

## **FINANCIAL INSTRUMENTS FOR THE PROTECTION OF MOTHERS**

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**ABSTRACT:** *The social policy of any state incorporates suitable financial tools that support parents and children. In this paper, we have presented the evolution of these forms of social protection, which have changed almost yearly over the past decade. The ones that I have considered particularly important are: the allowance for raising children up to 2 years or up to 3 years in the case of disabled children and the re-induction incentive. An important instrument of reintegration in the labour market, the re-induction incentive is presented in the main financial aspects and statistically speaking, I have analyzed its evolution in numbers and total value. In the second part of the thesis I have shown the social, legislative and financial aspects of the child raising allowance.*

**KEY WORDS:** *child raising allowance, maternity leave, financial aid, social security, re-induction incentive.*

**JEL CLASSIFICATION:** *A13, E24, I 28.*

### **1. INTRODUCTION**

Social economy in Romania has developed greatly after the accession to the EU and this type of economy is aimed at merging with the other components of the society; hence the interdependence of the **economic development** with its principles and regulations, of **the environment protection** set to reduce pollution, protect resources and optimize environmental management and last but not least, a flexible operation of **the social economy** with elements of lifelong education, helping the disabled and financial mechanisms of social insurance and protection (figure 1).

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**Figure 1. Elements of social economy**

The social economy has come up with a proposal to revive the collective mentality by setting specific objectives in order to prevent and reduce poverty. These objectives are mainly oriented towards the human factor and toward increasing self-esteem, fostering solidarity, participation and activism, and last but not least social inclusion (<http://profitpentruoameni.ro/>).

In Romania there is a diversified portfolio of programs of social assistance and protection which can take either the form of money transfers (pensions, allowances, benefits, aids, etc.), or the form of services (active measures to reduce unemployment, rest and treatment packages, social canteens, children's hospitals, nursing homes for the aged, a hospital for the chronically ill, etc.). Money transfers which particularly refer to pensions, social aids and various types of benefits is the most important category representing over 97% of the total funds for social protection and according to their use they can fall into three sub-categories: *social insurance, family allowances and welfare benefits*. Social insurance means caring for employees and their families by providing benefits and state assistance in sickness, by enabling access to holiday vouchers, or it represents that part of social - economic and material relations which helps the process of distributing the GDP by forming, allocating and using the funds necessary to protect employees and pensioners within autonomous administrations, companies belonging to the branch of cooperative consumers, craftsmen and lawyers, peasants, craftsmen with their own workshops, private entrepreneurs, priests, the domestic staff working for private individuals, individuals working in House Tenants' & Flat Owners' Association, temporarily or permanently incapacitated due to old age or to other cases stipulated by the law (Varjan, 2005).

## **2. FINANCIAL ASPECTS FOR GRANTING THE RE-INDUCTION INCENTIVE**

The re-induction incentive represents a financial instrument needed to protect and encourage mothers who return to work before the child has turned 2. In the table below I have summed up several characteristics of this instrument, namely the method

of calculating the amount, the amount of the stimulus, the period for which it is granted and the legislative act that regulates it.

**Table 1. Characteristics of the re-induction incentive**

Period	Method of calculating the stimulus	Amount of the stimulus	Period for which it is granted	Legislation
Before 1 July 2016	Equals the social reference indicator	500 lei	For the period remaining until the child turns 2 in the case of mothers who applied for a one-year maternity leave if they receive taxable income before the child has turned 1. For the period remaining until the child turns 2 in the case of mothers who applied for a two-year maternity leave if they receive taxable income before the child has turned 1. For the whole period in the case of mothers who are on a child raising leave of disabled children up to the age of 3.	Emergency Ordinance no. 111/2010
Starting 1 July 2016	50% of the national minimum income	531.25 lei	Mothers can apply for an extension of the period for granting the incentive of up to 3 years (or 4 years respectively), at least 60 days before the child turns 2 (or 3 in the case of a disabled child)	Regulatory act no. 66/2016

There is an annual increase in the amount of the re-induction incentive; the value should be proportional to the minimum amount of the child raising allowance until the child turns 2. Even though its value is rather small and it advantageous for mothers with minimum child raising allowance who return to work for a national minimum salary, they are trying to continuously increase this incentive as of 2017 to a value exceeding 600 lei, alongside the increase of the minimum salary. A legislative proposal is to maintain a value of 50% of the minimum child raising allowance for the child up to 2 years (formula 1), an allowance which represents 85% of the gross minimum salary (formula 2), provided that the value of the gross average salary over the last 12 months is equals at least the minimum salary (condition 3).

