided that the person has received allowances, services, etc. from the local authority. The Ministry of Social Affairs is of the opinion that due to the law, the local authorities have access to sufficient information.

STAR, i.e. Social Services and Benefits Registry – central information system of the state established for organising social work carried out on the basis of case management

80. At the same time, local authorities require more detailed data regarding the specific person or group of persons in order to offer and plan needs-based social services and to carry out prevention. It's difficult to organise work and assess the need for money without an idea how often and with which cases the local authority has to deal with.

81. In order to offer needs-based social services, local authorities require data regarding, for example, how many people living on the territory of the local authority suffer from health problems that presume the provision of a personal assistant or social transport service.²⁸

²⁸ In order to resolve the problem described, the city of Tallinn, for example, has commissioned a survey on the needs of disabled people to determine the respective bottlenecks and find solutions to those. The city of Tallinn has also pointed out that lack

82. In interviews carried out in the course of the audit, representatives of the Association of Estonian Municipalities²⁹ and the Association of Estonian Cities³⁰ highlighted the lack of access to necessary data at the level of local authorities as one of the biggest problems with the work ability reform. Local authorities plan the required social services foremost according to the volume and cost of services of the previous year. Local authorities have the opportunity to find out the aggregated data (e.g. how many times a service or another was used during the previous year) regarding people who received social services, but this information does not enable determining which services are required by a specific person and impedes local authorities in planning and offering services based on the needs of people.

83. The Estonian Data Protection Inspectorate has explained that according to the Personal Data Protection Act, an administrative authority shall process personal data only in the course of performance of public duties in order to perform obligations prescribed by law, an international agreement or directly applicable legislation of the Council of the European Union or the European Commission. It is therefore necessary that the local authority has been given a specific public duty with a legislation within the context of which and for the performance of which it has the right to process personal data. In this case, the public duty arises from the Social Welfare Act.³¹

84. On 1 October 2015, the Ministry of Social Affairs has explained the termination of data exchange services to local authorities as follows: "On the basis of feedback received from local authorities, lists generated through inquiries are used for statistical purposes and in planning budgets, paying out universal allowances, exchanging information associated with organising events to specific target groups, carrying out preventive measures, etc. Unfortunately, using personal data this way is not in accordance with the principles of the Personal Data Protection Act."³² The Ministry has conceded that the current legal area does not support the processing of data in larger volumes for the purpose of prevention.

85. Local authorities are therefore in a position where, on the one hand, the social code of laws prescribes on them the duties to offer services, one objective of which is to prevent the onset or aggravation of social problems at the level of an individual, the family and the society. On the other hand, the local authorities are of the opinion that they have not been ensured access to all the information necessary for performing the described duties. At the time of concluding the audit, the Ministry of Social Affairs had not found a solution to the problem.

of access to the information does not enable local authorities to help people to the necessary extent, i.e. if there is no information, it is very difficult to provide assistance.

²⁹ Interview of the National Audit Office of Estonia with the Association of Estonian Municipalities on 31 May 2016

³⁰ Interview of the National Audit Office of Estonia with the Association of Estonian Cities on 15 June 2016

³¹ Response of the Estonian Data Protection Inspectorate of 12 July 2016 to the letter of request no. 2.1.-5/16/1230

³² Letter no. 1.9-7.18/3528 of the Ministry of Social Affairs of 1 September 2015 to local authorities

86. Recommendation of the National Audit Office of Estonia to the Minister of Social Protection: Determine the composition of personal data necessary for local authorities in order to offer social services, plan the offering of services and carry out prevention and ensure the opportunities to access the necessary data. One option is that forwarding necessary data to local authorities subsequently takes place through the Estonian Unemployment Insurance Fund and/or the Estonian National Social Insurance Board.

Response of the Minister of Social Protection: We understand the need of local authorities to have as good an overview of the needs of the residents of the respective local authority as possible in order to plan and offer social services better and to carry out prevention. At the same time, access to data must differentiate between personal and non-personal data.

With regard to non-personal data, local authorities can currently receive statistical data for the prevention and planning of social services better; for example, the website of the Ministry of Social Affairs provides access (entry with a password) to all local authorities to the statistics of the Estonian National Social Insurance Board regarding pensions, family allowances, parental benefit, social benefits for disabled persons and with regard to disabled persons on the type of disability, severity, age (age group) and gender in local authorities.

In order to carry out a more comprehensive analysis, local authorities have the opportunity to prepare health profiles that describe the environment, health, existing social services, etc. with regard to the people living in the area. Local authorities can receive data regarding all the recommended indicators in the health profile. Preparing a health profile covering the majority of areas of life contributes to improving the quality of preparing a development plan in the local authority and enables easier assessment of the influences arising from different factors, for example whether there are enough services and are they available to all persons in need, what is the quality of services, are there services that are yet to be established, etc. The health profile also enables analysing how the situation of social services impacts the health of the residents of the local authority. Developing social services and preventing social problems is therefore mostly dependent on how thoroughly the local authority analyses it.

With regard to personal data, the processing and communication of data is restricted by regulations on personal data protection (currently, the Personal Data Protection Act and the Data Protection Regulation to be implemented in 2018). Communicating personal data to local authorities presumes the consent of persons or respective grounds in legislations that would allow the Estonian Unemployment Insurance Fund and/or the Estonian National Social Insurance Board to communicate personal data to local authorities.

At the same time, we would also like to note that the work schedule of 2017 of the Ministry of Social Affairs prescribes determining in cooperation with local authorities and the Estonian Unemployment Insurance Fund which information local authorities might need from the Estonian National Social Insurance Board and the Estonian Unemployment Insurance Fund in order to ensure a more effective case management and which would be of help to the social workers of the

local authority in assessing and prescribing social services and benefits, doing so by social services organised by the local authorities as provided in the Social Welfare Act. According to the determined need for data, the Ministry is planning to establish a respective legal basis for communicating data and develop a specific solution for electronic communication of data.

The preparedness of employers to recruit and maintain persons with reduced work ability

Are employers prepared to hire persons with reduced work ability more than before?

87. **In the opinion of the National Audit Office of Estonia, the preparedness of employers to hire persons with reduced work ability is partial: 31% of all employers were prepared to hire such persons. 44% of employers didn't think it possible and the rest couldn't say.³³ In the long-term, the higher degree of employment of persons with reduced work ability depends on whether and how the difference between the skills, knowledge and level of education required by the employers and those held by the workforce can be reduced. The prerequisite for reducing this difference is a functioning in-service training and retraining.**

88. Whether the preparedness of employers has increased or decreased in comparison to the past and which announced level of preparedness could be deemed satisfactory is not known, because the Ministry of Social Affairs has not carried out any periodic studies on this topic before.³⁴

89. Liability for establishing and implementing the measures concerning the work ability reform aimed at employers lies with the Ministry of Social Affairs and the Estonian Unemployment Insurance Fund.

90. The Ministry of Social Affairs and the Estonian Unemployment Insurance Fund are of the opinion that the state policy measures (see appendix B) regarding increasing the employment of persons with reduced work ability should be supported by the emerging labour market situation. The pressure of wage increase and lack of manpower should increase the preparedness of companies to hire less competitive employees and use part-time work to a greater extent. As such, more opportunities for work should emerge on the labour market for persons with reduced work ability.

91. Although the attitude of employers towards the initiated reform and the established support measures is generally favourable, representatives of both the employers and trade unions³⁵ were of the opinion in the

³³ Awareness and attitudes regarding persons with reduced work ability and work ability reform. Ministry of Social Affairs and Turu-uuringute AS, 2015/2016. http://sm.ee/sites/default/files/content-editors/Uudised_pressiinfo/2015_tvr_koondraport_lopl.pdf. The study used data from 2015.

³⁴ The preparedness of employers, recruiting and maintaining persons with reduced work ability has also been addressed by Saar Poll OÜ in 2014 in the study "Impact analysis/preliminary assessment of Work Ability Allowance Act", but the methodology used in this study differed from that used by the Ministry of Social Affairs and Turu-uuringute AS.

³⁵ Estonian Employers' Confederation, Estonian Chamber of Commerce and Industry, Estonian Employees' Unions' Confederation (TALO)

interviews carried out by the National Audit Office of Estonia that the employers are not likely to start looking for a solution to the problem of labour scarcity necessarily among persons with reduced work ability.

92. The position is also supported by the survey commissioned by the Ministry of Social Affairs in 2016 that revealed that if the employer had a choice between hiring a person with full work ability or a person with reduced work ability, only 4% of employers would decide in favour of an employee with reduced work ability. 44% of employers would prefer to hire a person with full work ability and 38% of employers would base the decision on other criteria, while 14% of employers couldn't give an answer.³⁶

93. The Ministry of Social Affairs has also admitted that the biggest risk for the success of the work ability reform is the preparedness of employers to hire persons with reduced work ability to a greater degree than before.³⁷

94. Representatives of employers have said that in the long-term, achieving a significantly higher employment of persons with reduced work ability is impeded by the noncompliance of their skills and qualification with the needs of the employers. In other words, characteristics of structural unemployment that prevent achieving a higher employment and economic growth on the whole, not just among the target group of persons with reduced work ability, emerge.³⁸

95. Considering the education and level of skills of unemployed persons with reduced work ability and the availability of the state's in-service training and retraining, the representatives of employers assessed the opportunities for employment for persons with reduced work ability who have been inactive on the labour market thus far to be poor in the interviews carried by the National Audit Office of Estonia.

For your information

According to the amendments to the Aliens Act adopted at Riigikogu at the end of 2016, the opportunities for short-term work of nationals of third countries in Estonia are expanded and restrictions regarding working in certain areas that had applied thus far are reduced. The amendment foremost concerns positions that require lower qualification. According to the amendment, the wage requirement for hiring an alien is reduced to the average Estonian wage instead of the earlier 1.24 times the average wage, which is likely to increase the employers' interest and expands the opportunities to hire foreign labour.

96. Insofar as the movement of people between states is increasing from year to year, employers are considering labour imported from foreign countries to be an important opportunity to alleviate labour scarcity. This has also been promoted through the state activity in recent years.

97. As of 2013, Riigikogu has approved several draft amendments to the Aliens Act, which have simplified recruiting aliens and made the transition from one temporary residence permit to another more flexible.³⁹

³⁶ Awareness and attitudes regarding persons with reduced work ability and work ability reform. Ministry of Social Affairs and Turu-uuringute AS, 2015/2016. See in more detail https://www.sm.ee/sites/default/files/content-editors/Uudised_pressiinfo/2015_tvr_koondraport_lopl.pdf. The study used data from 2015.

³⁷ Memorandum "Overview of the preparations for and launch of the work ability reform" for the meeting of the government cabinet. Submitted on 10 March 2016.

³⁸ See <http://www.praxis.ee/wp-content/uploads/2015/02/Teemapaber-tookate-puudusest.pdf>.

³⁹ For example, foreign students, teachers and scholars who have graduated from an Estonian institution of higher education have a 183-day transition period following the expiry of the residence permit during which the alien can stay in Estonia and apply for a residence permit on new grounds. The Estonian Unemployment Insurance Fund has the right to issue a permit to hire several aliens simultaneously instead of the previous one alien, provided that manpower with respective skills and qualification is not available in Estonia.

Leased employee – employee who can be hired by employers through services simplifying the recruitment process offered by personnel leasing companies

Read more

In the 2016 audit of the National Audit Office of Estonia “State's activity upon helping the unemployed find work” that addresses both the topic of in-service training and retraining of the unemployed and the topic of regional unemployment.

For example, an alien has the right to simultaneously work for several employers instead of the previous one employer. As a new opportunity, an alien has the right to work as a **leased employee** in Estonia. As of 2016, the Government of the Republic also has the opportunity to prepare a list of areas that enable hiring aliens with a simplified procedure (e.g. without complying with the requirement for permission of the Estonian Unemployment Insurance Fund) in order to alleviate labour scarcity.

98. Greater employment of persons with reduced work ability is probably also impeded by the fact that at the moment, employed persons receiving pensions for incapacity for work mostly include persons with a smaller reduced work ability and persons who enter the incapacity for work scheme directly from the labour market (an employed person develops a partial or full incapacity for work as a result of a health problem or accident). Therefore, it is presumably more difficult to get persons with reduced work ability to start work at the moment: they often have more extensive incapacity for work (60–90%), a more complicated diagnosis (e.g. persons with mental disorders among whom few are working) and many of them haven't been working or looking for work to date (no working habit). Lack of jobs in certain areas is also sure to be a limitation.

99. The Ministry of Social Affairs has specified in the Welfare Development Plan 2016–2023 and its implementation plan that in view of the target group of persons with reduced work ability, improving the compliance of the skills and level of education of disabled youths with the needs of the labour market is going to be addressed in the coming years in cooperation with other ministries. In 2015, a task force⁴⁰ that investigates the smooth transition of youths suffering from health problems from education to a working life was established.

100. The Ministry of Social Affairs has not analysed in more detail whether and how the skills and level of education, incl. in-service training and retraining opportunities in general, of employed and unemployed persons with reduced work ability should be improved.

101. Employment programme for 2017–2020 approved by the Government of the Republic in 2016, however, prescribes several additional measures for a more flexible organisation of in-service training and retraining (e.g. participation in formal education within the adult education system will be supported, in-service training and retraining measures will be expanded to employed persons in order to prevent loss of job) and favourable conditions of in-service training and retraining support measures for persons with health problems.⁴¹ Whether and to which extent these measures are suitable for persons with reduced work ability and how many of them will use these cannot be estimated due to a lack of comprehensive analyses.

⁴⁰ The task force comprised members from the Ministry of Social Affairs, Ministry of Education and Research, Estonian Unemployment Insurance Fund, SA Innove, Astangu Vocational Rehabilitation Centre and the Estonian Chamber of Disabled People. In 2016, the Praxis Centre for Policy Studies Foundation completed a survey “Transfer or youths with special needs due to the state of health or disability from school to work” commissioned by the Estonian Unemployment Insurance Fund (<http://www.praxis.ee/wp-content/uploads/2015/06/Erivajadustega-noorte-siirdumine-koolist-toole.pdf>).

⁴¹ Government of the Republic regulation “Employment programme for 2017–2020” of 17 November 2016.

102. **Recommendations of the National Audit Office of Estonia to the Minister of Health and Labour:** Carry out a more comprehensive analysis of the compliance between the education of persons with reduced work ability and the labour market demand, opportunities for in-service training and retraining and the functioning of the respective support measures in 2019 at the latest. Ensure on the basis of the results thereof that the special needs of unemployed and employed persons with health problems are taken into consideration in organising education that supports hiring and employment.

Response of the Minister of Health and Labour: Better compliance between the education of persons with reduced work ability and the labour market demand is one of the objectives of the work ability reform. The Estonian Unemployment Insurance Fund has prepared a barometer of labour that shows the current and the imminent labour requirement by counties; the forecast system for the requirement of labour and skills OSKA prepared under the leadership of SA Kutsekoda looks into how many people and with which skills are needed on the Estonian labour market in the future.

As of 2016, the Estonian Unemployment Insurance Fund is offering services intended for alleviating labour market obstacles for persons with reduced work ability to a significantly greater extent. Analyses of the results of these services are planned for 2018 and 2019. The employment programme for 2017–2020 prescribes new measures for preventing unemployment that are aimed at, among others, employees who are unable to continue at their position due to the state of health. For example, allowance for participating in formal education within the adult education system in the amount 130–260 euros per month will be granted. Employees will have access to labour market training with a training card for three years in the amount up to 2,500 euros. Analysis of the results of these services is also planned for 2019.

The following activities are planned for 2017 in order to ensure the smooth transition of youths with special needs from the general education system to vocational education and, following the completion of education, to the labour market:

- Ministry of Education and Research in cooperation with the Ministry of Social Affairs to prepare a guideline for a successful entrance project for vocational schools in order to assess youths with special educational needs;
- Ministry of Education and Research to establish a scheme for financing vocational education that ensures the implementation of support measures for participating in studies to a student with special educational needs to the required extent;
- Ministry of Education and Research to implement measures that enable a regular overview of the provision of support services at the level of the school;
- Ministry of Education and Research in cooperation with the Ministry of Social Affairs to carry out regular surveys on the availability and sufficiency of support services to students with special educational needs in vocational education;

- Ministry of Education and Research to make educational support services offered to a basic school graduate with special educational needs entering vocational education visible and unambiguous for the next level of education in the Estonian Education Information System.

Have more favourable conditions been established for employers for hiring employees with reduced work ability?

103. **In the opinion of the National Audit Office of Estonia, the state has supplemented the support measures intended for employers by establishing counselling and training support and attempting to raise the awareness of employers in recruiting and employing persons with reduced work ability. The state helps to cover additional costs associated with the employment of persons with reduced work ability that could otherwise fall on the employee or the employer and make going to work and maintaining the position economically unprofitable, doing so through several labour market services.⁴² At the same time, opportunities for implementing financial measures, incl. tax incentives, that would facilitate the hiring and maintaining a greater number of persons with reduced work ability have not been analysed in more detail in the course of preparing the work ability reform.**

104. According to the Work Ability Allowance Act, one of the main objectives of the work ability reform is to help persons with reduced work ability due to a long-term health damage find and maintain a stable job. Achieving the objective requires employers who are willing to recruit and maintain persons with reduced work ability and offer them working conditions, incl. part-time jobs. In order to facilitate that, the state has the opportunity to create more favourable conditions for hiring persons with reduced work ability. Because hiring and maintaining persons with reduced work ability is often more expensive and may prove to be economically unprofitable for the employer, the state can support recruiting and maintaining persons with reduced work ability by helping the employer cover potential additional expenses.

105. Liability for establishing benefits aimed at employers with regard to the work ability reform – supporting services and financial measures – lies with the Ministry of Social Affairs.

106. A total of 192.4 million euros has been planned for different support activities aimed at employers and employees with reduced work ability, active labour market measures offered by the Estonian Unemployment Insurance Fund and costs of long-term sheltered employment and technical aids necessary for work during the period 2015–2020. Approx. 156 million euros has been budgeted for social tax to be paid by the state to the employees with reduced work ability in special cases and for compensating additional holiday days until 2020.

107. In the new system, all labour market services, incl. the so-called labour market services aimed at the employer (e.g. wage subsidy, work placement), offered by the Estonian Unemployment Insurance fund shall expand to persons with reduced work ability. The Estonian Unemployment Insurance Fund will also offer specific services associated with recruiting

⁴² Several services are offered until the end of 2020 from EU subsidies and it is not known whether funding will continue for these services. Some services, for example working with a support person, adjustment of the workplace, technical aid, wage subsidy, have been provided in the Labour Market Services and Benefits Act and the provision thereof is not dependent on the EU funds.

and maintaining employees with reduced work ability, incl. counselling and training service necessary for employers (see appendix B).

108. In addition to counselling of employers offered by the Estonian Unemployment Insurance Fund, counselling on the safety of the working environment and labour law is also carried out by the Labour Inspectorate (see appendix B). For the employer, all counselling services should be available in one place.

For your information

As of 2014, the employer is compensated to a greater extent, for example, for the cost of training an employee with health problems; the rate of compensating for the adjustment of premises and equipment has been increased, and the respective benefit is also granted if the workplace is at home; the volume of the service of working with a support person has increased.

109. Incentives have been given, i.e. the circle of persons receiving the service has been expanded and benefit rates have been increased, with regard to some labour market services over the last few years. Until 2020, the state has partially also undertaken the duty of compensating the commuting costs of a person with reduced work ability and travel costs of an accompanying person. However, no new financial measures have been established and although financial advantages are considered practical in influencing the behaviour of employers and they play an important role in the policy measures of states⁴³, the sufficiency of the state's support measures (incl. tax incentives) has not been analysed comprehensively so far in the course of the work ability reform.

110. For example, no amendments were made to the more important financial advantages that had been applicable to employers before as well⁴⁴ – compensating additional holiday days and paying the minimum rate of social tax by the state. The social tax feature that remained applicable should create an advantage to an employee with reduced work ability in recruitment and maintaining the job in the form of the small labour costs to the employer, and the same also applies to working part-time (see the examples below).

