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Reforming social security in a transition economy: The comparative case of Lithuania, Latvia and Estonia

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Introduction

While the structure and purposes of the present social security systems in the Baltic States do not differ from those of the OECD countries in general terms, certain specific features can be identified. There are similarities between the Baltic States and other Central and Eastern European countries that had experienced a transition from a command system to a market economy. All of them went through massive privatization, with high inflation and unemployment, creating a sense of declining welfare (Eatwell, 2000, Ferge, 2001). Although the scope and depth of the problems have varied, all of these countries managed to stabilize their economies and are currently experiencing fast growth in GDP. The Baltic economies have the fastest growing GDP's in Europe, with Estonia the current leader (Eurostat, 2006) and were well placed to join the EU and NATO in 2004. Nevertheless, in terms of some social indicators, the Baltic States lag behind the developed democracies (UNDP, 2005).

The purpose of this paper is to examine the social security systems of the three Baltic States as an example of Eastern European welfare state development, with a view to make some remarks on the systems' efficiency. A brief overview of the components, goals and objectives of the national social security systems occupies an important place in the analysis. Methodologically, the analysis is based on the modelling of social policy and its extrapolation under the Baltic States' conditions using factual material and statistics. The welfare regimes typology by Esping Andersen, Ferrera and Barr (Esping-Andersen, 1990; Ferrera, 1996; Barr, 1993) forms a basis, with certain qualifications, for the clas-

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sification of the Baltic States' social security systems and the assessment of future lines of development. Studies by the Estonian, Latvian and Lithuanian researchers Leppik, Bite, Lazutka and Medaiskis (Bite, 2003; Lazutka, 2001; Leppik, 2003; Medaiskis, 1998) as well as papers published by the authors of this article (Guogis, Bernotas, Ūselis, 2000; Bernotas, Guogis, 2003) designed for the discussion of the national social security issues contribute to the analytical discourse on social security in the Baltic States.

The paper consists of three parts. The first part contains a definition of the concept, structure and goals of the national social security systems on the general background of social policy modelling. The second part provides an analysis and assessment of the systems and an examination of protection against various social risks. The third part identifies the key factors that have influenced the formation and prospects of the present social security systems.

1. The concept, structure and purposes of social security in the Baltic States

Social security is one of the most vulnerable areas of economic and legal regulation. While at the turn of the century many states, in particular Eastern European countries, are facing an increase in the number of non-governmental and private social security measures as a result of effects of globalisation (Eatwell, 2000, Ferge, 2001), the role of the state in the implementation of national social policies remains very important (Dobravolskas, 2003; Leppik, 2003; Bite, 2003). For a part of Eastern European countries including the Baltic States –the new members of the European Union– the europeisation processes do not mean a decrease in the importance of public social policies. The area of social security still remains within the scope of competence and jurisdiction of national institutions. The substance of any social security system lies in the redistribution of funds between able-for-work persons, on the one hand, and unable-for-work persons, social-risk groups and low-income persons, on the other hand.

Social policy concepts differ, both in theory and practice, in terms of the role of the individual (liberal approach), family (Catholic approach), employer (conservative approach) and the State (Social Democratic approach) in the process of protection of various needs. Modern social systems are based on the liberal, conservative-corporative or social democratic socio-political concepts (Esping-Andersen, 1990; Cochrane, Clarke, Gewirtz,, 2001). The liberal model emphasises market self-regulation and limited role of the state in organising social services; the conservative-corporative model attaches importance to high dependence of social benefits and service quality upon participation in the labour market; and the Social Democratic model recognises social citizenship rights, comprehensiveness of social benefits, and increased role of the state.

Although perfectly ideal social policy models do not exist in practice, countries are grouped into different welfare state types according to certain features. The formation of certain social policy models is mainly determined by ideological and practical orientation by different political parties. In Western European states, the social policy types evolved during the larger part of the 20th century under the influence of various structural and value factors. On the contrary, the East European countries (including the Baltic States) had started developing a new social security model as late as in the last decade of the 20th century under unfavourable conditions of transformation from totalitarian socialism to market economy and democracy. There was no place for a generous social policy under the burden of limited public finances. In a number of important respects (inequality, poverty, participation, unemployment) the transition has led to a sharp decline in material well-being (Aidukaitė, 2006; Eatwell, 2000).