$$S_{ins} = I_{cc2} \times 50\% , \quad (1)$$

where:  $S_{ins}$  - re-induction incentive;

$I_{cc2}$  - allowance for raising a child under 2

$$I_{cc2} = \frac{\sum_{i=1}^{12} S_{bl}}{12} \times 85\% , \quad (2)$$

where:  $S_{bl}$  - gross average monthly salary

$$\frac{\sum_{i=1}^{12} S_{bt}}{12} \geq S_{\min.ec.} \quad (3)$$

where:  $S_{\min.ec.}$  - minimum living salary

The advantages of implementing this financial instrument are determined, firstly, by the fact that for the employer the return to work of a qualified employee before the time originally planned can materialize in labour efficiency. Most of the time, it is employers who request the person on a child raising leave to return to work either permanently or for a specified period, called seasonal, after which the party concerned may resume their parental leave. Obviously, this request is not mandatory, but according to statistics, it is satisfied for psychological reasons, based on the idea that the employer can find someone else suitable for the job. The most common cases are in the banking field where over 75% of mothers prefer to return to work after an average of 12 months on parental leave.

For the employee who is professionally reintegrated, in most cases for mothers, the main advantage is a financial one, that is to say the incentive is granted regardless of their income and it is not subject to taxation. A prerequisite to qualify for this incentive is that the parent must be on a salary *at least 60 days before the child turns 2* (or three in the case of disabled children) and they can extend the period of granting the incentive until the age of three (or four). If the parent does not meet the minimum requirement of 60 days, these rights can only be granted until the child turns 2 (or three).

These financial rights can also be granted to adoptive parents, to foster parents or to the person who has a child in temporary care or in emergency temporary care, except for the social workers who can claim these benefits only for their own children.

At the end of 2015, statistical reports of the National Agency for Payments and Social Inspection, showed the incentives granted to 546 people for an average of 29.58 days. Only 11 counties out of the total, including Bucharest, exceeded more than 1,000 incentive beneficiaries - 7407 in Bucharest, 1643 in Constanta, 1575 in Prahova - the fewest being in Caras-Severin 287, Covasna 288 and Salaj 344.

### 3. CHILD RAISING ALLOWANCE FOR CHILDREN UNDER 2 YEARS

Birth rate is an important issue for each state and the decision to have a baby is often determined by the state's financial leverage to support and help raise children. In this context, the child raising allowance for children aged up to two years or up to three years in the case of children with disabilities is a financial instrument with many legislative changes and methods of calculation. In Table 2 we have summed up the legislative and financial changes in Romania relating to this kind of benefit for a period of 15 years.

At presents, the Government Decision no. 449 from June 22<sup>nd</sup>, 2016 is still in force amending and supplementing the Methodological regulations for the application of Government Emergency Ordinance no. 111/2010 regarding the parental leave and monthly child raising allowance, approved by Government Decision no. 52/2011, which sets the minimum limit of the allowance in Romania to 1,063 lei, representing 85% of the gross national minimum salary of 1,250 lei.

**Table 1. Report on child raising allowance up to the child's second birthday for the period between 2001 and 2016**

Period	Method of calculation of the child raising allowance until the child is 2 years old	The minimum value of the child raising allowance until the child is 2 years old	The maximum value of the child raising allowance until the child is 2 years old	The minimum length of employment before the child's birth needed to qualify for the allowance	Legislation
2001-2003	85% of the average net income within the last six months	Not established	Not established	6 months in the last 12 months	Law no. 571/2003 on the Fiscal Code
2004	85% of the average gross income forecasted for the following year	85% of the average gross income forecasted for the following year	85% of the average gross income forecasted for the following year	10 months in the last 12 months	Law no. 571/2003 on the updated Fiscal Code
2005	Fixed amount of 600 lei	The 600 lei allowance is supplemented by the 200 lei child benefit for children under 2	The 600 lei allowance is supplemented by the 200lei child benefit for children under 2	12 months in the last 12 calendar months	Government Emergency Ordinance no. 148/2005 regarding family support in raising a child
2006-2008	85% of the average net earnings in the last 12 months prior to the child's birth	600 lei	4000 lei	12 months in the last 12 calendar months	Government Emergency Ordinance no. 158/17.11.2005 on paid leaves and social security benefits
2009-2010	85% of the average net earnings in the last 12 months prior to the child's birth	600 lei	4000 lei	12 months in the last 12 calendar months	Government Emergency Ordinance no. 148/2005 regarding family support in raising a child, approved by Government Resolution 1.025/2006