Examples of labour costs with regard to full-time and part-time positions on the basis of 2016 tax rates

Example 1. One full-time employee (gross wages 430 euros per month, i.e. the minimum monthly wage in 2016)

Total labour costs: 575.34 euros, incl. social tax 141.9 euros and unemployment insurance premium 3.44 euros

Example 2. Two part-time employees with reduced work ability (gross wages 215 euros per month per one person)

Total labour costs: 433.44 euros (cost of one part-time employee with reduced work ability 216.72 euros), incl. social tax 0 euros (the state compensates social tax 128.7 euros per one person, total 257.5 euros) and unemployment insurance premium 3.44 euros (1.72 euros per person)

Example 3. One part-time employee and one part-time employee with reduced work ability (gross wages 215 euros per month per one person)

Total labour costs: 562.15 euros, incl. social tax 128.70 euros and unemployment insurance premium 3.44 euros (1.72 euros per person)

Source: National Audit Office of Estonia with the help of the wage and tax calculator www.kalkulaator.ee

⁴³ Sickness, Disability and Work: Breaking the barriers. OECD, 2010. <http://www.oecd.org/publications/sickness-disability-and-work-breaking-the-barriers-9789264088856-en.htm>.

⁴⁴ Additionally, if a disabled employee is not able to use public transport for commuting between home and the workplace or if using public transport causes significant deterioration of mobility and work ability, the disabled employee may receive compensation exempt from tax for using a personal vehicle.

111. Although computationally, taking the aforementioned examples as a basis, it is more advantageous for the employer to hire two part-time employees with reduced work ability, the employers may not choose to act this way. For example, two persons may have a suitable qualification, but their special needs are fairly different. This might mean that the employer has to pay attention to many special requirements when, for example, adjusting the working environment. If the position is filled with one person with capacity for work and with another person with reduced work ability, the employer will not get a monetary advantage, because the labour costs are almost in the same amount.

112. In practice, recruiting employees with reduced work ability is often accompanied with other so-called hidden costs and risks (smaller productivity, risk for more sick leave days, etc.), in which case the cost saving arising from tax incentives may not be a decisive factor in recruiting and maintaining a person.

113. For example, the employer is obligated to 1) carry out a risk analysis of the working environment, in the course of which risks on the health of an employee are assessed. The requirements are often stricter in case of hiring an employee with reduced work ability and adjusting the workplace takes more money; 2) ensure that the workplace, public and non-work rooms have been made accessible to employees with reduced work ability and/or disabled employees; 3) on the decision of the doctor and upon the demand of the employee, transfer the employee to another job or temporarily ease the employee's working conditions; 4) ensure the opportunity for the employee to continue working for the same employer at a suitable position, provided that the employee has become partially incapacitated for work as a result of an occupational accident or an occupational disease.

114. Although the objective of the aforementioned tax incentives is, among others, to increase part-time employment, more than half of the persons currently receiving pension for incapacity for work (54%) work full-time.⁴⁵ Both the surveys⁴⁶ and interviews with the representatives of employers and associations of trade unions⁴⁷ carried out by the National Audit Office of Estonia reveal that enabling part-time work is still problematic in Estonia. There is a large number of those who would be able to work part-time among persons receiving pension for incapacity for work that are not currently employed.⁴⁸

⁴⁵ According to the survey "Awareness and attitudes regarding persons with reduced work ability and work ability reform" (Ministry of Social Affairs, Turu-uuringute AS, 2015/2016, https://www.sm.ee/sites/default/files/contenteditors/Uudised_pressiinfo/2015_tvr_koondraport_lopl.pdf), 6% of persons receiving pension for incapacity for work are working even more than 40 hours per week.

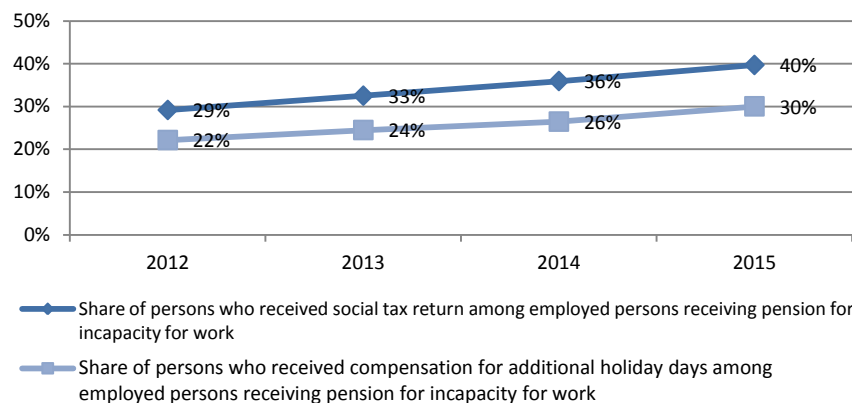
⁴⁶ Working part-time – hazard or opportunity on the Estonian labour market. Kerly Krillo, Kaia Philips, Jaan Masso, 2007. <http://oeiax4.nw.eenet.ee/esso4/50201.pdf>.

⁴⁷ Estonian Employers' Confederation, Estonian Chamber of Commerce and Industry, Estonian Employees' Unions' Confederation (TALO)

⁴⁸ According to the aforementioned survey commissioned by the Ministry of Social Affairs, difficulties with finding jobs with the appropriate work load and time schedule are currently the main reasons for unemployment for both unemployed persons receiving pension for incapacity for work and unemployed persons in general.

115. However, not a lot is known about the effectiveness of the more important support measures (social tax subsidy and compensation for additional holiday days) in hiring employees with reduced work ability. According to this, the National Audit Office of Estonia carried out an analysis, the results of which indicated that the social tax subsidy and compensation for additional holiday days is not used a lot. For example, in 2015, the state paid social tax for 40% and compensation for additional holiday days for 30% of employed persons receiving pension for incapacity for work. Although the use of incentives has increased over the last years, these are still not used with regard to the majority of persons receiving pension for incapacity for work (see figure 2).⁴⁹

Figure 2. Share of persons receiving pension for incapacity for work who used financial advantages aimed at employers among all employed persons receiving pension for incapacity for work in 2012–2015 (%)



Source: National Audit Office of Estonia on the basis of the data from the Estonian National Social Insurance Board

116. In the opinion of the Ministry of Social Affairs, the main reason why the employers are not recruiting persons with reduced work ability and use few existing advantages is lack of awareness. On the one hand, the employers are not aware that the employee has reduced work ability, and on the other hand, the employers are not familiar with the advantages offered by the state. Employers have also highlighted lack of awareness as one of the reasons reason in both the interviews and surveys⁵⁰.

117. In order to determine the interest and motivation of employers to hire persons with reduced work ability, the Ministry of Social Affairs has promised to analyse the current results of paying special cases of social

⁴⁹ The analysis does not exclude cases in case of which incentives are not applicable to the employers. For example, all the employers in the governmental sector are exempt from the right to apply for social tax subsidies. The right is applicable to companies, non-profit associations and foundations. On 1 January 2016, the governmental sector included a total of 10,560 employees with reduced work ability (it includes business entities of both the central government and local authorities, incl. legal persons governed by public law, foundations, non-profit associations and foundations). Business entities of the central government employed 3,144 persons receiving pension for incapacity for work. See <https://www.sm.ee/et/tööandjale>.

⁵⁰ Impact analysis/preliminary assessment of Work Ability Allowance Act. Saar Poll OÜ, 2014. https://www.sm.ee/sites/default/files/content-editors/Ministeerium_kontaktid/Uuringu_ja_analuusid/Sotsiaalvaldkond/tvk_semojuanalys_eessonaga.pdf; Awareness and attitudes regarding persons with reduced work ability and work ability reform. Ministry of Social Affairs and Turu-uuringute AS, 2015/2016. https://www.sm.ee/sites/default/files/content-editors/Uudised_pressiinfo/2015_tvr_koondraport_lopl.pdf.

tax for persons with reduced work ability and prepare suggestions for the further development of the system in 2016–2017 within the context of the Welfare Development Plan 2016–2023. In doing so, the plan is to analyse the effect of social tax on using part-time work. The Ministry of Social Affairs has also promised to more broadly analyse and assess the effect of benefits and allowances on the labour market behaviour in 2016–2018.

118. In order to raise awareness among all target groups of the work ability reform, the Ministry of Social Affairs has prepared a communications strategy that accounts for the entire period of transitioning to the new system (2016–2020) and the detailed action plans of which are prepared separately for each year.

119. The Ministry of Social Affairs also wishes to encourage and recognise employers by establishing and implementing the label “Diverse workplace”. For example, an employer who has already hired and is willing to continue hiring persons with reduced work ability by establishing a working environment for them that supports them in every way can use the label on all job advertisements.

120. **Recommendations of the National Audit Office of Estonia to the Minister of Health and Labour in cooperation with the Minister of Entrepreneurship and Information Technology:** Consider opportunities for supplementing the existing measures and develop new measures for promoting part-time employment.

Response of the Minister of Health and Labour: The valid Employment Contracts Act enables entering into an employment contract for part-time work with a person with reduced work ability. Parties to the employment relationship may agree on the working hours corresponding precisely to their needs. It is possible to enter into an agreement, according to which a person with reduced work ability works, for example, for five hours per month. Such an agreement is also supported by clause 2 (4) 6) of the Social Tax Act, according to which, with regard to a person with reduced work ability, social tax shall be paid on the remuneration paid to employees or public servants for a particular month. As of 1 June 2016, the Estonian Unemployment Insurance Fund compensates social tax for an employee with partial or no work ability of a company, non-profit association, foundation or sole proprietor to the extent of a monthly rate, provided that the employer has submitted a respective application. In the event that an application had to be submitted to the Estonian National Social Insurance Board retrospectively and separately for each month, the Estonian Unemployment Insurance Fund compensates the social tax as of the moment of submitting the application during such time that the person with reduced work ability is working for the employer who submitted the application. In the first half of 2016, the state took over the obligation (clause 6 (1) 5) of the Social Tax Act) per month on average: from 4,942 employers for 17,194 employees to the total extent of 14.74 million euros (monthly average amount 2.46 million euros). In November 2016, the Estonian Unemployment Insurance Fund compensated social tax to 7,023 employers for 19,693 employees. In total, social tax was compensated during the period from July to November to the extent of 9.47 million euros.

In order to promote flexible forms of employment, the Ministry of Finance is submitting a proposal for a business account regulation to the

government cabinet in January 2017. In the opinion of the Ministry of Finance, the new system could enter into force as of 1 January 2018. The objective of establishing a business account is to simplify the performance of the tax liability arising from the contractual relationship based on the Law of Obligations Act between two natural persons.

This solution makes the performance of the tax liability as simple to the person as possible. This would be performed by the bank using the funds accrued on the bank account of the beneficiary by automatically reserving and transferring the tax share to the tax administrator. The tax payer does not have to have the knowledge of how to fill in accounting documents or submit reports. No additional declarations have to be submitted. The account holder is entered in the register of employees. Tax rate is 20% of the amounts accrued from the provision of service or sale of goods, provided that the annual profit does not exceed 25,000 euros. This covers the liability of income tax, social tax and funded pension contribution.

Response of the Minister of Entrepreneurship and Information

Technology: The Minister of Entrepreneurship and Information Technology finds that part-time employment has to be promoted, incl. by considering relevant tax measures, foremost in terms of social tax (proportionality to time spent working). In addition to a person with reduced work ability, promoting part-time employment is also important to other target groups. In the conditions of shrinking workforce, maximum employment of the existing labour resource is important in terms of economic growth.

121. **Recommendations of the National Audit Office of Estonia to the Minister of Health and Labour:** Analyse the expediency of converging the counselling service regarding the recruitment of and maintaining employees with reduced work ability offered by the Estonian Unemployment Insurance Fund and the counselling service regarding the safety of the working environment and labour laws offered by the Labour Inspectorate under one organisation. Employers should have one channel for getting all the necessary information regarding persons with reduced work ability and the working environment to be adjusted to them.

Response of the Minister of Health and Labour: Counselling offered by the Labour Inspectorate includes counselling on occupational safety, occupational health and labour relationships. Among others, the Labour Inspectorate focuses on consulting employees and employers in order to increase the participation of persons with reduced work ability on the labour market and ensure that the reduction of work ability of a working-aged population slows down.

The Estonian Unemployment Insurance Fund provides advice and information to employers who are prepared to employ or who have already employed persons with reduced work ability but need knowledge and guidance to support them.

The counselling service offered by the Labour Inspectorate is aimed at a wider group of employees and employers, and the content of counselling is also broader than counselling only persons with reduced work ability and their employers. The Labour Inspectorate and the Estonian Unemployment Insurance Fund cooperate in offering counselling

Has the Ministry of Social Affairs established additional measures for preventing the incapacity for work of people?

services, the results of which are analysed and, if necessary, amendments to the organisation of work are carried out.

122. **In the opinion of the National Audit Office of Estonia, the Ministry of Social Affairs has so far, despite what was initially planned in the course of planning the work ability reform, not implemented additional measures for preventing incapacity for work. The Ministry of Social Affairs has not abandoned the idea of establishing preventive measures, incl. for example, establishing an occupational accident and occupational disease insurance system, but it has been postponed to a later phase of the work ability reform. According to the Ministry of Social Affairs, the postponement is a political decision.**

123. The Ministry of Social Affairs has set the prevention of incapacity for work as an objective both in the context of the work ability reform and previously. Liability for the development of measures for preventing incapacity for work lies with the Ministry itself.

124. Although additional services and support measures have been established for the employer within the context of the work ability reform in order to promote the recruitment of and maintaining employees with reduced work ability, the obligations of employers in supporting the employment of persons with reduced work ability have not been supplemented and no substantive package of policy measures that would promote the prevention and overcoming of incapacity for work has been established to date.⁵¹

125. Legislations prescribe several conditions that should help bring persons with partial work ability on the labour market and keep them there, but employers still make few efforts to maintain the work ability of employees.

126. In the opinion of the Labour Inspectorate, Estonian employers are interested in contributing to both complying with the requirements of the working environment and promoting the working environment only to a small degree. According to the Labour Inspectorate, if the employers incur costs that they have to cover out of their own pockets, they rather choose to not make this expense, even if it may be presumed that the working conditions may damage the health of the employee.

⁵¹ Vootele Veldre. First lessons of work capacity reform. Riigikogu Toimetised, 2015, (31), pp 16–21; Analysis of international practices with regard to the activities of an employer for maintaining employees with limited work ability due to the state of health and maintaining their position. Merle Muda, 2015. https://www.sm.ee/sites/default/files/contenteditors/Ministeerium_kontaktid/Uuringu_ja_a_naluusid/Toovaldkond/uurimus_koos_esf_teavitusega.pdf.

For your information

The employer is required to

- enable an employee who has become partially incapacitated for work as a result of an occupational accident or occupational disease to continue work suitable for him or her;
- adjust the work, work equipment and workplace of a disabled employee to his or her physical and mental abilities. For example, the building, workroom, workplace or work equipment has to be made accessible and usable for a disabled person, and in doing so, the Estonian Unemployment Insurance Fund shall compensate the employer for 50–100% of the cost of the workplace and work equipment based on the reasonableness of the expenses for eliminating the hindrances;
- comply with the restrictions on cancelling an employment contract if the employee is not able, in a short term, to perform duties due to his or her state of health.

At the same time, the law permits an extraordinary cancellation of an employment contract in the event of a long-term incapacity for work, but the employer shall offer other work to the employee that would correspond to his or her state of health, where possible.

Source: Occupational Health and Safety Act, Labour Market Services and Benefits Act, Employment Contracts Act

127. This is also confirmed by the number of occupational accidents that has been on a continuous rise in Estonia over the last years. Cases of occupational diseases and diseases caused by work are also decreasing slowly. For example, the number of registered occupational accidents has increased from 2,937 cases to 4,744 cases, i.e. 62%, during the period 2009–2015. During the same period, the number of occupational diseases has decreased from 73 cases to 50 cases, i.e. 32%, but the number of diseases caused by work only from 139 cases to 128 cases, i.e. 8%.⁵²

128. Although according to the data of the Estonian National Social Insurance Board, the number of persons deemed permanently incapacitated for work for the first time was at a lower level in 2015 in comparison to, for example, 2010 and 2011, it has still been relatively stable over the last years: in 2013, permanent incapacity for work was prescribed for the first time to 14,766 people, in 2014 to 13,529 people and in 2015 to 14,449 people, i.e. no further decrease has taken place.

129. In the opinion of the representative of the Labour Inspectorate, a review of tax liabilities should be considered in order to broaden the use of measures preventing incapacity for work, because it's precisely monetary measures, incl. subsidies and tax incentives, that could realistically influence the behaviour of employers. The Labour Inspectorate deems it necessary to enable tax incentives to employers, relying on the risk assessments of the working environment.

130. For example, if the employer has carried out risk assessments of the working environment and the risk assessment specified the respective expenses for improving the environment, it would also be possible to apply for tax incentives on them. Despite the availability of this option⁵³, the preparation of risk assessments of the working environment and carrying out action plans of occupational safety prepared on the basis thereof is still problematic in practice. In the opinion of both the Labour Inspectorate and several experts⁵⁴, implementing an occupational accident and occupational disease insurance system could be of help in influencing the behaviour of employers.

131. Representatives of the representative organisations of employers and of trade unions have confirmed to the National Audit Office of Estonia and the implementation of several measures affecting the achievement of the objectives of the work ability reform (e.g. making the terms and conditions for terminating an employment contract with an ill person stricter, establishing an occupational accident and occupational disease insurance

⁵² <http://www.ti.ee/est/meedia-truekised-statistika/statistika/toeoeonnetused-kutsehaigused-toeoeest-pohjustatud-haigestumised-eesti-vabariigis-1995-2015>; in the opinion of the Labour Inspectorate, statistical data may not fully reflect the reality, because occupational diseases as diseases caused by work, for example, are not always registered (not differentiated from other diseases).

⁵³ Taxation of expenses associated with occupational health and safety. https://www.sm.ee/sites/default/files/content-editors/eesmargid_ja_tegevused/Too/Tookeskkond/tootervishoiu_ja_tooohutusega_seotud_kulutuste_maksustamine.pdf

⁵⁴ How to create economic incentives in occupational safety and health: a practical guide. Instruction material of the European Agency for Safety and Health at Work (EU-OSHA), 2011. https://osha.europa.eu/en/tools-and-publications/publications/literature_reviews/guide-economic-incentives; interview of the National Audit Office of Estonia with the Labour Inspectorate on 4 March 2016

system, increasing the unemployment insurance premium) has so far not been addressed in more detail in discussions held with the employers.

132. The Ministry of Social Affairs has confirmed to the National Audit Office of Estonia that the plan is to start addressing topics associated with the prevention of incapacity for work in the second stage of the work ability reform. The Action Programme of the Government of the Republic for 2015–2019 provided that activities of an employer for the promotion of the health of employees shall be facilitated, the opportunities for receiving timely medical and support services are improved and a health care system, an integral part of which is occupational accident and occupational disease insurance governed by private law, shall be established. The Action Programme of the Government of the Republic for 2015–2019 also prescribes the establishment of an occupational accident and occupational disease insurance system.

133. The Ministry of Social Affairs has explained that the necessary analyses will be carried out in 2016–2017. As such, the plan is to carry out an analysis and prepare proposals for the amendment of the organisation of occupational health and safety that support the establishment of working conditions that preserve the health of an employee, compensation for health damage caused by the work and implementation of activities that maintain the employment of an employee. It is also planned to analyse the division of the burden of social tax between the employer and the employee and to make respective proposals. The plan is to also establish measures preventing unemployment aimed at maintaining the work ability of employed persons and the quick restoration thereof.

134. The Ministry of Social Affairs has told the National Audit Office of Estonia that bottlenecks associated with compensating for occupational accidents and occupational diseases are also addressed in the context of the aforementioned analyses. The Ministry has specified that specific proposals and subsequent activities, incl. in connection with compensating for occupational accidents and occupational diseases, will become clear following the completion of the analyses.