The new social security systems in the Baltic States were projected on the principle of benefits related to labour market, e.g., pension size linked to previous pay and service record, sickness benefit linked to pay, social insurance fund formed out of contributions deducted from pay, child care benefit size larger for insured women than for non-insured women (including students). These decisions evidence the fact that social security in the Baltic States is a labour-market-based one. This is a typical feature of the corporative model (Esping-Andersen, 1990).

Thus one may assert that the Baltic States have selected a corporative social security model, however, not under the influence of labour market partners (trade unions and employer organisations) but seeking to enhance the stimuli to participate in the labour market. It was also partially influenced by the aim to abandon the equality principle that had prevailed during Soviet years, and effect a transition to a market and merit-based social security system.

The social administration practice in the Baltic States of recent years shows that they are gradually introducing instruments of the liberal marginal model that are more in line with the principles of market economy (Bernotas, Guogis, 2003; Casey, 2004; Ferge, 2001). The pension reforms enacted in Latvia in 2001, in Estonia in 2002 and in Lithuania in 2004 provided for the (at least partial) replacement of the state-run PAYG system by a fully funded private system, whereby individual pensions are determined by lifetime contributions and by the yield on the assets they are used to buy. Effectively this involves the partial privatisation of social security. Examples of such policies may be found in Chile, Argentina and Mexico (Eatwell, 2000). The strengthening of liberal trends reflecting the marginal model in the Baltic States is also shown by the increased role of private and non-governmental organisations in organising various social assistance measures (Bite, 2003; Guogis, Bernotas, 2001). Furthermore, it became clear after the sociological survey of Lithuanian political parties conducted in 2000 that nearly all the most influential political forces came out for the marginal (liberal) model (Guogis, Bernotas, Ūselis, 2000).

2. Specific features of social security systems in the Baltic States

The three Baltic countries share similarities regarding historical backgrounds, economical and political peculiarities. These countries were incorporated into the former Soviet Union and were subject to the same social security regulations as the rest of the country. Today Lithuania, Latvia and Estonia experience essential social, economical and political changes. These changes put dramatic pressures on the public system of social security (Medaiskis, 1998; (Aidukaitė, 2003). The new social, economical and political conditions in the Baltic States necessitated a revision of old social policies. After regaining independence in 1990-1991 the old social security system was destroyed as new social policies were created in a similar way as in developed western European countries. Although each of the states has selected a different path for the development of the social security systems, certain common features may be identified. In all three countries, social insurance systems based on the pay-as-you go principle have been established. The coverage of the insurance systems is limited to persons participating in the labour market. They are funded by contributions by employers and employees, with the employers paying the largest part (MISSOC, 2006). Persons not insured by social insurance are usually entitled to means-tested benefits. However, these are very small since their size is linked to the poverty line.

In our analysis we compare the social security programmes of the Baltic States with respect to eligibility to benefits (i.e. who is entitled to benefits), principles to define benefits (how much is paid), and type of governance (who controls the scheme).

2.1. Pensions

After regaining independence each of the Baltic States started to gradually replace the old pension system with new ones compatible with a market economy. Economic constraints and an ageing population put enormous pressure on the systems designed to protect the elderly. In the first half of the 1990s the three Baltic States took steps to raise the retirement age from the comparatively low level that had been inherited from the Soviet Union's system (60 for men and 55 for women) and to restructure the basis on which pension were calculated so that these would reflect better earnings and contribution histories (Dovladbekova, Muravskaya, 1997; Lazutka, Kostelnickienė, 1997; Paas, 1997). Such a recalculation, it was argued, should increase incentives to stay in employment (Bernotas, Guogis, 2003; Casey, 2004). In the second half of the 1990s steps were taken to shift the financing of pensions from transfers paid directly by workers to retirees, to pensions paid to individuals out of the capital that they accumulated during they working lives (Bite, Zagorskis, 2003; Dobravolskis, 2003; Leppik, Kruuda, 2003; Medaiskis, 2001).

