State's activity upon preparing for the work ability reform

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.

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.

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

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.