135. Recommendations of the National Audit Office of Estonia to the Minister of Health and Labour:

- Upon preparing the analyses planned for amending the organisation of occupational health and safety and formalising proposals therefor, consider the opportunity to require companies participating in public procurement to submit data regarding the safety of the company's working environment, incl. regarding occurred cases of occupational accidents of occupational diseases, and take the company's activity in ensuring occupational safety and maintaining the employee's health into account in selecting who is awarded the procurement;
- Consider the opportunity to expand tax incentives on expenses associated with improving the working environment arising from the risk assessments of the working environment and/or expenses incurred for the promotion of the health of employees, incl. not deem voluntary insurance premiums of employers for

occupational accidents and occupational diseases to be fringe benefits.

Response of the Minister of Health and Labour: A pilot project, the objective of which is to establish criteria of social value in public procurement, is underway under the leadership of the Government Office. The criteria are intended for all organisers of procurements in order to assess the social value of the service being outsourced and establish terms and conditions for maximising the value thereof already in the source task of the procurement. The results of the pilot project will subsequently enable considering whether it would be beneficial to use criteria associated with occupational health and safety in public procurement and what would be the effect of using thereof.

According to the applicable law, costs incurred by the employer for ensuring occupational health and safety are considered to be related to business and are therefore exempt from tax. Pursuant to subsection 32 (2) of the Income Tax Act, expenses are related to business if they have been incurred for the purposes of deriving income from taxable business or are necessary or appropriate for maintaining or developing such business and the relationship of the expenses with business is clearly justified, or if the expenses arise from subsection 13 (1) of the Occupational Health and Safety Act that provides the obligations of an employer in the area of occupational health and safety.

For example, an employer is required to organise a risk assessment and prepare on the basis thereof an action plan designating the measures to be implemented to prevent or to reduce the health risks of an employee. The employer is also required to organise a medical examination for an employee whose health may be affected by a working environment hazard. Costs of activities arising from the risk assessment and costs incurred due to prevention activities for and rehabilitation of a specific person on the basis of a recommendation of an occupational health doctor arising from the nature of the employee's work are exempt from tax for the employer.

Additionally, amendments to the Income Tax Act, according to which certain expenses of the employer are not deemed to be fringe benefits for the health promotion of an employee, shall enter into force on 1 January 2018. According to subsection 48 (55) of the Income Tax Act to enter into force, the following expenses incurred for the promotion of health of an employee to the extent of 100 euros per employee per quarter are not taxed as fringe benefits, provided that the employer has enabled these to all employees: 1) participation fee in a public popular sports events; 2) direct expenses associated with regular use of a sports of physical activity venue; 3) expenses incurred for maintaining the existing sports venues of the employer; 4) expenses on services of a rehabilitation doctor, physiotherapist, occupational therapist, clinical speech therapist or clinical psychologist entered in the national register or health care professionals or holding a respective professional certificate; 5) insurance premium of a health insurance contract.

Financing the work ability support system

Is the new work ability support system financially sustainable?

136. **At this time, the state does not have a long-term plan that would show how the financing of the work ability support system is ensured as of 2021. At the same time, the Ministry of Social Affairs has established good prerequisites for establishing such a plan, because it has adopted a financial model that enables detailed monitoring of the course of the reform and the change of the revenue and expenditure of the work ability support system in time and preparing forecasts.**

137. One objective of the work ability reform is to increase the employment of persons with reduced work ability and thereby achieve a saving on costs in the system. At first, however, expenses on paying allowances to persons with reduced work ability and for providing support services are significantly greater than they would have been in case of continuing with the old system.

138. Carrying out the work ability reform in the current form was made possible by the money from the European Union Structural Funds. The Ministry of Social Affairs has budgeted a total of 199 million euros, of which EU subsidies comprise 169 million euros (see figure 3), for establishing and implementing the work ability support system during 2014–2020. The rest of the 30 million euros is taken from the funds of the Estonian Unemployment Insurance Fund and the state budget.

139. 142.6 million euros of the entire amount is spent on offering active labour market measures and 44.9 million euros on organising the provision of technical aids and testing sheltered employment. The rest of the money is spent on IT development, training specialists, etc. As such, funding for carrying out the work ability reform and for the operation of the new work ability support system is available until the end of 2020.

140. In addition to the specified amount of money, the work ability support system also has to budget for the money required for allowances and applicable benefits, in total for approx. 1.8 billion euros, in 2016–2020. Operating activities of the Estonian Unemployment Insurance Fund and the Estonian National Social Insurance Board, which have to be covered on an ongoing basis from the state's own finances – in 2015–2020, these costs together with establishing SKAIS 2 will total approx. 94.1 million euros –, also have to be budgeted for. The cost of the entire assessment of work ability and support system during the period 2015–2020 has been budgeted to be 2.1 billion euros. In doing so, there is presently no accurate overview of the costs that are incurred due to assisting persons with reduced work ability from the budget of local authorities (See also the question “Has the state accounted for the different capability of local authorities to offer social services?”).

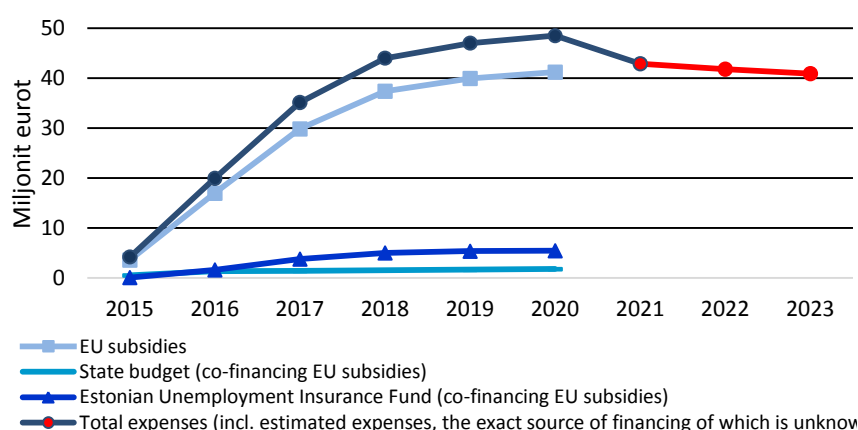
141. As at publishing the audit, the one-time cost incurred on launching the new work ability support system may be deemed to include only a relatively small share of the funds planned for establishing and implementing the work ability support scheme – the majority of these funds received mostly from the EU Structural Funds is spend on the provision of services that are likely necessary in the future as well. As such, the system can have a saving only if persons with reduced work ability can and are able to maintain their job.

142. In the course of the audit, the Ministry of Social Affairs could not say which sources the work ability support system would be funded from as of 2021 when it is probably no longer possible to use EU subsidies to the earlier extent. In the opinion of the Ministry of Social Affairs, there are three possible options for subsequent financing:⁵⁵

- financing will be carried out from the state budget;
- financing will be carried out from funds of unemployment insurance;
- financing will be carried out as a combination of both of the aforementioned options.

143. If until the end of 2020, EU subsidies annually constitute approx. 85% of the costs of launching and the operation of the work ability support system (excl. money spent on allowances and applicable benefits), that share or a little over 40 million euros per year has to be found from the state's own funds as of 2021 (see also figure 3, line marked in red). By the end of 2016, the Ministry of Social Affairs had not prepared more detailed analyses regarding the options for sources for covering the cost specified already in 2014.

Figure 3. Division of costs of establishing and operation of the work ability support system together with forecasts in 2015–2023, million euros^{56, 57, 58}



Source: National Audit Office of Estonia on the basis of the data from the Ministry of Social Affairs

144. Although there is currently no plan on how the work ability support system would be funded as of 2021, the Ministry of Social Affairs in cooperation with the Estonian Centre of Applied Research CENTAR and

⁵⁵ These options do not concern the activities of the Estonian National Social Insurance Board, the Labour Inspectorate and the local authorities carried out with EU subsidies. The continuation of these activities is assessed in the preceding parts of the audit and/or the continuation depends on the mid-term and final appraisals or other decisions.

⁵⁶ Co-financing is also accompanied by the costs of non-profit associations and local authorities that totalled 0.01 million euros in 2015 and will be 0.03 million euros per each period during 2016–2020.

⁵⁷ The Ministry of Social Affairs presumes that in 2021, 22.8 million euros can be derived from EU subsidies even after the conclusion of the funding period.

⁵⁸ The costs indicated in the figure do not include the money paid out as work ability allowances.

the Ministry of Finance established a financial model⁵⁹ for monitoring the implementation of the work ability reform that will create good prerequisites for a subsequent preparation of the financing plan. The financial model will allow monitoring the course of the reform and its impact on the state budget in a more systematic manner.

145. Following the launch of the reform, the prerequisites established for the model and the input data (size of the target group, expenditure and volumes by services and allowances) are reviewed every year, taking the actual changes into consideration, and adjustments are made to the rules of estimation and source data. Estimation period of the model is 5 years, and this has also been used for planning the state budget of 2017 and the expenditures of the state budget strategy. The next review is prepared on the basis of the model before updating the state budget strategy in the I quarter of 2017.

146. In establishing the new work ability support system, the Ministry of Social Affairs has first and foremost considered it important that less state funds are spent on paying work ability allowances and assessing work ability than would have been spent in case of continuing with the old system. At the same time, the new and more accurate financial model shows that if the volume of support services offered by the state and also, for example, labour taxes accrued by the state are taken into consideration, the entire system in total is going to be approximately 73 million euros more expensive for the state until 2020, if calculated into present value, than it would have been without carrying out the work ability reform. The Ministry has also said that although one of the objectives of the reform is savings,⁶⁰ the state's expenses during 2016-2020 will be higher than they would have been without the reform.

147. The Ministry of Social Affairs has used the financial model to assess that if in addition to the profits section of the taxes accrued by the state, income from employment for people is also taken into consideration, the reform scenario will all in all be more profitable for the state during the period 2016–2020 in comparison to the scenario of no reform (when converted into the present value, the profits exceed expenditure by 53.8 million euros). However, it has to be taken into account that the actual results of the reform may significantly differ from the estimate, depending on the accuracy of the prerequisites with regard to the employment of currently unemployed persons receiving pension for incapacity for work and wages to be paid to them. Due to lack of data, the model has so far not accounted for expenses incurred by the local authorities presently and in the future due to supporting persons with reduced work ability, and the model is also not accounting for all the labour and administrative costs.⁶¹

⁵⁹ Estimate of the revenue, expenditure and target groups of the work ability reform. Ministry of Social Affairs, 14.06.2016 (material prepared for the National Audit Office of Estonia).

⁶⁰ Overview of the preparations for and launch of the work ability reform. Memorandum for the meeting of the government cabinet. Submitted on 10 March 2016.

⁶¹ Administrative and labour costs have not been divided by services upon adding the data of the Estonian Unemployment Insurance Fund to the model. This has predominantly been done with regard to the services of the Estonian National Social Insurance Board, but overhead costs, for example, have also not been divided with regard to several services.

148. Insofar as presently, the new system has been operational for only a very short time, the accuracy of the current estimates has not been fully assessed yet. Some of the cost estimates associated with the work ability reform, however, have so far proven to be inaccurate on a large scale, i.e. in comparison to the initial plan, the actual costs have proven to be significantly higher.

149. Such is the verdict that the Ministry of Social Affairs has given, for example, to the costs of assessing work ability and to ensuring the respective methodology training and support as at the I quarter of 2016. The procurement cost of a document-based assessment turned out to be 2.06 times, the procurement cost of a visit-based assessment 1.75 times and the cost of methodology training and support 4.68 times higher than planned. Considering the planned service volumes, this meant an additional cost of 411,733 euros for assessing work ability and an additional cost of 331,950 euros for methodology training in comparison to the cost estimate of the draft legislation of the Work Ability Allowance Act in 2016. The increase in costs could be covered using the funds planned for the budget of the Estonian Unemployment Insurance Fund. Insofar as the work ability support system includes a lot of new items, the specified activities may not be the only ones that turn out to be more expensive than planned.

150. In the opinion of representative organisations of employers, lack of more detailed plans with regard to the period following 2020 and lack of confidence in the financial sustainability of the system may, among others, also affect the recruitment of personnel with reduced work ability – the employers do not generally want to contribute to the recruitment of employees if the extent of the state support in the future is not clear.

151. Many employers are aware that the majority of support measures added in the course of the work ability reform that are offered by the Estonian Unemployment Insurance Fund and the Estonian National Social Insurance Board are financed using EU funds and acknowledge that if this amount of money decreases or runs out, new financing alternatives may also mean a higher cost burden on the employers.

152. The Ministry of Social Affairs has promised to carry out an impact analysis⁶² in 2018–2019, which will determine whether and which services and to which extent will continue after the EU funds run out. Parallel to this, proposals should be prepared by 2019 at the latest and a decision should be made on how work ability allowances will be funded in the future.

153. Recommendations of the National Audit Office of Estonia to the Minister of Health and Labour:

- Develop alternatives for funding the work ability reform system and submit them to the government for a decision by the end of 2018 at the latest. In planning financing options, take the expenses of the local authorities upon developing and offering social services necessary for persons with reduced work ability

⁶² The plan is to carry out an impact analysis on services intended specifically for persons with reduced work ability (incl. assess the effect of a specific service on finding a job).

into account and ensure financing that enables as even availability of services as possible;

- Give the Government of the Republic a regular overview of the implementation of the work ability reform and the compliance with the revenue and expenditure estimate at least once a year.

Response of the Minister of Health and Labour: After amendments to the law accompanying the reform enter into force, the implementation of the work ability scheme will be analysed in different target groups and counties. In addition to the strategic objectives set for the reform, the Ministry has determined important monitoring information to be monitored regularly. It is important to ensure the successful implementation of the reform that creates a basis for achieving the objectives. For this, an assessment of the process is planned for early in the beginning of the reform in order to analyse how the implementation of the reform has progressed. The analysis will take a look at how the methodology for assessing work ability is functioning as intended (limitations and ability to work has been assessed adequately, recommendations are competent, etc.), how and how effectively is the target group involved and employers are supported in improving working conditions and hiring persons with reduced work ability; are necessary, relevant and functional systems, methodologies and solutions available; has a relevant, effective, efficient and sustainable contribution to the promotion of pervasive topics, incl. with regard to equal opportunities, been ensured; where are the bottlenecks and which improvement measures should be carried out. In the context of mid-term appraisal, first results are also assessed to a limited extent: assessment on the effectiveness (net effect) of participating in the measure, efficiency and duration of the effect, how and to which extent have participants moved on to the labour market (incl. employment) or maintained their job. Mid-term appraisals are carried out in 2017–2020.

Summary analysis of the implementation of the measures of work ability reform is then carried out in order to summarise the subsequent plan of implementing and schedule for financing (incl. sources of financing) the measures on the basis of the current results and knowledge. Summary analysis of sustainability will be completed in the beginning of 2020 by using information received from other projects, e.g. the financial model of the work ability reform, results of impact assessments of measures. In order to assess the effect of and analyse the work ability reform, it is necessary to have sufficient data, which is why amendments carried out as a result of mid-term appraisals have to be given enough time in order to assess the results.

We agree that in order for the work ability reform to be implemented successfully, it is necessary to ensure the availability and quality of services at the local level in the whole of Estonia. We are pointing out that an important step towards improving the quality of services is establishing the minimum requirements for services in the Social Welfare Act as of 2016. We are also supporting local authorities in making services sustainable with the help of foreign funds. The availability of services at the local level is also a priority for the government – among others, additional funds are planned as of 2018 with the objective of reducing the administrative load for developing and providing services of

the local authority. We also consider the implementation of the administrative reform that contributes to the ability of local authorities to offer services necessary for people, incl. for staying on the labour market or finding a job, to be important.

/signed digitally/

Tarmo Olgo
Chief Auditor of the Performance Audit Department

Recommendations of the National Audit Office of Estonia and responses of the audited

On the basis of an audit, the National Audit Office of Estonia has presented several recommendations to the Minister of Health and Labour, Minister of Social Protection, Minister of Public Administration and Minister of Entrepreneurship and Information Technology. The ministers submitted their responses to the recommendations of the National Audit Office of Estonia during the period from 5 January to 18 January 2017.

General comments of the ministers regarding the audit report

Feedback to the report from the Director General of the Estonian National Social Insurance Board

Comment of the Director General of the Estonian National Social Insurance Board: We are asking the wording in the section "What did we find and conclude from the results of the audit?" on page 1 of the draft legislation to be supplemented. The Estonian National Social Insurance Board is prepared to offer technical aids and services to persons with reduced work ability.

Response of the National Audit Office of Estonia: Taken into account.

Comment of the Director General of the Estonian National Social Insurance Board: We are asking the wording in the section "The information systems required for the assessment of work ability do not function as planned and additional work is required to obtain the assessment results" on page 2 of the draft legislation to be amended. A temporary solution was developed for SKAIS1 due to a delay.

Response of the National Audit Office of Estonia: Taken into account.

Comment of the Director General of the Estonian National Social Insurance Board: We are asking the sentence in clause 16 on page 6 of the draft legislation to be supplemented: "The results indicated that in 2014, a decision could be made with regard to working-aged people using the data of the health information system in 48% of the cases and in 2016, already in 63% of the cases."

Response of the National Audit Office of Estonia: Not taken into account. In the course of providing feedback to the report, the Estonian Unemployment Insurance Fund who is liable for the assessment of work ability pointed out that it is revealed in approximately half of the cases of applying for an assessment of work ability that the HIS does not have adequate data or the data is missing altogether. This means that the Estonian Unemployment Insurance fund has to apply for additional data from health care institutions and doctors who have treated the person, which has proven to be more time and resource-consuming than expected.

Comment of the Director General of the Estonian National Social Insurance Board: We are asking the wording in clause 24 on page 8 of the draft legislation to be amended: 2) the inability of the main developer to carry out the work and the subsequent withdrawal and taking the work over by the partner developer.

Response of the National Audit Office of Estonia: Taken into account.

Comment of the Director General of the Estonian National Social Insurance Board: We are asking the wording of reference no. 10 in clause 32 on page 9 of the draft legislation to be amended: "The system applicable to date allowed challenging the decision of designating permanent incapacity for work made by the Estonian National Social Insurance Board by filing a challenge with the Estonian National Social Insurance Board."

Response of the National Audit Office of Estonia: Taken into account.

Comment of the Director General of the Estonian National Social Insurance Board: We are asking the wording of reference no. 17 in clause 53 on page 12 of the draft legislation to be amended: "The Estonian National Social Insurance Board shall pay the service provider for social rehabilitation according to the need of each individual person, but no more than 483 euros (up to 2,325 euros to working-aged persons with mental disorders) per calendar year."

Response of the National Audit Office of Estonia: Taken into account.

Comment of the Director General of the Estonian National Social Insurance Board: We are asking the wording of the sentence in clause 57 on page 12 of the draft legislation to be amended: "As at the end of October 2016, there was no waiting list for the social rehabilitation service."

Response of the National Audit Office of Estonia: Taken into account.

Comment of the Director General of the Estonian National Social Insurance Board: Specify table 1 in page 43 of the draft legislation: "Only persons in whom a disability has been identified receive rehabilitation. An exception is a person with psychological special needs with regard to whom identifying at least a 40% permanent incapacity for work is sufficient – this system was applicable until 31 December 2015."

Response of the National Audit Office of Estonia: Taken into account.

Feedback to the report from the Director General of the Labour Inspectorate

The Labour Inspectorate thanks the National Audit Office of Estonia for the opportunity to give an opinion in assessing the process of preparing the work ability reform. We are standing by our opinions expressed and recommendations given in the assessment process and we believe that the recommendations provided in the draft legislation of the control report are relevant and implementable.

I would like to point out separately that we are supporting the recommendations provided in the draft legislation.

120. Recommendations of the National Audit Office of Estonia to the Minister of Health and Labour in cooperation with the

Minister of Entrepreneurship and Information Technology: Consider opportunities for supplementing the existing measures and develop new measures for promoting part-time employment.

121. Recommendations of the National Audit Office of Estonia to the Minister of Health and Labour: Analyse the expediency of converging the counselling service regarding the recruitment of and maintaining employees with reduced work ability offered by the Estonian Unemployment Insurance Fund and the counselling service regarding the safety of the working environment and labour laws offered by the Labour Inspectorate under one organisation. Employers should have one channel for getting all the necessary information regarding persons with reduced work ability and the working environment to be adjusted to them.