These reforms have resulted in pension systems with three tiers: the first tier –the state compulsory social insurance pensions financed by current contributions; the second tier– fully funded pensions paid out from accumulated fund built up over a period of years out of contributions of its members; and the third tier – voluntary fully funded pension funds.

Legislation to give effect to the first tier was made in 1993 in Estonia, in 1995 in Latvia and in 1994 in Lithuania. At the same time, pension age was raised. Details are given in Table 1. The first tier comprises state social insurance pensions: old age, disability, survivors and orphans. In Latvia and Estonia, the size of old age

Table 1

Entitlement to old-age pension insurance

The first tier	**Estonia**	**Latvia**	**Lithuania**
Benefit formula	Benefits depend upon service and earnings relative to national average	Benefits depend upon service and earnings relative to national average	Flat-rate component depends on service and supplementary component depends on earnings relative to national average
Retirement age	63	62	62.5 for men 60 for women
Minimum contributions	15 years	10 years	15 years

Source: MISSOC, 2006.

pension under the first tier depends upon the length of payment of social insurance contributions and contribution size. In Lithuania, the old age pension consists of two parts: a basic pension, which is the same amount for everyone with the necessary insurance record (thirty years), and a supplementary pension, which depends upon the insured person's former income and length of insurance. The minimum length of insurance required to receive the old age pension is fifteen years in Lithuania and Estonia, and ten years in Latvia. In Estonia, a national pension is granted to persons not entitled to old age, disability or widow's pensions as they lack the necessary insurance record (MISSOC, 2006).

The second tier started to operate in Latvia (a state compulsory funded pension scheme) in 2001 and in Estonia (a compulsory privately managed funded pension scheme) in 2002. In Lithuania, the second tier is a voluntary privately managed funded pension scheme implemented in 2004. In Estonia, participation is compulsory for new entrants to the labour market and voluntary for current employees. In Latvia, all socially insured persons aged under 30 are obliged to join the second tier, while those aged 30-49 are free to do the same or, alternatively, to keep the whole of their contribution to the first tier pension scheme. People over 50 are required to remain in the first tier (Bite, Zagorskis, 2003; Dobravolskis, 2003; Leppik, Kruuda, 2003). The main principles of the se-

Table 2

Terms of funded "second tier" pension systems

The second tier	Estonia	Latvia	Lithuania
Eligibility	Mandatory for all new entrants to labour market and voluntary for current employees	Mandatory for all under 30; voluntary if aged 30-49; closed to people 50 and 50 over	Voluntary
Contributions	4 percentage points from pension contribution plus additional 2% of wages from employees	10 percentage points from pension contribution	5.5 percentage points from pension contribution

Source: Bite, Zagorskis, 2003; Dobravolskis, 2003; Leppik, Kruuda, 2003.

cond tier are given in Table 2.

The third tier is a voluntary funded private pension scheme. It is designed for those willing to receive higher income in old age than that projected in the first two tiers. The third tier started to operate in Latvia and Estonia in 1998, and in Lithuania – in 2004.

2.2. Sickness benefits

The structure of the cash benefits schemes vary from country to country. In Lithuania, the entitlement for sickness benefits is based on social insurance contributions. The person had been insured for at least 3 months in the last 12 month period or 6 months in the last 24-month period. In Latvia and Estonia the entitlement is based on labour market participation and no previous insurance period is required to qualify for these benefits. In Estonia, sickness benefits are paid out of the Sickness Insurance Fund, in Latvia –the National Social Insurance Fund, and in Lithuania– the State Social Insurance Fund. Employers in Latvia and Lithuania have a statutory obligation to pay compensation at the beginning of a period of illness by way of sickness benefit. In Lithuania, sickness benefits for the first two days of sickness are paid by employers, in Latvia – from the second to fourteenth day of sickness. After the

Table 3

Entitlement to sickness insurance

	Estonia	Latvia	Lithuania
Replacement rate	80	80	85
Duration period	No more than 26 consecutive weeks	No more than 52 consecutive weeks or 78 weeks within a 3 year period	No time limit
Qualifying period	Neither work period nor qualifying period required	Neither work period nor qualifying period required	3 months during the last 12 months or 6 months during the last 24 months

Source: MISSOC, 2006.

statutory employer period, sickness benefits are payable by the social insurance scheme. However, the statutory employer period is not applicable in Estonia.