2011-2016	Option I Child raising leave until the child reaches the age of 1. The rate of allowance represents 75% of the average net earnings in the last 12 months	600 lei	3400 lei	12 months in the last 12 calendar months	Government Emergency Ordinance no.111/2010 on child raising leave and monthly allowance, approved with amendments by Law 132/2011, with subsequent amendments and additions
	Option II Child raising leave until the child reaches the age of 2. The rate of allowance represents 75% of the average net earnings in the last 12 months	600 lei	1200 lei	12 months in the last 12 calendar months	Government Emergency Ordinance no.111/2010 on child raising leave and monthly allowance, approved with amendments by Law 132/2011, with subsequent amendments and additions
As of July 1 <sup>st</sup> , 2016	85% of the average net earnings in the last 12 months during the last two years prior to the child's birth date	85% of the gross minimum wage RON 1.062,5	Non existent	12 months in the last 24 calendar months	Law No. 66/2016 regarding amendments and additions to the Government Emergency Ordinance no. 111/2010 on the child raising leave and monthly allowance

According to statistics of the National Agency for Payments and Social Inspection, from financial point of view, the budgetary impact for the payment of the allowance for July amounted to 70 million lei, whereas the national average amount of the parental allowance was 1,404 lei, the highest being registered in Bucharest, 2,445 lei which is 2.4 times bigger than the minimum allowance and 74% higher than the national average.

The lowest value was registered in Suceava, namely 1,182 lei, which is 11% higher than the minimum allowance, meaning that most of the parents who received child raising allowance had a very small gross income, therefore they were granted the minimum guaranteed allowance.

Average values of up to 1,500 lei can still be found in 15 counties. However, out of the total budget allocated for this type of benefits, about 34% goes to 0.17% of the total of 142,990 beneficiaries of child raising allowances; there are even amounts that reach the equivalent of EUR 35,000 which shows an imbalance in the equitable distribution of budgetary resources (<http://www.hotnews.ro/>). Specifically, in the case of 9140 mothers the allowance was never capped to 3,400 lei, therefore they had earned 85% of their net income over the 12 months prior to giving birth.

The highest allowance amounted to 160,000 lei, followed by another hefty sum of 141,679 lei per month (Table 3) and 190 parents received allowances of more than 15,000 lei per month.

**Table 3. The highest child raising allowances in Romania**

County	Average income (lei)	Amount of allowance (lei)	% as opposed to the minimum allowance (1063 lei)	% as opposed to the average allowance (1404 lei)	Source of income
Sibiu	187158	159084	14965,56%	11330,76 %	Associate or certified independent trader
Bucharest (Sector 1)	110786	94168	8858,70%	6707,12%	Associate or certified independent trader
Constanta	87874	74693	7026,62%	5320,01%	Labour contract/employment contract
Bucharest (Sector 5)	66037	56132	5280,52%	3998,00%	Labour contract/employment contract
Bucharest (Sector 6)	48727	41418	3896,33%	2950,00%	Labour contract/employment contract and copyright
Bucharest (Sector 3)	46078	39166	3684,47%	2789,60%	Labour contract/employment contract and copyright
Bacau	45807	38.936	3662,84%	2773,21%	Labour contract/employment contract
Bucharest (Sector 6)	41798	35528	3342,23%	2530,48%	Labour contract/employment contract and copyright
Timiș	45301	38506	3622,38%	2742,59%	Labour contract/employment contract and income from liberal professions
Hunedoara	43731	37171	3496,80%	2647,50%	Associate or certified independent trader

Data analysis presented in the table shows that the revenues for beneficiaries of child raising allowances come from employment contracts/labour contracts and copyrights but also from associates or certified independent traders and the most allowances with the highest value are granted in Bucharest.

#### 4. CONCLUSIONS

An important component of social policies at national and international level is child rising, the appropriate family environment and the funds needed for their support. The main financial instruments for bringing up a child in the first to 2 or 3 years are: the maternal risk leave, maternity allowance, child raising allowance for children aged up to two years, the re-induction incentive and the child benefit.

Regardless of the tools used, increasing the birth rate is a permanent objective of the population policy, especially in the current context of population migration, mainly of the young people. From a financial perspective, government policies should be flexible and provide the resources necessary to grant various types of instruments and also it is important that they be forecasted and substantiated.

Enforcing Law No. 66/2016 relating to the amendments and additions to the Emergency Government Ordinance no. 111/2010 on the child rising leave and monthly allowance was made without being properly underlain in advance, thus exceeding the budget by 20 million than the estimates.

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