135. Recommendations of the National Audit Office of Estonia to the Minister of Health and Labour:

- Upon preparing the analyses planned for amending the organisation of occupational health and safety and formalising proposals therefor, consider the opportunity to require companies participating in public procurement to submit data regarding the safety of the company's working environment, incl. regarding occurred cases of occupational accidents of occupational diseases, and take the company's activity in ensuring occupational safety and maintaining the employee's health into account in selecting who is awarded the procurement;

A pilot project, the objective of which is to establish criteria of social value in public procurement, is underway under the leadership of the Government Office. The criteria are intended for all organisers of procurements in order to assess the social value of the service being outsourced and establish terms and conditions for maximising the value thereof already in the source task of the procurement. The results of the pilot project will subsequently enable considering whether it would be beneficial to use criteria associated with occupational health and safety in public procurement.

- Consider the opportunity to expand tax incentives on expenses associated with improving the working environment arising from the risk assessments of the working environment and/or expenses incurred for the promotion of the health of employees, incl. not deem voluntary insurance premiums of employers for occupational accidents and occupational diseases to be fringe benefits.

I would like to point out that the Labour Inspectorate has also made recommendations of this content itself in 2016 in different responses and inquiries. Among others, we pointed out in letter no. 1.4-1/950-1 "Suggestions for reducing the administrative load within the public sector" sent to the Ministry of Social Affairs on 13 May 2016 that "Different state authorities and legal persons governed by public law have also established other information channels such as information hotlines to an overlapping target group. At the same time, the target group often has questions that are connected but today belong under the competence of different authorities.

For example, if a woman is pregnant, liquidation proceedings are underway with regard to the employer and the woman is at risk of losing her job, she has questions to the Estonian National Social Insurance Board, Labour Inspectorate, Estonian Unemployment Insurance Fund and the Estonian Health Insurance Fund at the same time. She essentially has to ask the same question over four different phone numbers in order to get a final answer. In the future, the state should consider establishing a common information hotline where specialists are capable of answering all the questions concerning the area at one time. Among others, this would help to save on the cost of call centres and be customer-friendly at the same time." The same principle applies to counselling persons with reduced work ability.

We have also submitted proposals for the amendment of Public Procurement Act and introduced our statements of case in Riigikogu as well.

Feedback to the report from the Minister of Entrepreneurship and Information Technology

Comment of the Minister of Entrepreneurship and Information Technology: The audit provides that the preparedness of employers to hire persons with reduced work ability is modest. According to the survey commissioned by the Ministry of Social Affairs, 31% of employers are prepared to hire persons with reduced work ability, 44% of them did not deem it possible. We believe that a situation where essentially one of every three employers is prepared to hire persons with reduced work ability is not bad, although the percentage could be higher. It may be relevant to raise the awareness of employers further, but the result certainly cannot be deemed to be modest. We are drawing attention to the fact that in certain cases, creating jobs for persons with reduced work ability may require the employer to make additional investments, which smaller undertakings in particular may not be capable of. As such, the level of preparedness of employers may not only be due to attitudes, but it is also affected by the actual financial capability of the undertaking. Different surveys also indicate that the biggest point of concern among undertakings is finding qualified employees. So, in case of having the qualification or ensuring respective retraining in case of lack thereof, finding a job even with a partial work ability should not be objectively hindered.

Response of the National Audit Office of Estonia: We are of the opinion that in a situation where 69% of undertakings do not give a positive answer to hiring persons with reduced work ability, the result can be deemed to be modest. We also have to take the experience of several other states into consideration, which provides that what was said in the survey doesn't reflect on the actual behaviour of the employer at a later stage, i.e. the employer has said in the survey that it is prepared to hire a person with reduced work ability, but has subsequently given up on the idea.

We agree that the main criteria for employees upon hiring a person are the skills and knowledge of the individual. We are drawing attention to the fact that according to the data of the Estonian National Social Insurance Board, approximately 54% of persons receiving pension for incapacity for work, i.e. 54,145 people, earned income from work in 2015, which refers to the fact that many of the people who are capable of working and who have the required qualification are already employed. The reason is that at the moment, employed persons receiving pensions for incapacity for work mostly include persons with a smaller reduced work ability and persons who enter the incapacity for work scheme directly from the labour market (an employed person develops a partial or full incapacity for work as a result of a health problem or accident). Therefore, it is presumably more difficult to get persons with reduced work ability to start work at the moment: they often have more extensive incapacity for work (60–90%), a more complicated diagnosis (e.g. persons with mental disorders among whom few are working) and many of them haven't been working or looking for work to date (no working habit). At the same time, a more severe diagnosis and more extensive incapacity for work has often been a hindrance to acquiring a qualification. Therefore, it is probably more difficult to help persons with reduced work ability who have stayed away from the labour market to find employment. The Ministry of Social Affairs has also admitted that the biggest risk for the success of the work ability reform is the preparedness of employers to hire persons with reduced work ability to a greater degree than before.

Feedback to the report from the chairman of the board of the Estonian Unemployment Insurance Fund

Comment of the chairman of the board of the Estonian Unemployment Insurance Fund: The activity of the Estonian Unemployment Insurance Fund is directly subject to the recommendation of the National Audit Office of Estonia to the Minister of Health and Labour (clause 121) to "analyse the expediency of converging the counselling service regarding the recruitment of and maintaining employees with reduced work ability offered by the Estonian Unemployment Insurance Fund and the counselling service regarding the safety of the working environment and labour laws offered by the Labour Inspectorate under one organisation. Employers should have one channel for getting all the necessary information regarding persons with reduced work ability and the working environment to be adjusted to them."

In the opinion of the Estonian Unemployment Insurance Fund, these are inherently different services due to the different roles and competences of the Estonian Unemployment Insurance Fund and the Labour Inspectorate. The Estonian Unemployment Insurance Fund counsels the employer upon hiring and supporting the employment of a person with reduced work ability. For example, we are introducing different disabilities and health disorders, we provide counselling on how to encourage persons with reduced work ability to apply for a job, what should be known in case a person with special needs joins a team, which services the Estonian Unemployment Insurance Fund can offer to provide assistance. We give advice on how to communicate information with consideration to special needs (e.g. when is a sign language interpreter, materials in Braille, simplified language, sound amplification equipment required), how to prepare a job interview (e.g. when should a support person, sign language interpreter or another assistance involved), etc.

Employers can invite a consultant from the Labour Inspectorate to come to the company to give advice regarding the working environment (primarily with regard to the physical working conditions), recommend how to establish a system for managing occupational health and safety or how to improve the existing system. According to the information on the website of the Labour Inspectorate (<http://www.ti.ee/est/organisatsioon-kontaktid/toeoeinspeksioon/tasuta-toeoeekskonna-konsultandi-teenus/>), the main task of the consultant is to consult the employers in the company regarding occupational health and safety. The consultant can be invited to consult the company on the whole (entire working environment and documentation) and to give advice on one specific area of the working environment (e.g. using personal protective equipment).

Response of the National Audit Office of Estonia: The National Audit Office of Estonia is of the opinion that the employers should have one channel for getting all the necessary information regarding persons with reduced work ability and the working environment to be adjusted to them. Simplifying the process of finding information on a person with reduced work ability and the working environment associated with that person promotes hiring and maintaining the person. In order to ensure that a person with special needs can cope at the position and the employer can instruct the person correctly, the special needs of the person cannot be regarded separately from the working environment. Additionally, the two services overlap thematically, e.g. in issues concerning the working environment, the employer can turn to both the Estonian Unemployment Insurance Fund and the Labour Inspectorate.

Labour Inspectorate as one party has deemed the recommendation to be reasonable and practical. The Ministry of Social Affairs does not exclude the possibility of making amendments, but is emphasising that it must be preceded by an analysis.

Comment of the chairman of the board of the Estonian Unemployment Insurance Fund: Clause 18 refers to the assessment of the Ministry of Social Affairs, according to which nearly 8,000 applicants for the assessment of work ability have to be taken into account in the second half of 2016. The Estonian Unemployment Insurance Fund has estimated 7,000 applicants, but actually, a total of 5,209 applicants, i.e. one-quarter less than the estimate, were submitted from July to December 2016.

Response of the National Audit Office of Estonia: Data have been updated.

Comment of the chairman of the board of the Estonian Unemployment Insurance Fund: In clause 22, we are asking to add that the information systems of the Estonian Unemployment Insurance Fund were completed on time.

Response of the National Audit Office of Estonia: Taken into account.

Comment of the chairman of the board of the Estonian Unemployment Insurance Fund: Clause 49 should specify that some services (e.g. work rehabilitation, peer support, commuting benefits) are also offered to employees and/or persons looking for work. We are also asking that the data regarding wage subsidy is corrected – during the examined period (from January to December 2016), there were 514 applications for wage subsidy.

Response of the National Audit Office of Estonia: Taken into account.

Comment of the chairman of the board of the Estonian Unemployment Insurance Fund: In addressing the topic of sustainability of financing, it should be specified what the work ability support system is deemed to mean. Activities supporting the work ability reform that are co-financed with the subsidies of the European Union are carried out, in addition to the Estonian Unemployment Insurance Fund, by the local authorities, Labour Inspectorate and the Estonian National Social Insurance Board. Opportunities for subsequent financing addressed in clause 142, however, only concern the activities of the Estonian Unemployment Insurance Fund.

Response of the National Audit Office of Estonia: Specification has been added to the text.

Recommendations of the National Audit Office of Estonia	Response of the audited
Information systems associated with the work ability reform 31. Recommendation of the National Audit Office of Estonia to the Minister of Social Protection: Improve the management of the development of the information system SKAIS 2 by developing measures to ensure the completion of the planned developments on time and the completion of SKAIS 2 by October 2017 at the latest. If necessary, bind the failure to comply with interim deadlines to the right to demand a higher contractual penalty. cl-s 21–31	Response of the Minister of Social Protection: The completion of SKAIS2 later than planned does not affect the implementation of the work ability reform. The work ability reform has been implemented in full as of January of this year, and data exchange between SKAIS2 and the Estonian Unemployment Insurance Fund has been ensured. The volume of the SKAIS2 project has been very extensive and, as such, realising the project has proven to be very complicated. Both Tieto as the contractor and the state as the contracting entity underestimated the complexity and volumes of the project when planning SKAIS2. The developer has accepted financial liability and compensated for the costs associated with the delay in the project's timeframe. Henceforth, the SKAIS2 project will continue in stages. It was agreed in autumn 2016 that the first priority is realising four services that ensure the viability of the project by the beginning of 2017. In order for the project to succeed, both the developer and the Estonian National Social Insurance Board have brought in extra manpower to the project management and development alike. The state project manager has also been replaced. The contracting entity's IT competence and architectural perspective is strengthened by the Health and Welfare Information Systems Centre that commenced its activity on 2 January 2017. Supervision of the project is carried out regularly, and the next meeting of the supervisory board where the subsequent action plan is approved is to take place on week 6 of this year.
Counselling persons with reduced work ability 41. Recommendation of the National Audit Office of Estonia to the Minister of Health and Labour: Analyse the need among persons receiving pension for incapacity for work and new entrants for a consultation opportunity independent from the body assessing work ability, and after determining the need, consider setting up an online environment as an option where persons with reduced work ability could turn to with their questions and where other individuals or competent institutions could share their advice and experiences. cl-s 32–41	Response of the Minister of Health and Labour: The recommendation of the Ministry of Social Affairs is for the Estonian Chamber of Disabled People to perform the role of providing consultation service to persons with reduced work ability. The Estonian Chamber of Disabled People has, in principle, expressed its preparedness to offer consultation service to persons with reduced work ability. The Ministry of Social Affairs and the Estonian Chamber of Disabled People cooperate in order to determine in which form, to which extent and how the provision of consultation service is funded. The administrative authority also has the obligation to provide explanations and assist the person. The task is held by the employees of the Estonian Unemployment Insurance Fund, Estonian National Social Insurance Board and the Ministry of Social Affairs alike. These institutions analyse feedback and challenges filed by persons with reduced work ability and plan changes to the organisation of work and notification accordingly. Representative and umbrella organisations for disabled persons also have a good cooperation with the Ministry and intermediate bodies, and these organisations continuously share information with their members. There are already different environments online that enable persons with reduced work ability to submit their questions and have discussions: blog by the Ministry of Social Affairs at the address somblogi.wordpress.com that enables commenting on posts; Facebook pages of the Estonian National Social Insurance Board, Estonian Unemployment Insurance Fund and the Ministry of Social Affairs that publish posts concerning the topic and reply to comments posted by readers. Additionally, persons with reduced work ability have created Facebook pages themselves where they can comment on topics concerning the work ability reform and share their experiences (for example, information channel for disabled people, human rights of disabled people / about the work ability reform, and more).
Provision and financing of social services 76. Recommendation of the National Audit Office of Estonia to the Minister of Social Protection in cooperation with the Minister of Public Administration: Upon planning state financing for a local authority, take into account their different needs in developing and offering social services so that persons with reduced work ability could receive the required services. Financing should take into account the number of persons receiving pension for incapacity for work living in the local authority and the capability of local authorities to offer services.	Response of the Minister of Social Protection: In the course of administrative reform, the model of financing local authorities is prepared by the Ministry of Finance. Upon preparing the financing model, the Ministry of Social Affairs has the opportunity to make suggestions to the Ministry of Finance, and the recommendation of the National Audit Office of Estonia to take the number of people potentially in need of social services (persons with reduced work ability, but also elderly, etc.) living in the region has merit. More specific solutions will come to light following the administrative reform once the final number and size of local authorities has become clear. We would like to point out that the Ministry of Social Affairs is planning to support local authorities in developing social services during the period following the administrative reform in 2018 from the funds of the European Social Funds, and 10 million euros has been planned to that effect. We are also in the process of preparing solutions for supporting local authorities in organising the social transport service, insofar

Recommendations of the National Audit Office of Estonia	Response of the audited
cl-s 59–76	as the social transport service is one of the most important basic services. We have made it an objective to establish a nationwide service model that can be used by all local authorities and that includes both an information technological solution and operator service. The model should ensure the convergence of social transport rides and the integration thereof with public transport in order to ensure that the provision of the service is as effective as possible. After creating the service model, we are planning to support local authorities that join the model. The Ministry of Social Affairs is also waiting for information from the task force on reducing administrative load established at the Government Office that is coming up with specific recommendations to improve the situation of family caregivers by the end of 2017. We believe it's possible that recommendations for solutions regarding the family care reform could bring about changes to the organisation of social services and financing the payment of allowances at local authorities. Response of the Minister of Public Administration: We are drawing attention to the fact that the general capability of local authorities will improve as a result of the administrative reform, which will have a positive effect on, among others, the availability of social services. If the state budget prescribes an allowance to local authorities in order to improve the services for persons with reduced work ability, the funds will be distributed on the basis of figures associated with the services. A greatly varying share of residents with incapacity for work of the overall number of residents in the local authorities raises questions. The living environment in different regions in Estonia certainly doesn't vary so much as to cause an up to 10-fold difference in the indicator between local authorities. As such, the statistics of persons receiving pension for incapacity for work has to be analysed thoroughly.
Access of local authorities to the data and information necessary for prevention and provision of services 86. Recommendation of the National Audit Office of Estonia to the Minister of Social Protection: Determine the composition of personal data necessary for local authorities in order to offer social services, plan the offering of services and carry out prevention and ensure the opportunities to access the necessary data. One option is that forwarding necessary data to local authorities subsequently takes place through the Estonian Unemployment Insurance Fund and/or the Estonian National Social Insurance Board. cl-s 77–86	Response of the Minister of Social Protection: We understand the need of local authorities to have as good an overview of the needs of the residents of the respective local authority as possible in order to plan and offer social services better and to carry out prevention. At the same time, access to data must differentiate between personal and non-personal data. With regard to non-personal data, local authorities can currently receive statistical data for the prevention and planning of social services better; for example, the website of the Ministry of Social Affairs provides access (entry with a password) to all local authorities to the statistics of the Estonian National Social Insurance Board regarding pensions, family allowances, parental benefit, social benefits for disabled persons and with regard to disabled persons on the type of disability, severity, age (age group) and gender in local authorities. In order to carry out a more comprehensive analysis, local authorities have the opportunity to prepare health profiles that describe the environment, health, existing social services, etc. with regard to the people living in the area. Local authorities can receive data regarding all the recommended indicators in the health profile. Preparing a health profile covering the majority of areas of life contributes to improving the quality of preparing a development plan in the local authority and enables easier assessment of the influences arising from different factors, for example whether there are enough services and are they available to all persons in need, what is the quality of services, are there services that are yet to be established, etc. The health profile also enables analysing how the situation of social services impacts the health of the residents of the local authority. Developing social services and preventing social problems is therefore mostly dependent on how thoroughly the local authority analyses it. With regard to personal data, the processing and communication of data is restricted by regulations on personal data protection (currently, the Personal Data Protection Act and the Data Protection Regulation to be implemented in 2018). Communicating personal data to local authorities presumes the consent of persons or respective grounds in legislations that would allow the Estonian Unemployment Insurance Fund and/or the Estonian National Social Insurance Board to communicate personal data to local authorities. At the same time, we would also like to note that the work schedule of 2017 of the Ministry of Social Affairs prescribes determining in cooperation with local authorities and the Estonian Unemployment Insurance Fund which information local authorities might need from the Estonian National Social Insurance Board and the Estonian Unemployment Insurance Fund in order to ensure a more effective case management and which would be of help to the social workers of the local authority in assessing and prescribing social services and benefits, doing so by social services organised by the local authorities as provided in the

Recommendations of the National Audit Office of Estonia	Response of the audited
	Social Welfare Act. According to the determined need for data, the Ministry is planning to establish a respective legal basis for communicating data and develop a specific solution for electronic communication of data.
Helping persons with reduced work ability in finding a job 102. Recommendations of the National Audit Office of Estonia to the Minister of Health and Labour: Carry out a more comprehensive analysis of the compliance between the education of persons with reduced work ability and the labour market demand, opportunities for in-service training and retraining and the functioning of the respective support measures in 2019 at the latest. Ensure on the basis of the results thereof that the special needs of unemployed and employed persons with health problems are taken into consideration in organising education that supports hiring and employment. cl-s 87–102	Response of the Minister of Health and Labour: Better compliance between the education of persons with reduced work ability and the labour market demand is one of the objectives of the work ability reform. The Estonian Unemployment Insurance Fund has prepared a barometer of labour that shows the current and the imminent labour requirement by counties; the forecast system for the requirement of labour and skills OSKA prepared under the leadership of SA Kutsekoda looks into how many people and with which skills are needed on the Estonian labour market in the future. As of 2016, the Estonian Unemployment Insurance Fund is offering services intended for alleviating labour market obstacles for persons with reduced work ability to a significantly greater extent. Analyses of the results of these services are planned for 2018 and 2019. The employment programme for 2017–2020 prescribes new measures for preventing unemployment that are aimed at, among others, employees who are unable to continue at their position due to the state of health. For example, allowance for participating in formal education within the adult education system in the amount 130–260 euros per month will be granted. Employees will have access to labour market training with a training card for three years in the amount up to 2,500 euros. Analysis of the results of these services is also planned for 2019. The following activities are planned for 2017 in order to ensure the smooth transition of youths with special needs from the general education system to vocational education and, following the completion of education, to the labour market: - Ministry of Education and Research in cooperation with the Ministry of Social Affairs to prepare a guideline for a successful entrance project for vocational schools in order to assess youths with special educational needs; - Ministry of Education and Research to establish a scheme for financing vocational education that ensures the implementation of support measures for participating in studies to a student with special educational needs to the required extent; - Ministry of Education and Research to implement measures that enable a regular overview of the provision of support services at the level of the school; - Ministry of Education and Research in cooperation with the Ministry of Social Affairs to carry out regular surveys on the availability and sufficiency of support services to students with special educational needs in vocational education; - Ministry of Education and Research to make educational support services offered to a basic school graduate with special educational needs entering vocational education visible and unambiguous for the next level of education in the Estonian Education Information System.
Opportunities for part-time employment 120. Recommendations of the National Audit Office of Estonia to the Minister of Health and Labour in cooperation with the Minister of Entrepreneurship and Information Technology: Consider opportunities for supplementing the existing measures and develop new measures for promoting part-time employment. cl-s 103–120	Response of the Minister of Health and Labour: The valid Employment Contracts Act enables entering into an employment contract for part-time work with a person with reduced work ability. Parties to the employment relationship may agree on the working hours corresponding precisely to their needs. It is possible to enter into an agreement, according to which a person with reduced work ability works, for example, for five hours per month. Such an agreement is also supported by clause 2 (4) 6) of the Social Tax Act, according to which, with regard to a person with reduced work ability, social tax shall be paid on the remuneration paid to employees or public servants for a particular month. As of 1 June 2016, the Estonian Unemployment Insurance Fund compensates social tax for an employee with partial or no work ability of a company, non-profit association, foundation or sole proprietor to the extent of a monthly rate, provided that the employer has submitted a respective application. In the event that an application had to be submitted to the Estonian National Social Insurance Board retrospectively and separately for each month, the Estonian Unemployment Insurance Fund compensates the social tax as of the moment of submitting the application during such time that the person with reduced work ability is working for the employer who submitted the application. In the first half of 2016, the state took over the obligation (clause 6 (1) 5) of the Social Tax Act) per month on average: from 4,942 employers for 17,194 employees to the total extent of 14.74 million euros (monthly average amount 2.46 million euros). In November 2016, the Estonian Unemployment Insurance Fund