Table 3 compares replacement rates, duration periods and qualifying period for sickness insurance. The replacement rate is quite high, at 80% of pay in Estonia and Latvia, and 85% in Lithuania. Furthermore, the duration period is long, particularly in Latvia. In Estonia, sickness benefits are paid from the first day of sickness usually for up to 182 days, in Latvia – starting from the 15th day of sickness (week 2), but for not longer than 52 weeks. In Latvia, sickness benefits may be paid for 78 weeks over a three-year period. In Lithuania, starting from the third day, the sickness benefit is paid until the working capacity is regained. If, after established period of time (up to 122 days), the person has not recovered, it is obligatory to apply to the State Medical and Social Examination Commission for the acknowledgement of disability or for the extension of the sickness benefit payment period until ability-for-work is restored (MISSOC, 2006).

2.3. Maternity benefit

All the three Baltic States have compensations for covering the loss of income prior to and after childbirth, which depend on the

Table 4

Entitlement to maternity insurance

	Estonia	Latvia	Lithuania
Replacement rate	100	100	100 (18 weeks), 70 (44 weeks)
Duration period	20 weeks	16 weeks	18 weeks
Qualifying period	No qualifying conditions	No qualifying conditions	3 months insurance during the last 12 months or 6 months during the last 24 months

Source: MISSOC, 2006.

pay received. The size of the maternity benefit amounts to 100% of pay. Payments are made from social insurance funds. In addition, there is a child birth benefit in all the three countries as a universal one-off benefit paid after the child is born.

In Lithuania, an insurance period is required to qualify for maternity benefit, in contrast to the situation in other Baltic States (see Table 4). For maternity benefit, an insurance period of three months in the last twelve months, or six months within the past two years is required. In Estonia and Latvia, no minimum insured period is required for entitlement. In Latvia, maternity benefit compensates up to 112 days prior and after childbirth, in Lithuania – 126 days, and in Estonia – 140 days. Mothers who have difficult childbirths or have a multiple birth are given an additional 14 days of maternity benefits. In Lithuania, on expiration of this period the parental benefit is paid to one of the parents who takes care of the child until he/she reaches one year. The size of this benefit amounts to 70% of pay (MISSOC, 2006).

2.4. Unemployment benefits

The methods of development of both active (employment measures etc.) and passive labour market measures (unemployment benefits) differ between the Baltic States. A common feature for all the Baltic States is that most unemployed persons are entitled to

Table 5

Entitlement to unemployment benefits

	Estonia	Latvia	Lithuania
Replacement rate	50% during the first 100 days, and 40% from 101st day	50-65%. The full amount is paid for the first 3 months, 75% for 4-6 and 50% for 7-9 months	Benefit comprises a fixed and a variable component. The full amount is paid during the first 3 months, for the remaining months, the variable component is reduced by 50%
Duration period	12 months	9 months	9 months
Qualifying period	12 months insurance during the last 24 months	9 months insurance during the last 12 months	18 months insurance during the last 36 months

Source: MISSOC, 2006.

a benefit in cash. While non-insured persons are not entitled to a benefit in cash in case of unemployment, each person with low income (poverty limit/state-supported income) has the right to social assistance granted on means-testing basis. Unemployment benefits are, however, very modest and the duration of the entitlement to support is short, compared with the practices in other EU Member States (Eatwell, 2000).

The entitlement conditions for unemployment benefits and the amount paid differ among the Baltic States (see Table 5). In Estonia unemployed people are entitled to the means-tested state unemployment benefit or the unemployment insurance benefit, provided they worked at least 12 months during the last 24 months. An insurance period of 18 months in the last 3 years in Lithuania and 9 months in the last 1 year in Latvia is also required. The unemployment benefit is granted for a maximum period of 9 months in Latvia and Lithuania, and 12 months in Estonia. In Latvia, the unemployment benefit is proportional to social insurance contributions and insurance record; it amounts to 50-65% of previous income. The full amount is paid for the first 3 months, 75% for 4-6 months and 50% for 7-9 months. In Estonia, the size of the unemployment insurance benefit amounts to 50% of pay from the 1st to the 100th day, and 40% – from the 101st to 180th day. In Lithuania, the amount of unemployment benefit consists of two parts. The fixed part is set at government-set state-supported income, and a variable part is based on the ratio of individual earning to national average earnings. The full amount is paid during the first three months of unemployment. For the remaining months till the end of the unemployment benefit's payment period, the variable component is reduced by 50% (MISSOC, 2006).

