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DEVELOPMENT OF POLICIES RELATED TO THE ELDERLY IN ESTONIA

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Abstract. The paper examines the main developments in the policies related to the elderly in Estonia since the 1920s up to the present day, observing the extent to which the governments have reacted to the changing demographic situation and corresponding care for the elderly in Estonia. The paper concentrates specificially on the changes in the pension system, health care, institutional care and social services, and income maintenance of the elderly.

During the period under study, Estonia has encountered two societal discontinuities: the 50-year occupation by the Soviet Union, and the restoration of independence and the following economic transition period since 1991. Regarding the elderly, in both periods the former sources of pension were lost and the newly-established state had to take over the responsibilities. However, in the 1990s, Estonia had reached a completely different stage of population ageing. The paper gives an overview of the activities of governmental authorities of the 1990s comparing them with the 1920s.

From the aspect of policy-makers it should be noted that Estonia has a different position compared with the other Central and East-European countries. First, the numerous postwar immigrant cohorts reaching old age has considerably accelerated the ageing process, making it one of the most intensive in Europe. Second, the underlying feature of the societal development of Estonia in the 1990s is the severe imbalance between demographic and economic realities. An advanced population ageing and transitional economy generate fierce competition for available resources, making the implementation of population-related policies, particularly concerning the elderly, more complicated. The paper also examines the legislative acts of 1990s aimed at the elderly from the viewpoint of demographic situation.

Presented from different perspectives, it is evident that the ageing process cannot be reduced to a mere change in the proportion of age groups, but involves a principal and irreversible transformation of societal reality. In a sense it would not

be an exaggeration to say that the consequences of population ageing have even exceeded the immediate impact of demographic transition. Given the extent of changes, the ageing processes reveal a clear need for population policies focusing on the adaptation of society to the new demographic situation, but not the demographic situation itself. Apart from policies attempting to influence the course of demographic processes, such measures that take demographic development as the basis and strive to influence all other societal processes have been generalised as population-responsive policies (Myers 1994).

Considering the importance of ageing policies in understanding the response of society, as well as the implications these policies tend to have on the elderly population, the current paper outlines the main developments of ageing-related policies in Estonia. The paper is structured in four sections, focusing respectively on the pension system, health care, institutional care and social services, and the income maintenance of the elderly. The time frame extends to the period preceding WW II, covers the postwar decades as well as the recent years of economic transition. As for the elderly policies, it is important to note that compared to other countries with an earlier demographic transition, Estonia is currently in a very different position (Katus *et al* 1997). Typically, the nations with an advanced degree of population ageing feature a similarly advanced level of economic development. In the case of Estonia, however, the economic environment is underdeveloped due to the legacy of central planning and undergoing the stage of primary capital accumulation. Such a period is experienced in Estonia for the second time in history, but this time with much older population. Given this general discrepancy, the needs of population and social programmes are competing for scarce resources with the necessity to build a modern infrastructure for economic development.

1. Pension system

In the early 1920s the Republic of Estonia started to develop its pension system basically from scratch. Regarding the limited categories of government employees who had been entitled to pensions in the Russian Empire, the pension funds had been lost and the payment of pensions was found impossible on the previous basis. The Government resumed paying the pensions after the War of Independence, integrating the payments into the newly developed system of state pensions. The scheme of state pensions became established by the mid-1920s and covered the central and local government employees, teachers, workers in state enterprises, military personnel and the war invalids. There was also a widely developed system of private pensions paid by the employers and other institutions. Additionally, the elderly persons who were not entitled to pensions, could apply for assistance under the scheme of public relief enforced in 1925: every man and woman aged 60 or over if in distress was entitled, depending on circumstances, to pecuniary assistance or full board (Pullerits 1927).

The state pension scheme ensured the payment of old-age, disability and survivors' pensions. According to this scheme, all persons of 60 years of age, both men and women, who had been in service for 25 years were entitled to old-age pension. The amount of the allowance depended on the length of service, payment rate and the reason for retirement. For example, given the full length of service, the benefit amounted to 55 per cent of the former salary, and each additional year of service added three per cent (Buldas 1934). Pension expenditures were covered from the Pension Fund based on the allocations of the state budget, contributions of employers and employees. The period between the world wars witnessed a rapid increase in the number of pension recipients and a change in their composition (Tuisk 1931; Lepp 1936). Initially, the majority of beneficiaries were the persons granted pensions according to former Russian laws, but this category gradually became a minority. Another tendency concerned the increase in the proportion of old-age pensioners and the decrease in disability and survivors' pension recipients who had formed the majority of new pensioners at the beginning.

The occupation and incorporation of Estonia into the Soviet Union brought this scheme to an end. Under the Soviet pension system, a large proportion of the beneficiaries under the former scheme were denied their pension rights (RKN 1945). Except for the years of German occupation, when the Estonian pension system was temporarily restored, the payment of pensions according to the Soviet scheme was continued until 1991. During most of this long period, the basic characteristics of the scheme were based on the 1956 Pension Act. Despite the widely advertised care for the aged, the scheme covered only workers; neither collective farmers nor the self-employed were eligible for pension. It was only in 1965 when a state pension for collective farmers was established; in 1971 the two schemes were equalised as for the calculation of benefits. The restrictions kept the number of old-age pensioners initially rather low in Estonia as several economic activities were considered non-productive or even "capitalist", and correspondingly many persons were left with zero employment record. Even in 1960 the beneficiaries accounted for one fourth of urban population in post-retirement age. The extension of the scheme to rural population and the gradual replacement of older elderly generations with those who had earned their pension rights during the Soviet period, caused the coverage gradually to rise. By the 1980s, almost complete coverage was achieved (Leppik 1998).