Recommendations of the National Audit Office of Estonia	Response of the audited
	compensated social tax to 7,023 employers for 19,693 employees. In total, social tax was compensated during the period from July to November to the extent of 9.47 million euros. In order to promote flexible forms of employment, the Ministry of Finance is submitting a proposal for a business account regulation to the government cabinet in January 2017. In the opinion of the Ministry of Finance, the new system could enter into force as of 1 January 2018. The objective of establishing a business account is to simplify the performance of the tax liability arising from the contractual relationship based on the Law of Obligations Act between two natural persons. This solution makes the performance of the tax liability as simple to the person as possible. This would be performed by the bank using the funds accrued on the bank account of the beneficiary by automatically reserving and transferring the tax share to the tax administrator. The tax payer does not have to have the knowledge of how to fill in accounting documents or submit reports. No additional declarations have to be submitted. The account holder is entered in the register of employees. Tax rate is 20% of the amounts accrued from the provision of service or sale of goods, provided that the annual profit does not exceed 25,000 euros. This covers the liability of income tax, social tax and funded pension contribution. Response of the Minister of Entrepreneurship and Information Technology: The Minister of Entrepreneurship and Information Technology finds that part-time employment has to be promoted, incl. by considering relevant tax measures, foremost in terms of social tax (proportionality to time spent working). In addition to a person with reduced work ability, promoting part-time employment is also important to other target groups. In the conditions of shrinking workforce, maximum employment of the existing labour resource is important in terms of economic growth.
Counselling employers 121. Recommendations of the National Audit Office of Estonia to the Minister of Health and Labour: Analyse the expediency of converging the counselling service regarding the recruitment of and maintaining employees with reduced work ability offered by the Estonian Unemployment Insurance Fund and the counselling service regarding the safety of the working environment and labour laws offered by the Labour Inspectorate under one organisation. Employers should have one channel for getting all the necessary information regarding persons with reduced work ability and the working environment to be adjusted to them. cl-s 103–120	Response of the Minister of Health and Labour: Counselling offered by the Labour Inspectorate includes counselling on occupational safety, occupational health and labour relationships. Among others, the Labour Inspectorate focuses on consulting employees and employers in order to increase the participation of persons with reduced work ability on the labour market and ensure that the reduction of work ability of a working-aged population slows down. The Estonian Unemployment Insurance Fund provides advice and information to employers who are prepared to employ or who have already employed persons with reduced work ability but need knowledge and guidance to support them. The counselling service offered by the Labour Inspectorate is aimed at a wider group of employees and employers, and the content of counselling is also broader than counselling only persons with reduced work ability and their employers. The Labour Inspectorate and the Estonian Unemployment Insurance Fund cooperate in offering counselling services, the results of which are analysed and, if necessary, amendments to the organisation of work are carried out.
Prevention of incapacity for work 135. Recommendations of the National Audit Office of Estonia to the Minister of Health and Labour: ■ Upon preparing the analyses planned for amending the organisation of occupational health and safety and formalising proposals therefor, consider the opportunity to require companies participating in public procurement to submit data regarding the safety of the company's working environment, incl. regarding occurred cases of occupational accidents of occupational diseases, and take the company's activity in ensuring occupational safety and maintaining the employee's health into account in selecting who is awarded the procurement; ■ Consider the opportunity to expand tax incentives on expenses associated with improving the working environment arising	Response of the Minister of Health and Labour: A pilot project, the objective of which is to establish criteria of social value in public procurement, is underway under the leadership of the Government Office. The criteria are intended for all organisers of procurements in order to assess the social value of the service being outsourced and establish terms and conditions for maximising the value thereof already in the source task of the procurement. The results of the pilot project will subsequently enable considering whether it would be beneficial to use criteria associated with occupational health and safety in public procurement and what would be the effect of using thereof. According to the applicable law, costs incurred by the employer for ensuring occupational health and safety are considered to be related to business and are therefore exempt from tax. Pursuant to subsection 32 (2) of the Income Tax Act, expenses are related to business if they have been incurred for the purposes of deriving income from taxable business or are necessary or appropriate for maintaining or developing such business and the relationship of the expenses with business is clearly justified, or if the expenses arise from subsection 13 (1) of the Occupational Health and Safety Act that provides the obligations of an employer in the area of occupational health and safety. For example, an employer is required to organise a risk assessment and prepare on the basis thereof an action plan designating the measures to be implemented to prevent or to reduce the health risks of an employee. The

Recommendations of the National Audit Office of Estonia	Response of the audited
from the risk assessments of the working environment and/or expenses incurred for the promotion of the health of employees, incl. not deem voluntary insurance premiums of employers for occupational accidents and occupational diseases to be fringe benefits. cl-s 122–135	employer is also required to organise a medical examination for an employee whose health may be affected by a working environment hazard. Costs of activities arising from the risk assessment and costs incurred due to prevention activities for and rehabilitation of a specific person on the basis of a recommendation of an occupational health doctor arising from the nature of the employee's work are exempt from tax for the employer. Additionally, amendments to the Income Tax Act, according to which certain expenses of the employer are not deemed to be fringe benefits for the health promotion of an employee, shall enter into force on 1 January 2018. According to subsection 48 (55) of the Income Tax Act to enter into force, the following expenses incurred for the promotion of health of an employee to the extent of 100 euros per employee per quarter are not taxed as fringe benefits, provided that the employer has enabled these to all employees: 1) participation fee in a public popular sports events; 2) direct expenses associated with regular use of a sports of physical activity venue; 3) expenses incurred for maintaining the existing sports venues of the employer; 4) expenses on services of a rehabilitation doctor, physiotherapist, occupational therapist, clinical speech therapist or clinical psychologist entered in the national register or health care professionals or holding a respective professional certificate; 5) insurance premium of a health insurance contract.
Financial sustainability of the work ability support system 153. Recommendations of the National Audit Office of Estonia to the Minister of Health and Labour: - Develop alternatives for funding the work ability reform system and submit them to the government for a decision by the end of 2018 at the latest. In planning financing options, take the expenses of the local authorities upon developing and offering social services necessary for persons with reduced work ability into account and ensure financing that enables as even availability of services as possible; - Give the Government of the Republic a regular overview of the implementation of the work ability reform and the compliance with the revenue and expenditure estimate at least once a year. cl-s 136–153	Response of the Minister of Health and Labour: After amendments to the law accompanying the reform enter into force, the implementation of the work ability scheme will be analysed in different target groups and counties. In addition to the strategic objectives set for the reform, the Ministry has determined important monitoring information to be monitored regularly. It is important to ensure the successful implementation of the reform that creates a basis for achieving the objectives. For this, an assessment of the process is planned for early in the beginning of the reform in order to analyse how the implementation of the reform has progressed. The analysis will take a look at how the methodology for assessing work ability is functioning as intended (limitations and ability to work has been assessed adequately, recommendations are competent, etc.), how and how effectively is the target group involved and employers are supported in improving working conditions and hiring persons with reduced work ability; are necessary, relevant and functional systems, methodologies and solutions available; has a relevant, effective, efficient and sustainable contribution to the promotion of pervasive topics, incl. with regard to equal opportunities, been ensured; where are the bottlenecks and which improvement measures should be carried out. In the context of mid-term appraisal, first results are also assessed to a limited extent: assessment on the effectiveness (net effect) of participating in the measure, efficiency and duration of the effect, how and to which extent have participants moved on to the labour market (incl. employment) or maintained their job. Mid-term appraisals are carried out in 2017–2020. Summary analysis of the implementation of the measures of work ability reform is then carried out in order to summarise the subsequent plan of implementing and schedule for financing (incl. sources of financing) the measures on the basis of the current results and knowledge. Summary analysis of sustainability will be completed in the beginning of 2020 by using information received from other projects, e.g. the financial model of the work ability reform, results of impact assessments of measures. In order to assess the effect of and analyse the work ability reform, it is necessary to have sufficient data, which is why amendments carried out as a result of mid-term appraisals have to be given enough time in order to assess the results. We agree that in order for the work ability reform to be implemented successfully, it is necessary to ensure the availability and quality of services at the local level in the whole of Estonia. We are pointing out that an important step towards improving the quality of services is establishing the minimum requirements for services in the Social Welfare Act as of 2016. We are also supporting local authorities in making services sustainable with the help of foreign funds. The availability of services at the local level is also a priority for the government – among others, additional funds are planned as of 2018 with the objective of reducing the administrative load for developing and providing services of the local authority. We also consider the implementation of the administrative reform that contributes to the ability of local authorities to offer services necessary for people, incl. for staying on the labour market or finding a job, to be important.

Audit description

Audit objective

The objective of the audit was to assess the preparedness of the state upon implementing the new work ability support system. In the course of the audit, an assessment was given to the activities of different parties – the Ministry of Social Affairs, Estonian Unemployment Insurance Fund, Estonian National Social Insurance Board, Labour Inspectorate – upon preparing the work ability reform.

Criteria for giving an assessment

The National Audit Office of Estonia based its assessment on the following criteria:

- all counties are prepared to assess work ability;
- the health information system (HIS) enables assessing work ability;
- information systems been completed on time and hasten the process of assessing work ability;
- support has been provided for persons who have submitted an application for the assessment of work ability for challenging the assessment decision;
- the Estonian Unemployment Insurance Fund is prepared to provide labour market services to persons with reduced work ability;
- the Estonian National Social Insurance Board is prepared to offer technical aids and services to persons with reduced work ability;
- the state has accounted for the different capability of local authorities to offer social services;
- availability of information has been guaranteed for local authorities to plan and carry out prevention;
- more favourable conditions have been established for employers for hiring employees with reduced work ability;
- employers are prepared to hire persons with reduced work ability more than before;
- the Ministry of Social Affairs has established additional measures for preventing the incapacity for work of people;
- the new work ability support system is financially sustainable.

Scope and approach of the audit

In the course of the audit, the National Audit Office of Estonia investigated

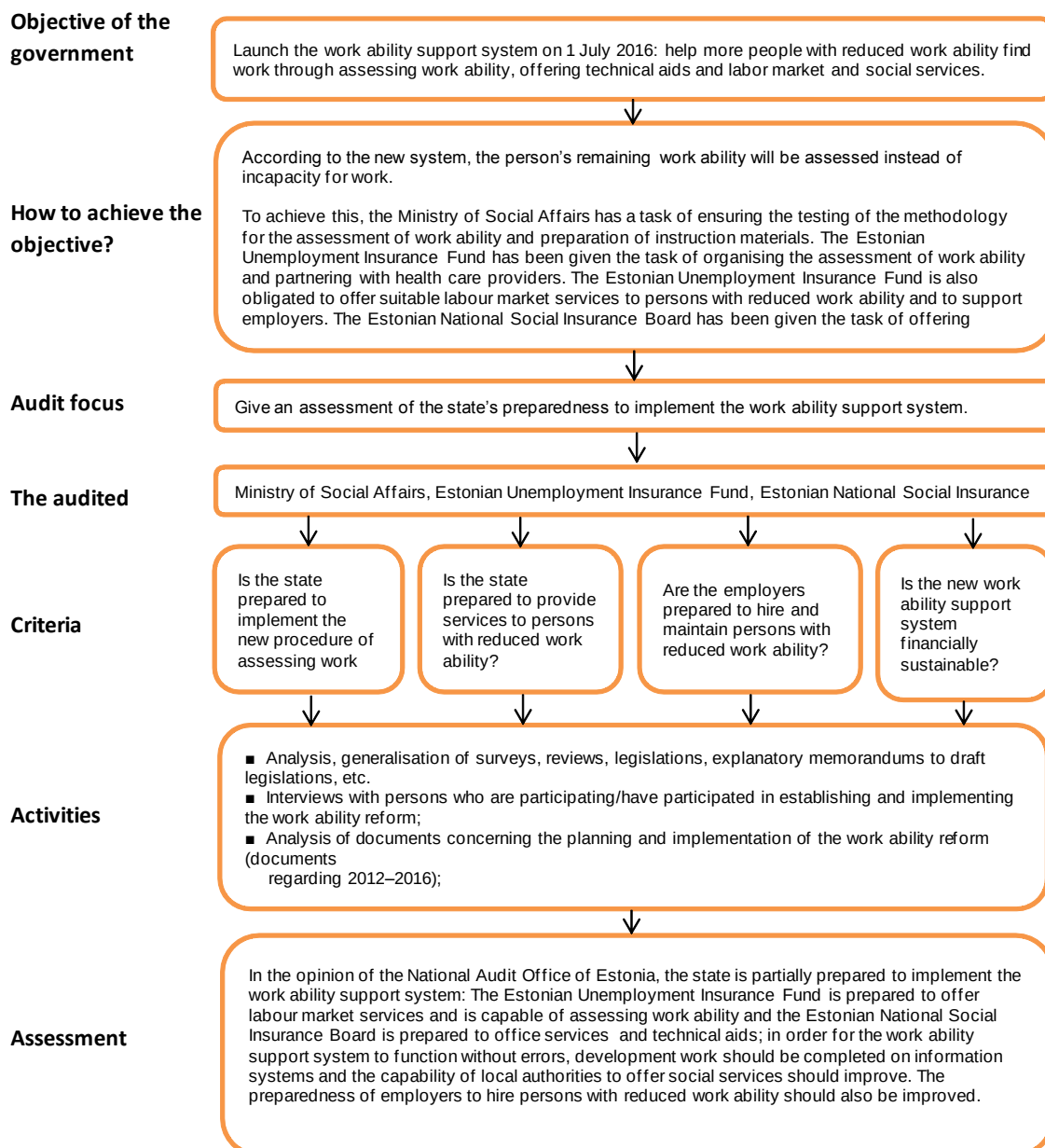
- The results of preparations carried out at the Ministry of Social Affairs and the timeliness of the achievements, also activities planned for the future. Attention was on the effectiveness and the timeliness of the completion of the development of the methodology for assessing work ability, testing the assessment methodology and organisation of training as well as information systems associated with the work ability reform in the course of preparations. Investigation also concerned the activity of the Ministry in promoting the employment of more persons with reduced work ability (incl. preparedness of employers to hire persons with reduced work ability); ensuring the financial sustainability of the work ability support system after 2021; increasing the preparedness of local authorities with the objective of offering social services to persons with reduced work ability and disabled people, taking into consideration the establishment of activity requirements for persons with

reduced work ability; preventing incapacity for work; giving information necessary for prevention to local authorities;

- Preparedness of the Estonian Unemployment Insurance Fund to commence with the organisation of the assessment of work ability (incl. the options of the person to challenge the work ability assessment decision) and provision of labour market services to persons with reduced work ability on 1 July 2016. Attention was also given to the preparedness of the Estonian Unemployment Insurance Fund to offer services to employers;
- Preparedness of the Estonian National Social Insurance Board to offer technical aids and provide services to working-aged persons with reduced work ability and disabled persons;
- Role of the Labour Inspectorate in the work ability support system and upon carrying out preceding preparations.

The audit did not assess the procedure of paying work ability allowance nor how persons with reduced work ability cope. The audit also did not separately assess the financing model or financing principles of local authorities. The structure of the audit together with the approach have been provided in figure 4.

Figure 4. Structure and approach of the audit



Audit methodology

The audit used the so-called desk study methodology: it analysed the surveys, reviews, opinions, legislations and explanatory memorandums to the draft legislation and the documentation submitted by the Ministry of Social Affairs concerning the work ability reform for 2012–2016. The team also held interviews with the representatives of institutions and parties who participated or are participating in implementing the work ability reform. The analysis used the data of the Estonian Unemployment Insurance Fund, Estonian National Social Insurance Board, Statistics Estonia and Eurostat. Detailed overview of the materials used in the course of the audit is provided in table 1 and the interviews carried out in table 2.

Table 1. Materials used in the audit

Type of data	Sources
Statistics	■ Estonian Unemployment Insurance Fund ■ Eurostat ■ Ministry of Social Affairs ■ Estonian National Social Insurance Board ■ Statistics Estonia ■ Labour Inspectorate
Surveys, analyses	1. Ain Aaviksoo, Priit Kruus, Lauri Leppik, Riina Sikkut, Vootele Veldre, Andres Võrk. Sotsiaalkindlustussüsteemi jätkusuutliku rahastamise võimalused [Opportunities for sustainable financing of the Estonian social insurance system]. Praxis Centre for Policy Studies, 2011 2. Ain Aaviksoo, Priit Kruus, Lauri Leppik, Harles Luts, Hans Maarse, Mikk Medijainen, Riina Sikkut, Ralf-Martin Soe, Vootele Veldre, Andres Võrk. Eesti sotsiaalkindlustussüsteemi jätkusuutliku rahastamise võimalused [Opportunities for sustainable financing of the Estonian social insurance system]. Praxis Centre for Policy Studies, 2011 3. Evelin Aaviksoo, Anneli Einroos, Ülle Lahe, Tiia Piho, Viive Pille, Karin Sarapuu, Ahe Vilks. Tööealise tervisekahjustusega isiku töövõime hindamise metoodika [Methodology for assessing work ability of a working-aged person with health damage]. Estonian Association of Occupational Health Physicians, 2013 4. Mari Amos, Märt Masso, Margit Partei, Miko Tammiku, Vootele Veldre. Töövõimekao hüvitamise süsteem Eestis ja rahvusvaheline võrdlus [System of compensating reduced work ability in Estonia and international comparison]. Praxis Centre for Policy Studies, Ministry of Social Affairs, 2015 5. Eestile tehtud Euroopa Liidu Nõukogu soovitusel [Recommendations of the Council of the European Union to Estonia]. Council of the European Union, 2012. http://register.council.europa.eu/pdf/en/12/st11/st11251.en12.pdf 6. Eestile tehtud Euroopa Liidu Nõukogu soovitusel [Recommendations of the Council of the European Union to Estonia]. Council of the European Union, 2014. http://ec.europa.eu/europe2020/pdf/csr2014/csr2014_council_estonia_et.pdf. 7. Riikliku reformikava ja stabiilsusprogrammi hindamine [Assessment of the national reform schedule and stability programme]. Working document of the European Commission Department. European Commission, 2012 8. Janno Järve, Hella Kaldaru, Marina Karpištšenko, Juhan Kivirähk, Kristel Merusk, Reijo Pohl, Alo Raun, Vaike Vainu. Teadlikkus ja hoiakud vähenenud töövõimega inimeste ning töövõimereformi teemal. Töövõimetuspensionäride, elanikkonna ja tööandjate küsitluse koondraport [Awareness and attitudes regarding persons with reduced work ability and work ability reform. Summary report of the survey of persons receiving pension for incapacity for work, population and the employers]. Ministry of Social Affairs, Turu-uuringute AS, 2015–2016 9. Mari Kreitzberg, Kristiina Kamenik, Hede Sinisaar. Töövõime hindamise metoodika piloteerimise tulemuste analüüs [Analysis of the results of piloting the methodology for assessing work ability]. Ministry of Social Affairs, 2015 10. Maris Lauri, Eve Telpt, Andrus Saar, Eneli Siirmann, Irina Strapatšuk, Marina Suhhoterina, Reelika Vahopski. Töövõimetuse seaduse mõjuanalüüs – eelhindamine [Impact analysis of Work Ability Allowance Act – preliminary assessment]. Saar Poll, Ministry of Social Affairs, 2014 11. Merle Muda. Rahvusvaheliste praktikate analüüs tööandja tegevuste kohta tervises seisundist tingitud piiratud töövõimega töötajate töö hoidmiseks ja nende töökoha säilitamiseks [Analysis of international practices with regard to the activities of an employer for maintaining employees with limited work ability due to the state of health and maintaining their position], European Social Fund, 2014 12. OECD Review of Labour Market and Social Policies: Estonia. OECD, 2010 13. OECD Economic Surveys: Estonia. OECD, 2012 14. Anneli Rasu. Sotsiaalteenuste arendamine maakondades 2016–2020 [Developing social services in counties 2016–2020]. Regional development centres, Ministry of Social Affairs, 2016 15. Sickness, Disability and Work: Breaking the Barriers. OECD, 2010 16. Documents concerning the preparation of the work ability reform sent by the Ministry of Social Affairs during the period 2012–2016 17. Transforming Disability into Ability. Policies to Promote Work and Income Security for Disabled People. OECD, 2003 18. Vootele Veldre, Märt Masso, Liina Osila, Priit Kruus. Töövõimetuse hindamine, asendussissetuleku võimaldamine ja tööalane rehabilitatsioon Eestis ja viies Euroopa Liidu riigis [Assessing incapacity for work, enabling replacement income and work rehabilitation in Estonia and in five European Union states]. Praxis Centre for Policy Studies, 2012