2.5. Accidents at work and occupational diseases

In the Baltic States, persons having experienced an accident at work or fallen ill with an occupational disease are entitled to a sickness benefit or an equivalent benefit in case of temporary incapacity-for-work. In the case of long-term or permanent incapacity-for-work, a disability pension or similar benefit is paid. An accident at work is defined as an industrial trauma or an occupational disease that causes temporary or permanent loss of capacity for work. The insurance funds for accidents at work pay compensations for loss of capacity for work either as a one-off benefit or as monthly payments. Usually the funds also cover treatment costs that are not covered through the sickness insurance system.

In Estonia, costs related to accidents at work are paid and sickness benefits in cash are provided through the health insurance system. In the case of permanent incapacity-for work a disability pension is granted. In the case of disability, the employer (if responsible for the accident) must pay additional compensations that supplement the state disability pension. Sickness benefits are also granted in Latvia, however, for not longer than 52 weeks. In case of loss of capacity for work the person receives monthly benefits or a one-off payment. Compensation is also paid to members of the family of the insured who are incapable for work and who were supported by the insured. In Lithuania, in case of an accident at work an insured person is entitled to a sickness benefit from the first day of sickness. The benefit is paid from the state social insurance fund and makes up 100% of the employee's pay. The insured that has lost capacity for work is entitled to a one-off or periodic compensation that depends on the degree of incapacity for work and the recipient's pay (MISSOC, 2006).

2.6. Family allowances

All the three Baltic States have a child's benefit, which is not subject to taxation and does not depend on the parents' income. In all the Baltic States, the payment of child's benefits is funded by the governments. There are also certain tax concessions to persons raising children or a disabled child (reduction of taxable income by increasing the non-taxable income).

The Baltic States differ in relation to the duration of child's benefits. In Estonia, the child's benefit is paid to every child under 16 years of age (or 19, if a daytime student), in Latvia – 15 years of age (or 20, if a daytime student). Lithuania stands out as having the shortest duration period for child's benefits of the Baltic States. In Lithuania a child care benefit is paid only to children under 9 years of age. However, in 2009, the child's benefit period in Lithuania will be prolonged to the child under 18 years. The size of child's benefit paid in Estonia and Latvia does not depend on the age of the child but is differentiated according to the number of children in the family. In Lithuania, the size of child's benefit paid depends on the age of the child, in contrast to Estonia and Latvia (MISSOC, 2006).

3. Factors influencing the formation of the new social security system in the Baltic States

The social security reforms undertaken in post-communist Lithuania, Latvia and Estonia were aimed at preserving former rights to social security or even at extending them. The heritage of the communist system has been very significant for the development of social security systems in the Baltic States. Nevertheless, one thing was obvious: the Soviet social security system is not compatible with market economy and political democracy, thus it must be reformed (Aidukaitė, 2006; Eatwell, 2000; Medaiskis, 1998). The formation of new social security systems in the Baltic States was influenced by different factors, the key ones being the: 1) heritage from the Soviet period; 2) international influences; 3) necessity to adapt the social security system to market economy; and 4) effect of demographic processes upon the social security systems. These are explained in detail below.

3.1. Heritage from the Soviet period

The Soviet social security system was extremely corporative and broad-based but not very comprehensive (Standing, 1996). For example, disabled persons were put aside on very low pensions rather than afforded wide opportunities. At the same time most social services (health, education, recreation, etc.) were tied to the workplace. The Baltic States had to improve on this inadequate system while at the same time undertaking large economic and political reforms.

The Soviet social security system inculcated certain values, which are difficult to "shake off" even now. Some of the features characterising Soviet system are set out below: 1) the state had assumed exclusive responsibility for social security; no other social security instruments (such as pension funds, private care institutions) existed at that time; 2) the individual was enforced to feel dependent: there was no need to take care of oneself as the authorities did this for him/her. Therefore, individuals were not inclined to act independently and demanded that the authorities would solve all problems for them (would find a job, provide a flat, maintain low prices etc.); 3) the system of privileges was well-developed and permanently extending. Many social groups, i.e. representatives of the Communist party, the government and those industries whose contribution to the national economy was very important, enjoyed special exclusive rights granted by the state; 4) the social security funding system was quite complex. Enterprises of different branches paid contributions for their employees at the rates several times varying between the branches. In addition, part of benefits was covered from non-contribution sources, in particular from public revenues. The employees themselves did not pay any contributions – they even did not understand why they should do this. The majority of social security measures were funded indirectly, i.e. by maintaining low prices for goods and services, providing free medical care etc.; 5) the problem of inflation was neglected. No statutory indexation of benefits was applied, however, benefits could be increased based on ad hoc actions taken by the government. Such resolutions were treated as a grant provided by the government and not as the right of a recipient; 6) administration of social security was divided between trade unions subordinated to the state and state institutions. There was no reliable database on insurers and the insured; 7) there were no legal and administrative instruments intended for the protection of persons' rights to social security. Disagreements were usually settled at a higher administrative level and not in courts.

The inherited social security system influenced the development of new social security models. The new legislators in the Baltic States could not fully isolate themselves from the old way of thinking prevailing in the society, therefore, they still tend to include certain Soviet stereotypes in the new laws. Abandoning the paternalist image of the state and creation of new privileged social groups is particularly difficult. Therefore social security rights were extended to certain social groups (such as specially meritorious or particular occupational groups) that are strong enough to exert pressure but that should not be supported indeed (Guogis, Bernotas, Ūselis, 2000, Medaiskis, 2001). This system was clearly clientelist in character, reminding of the existence of special exclusive rights granted by the state in certain Eastern European, Latin American and Southern European countries (Ferrera, 1996). The underlying principle to support those incapable for work and poor is sometimes replaced by the principle to support those merited by political reasons.

Part of the decisions were based on the principle of contrast: it was considered that everything in the Soviet laws was bad and contrary decisions had to be adopted without any reservations.

3.2. Necessity to adapt the social security system to market economy

The striving for reorganisation of the economy according to market principles was an important factor influencing the development of social security systems. The social security systems had to accommodate this aim too (Dovladbekova, Muravskaya, 1997; Lazutka, Kostelnickienė, 1997; Paas, 1997). The new social security systems were developed expecting that the transitional period would be quick and painless. It was expected that the economy would remain robust during reforms.

The economic changes, however, were not favourable to the social security reforms. The structural reorganisation of the economy was carried out at the expense of decline of traditional industries and enterprises – payers of social insurance contributions. In 1991-1994, the GDP fell by 59.6% in Latvia, 53% in Lithuania, and 38.1% in Estonia (Economic and Social Development in Lithuania, Latvia and Estonia, 2006). It is true that one may assume that the actual fall was not so marked, since statistics of that time could not give a precise estimation of the contribution by the private sector. Though difficulties were encountered in the area of accounting for operations of new businesses, taxation of such businesses was problematic too (Guogis, Bernotas, Ūselis, 2000). The economic recession, which was very deep at the beginning of the transitional period, appeared to burden the development of new social security systems considerably. Due to economic difficulties the social security systems could not be developed as planned (Lazutka, Kostelnickienė, 1997; Medaiskis, 1998).

The social security systems were developing under a certain pressure. Thus, attempts were made to minimise the intervention of the state and reject its paternal role, enhancing at the same time the individual's responsibility. Such liberal ideas appeared as a result of disappointment with the dictatorial role of the former Soviet state. According to this approach, social security had to rely largely on the principle of social insurance administered by non-governmental institutions. Entitlement to social insurance benefits was restricted to persons who had paid contributions. These benefits would be contribution-linked and paid without means-testing and without having regard to the recipient's status (need for benefits, number of dependants etc.). Only social assistance measures or means-tested benefits would be applied to persons not insured by social insurance. This approach could be much less redistributive, and fairer from the point of view of contributors.