Legislations	- Regulation (EC) No 883/2004 of the European Parliament and of the Council, 29 April 2004 - Social Benefits for Disabled Persons Act (RT I, 23.03.2015, 268) - Convention on the Rights of Persons with Disabilities and its Optional Protocol (RT II, 04.04.2012, 6) - State Pension Insurance Act (RT I, 10.03.2015, 26) - Act to Amend the Social Welfare Act, Labour Market Services and Benefits Act and Other Acts (RT I, 13.12.2014, 2) - Social Tax Act (RT I, 19.03.2015, 64) - Work Ability Allowance Act (RT I, 13.12.2014, 1) - Occupational Health and Safety Act (RT I, 26.02.2015, 17) - Labour Market Services and Benefits Act (RT I, 30.06.2015, 28)
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Table 2. Persons interviewed in the course of the audit

Institution	Date	Name and position
Ministry of Social Affairs	1 April 2016	Siiri Otsmann – Head of Department at the Employment Department Katre Pall – Head of Department at the Social Security Department Arne Kailas – Head of Work Ability Policy, Employment Department Raimo Saadi – Head of State Measures, Social Welfare Department Karin Volmer – Head of Communication
Ministry of Social Affairs	19 May 2016	Raimo Saadi – Head of State Measures, Social Welfare Department
Ministry of Social Affairs	24 May 2016	Lii Pärj – Adviser at the Employment Department Anu Irval – Head of Benefit Policy, Social Security Department
Ministry of Social Affairs	15 June 2016	Siiri Otsmann – Head of Department at the Employment Department Katre Pall – Head of Department at the Social Security Department Mari Kreitzberg – Analyst at the Analysis and Statistics Department Merlin Tatrik – Head of Structural Funds at the Strategy and Budget Management Department
Estonian National Social Insurance Board	15 March 2016	Liivi Evartson – Deputy Director General Airu Nõmm – Rehabilitation Adviser Merlin Veinberg – Technical Aids Adviser Liis Sild – Head of Social Services at the Social Services Division
Labour Inspectorate	4 March 2016	Meeli Miidla-Vanatalu – Deputy Director General in the field of inspection of labour relations and law
Estonian Association of Caregivers	4 March 2016	Tiina Kangro – Member of the Management Board
Estonian Unemployment Insurance Fund	17 March 2016	Pille Liimal – Member of the Management Board Gerli Aas – Development Manager
Association of Estonian Municipalities	17 May 2016	Maiis Kaljula – Adviser in the field of law and social affairs
Association of Estonian Cities	19 May 2016	Jüri Võigemast – Managing Director Hille Ilves – Adviser Anne Läns – Adviser
Estonian Employees' Unions' Confederation (TALO)	12 May 2016	Ago Tuuling – Chairman of the Board
Estonian Employers' Confederation	9 May 2016	Piia Simmermann – Solicitor
Estonian Chamber of Commerce and Industry	10 June 2016	Mait Palts – Director General

Time of completing the audit

Procedural acts of the audit were concluded in June 2016 and the audit was specified until January 2017.

Audit team

The audit team comprised the audit manager Mart Vain, auditor Triin Jõelet and auditor Urve Kask.

Contact information

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Electronic copy (pdf) of the audit report is available on the website www.riigikontroll.ee.

Summary of the audit is also available in English.

Audit report number in the administrative system of the National Audit Office of Estonia is 2-1.7/17/70110/15.

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Earlier audits of the National Audit Office of Estonia in the field of supporting persons with reduced work ability and disabled people

21 February 2014 – **Sustainability of state's pension policy**

18 October 2010 – **The state's activities upon supporting disabled people and persons receiving pension for incapacity for work**

All reports are available on the website of the National Audit Office of Estonia www.riigikontroll.ee

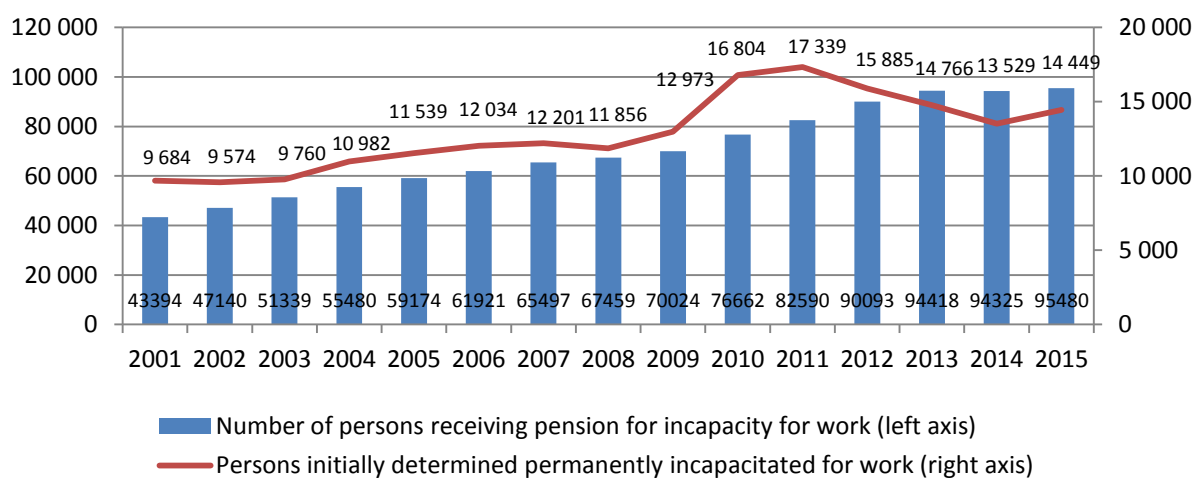
Appendix A. Overview of the area

Persons with permanent incapacity for work

According to the data of Statistics Estonia, there were 97,459 persons receiving pension for incapacity for work⁶³ in Estonia as at 1 January 2016, who comprised 11% of 15–64-year-olds (12% of 15–62-year-olds). The number of persons receiving pension for incapacity for work has increased year by year, and so there are 27% more persons receiving pension for incapacity for work in comparison to 2010. Every year, 13,000–14,000 persons are declared permanently incapacitated for work for the first time⁶⁴; more than half of them are 30–54 years old. As such, they are people in their prime working age. The median age of persons receiving pension for incapacity for work is 51 years. According to the data of the Estonian National Social Insurance Board, disability has been determined for 50,476 of persons receiving pension for incapacity for work, i.e. approximately for half of all persons receiving pension for incapacity for work, as at 31 December 2015.⁶⁵

The number of persons declared permanently incapacitated for work for the first time has also seen a growing trend. The exponential growth and subsequent fall in 2009–2012 (see figure 1) indicate the fact that during the economic crisis, permanent incapacity for work was probably not determined solely on the state of health and the ability of the person to be active on the labour market, but rather on the need to ensure an income. This is also indicated by the regional connections between unemployment and the number of persons receiving pension for incapacity for work and the interdependence between unemployment and the rate of incapacity for work that has been explained in more detail in the impact analysis of the Work Ability Allowance act.⁶⁶

Figure 1. Persons receiving pension for incapacity for work and number of persons declared permanently incapacitated for work for the first time in 2001–2015



Source: Statistics Estonia

⁶³ Person receiving pension for incapacity for work is a 16-year-old to retirement-aged person who has a decision of permanent incapacity for work made with regard to them and whose incapacity for work is at least 40% and who has a legitimate length of service for granting work ability allowance. The number does not include the approx. 4,000 persons with a valid decision of permanent incapacity for work who do not have the required length of service, which is why they have been granted national pension due to incapacity for work pursuant to the State Pension Insurance Act.

⁶⁴ The number of persons declared permanently incapacitated for work for the first time also includes persons whose extent of incapacity for work is 10–30%, i.e. persons who are not included among persons receiving pension for incapacity for work.

⁶⁵ In order to have disability determined for them, a person shall have to submit an application to the Estonian National Social Insurance Board and a disability is determined on the basis of the data of the health information system (if necessary, additional information is requested from health care institutions). The decision to determine disability, incl. severity of disability (moderate, severe and profound), is made by the expert doctors of the Estonian National Social Insurance Board.

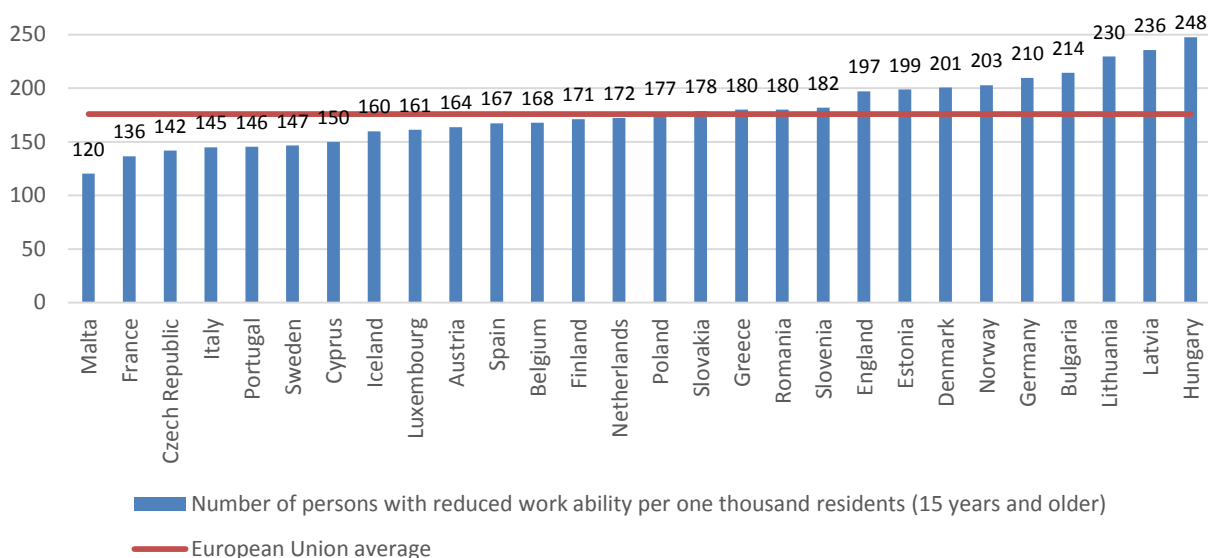
⁶⁶ Impact analysis of the Work Ability Allowance Act – preliminary assessment. Saar Poll OÜ, 2014. http://www.sm.ee/sites/default/files/contenteditors/Ministeerium_kontaktid/Uuringu_ja_analuusid/Sotsiaalvaldkond/tvk_semojua_nalyys_eessonaga.pdf.

The number of 15-year-old and older persons with limited work ability due to a long-term illness in relation to the population of the same age is higher than the average of EU states, and this also means a higher burden on the social insurance system (see also figure 2).

The Organisation for Economic Co-operation and Development (OECD) has in 2010 drawn attention to the growing trend of determining permanent incapacity for work in Estonia.⁶⁷ There are 10% more persons who have left the labour market in Estonia with health damage in comparison to the average of the EU, the number of persons receiving pension for incapacity for work has nearly doubled over the last ten years and the currently applicable system has not motivated persons who have become incapacitated for work to return to the labour market.⁶⁸ On the one hand, this means a decrease in revenue for the state (persons are partially or fully exiting the labour market) and, on the other hand, increase in expenses (expenses of work ability allowances and pensions for incapacity for work increase). Based on the aforementioned, the OECD has recommended changing the system.⁶⁹

In 2012, the Council of the European Union also recommended Estonia for the first time to improve the work incentives of the population thanks to the flexibility of granting and more purposeful targeting of work ability allowances.⁷⁰

Figure 2. Number of persons with reduced work ability⁷¹ per one thousand 15-year-old and older individuals in comparison to EU member states in 2012



Source: Eurostat

The number of persons receiving pension for incapacity for work in counties differs multifold: while there were 66 persons receiving pension for incapacity for work per 1,000 individuals at the age of 15–64 years in Harju County, the respective indicator in Põlva County was 222, i.e. the difference was greater than triple (see figure 3). This, in turn, significantly affects the preparedness and ability of local authorities to offer relevant social services, because the differences between counties are amplified in the comparison of local authorities (see figure 1 in the main text of the report).

⁶⁷ OECD Reviews of Labour Market and Social Policies: Estonia 2010, http://www.oecd-ilibrary.org/employment/oecd-reviews-of-labour-market-and-social-policies-estonia-2010_9789264082120-en.

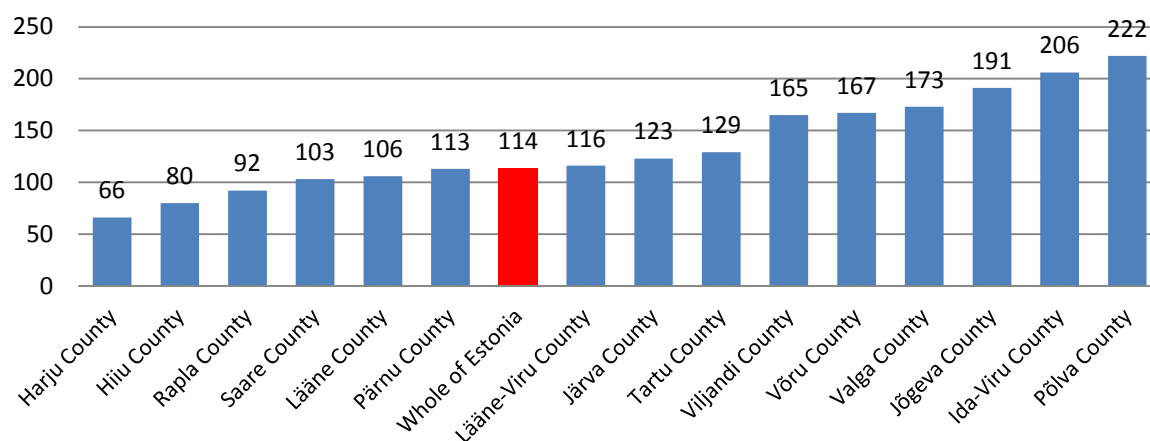
⁶⁸ Opportunities to exit the incapacity for work system include the improvement of the state of health and work ability, transitioning to old-age pension, the person's own decision to give up on submitting a new application, death. The main reason has been transitioning to old-age pension.

⁶⁹ OECD Economic Surveys: Estonia 2012, http://www.keepeek.com/Digital-Asset-Management/oecd/economics/oecd-economic-surveys-estonia-2012_eco_surveys-est-2012-en#page1.

⁷⁰ See http://ec.europa.eu/europe2020/pdf/csr2013/estonia/csr2013_council_estonia_et.pdf.

⁷¹ Persons with a long-term disease limiting work ability according to the survey data of the workforce survey

Figure 3. Number of persons receiving pension for incapacity for work⁷² by counties per 1,000 individuals (15–64-year-olds) as at 1 January 2016



Source: Statistics Estonia

OECD has found in the course of analysing incapacity for work (2003)⁷³ that the most effective policy for integrating people on the labour market is looking at the person's health disorder separately from the person's ability to work, recognising the obligations of the people and employers and binding the payment of an allowance to the obligation to participate in active labour measures. Establishing an activity requirement in order to receive an allowance is a common practice in states that have reformed the administration of work ability (e.g. Sweden, Finland, Denmark, the Netherlands, United Kingdom).

In Estonia, too, the fundamental prerequisite for receiving work ability allowance as a result of the work ability reform is compliance with activity requirements. In order to receive work ability allowance, a person with partial incapacity for work must be registered as an employed person and participate in active labour market measures, acquire an education, raise a child under the age of 3 years or be employed.⁷⁴ The Estonian Unemployment Insurance Fund also has the right to suspend or terminate the payment of the allowance in case of failure to comply with the activity requirements in the event of partial work ability.

Activity requirements are not applicable in the event that the person has full incapacity for work – in this case, the person does not have to be active on the labour market, incl. look for a job, in order to receive work ability allowance. In the event that a person incapacitated for work wishes to find a job with the help of the Estonian Unemployment Insurance Fund, the person may be sent to receive labour market services, but receiving work allowance ability is not dependent on this.

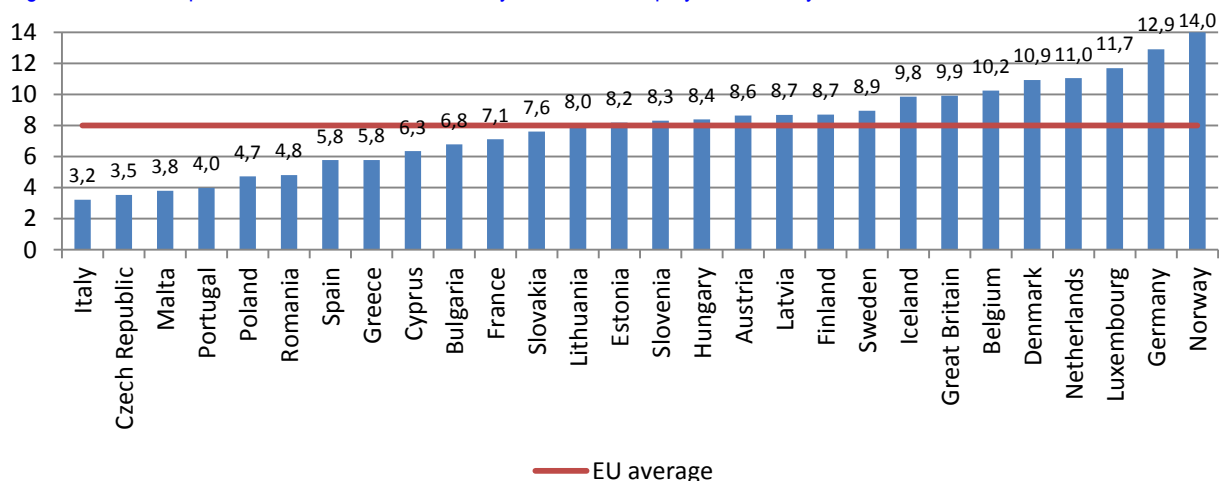
In international comparison, the participation of Estonian persons with reduced work ability is at an average level. According to the data of 2012, the share of employed persons with reduced work ability in Estonia constituted 8.2% of all employed persons. This indicator places Estonia above the EU average level (8.0%), but still behind the Nordic countries (Finland, Sweden, Norway, Denmark) (see figure 4).