A contrary approach was based on a strong tradition of the state's full responsibility for the welfare of its citizens (Bernotas, Guogis, 2003). This approach means that the social insurance system would include a non-contribution element (non-contribution periods would be included in the pension record; entitlement to unemployment insurance payments would be granted also to those who had never paid contributions etc.). The non-contribution element of social security would be extended more than in the case of means-tested approach, with benefits granted to whole categories of people (families with children, single mothers etc.) and certain measures implemented for all residents (free health care, lower heating prices etc.). This approach could be highly redistributive and targeted mainly on protection from poverty.

Current social security systems in the Baltic States had formed as a compromise between these two above mentioned contradictory approaches.

3.3. International influences

International organisations and institutions of various Western countries have also exerted considerable influence over the development of social security systems in the Baltic States. Such international organisations as the World Bank, the International Labour Organisation, the European Council, the European Union, the UN Development Programme, etc. have actively influenced social security decisions. The governments of the Nordic countries, Germany and many other countries acted in the similar way according the bilateral agreements. However, experts from different institutions and countries often take different approaches and their recommendations tend to be contradictory. For example, while the World Bank's experts emphasised, as an optimum solution in terms of targeting, uniform means-tested social pensions to be supplemented by private pension fund instruments (the World Bank, 1994), the European experts opposed this view (Eatwell, 2000; Standing, 1996).

As a matter of fact, social security systems of Europe (just as throughout the world) are based on different concepts and models. In addition, they are in constant development. Market economy is based upon a wide range of social security concepts rather than on a single concept, therefore, it is impossible to identify universal social security principles common to all countries of transitional economy (Bernotas, Guogis, 2003). This is a partial explanation for the diversity.

3.4. Effect of demographic processes upon the social security systems

In all the three Baltic States, a trend towards decrease in the population has been observed after restoration of independence. This was influenced by the following factors: 1) high emigration rate; 2) high mortality rate, in particular among men; 3) very low fertility rate, which was the lowest between the Baltic States in Latvia (1.24) and the highest in Estonia (1.40) in recent years. Life expectancy is also quite low in the Baltic countries, in particular among men (Eurostat, 2006).

In the long term, the Baltic States' social security systems have to take into account changes in the population structure and the fertility rate. Based on forecasts, the old age dependency ratio (the ratio between the total number of elderly persons and the number of persons of working age) in 2025 will increase to 29.5 in Lithuania, 30.7 in Latvia, and 31.3 in Estonia (Eurostat, 2006). A pessimistic interpretation of these demographical data and estimated costs related to them necessitated an increase in the pension age. During the next several years in Latvia pension age will be increased until it will reach 62 years, in Estonia – 63 years for both men and women, and in Lithuania – 60 years for women and 62.5 years for men.

Ageing of population is a continuous challenge for the present and future social policy in the Baltic States. Together with emigration it puts pressure on financial sustainability of social security systems.

Conclusions

1. The paper presents the Baltic States' social security systems in the context of social policy modelling according to the prevailing typology of the Welfare States models.

2. The three Baltic countries were incorporated into the former Soviet Union during the period 1940-1990 and were subject to the same social security regulations as the rest of the country. The Soviet model of welfare was characterised by central planning, subsidised basic needs and linking to labour market (employers).

3. The social security systems in the Baltic States were reformed completely after the restoration of independence. Basic institutional changes were implemented throughout the entire period of independence from 1990 to 2006.

4. The Soviet heritage, the aim to develop and consolidate a market economy, demographic pressures and international influences are factors that have determined the formation of the present structure of the Baltic States' social security system.

5. Social situation during the first years of independence declined substantially due to rise of inequality, poverty and unemployment. During subsequent years the Baltic States managed to stabilise their economies and some social indicators improved, however the new problems as ageing of population, low participation and emigration emerged.

6. The corporative social security model, in which social bene-

fits and quality of social services are directed to those participated in the labour market, was developed in the period of social transformations in Lithuania, Latvia and Estonia. However, in practice the Baltic States are gradually introducing instruments of the liberal marginal model that are more in line with the principles of market economy. This is demonstrated by the pension reform and the increasing role of private and non-governmental organisations in organising social assistance.

7. The reform of social security in post-communist Lithuania, Latvia and Estonia is continued and the model chosen as a base for social system is still in the process of adaptation to the new conditions.

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