⁷² The number does not include the approx. 4,000 persons with a valid decision of permanent incapacity for work who do not have the required length of service, which is why they have been granted national pension due to incapacity for work pursuant to the State Pension Insurance Act.

⁷³ Transforming Disability into Ability. Policies to Promote Work and Income Security for Disabled People. OECD, 2003

⁷⁴ See also section 12 "Right to receive work ability allowance" of the Work Ability Allowance Act, <https://www.riigiteataja.ee/akt/113122014001>.

Figure 4. Share of persons with reduced work ability of the total employment rate by member states in 2012



Source: Eurostat

According to the data of Statistics Estonia, 52,500 people of all 20–64-year-old persons with reduced work ability were working in Estonia in 2015, which constitutes 8.6% of all employed persons. There were 6,400 unemployed persons among persons with reduced work ability. 51,400 persons whose incapacity for work fell in the range of 40–100% were employed. In 2010–2015, the employment rate of persons with a 40–100% incapacity for work has increased by 15.9 percent. Employment rate in 2015 was 49%. According to the data of the Estonian National Social Insurance Board, approximately 54% of persons receiving pension for incapacity for work, i.e. 54,145 people, earned income from work in 2015.⁷⁵

Nearly half (48.8%) of employed persons receiving pension for incapacity for work have worked for the entire year in 2015, nearly one-quarter (24.3%) of persons receiving pension for incapacity for work worked for 1–6 months per year, and more than one-quarter (26.9%) of persons receiving pension for incapacity for work worked for 7–11 months.⁷⁶ This structure has held more or less for four years, the number of persons who worked for 1–6 months has slightly decreased and the number of persons receiving pension for incapacity for work who worked for 12 months has slightly increased. Therefore, there are nearly half of those among persons receiving pension for incapacity for work with long-term employment relationship and the rest work during shorter periods of employment, and they may also have seasonal jobs. The average gross wages of persons receiving pension for incapacity for work who worked throughout the whole year were 730 euros per month, the gross wages of persons who worked for 7–11 months were, on average, 892 euros per month, and the gross wages of persons who worked for 1–6 months were, on average, 986 euros per month.⁷⁷ At the same time, average gross wages in Estonia were 1,065 euros.

Opinion polls⁷⁸ have indicated that more than 80% of employed persons receiving pension for incapacity for work were employed before incapacity for work was determined. However, it's foremost persons with smaller incapacity for work and persons with a diagnosis of illness not caused by an accident or regular employment that work. As such, employed persons receiving pension for incapacity for work may qualify

⁷⁵ Database of Statistics Estonia reflects the Estonian annual averages of the workforce survey, data acquired through surveys; data of the Estonian National Social Insurance Board are registry-based, and the differences in data are, among others, due to the differences of the age group.

⁷⁶ Database of the Estonian National Social Insurance Board as at 31 December 2015

⁷⁷ Gross wages have been derived on the basis of social tax paid on wages as follows: amount of social tax / 0.33 = gross wages.

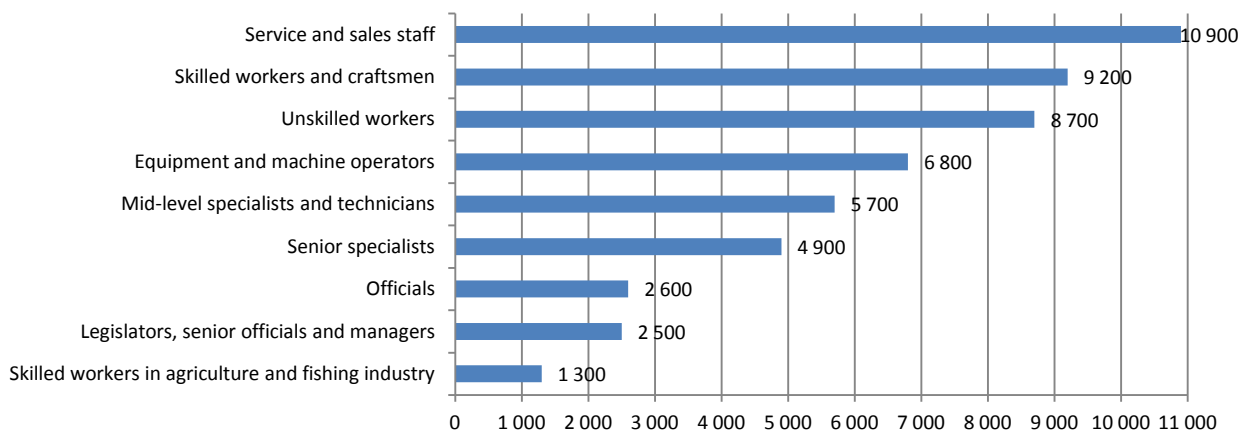
⁷⁸ Awareness and attitudes regarding persons with reduced work ability and work ability reform. Ministry of Social Affairs, Turu-uuringute AS, 2015/2016. http://sm.ee/sites/default/files/content-editors/Uudised_pressiinfo/2015_tvr_koondraport_lopl.pdf; Effect of working conditions and the working environment in the determination of temporary and permanent incapacity for work: final report. Centar, 2015. http://sm.ee/sites/default/files/content-editors/Ministeerium_kontaktid/Uuringu_ja_analuusid/Toovaldkond/centar_uuringu_loppraport.pdf.

as capable for work according to the new terms and conditions of assessing work ability and, so to say, exit the system of incapacity for work to a greater degree.

According to the data of Statistics Estonia, the majority of 20–64-year-old persons with reduced work ability work in the private sector; a total of 40,000 of them were employed in the private sector in 2015. The number of persons with reduced work ability working in the private sector has more than doubled during the period 2010–2015. The number of persons employed in the public sector was increasing until 2014. In 2015, the number of persons with reduced work ability employed in the public sector has decreased in comparison to the previous year, reaching 12,500 people. The reason for this may be that employees were made redundant in the course of a state reform, which may also have affected the number of persons with reduced work ability in the public sector.

In the private sector, persons with reduced work ability mostly work in the service sector: 28.5% in another service sector, 25.1% in wholesale and retail business. 22.7% of all employed persons receiving pension for incapacity for work were working in the processing industry. The number of persons receiving pension for incapacity for work who are employed in other areas of activity is significantly smaller. By occupation, the greatest number of persons receiving pension for incapacity for work are employed as service and sales staff, followed by skilled workers and craftsmen and unskilled workers (see figure 5).

Figure 5. Number of employed persons with reduced work ability by occupations in 2015

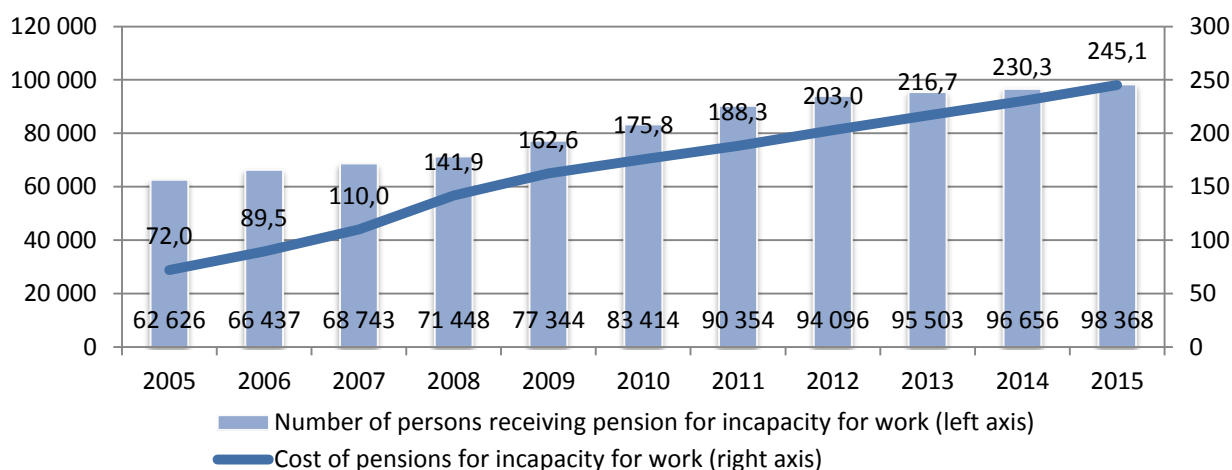


Source: Statistics Estonia

Changes to be made with the work ability reform

Due to demographic changes, the number of working-aged persons is decreasing and endangering the revenue base of different social insurance schemes. If we take a look at the sums spent on paying out pensions for incapacity for work every year, we can see that the incapacity for work scheme has become a very quickly growing source of cost. The costs depend both on the number of persons receiving pension for incapacity for work and the nominal value of pensions for incapacity for work and the annual indexation thereof. While there were 77,344 persons receiving pension for incapacity for work in Estonia in 2009, the number was already 98,368, i.e. nearly 30% higher, in 2015. At the same time, expenses on pensions for incapacity for work increased by more than 50%. The aforementioned was also an important motivation for implementing the work ability reform (see figure 6).

Figure 6. Number of persons receiving pension for incapacity for work⁷⁹ together with expenses on pensions for incapacity for work in 2005–2015, million euros



Source: Estonian National Social Insurance Board

The objective of the work ability reform⁸⁰ is to update the way incapacity for work is currently addressed: permanent incapacity for work scheme that is based on the national pension insurance is replaced with a work ability support scheme. Additionally, the procedure for receiving rehabilitation and technical aids changed at the start of 2016, testing the sheltered employment service launched and the selection of labour market services was improved according to the needs of persons with reduced work ability. These activities are aimed at achieving the main objective of the reform – to help persons with reduced work ability find work to a higher degree. See the most important changes in detail also in table 1.

Table 1. Comparison of the most important differences between the permanent incapacity for work scheme and the new work ability support system

PERMANENT INCAPACITY FOR WORK SYSTEM UNTIL 30 JUNE 2016	NEW WORK ABILITY SUPPORT SYSTEM AS OF 1 JULY 2016
The extent of incapacity for work is determined according to the disease or diagnosis. Focus is on the reduced work ability, i.e. what the person can no longer do. Incapacity for work is determined according to whether incapacity for work enables continuing work at the same position.	A disease or a diagnosis does not automatically mean inability to work. Focus is on the remaining work ability and assessment concerns what the person is capable of doing. The work that the person is capable of doing according to their limitations to work ability is taken as a basis.
Level of incapacity for work is determined in percentages (10–100%). A decision regarding the level of incapacity for work is made with a term of six months to five years.	Percentages are abandoned. Reassessment is carried out (earlier 100% incapacity for work may not mean full incapacity for work in the new system). It is assessed whether the person has: - work ability; - partial work ability – working is partially hindered due to the state of health or limitations arising therefrom; or - no work ability – the person is unable to work. A decision regarding the level of incapacity for work is made with a term of six months to five years. The validity of the decision can be extended up to retirement age if the person's condition excludes work ability and, considering the nature and presumed duration of the person's health damage, their condition will not change or is progressive.

⁷⁹ The number of persons receiving pension for incapacity for work does not include persons receiving national pension due to incapacity for work; data of the Estonian National Social Insurance Board reflect the status at the end of the IV quarter every year.

⁸⁰ Recommendation of the Minister of Social Affairs to restructure the pension for incapacity for work scheme into an insurance against incapacity for work was approved at the meeting of the government cabinet on 5 April 2012. Principles of the work ability support system and the subsequent agenda of the reform were approved at the cabinet session of 6 June 2013 of the Government of the Republic (Ministry of Social Affairs, 2013).

Person receiving pension for incapacity for work is not required to work or look for work in order to receive pension for incapacity for work. Working and looking for work do not affect the receipt of pension for incapacity for work nor the amount of pension.	Person with partial work ability must work or perform other activity requirements in order to receive an allowance. In case of unemployment, the person must be registered at the Estonian Unemployment Insurance Fund as an unemployed person looking for work and participate in activating activities. Raising a child under the age of 3 years and studying is also considered to be compliance with the activity requirement. Other activity requirements are provided in section 12 of the Work Ability Allowance Act. Registered unemployed person with reduced work ability must, similarly to other persons registered as unemployed, comply with the action plan and in the event of a repeated violation of the activity requirements provided in the Labour Market Services and Benefits Act, the Estonian Unemployment Insurance Fund shall have the right to terminate the registration of the person as an unemployed person, which, in turn, will lead to the expiry of the grounds for paying work ability allowance.
Administrating institution that the person should turn to is the Ministry of Social Affairs who - assesses incapacity for work; - pays allowances.	Administrating institution that the person should turn to is the Estonian Unemployment Insurance Fund who - assesses incapacity for work; - pays allowances; - helps to find suitable work, incl. offers labour market services.
Only persons with regard to whom a disability has been determined receive rehabilitation. An exception is a person with psychological special needs with regard to whom determining at least a 40% permanent incapacity for work is sufficient. This system was applicable until the end of 2015.	Persons without a disability who have a reduced work ability also receive rehabilitation.
The amount of pension for incapacity for work is tiered and depends on the percentage of incapacity for work (40–100%).	Work ability allowance is paid in two amounts: - full amount to those with no work ability (337 euros per month); - half amount to those with a partial work ability (192 euros per month).
The amount of wages does not affect the amount of pension for incapacity for work.	Allowance to be paid to a person with partial or no work ability depends on the person's monthly income. If the person's income exceeds a certain level (approx. 1,012 euros in the preceding month), the allowance granted to the person is reduced.
Pension for incapacity for work is indexed annually (analogous to a pension index).	In the future, the amount of work ability allowance will increase with the same pace as the pension for incapacity for work did currently.⁸¹

Source: Work Ability Allowance Act; Saar Poll OÜ, specifications of the Ministry of Social Affairs

⁸¹ Pursuant to subsection 14 (2) of the Work Ability Allowance Act, the Estonian Health Insurance Fund shall index the amount of daily rate on 1 April each year by the index of state pensions established on the basis of subsection 26 (6) of the State Pension Insurance Act based on the daily rate in force on 31 March of the given calendar year. Upon calculation of the daily rate, the amount shall be rounded after indexation to the accuracy of one cent.

Appendix B. Services supporting looking for work and working offered by the Estonian Health Insurance Fund, Labour Inspectorate, the Estonian National Social Insurance Board and local authorities

Table 1. Specific services of the Estonian Unemployment Insurance Fund for persons with reduced work ability

Name of the service	Content of the service
Assistance at a job interview	Assisting an interview with an employer that is generally organised by a case manager of the Estonian Unemployment Insurance Fund. This may be necessary in case of hearing or speech impediments as well as other communication barriers. Assistance may be provided by a specialist, an employee of the Estonian Unemployment Insurance Fund or a volunteer.
Sheltered employment	Sheltered employment is, above all, intended for people who are not ready to immediately commence work due to a disability or state of health, which prevents them from working under normal working conditions, and who require constant guidance to find and start a job. Sheltered employment means that a person with reduced work ability can work within their abilities at the appropriate pace in a disability-friendly working environment that provides the necessary guidance, advice and assistance. Sheltered employment prepares the individual to secure employment on the open labour market and provides support to start a job and at the beginning of the work period. As a result of sheltered employment, the individual is able to work on the open labour market either independently or with the help of a support person. The service of sheltered employment is provided to an individual registered as unemployed who ■ has been declared permanently incapacitated for work under the State Pension Insurance Act or established as having partial work ability under the Work Ability Allowance Act or a disability under the Social Benefits for Disabled Persons Act; ■ is unable to immediately work on the open labour market due to decreased productivity and the need to receive extensive work and social guidance as a result of their state of health or a disability; ■ is able to perform work with a specific purpose for around at least 20 hours per week (4–5 hours per day). The person is not required to be able to work 20 hours per week at the beginning of the service – the goal is to be able to do this after a minimum of one year.
Peer support	Peer support is, first and foremost, for people who need the support of an individual with a similar disability or illness to resolve their problems. The objectives of peer support are to support the client in coping with their disability or illness, to boost their motivation and self-confidence and to prepare them for job seeking and working life or the continuation of work. The target group of the service is unemployed persons with reduced work ability, jobseekers who are studying or who have received a notice of dismissal and those who are already employed. Peer support may be needed, above all, by individuals whose health has (unexpectedly) deteriorated or who are facing difficulties due to a disability or illness. Peer support is the exchange of knowledge, experience and advice between individuals with a similar disability or illness. The adviser must have a similar disability or illness to the person they advise and they must have received peer support training. Peer support includes 1) emotional, social and practical support based on experience, as the peer supporter shares the knowledge and experience which helped them cope in a similar situation; 2) empowerment, i.e. finding opportunities and solutions and building up the ability to organise their life as independently as possible; 3) the provision of advice on how to cope with a health problem; 4) sharing work experience, encouraging and motivating the client to find a job or continue working; 5) if necessary, providing advice on and recommending appropriate technical aids and teaching how to use them; 6) advice may be provided individually and in groups.
Working with a support person	If an individual needs further help and guidance when starting work, we offer the help of a support person. The support person will provide the individual with guidance and help if the individual is having difficulties starting work, fitting in with staff or understanding or learning their duties (e.g. due to memory problems), but they will not perform the duties for the individual. The service is applied for from the Estonian Unemployment Insurance Fund by the employer, and the individual will be assigned a suitable support person with input from the individual. The support person may be, for example, a co-worker or someone suitable from outside of the workplace. The Estonian Unemployment Insurance Fund pays a fee (2.56 euros per hour in 2016) to the support person providing the service. If the employment or service relationship has been entered into for an unspecified term, a support person can assist the individual for up to 1,000 hours in the course of one year. An employment relationship that has been entered into for a specified term must last at least six months in order to use a service of working with a support person. If, upon performing work, the individual continues to need the guidance of a support person due to reduced work ability after one year, the service may continue to be provided for

	up to a quarter of the working time of the person with reduced work ability per month.
Work rehabilitation	Work rehabilitation is for people who are facing several hindrances due to a disability or illness and who require the help of different specialists and the rehabilitation team in order to start work or continue working. Work rehabilitation prepares the individual for working life and supports the individual in starting work or working. The target group of work rehabilitation is individuals of working age (i.e. persons between the age of 16 and retirement age) with reduced work ability who have a disability or permanent incapacity for work or partial work ability and who occupy a position (employees, students, entrepreneurs or conscripts) or are seeking work (registered as unemployed). Work rehabilitation may be needed, for example, to improve mobility skills or speech, to learn to use technical aids and to resolve psychological problems. Advice may also be needed to gain motivation and boost self-confidence and to learn to cope with a disability or illness on a daily basis. If necessary, the rehabilitation team can help the individual integrate into working life by providing advice to the employer on how to organise work more suitably or adjust the working environment
Technical aid necessary for work	If, due to the disability or decreased working ability, an individual is unable to perform duties using the employer's equipment, the Estonian Unemployment Insurance Fund will lend the individual, free of charge, the technical aid necessary to carry out the work. A case manager from the Estonian Unemployment Insurance Fund assesses the need to use the technical aid in performing duties and identifies the most suitable technical aid for the individual. Technical aid will be at the disposal of the individual until the end of the employment relationship, but initially for no longer than three years. The contract for the use of technical aid may be extended if the individual still needs to use the equipment to perform their duties. The technical aid that the individual needs both at work and in the daily life can be applied for from the Estonian National Social Insurance Board.
Commuting benefits	If an individual is unable to commute to work by public transport due to a disability or illness and has to use a private car, taxi or special transport, the Estonian Unemployment Insurance Fund will partially compensate additional commuting costs. The costs will be compensated if this is necessary in order for the individual to start work or continue working. To apply for commuting benefits, the individual has to submit an application to the Estonian Unemployment Insurance Fund. The application must include a justification as to why the individual is unable to use public transport to commute to work due to a disability or state of health. If the individual is already employed, further explanation as to how the individual has managed to commute to work to date should be provided. Commuting benefits are paid as of the day the individual starts work or, if the individual is already employed, the day the individual submitted the application. The benefits are granted if the person is working.
Travel cost compensation for an accompanying person	If, upon commuting by public transport, an individual needs the assistance of an accompanying person, the travel costs of the person who accompanies the individual to and from work are compensated. To apply for travel cost compensation, the accompanying person must submit an application to the Estonian Unemployment Insurance Fund. The application must include the details of the person with reduced work ability who is accompanied and a justification as to why they need an accompanying person in order to commute to work by public transport. Travel costs will be compensated to the person accompanying the individual if the individual who needs help is working on the basis of an employment contract or in the public service. Travel costs will be compensated for each day the service is required on the basis of original cost receipts, but no more than 26 euros per day. Travel costs of an accompanying person are compensated over the course of six months in a three-year period.
Support for continuation of employment	The Estonian Unemployment Insurance Fund supports employees with reduced work ability in order for them to continue working. If, due to special needs, an individual need help continuing to work, the individual has to contact a local office of the Estonian Unemployment Insurance Fund. A case manager from the Estonian Unemployment Insurance Fund will help assess possible solutions to any obstacles. The Estonian Unemployment Insurance Fund makes a decision based on the needs of the individual.

Source: Estonian Unemployment Insurance Fund

Table 2. Services and benefits of the Estonian Unemployment Insurance Fund for employers of people with reduced work ability

Name of the service	Content of the service
Advice and training	Providing advice and training to employers who are prepared to employ or who have already employed persons with disabilities or special needs but need knowledge and guidance to support them.
Wage subsidy	Wage subsidy is an allowance paid to an employer for employing an unemployed individual.
Social tax compensation for a person with reduced work ability	On 1 July 2016, the procedure for the compensation of social tax by the state for a person with reduced work ability changed. An employer who employs an employee with reduced work ability (an employee is established as having partial or no work ability or at least 40% permanent incapacity for work) can apply for a social tax incentive from the Estonian Unemployment Insurance Fund (see the content of the

	service in the following table 3).
Adjustment of workspaces and work equipment	If the employee has difficulties accessing their workspaces or using the work equipment provided, the Estonian Unemployment Insurance Fund will help adjust the workplace and work equipment in a way that makes them accessible and usable for the employee.
Compensation of employee's training costs	Training costs will be compensated to an employer if the employee is unable, due to a disability or their state of health, to continue their work and after completing retraining or in-service training the employer offers them a new job, or before starting work, the employee had been registered as unemployed for at least 12 months and now needs to develop their working knowledge and skills. The employer is also compensated for any additional training costs of an employee arising from the special needs of the employee (e.g. sign language interpretation costs).

Source: Estonian Unemployment Insurance Fund

Table 3. Universal labour market services offered to unemployed persons registered with the Estonian Unemployment Insurance Fund

Name of the service	Content of the service
Career counselling	Career counselling helps an individual make decisions on career development. The counselling includes issues and topics related to studying, work and professional choices.
Career information rooms	Career information rooms provide information on job-seeking and advice and support in making employment choices. The rooms can be found in all the offices of the Estonian Unemployment Insurance Fund.
Job search workshop	Three job search workshop talks about the labour market situation and job-seeking opportunities, teaches an individual how to prepare the necessary application documents, provides an individual with guidelines on what to do at job interviews and discusses other topics.
Job club	The goal of the job club is to prepare participants for job-seeking and working life and to provide an overview of the labour market situation and employment opportunities through supervised club activities. Participating in the job club allows an individual to share experiences and receive support from those in a similar situation and from the supervisor.
Provision of psychological counselling	Losing a job may cause emotions that prevent an individual from focusing on looking for a new job: quickly changing moods, anxiety and panic arising from the uncertain future.
Debt counselling	An individual's income decreases significantly after losing a job and unemployment insurance benefits and unemployment allowances are only paid temporarily. In order not to find themselves in debt or for their existing debts to escalate, an individual should rethink as quickly as possible how to cope with their loan commitments.
Addiction counselling	There are many people among the unemployed whose job-seeking and employment are hindered by their addiction problems. Counselling helps these people resolve the problems that they could focus on looking for a job, participate in the labour market services and prepare for a working life.
Work trial	A work trial offers the individual an opportunity to try out a job that has been offered to them. This reassures the employer that the applicant is suitable before entering into an employment contract. The work trial lasts for one day, and participation in the service must be agreed on with the Estonian Unemployment Insurance Fund before the trial starts.
Community work	Participating in community work gives an individual the opportunity to work with others in the interests of the community and helps them remain active, extend their social network, become motivated and boost their prospects for finding a job.
Work practice	Work practice helps restore working habits or form primary ones. Work practice includes simpler jobs which do not require special knowledge or for which the necessary skills can be acquired in the course of the work practice with the advice and guidance of a supervisor. During group work, job-seeking skills and social skills supporting job-seeking are developed, an overview of the local labour market is provided and visits to employers are arranged. Work practice usually lasts up to three months. The long-term unemployed or unemployed people with special social needs may participate in work practice for up to six months.
Work placement	Work placement gives an individual the necessary experience to find a job and improves professional knowledge and skills for securing employment. A work placement may last for up to four months, but the necessary skills and knowledge can be acquired over a shorter period.
Voluntary work	Voluntary work facilitates securing employment: it helps prepare an individual for working life, to gain new experiences, knowledge and skills, and to create or maintain working habits.
Public work	Public work is temporary paid work which does not require professional, special or occupational preparation and that may be organised by a local authority, non-profit association or foundation.

Business start-up subsidy	A business start-up subsidy is financial aid (in 2016 up to 4,474 euros) whose objective is to provide motivation and support in starting a business.
Training	The objective of labour market training is to provide the knowledge and skills needed to secure employment. Labour market training may last from one day up to one year. It is organised on the premises of the trainer or as distance training in the form of e-learning. The training that takes place on the premises of the trainer may cover both theory and practice. The participants taking part in training practice are not paid any remuneration. The training is usually conducted in groups.
Assistance for family caregivers/parents	If an individual is registered as unemployed and unable to participate in a labour market service or start a job because they are raising a child up to 7 years of age (inclusive) or caring for an immediate family member who is elderly or has disabilities, the Estonian Unemployment Insurance Fund can grant needs-based compensation for costs related to care and caregiving. Care service costs are compensated, where necessary, for every day of participation in a labour market service or for the first three months of employment for the number of days worked.
Wage subsidy	Wage subsidy is an allowance paid to an employer for employing an unemployed individual, the objective of which is to help a long-term unemployed person, youth, person with reduced work ability or a person who has been released from prison find employment. Wage subsidy may be applied for by a legal person, natural person or a local authority institution.

Source: Estonian Unemployment Insurance Fund

Table 4. Services offered by the Labour Inspectorate

Name of the service	Content of the service
Counselling service	The Labour Inspectorate provides free advice on implementing legislations regulating employment relationships to both employers and employees, doing so over the phone, via e-mail or during an appointment at the offices of the Labour Inspectorate. Counselling concerns issues arising from employment contract relationships such as entering into an employment contract, obligations of the employee and the employer, liability of the parties, remuneration, working and rest time, holiday, expiry and transfer of employment contract, and collective employment relationships. Counselling is conducted primarily as individual counselling and is confidential. Over the information hotline, a lawyer answers questions concerning the employment contract, working and rest time, holiday, remuneration and safety of the working environment, also questions concerning collective employment relationships. Disagreements that have arisen in the employment relationship are not discussed or resolved over the information hotline. Callers who inquire about more complicated issues and require more detailed explanations should turn to the local Inspectorate or submit their question in writing.

Source: Labour Inspectorate

Table 5. Services to persons with reduced work ability and/or disabilities offered by the Estonian National Social Insurance Board

Name of the service	Content of the service
Sheltered employment	Long-term sheltered employment service offered by the Estonian National Social Insurance Board is offered to a working-aged (from 16 years of age to retirement age) person with reduced work ability who meets all the following requirements: ■ severe, profound or permanent mental disorder, multiple disability, visual disability has been diagnosed, a brain trauma or disease causing brain damage has been incurred; ■ no work ability has been determined on the basis of the Work Ability Allowance Act, or the person has been declared partially (80–90%) or fully (100%) incapacitated for work on the basis of the State Pension Insurance Act. The sheltered employment service has been divided into three stages: <u>Stage I (up to six months)</u> Assessing work ability and establishing working skills includes ■ assessment and adjustment of the workplace and (re)distributing work functions according to the person's abilities; ■ continuous guidance and support upon performing work; ■ strengthening the social network and support of family members for supporting employment and counselling and guidance that supports employment in resolving social problems. <u>Stage II (without a specified term)</u> The service provider supports and guides employment in the course of long-term sheltered employment. Supporting, assisting, motivating, guiding an individual in order to receive services of the Estonian Unemployment Insurance Fund or to transition to the open labour market includes:

	■ continuous support and guidance upon working in the sheltered employment conditions with the objective of maintaining and developing working skills, restoring/developing work ability; ■ if possible, support upon transitioning from a sheltered position to the open labour market; ■ support and guidance according to the instructions of the employer and advice during work; ■ counselling the employer according to the abilities and special needs of an individual working for the employer; ■ counselling the social network and family members and improving the existing support. <u>Stage III</u> An individual is working on the open labour market and has entered into a contract with the employer. An individual who has transitioned to the open labour market is supported with the objective of maintaining the ability to work on the open labour market. Support service for working on the open labour market is offered to a person who has successfully completed the two first stages. During the first stage, the person receives a grant and commuting and accommodation benefits, and as of the second stage, remuneration and commuting and accommodation benefits.
Social rehabilitation	Social rehabilitation is a social service and the objective of it is developing the person's activity and participation ability in four areas of life: living, studying, working, social functioning and adjusting environmental factors restricting the person's operational capacity. The social rehabilitation service is a set of rehabilitation services, i.e. a complex service, offered on the basis of an action plan, rehabilitation plan or rehabilitation programme prepared in the course of determining the need for the service. The right to receive the social rehabilitation service applies to: a) children (up to 16 years of age) who have been determined to have a degree of disability and children (up to 16 years of age) for whom a rehabilitation plan is prepared in order to determine the degree of disability for the first time; 2) minors (up to 18 years of age) who have been sent to receive the service according to the decision of the juvenile committee; 3) working-aged person with no work ability in whom the Estonian National Social Insurance Board has determined the need for social rehabilitation service; 4) retirement-aged disabled person in whom the Estonian National Social Insurance Board has determined the need for social rehabilitation service; 5) disabled person prematurely receiving old-age pension in whom the Estonian National Social Insurance Board has determined the need for social rehabilitation service; 6) disabled person receiving allowance of a rescue worker waiting for old-age pension in whom the Estonian National Social Insurance Board has determined the need for social rehabilitation service; 7) working-aged person who has a disability or who has been deemed to be permanently incapacitated for work or whose category of disability has been determined for an unspecified term on the basis of the State Allowances Act or who has been determined to have partial work ability and who has been determined to be in need of social rehabilitation service in addition to meeting these criteria. These persons have the right to a social rehabilitation service, provided that they have not been registered as unemployed, are not working or studying.
Technical aid	Technical aids can be purchased or rented on the basis of a personal technical aid card. The basis for applying for a personal technical aid card is a medical certificate or the need for technical aid determined by the rehabilitation team. In case of certain technical aids (e.g. lower leg prostheses, wheelchairs, disability rollers), the need can be determined only by a medical specialist or a rehabilitation team. Person holding a valid personal technical aid card who has a valid medical certificate or a rehabilitation plan that indicates the name or description of the technical aid can promptly turn to any company selling or renting technical aids in Estonia. The following have the right to apply for technical aids: 1) a child of up to 18 years of age; 2) 18–63-year-old working-aged person in whom a 40% or higher incapacity for work has been determined; 3) 18-year-old and older disabled person for the purchase of self-care or protective technical aids; 4) 18-year-old or older working-aged person in whom a partial work ability or no work ability has been determined; 5) 63-year-old and older retirement-aged person; 6) person who requires a breast prosthesis; 7) person who requires an ocular prosthesis; 8) person in whom a loss of hearing from 30 decibels has been determined to purchase hearing aids and audio transmission systems. The state compensates the technical aid on the basis of the reference price thereof. For children and retirement-aged persons, the state share is paid from the state budget, for working-aged or 18–63-year-old persons from the European Social Fund. If the required technical aid is more complicated and more expensive, the person requires several technical aids or has difficulty paying their share, an application has to be submitted to the Estonian National Social Insurance Board for a special procedure. In comparison to the old system where applying for a more expensive and complicated technical aid could take 8–9 months, the application is now reviewed within 30 days and experts are involved if necessary.

Source: Estonian National Social Insurance Board

Table 6. Benefits of the Estonian National Social Insurance Board to an employer of a person with reduced work ability

Name of the service	Content of the service
Paying state social tax for persons receiving pension for incapacity for work ⁸²	The state pays social tax on behalf of an employee of a company, non-profit association, foundation or sole proprietor who is receiving pension for incapacity for work. The state pays social tax on behalf of an employee receiving pension for incapacity for work from the monthly rate provided in section 2 ¹ of the Social Tax Act (in 2015 from 355 euros and in 2016 from 390 euros). Social tax from the part that exceeds the monthly rate is paid by the company, non-profit association, foundation or sole proprietor. If the person receiving pension for incapacity for work has an employment relationship with several employers, the state pays social tax for the employer who calculates basic exemption upon withholding income tax.
Annual holiday of a person receiving pension for incapacity for work	It is presumed that the annual holiday of an employee receiving pension for incapacity for work or national pension on the basis of incapacity for work is 35 calendar days, provided that the employee and the employer have not agreed on a longer annual holiday or unless the law provides otherwise. The state is compensating for the share of annual holiday that exceeds 28 calendar days, i.e. 7 calendar days. In the event that the duration of the holiday is 35 calendar days or more for different reasons, for example, as provided in the collective agreement or on the basis of the Civil Service Act, the state will not pay for the additional holiday of 7 calendar days. The amount of holiday pay is calculated on the basis of the employee's six months' average remuneration per calendar day. The state compensation is intended for actual rest days. Unused holiday is not compensated from the state budget. The annual holiday of a person receiving pension for incapacity for work is taxed on the basis of the Income Tax Act. Social tax, unemployment insurance premiums and funded pension contributions do not have to be paid.

Source: Estonian National Social Insurance Board

Table 7. Services offered by local authorities⁸³

Name of the service	Content of the service
Domestic service	Domestic service is a social service organised by a local authority the objective of which is to ensure independent and safe coping of an adult in his or her home by maintaining and improving his or her quality of life. Upon provision of the domestic service, assistance is provided to a person in activities which the person is unable to perform without personal assistance but which are essential for living at home, and the person is also assisted in running errands outside the home.
General care service provided outside home	General care service provided outside the home of a person is a social service organised by a local authority the objective of which is to ensure a safe environment and coping of a person who is temporarily or permanently unable to cope independently at home due to reasons relating to state of health, operational capacity or physical and social environment. The service provider shall ensure care procedures and other activities and services determined in the care plan which support and ensure coping of the recipient of the service. In case of a service on a 24-hour basis, the service provider shall also ensure accommodation and catering of the recipients of the service in addition to care procedures.
Support person service	Support person service is a social service organised by a local authority the objective of which is to support the ability to cope independently in situations where a person needs significant personal assistance in performing his or her obligations and exercising his or her rights due to social, financial, psychological or health problems. Personal assistance includes guidance, encouragement, motivation and development of greater independence and responsibility of a person.
Personal assistant service	Personal assistant service is a social service organised by a local authority the objective of which is to increase the independent coping ability and participation in all areas of life of persons who need physical assistance due to a disability and reduce the care burden of the legal curators of the person receiving the service. Upon provision of the service, assistance is provided to the recipient of the service in activities for the performance of which the person needs physical assistance due to a disability.
Shelter service	Shelter service is a social service organised by a local authority the objective of which is to provide a place of temporary overnight stay to an adult who is unable to find a place of overnight stay. Beds, washing facilities and a safe environment shall be ensured at a place of temporary overnight stay.
Safe house service	Safe house service is a social service organised by a local authority the objective of which is to ensure temporary housing, a safe environment and basic assistance to a child or an adult who needs a safe environment. Upon provision of basic assistance, the person shall be ensured crisis assistance, if necessary, which restores the person's mental balance and operational capacity in everyday life and

⁸² As of 1 July 2017, paying social tax across Estonia went to the Estonian Unemployment Insurance Fund.⁸³ Services provided in the table are aimed at improving the coping of a person and preparing the person for entering the labour market, depending on the person.

	informed of other possibilities to receive assistance. Based on the age and needs of the person, his or her care and development shall also be ensured.
Social transport service	Social transport service is a social service organised by a local authority the objective of which is to enable a person, who suffers from a disability and whose disability hinders the use of a personal or public transport vehicle, to use a means of transport which corresponds to his or her needs in order work, study at an educational institution, etc.
Provision of dwelling	Provision of dwelling is a social service organised by a local authority the objective of which is to ensure the possibility to use a dwelling to a person who due to socio-economic situation is unable to provide a dwelling which corresponds to the needs of the person and his or her family. Persons who have difficulties moving about, caring for themselves or communicating in a dwelling as a result of a disability within the meaning of subsection 2 (1) of the Social Benefits for Disabled Persons Act shall be assisted by a rural municipality government or a city government in adapting their dwelling or in obtaining a more suitable dwelling. Ensuring the possibility to use a dwelling shall be based on the principle that the disabled person would be able to live at home for as long as possible.
Debt counselling service	Debt counselling service is a social service organised by a local authority the objective of which is to assist a person in resolving problems related to debts. Debt counselling service includes counselling and guidance of a person and prevention of further debts. In the case of a person with restricted active legal capacity, the service is provided to his or her legal representative on the basis of an application of the legal representative.
Family mediation service	Family mediation service is a social service offered by the local authority the objective of which is to help resolve conflicts between parents related to children and the mode of life of children with the help of an impartial person. The service is offered to parents who have not turned to the court to resolve conflicts in matters concerning the service.
Curatorship of adults	Curatorship of adults is a social service organised by the local authority. The local authority establishes curatorship for an adult who due to mental or physical disability needs assistance in the exercise of his or her rights and the performance of his or her obligations on the basis of an application of the person. The duties of a curator shall be determined upon establishment of the curatorship.

Source: Social Welfare Act

Appendix C. Two most common diagnoses among persons receiving pension for incapacity for work by local authorities in 2015

Table 1. Number of incidences of musculoskeletal and connective tissue disorders per 1,000 residents in local authorities: 10 local authorities with the highest and 10 local authorities with the smallest number of incidents

County	Local authority	Number of incidences of musculoskeletal and connective tissue disorders	County	Local authority	Number of incidences of musculoskeletal and connective tissue disorders
Harju	Viimsi	6	Viljandi	Mõisaküla	79
Rapla	Käru	6	Põlva	Mikitamäe	81
Harju	Harku	6	Viljandi	Tarvastu	82
Harju	Saku	8	Põlva	Räpina	89
Harju	Rae	8	Tartu	Piirissaare	95
Harju	Saue	8	Tartu	Kallaste	96
Harju	Kuusalu	8	Ida-Viru	Alajõe	103
Rapla	Järvakandi	8	Tartu	Meeksi	106
Harju	Kiili	10	Tartu	Mäksa	123
Harju	Raasiku	11	Tartu	Peipsiääre	163

Source: Estonian National Social Insurance Board, calculations by the National Audit Office of Estonia

Table 2. Number of mental and behavioural disorders per 1,000 residents in local authorities: 10 local authorities with the highest and 10 local authorities with the smallest number of incidents

County	Local authority	Number of mental and behavioural disorders	County	Local authority	Number of mental and behavioural disorders
Harju	Rae	6	Valga	Taheva	98
Harju	Viimsi	6	Põlva	Mooste	101
Hiiu	Emmaste	9	Tartu	Mäksa	109
Harju	Harku	9	Võru	Meremäe	111
Lääne	Martna	9	Põlva	Veriora	111
Harju	Jõelähtme	10	Põlva	Värska	118
Saare	Ruhnu	10	Põlva	Räpina	119
Harju	Saue	11	Põlva	Mikitamäe	178
Harju	Saku	12	Jõgeva	Torma	190
Saare	Pihlta	13	Jõgeva	Mustvee	234

Source: Estonian National Social Insurance Board, calculations by the National Audit Office of Estonia