Since the adoption of the 1956 Pension Act, people received either a full or a partial old-age pension upon retirement. To be eligible for a full old-age pension, males had to be 60 years of age and have an employment record of 25 years, while for females the age limit was 55 years with the required employment record of 20 years. Individuals who had passed the age limit and had at least five years of employment were entitled to a partial old-age pension. For workers in unhealthy conditions and hazardous occupations, as well as some other categories, the eligibility started at an earlier age. The old-age pensions were calculated from the reference wage which was defined as the actual monthly earnings received in the

last twelve months of employment, or at the workers' request, in any five consecutive years out of the last ten before retirement. The system was built exclusively around state pensions with no other elements like occupational, employer or private pension schemes available. To provide more favourable conditions for the Soviet elite, however, a special scheme of personal pensions was applied. From the financing point of view, the system was operated on the pay-as-you-go basis.

A specific feature of the Soviet system was the lack of indexation of benefits, based on the assumption of zero-inflation. Once determined, the amounts were rarely increased which implied a large discrepancy between the newly awarded and old pensions. To a certain extent, the workers attempted to compensate this by bloating their reference wage during the last twelve months of employment. The bloating of wages was achieved by different means ranging from multiple appointments to changing to blue-collar or other better rewarded jobs. It was generally admitted that the bloating of the reference wage often occurred through various irregularities in which both workers and the management were actively involved. Although the attempts were dwarfed by the maximum pension of 120 roubles fixed in 1956 for more than 30 years, the pension replacement ratio rose gradually from the 1970s to the 1990s (Figure 1). Another outlet was the loosening of initially restrictive earnings-test of the 1956 Pension Act, allowing older persons to continue working and at the same time receive pension benefits. These circumstances brought about a decline in economic activity in older ages in the 1970s. However, data for the 1980s reveal that in the post-retirement ages the economic activity even grew, which increased the discrepancy between actual and statutory retirement age (Puur 1993).

Figure 1

Pension replacement ratio
Estonia 1966-1999

After the restoration of independence, the situation concerning the pension system in Estonia could be compared with the situation in the 1920s. The former sources of funding had disappeared and the state that had taken liabilities had vanished. However, this time the Republic of Estonia was not able to fully take over the responsibilities because of a totally different stage of population ageing. In February 1992, the implementation of the pension formula was suspended and flat-rate benefits were introduced. All old-age pensioners received their pension in similar amount, depending only on the minimum wage. The amount of minimum wage was determined by the Government, taking into account the current financial

situation. In 1993, the fully flat-rate scheme was revised and a differentiation according to the length of employment was introduced. The basic rate accounted for 85 per cent of the minimum wage, years of service added another multiplicative of minimum wage. Given the applied formula, the departure from flat-rate system was limited and the differentiation of pensions continues to be rather low in Estonia, except for members of Parliament and judges who have separate schemes. The revision in 1993 was important from another point of view. The major change introduced was the increase of statutory retirement age by five years, to 65 for males and 60 for females. The increase in the age of retirement, meant to reduce the burden on pension system, was scheduled for the period 1994–2003; the age limit was supposed to rise by 0.5 years annually. Accordingly, in 1998, men in Estonia reached pension eligibility age at 62 and women at 57. From the financial point of view, the changes included the establishment of the Social Fund, separate from the state budget. The scheme was operated on the pay-as-you-go principle, the source of funding was the 20 per cent payroll tax imposed on employers. Regardless of all changes, the replacement capacity of old age pensions became rapidly declining in Estonia, accounting for less than 35 per cent of average gross wage in recent years. Compared to the 1980s, this implies an extensive drop when the replacement ratios were about one third higher, such a low level as was reached in the 1990s, had been not observed since 1970. Besides the low level, the continuation of the decreasing trend for 7–8 years is the most serious problem, which has not been tackled by the pension laws.

The revisions of the early 1990s were regarded as temporary, and during the whole period the pension reform has been in the stage of preparation. In June 1998, the Parliament adopted the reform programme which aims at the three-pillar pension system, consisting of the present pay-as-you-go element, supplemented with a compulsory scheme based on the funding principle and voluntary pension insurance. The role of the first pillar would be to secure the minimum standard of living for all groups of elderly population, and the second is meant to introduce the differentiation based on individual lifetime contributions. The third pillar would aim at encouraging additional saving for old age, stimulated by tax deductions. The reform has started from the first pillar. The new revision of the scheme introduces equal pensionable age for both sexes (63 years) and personal accounting of contributions started from 1999. Even if implemented rapidly, however, the other two pillars are expected to have a significant effect on the situation of the elderly only after decades when the new cohorts have had time to accumulate the respective resources. Thus, the reform does not solve the principal discrepancy between low pensions and other incomes, and the progression of relatively numerous cohorts into retirement age adds pressures to the pay-as-you-go pillar of the scheme and calls for the inevitable increase in taxation level.

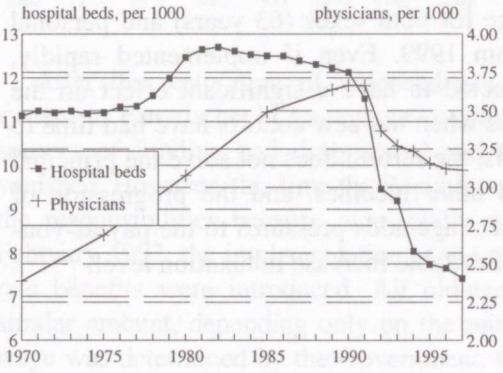
2. Health care

The health care system in prewar Estonia was developing alongside the principles of health insurance. At the beginning, compulsory insurance covered central and local government, as well as the employees and their family members in enterprises with 20 or more workers. In 1923, it was extended to smaller businesses. The insurance tax amounted to four per cent of payroll, the payment of the tax was shared equally between the employer and employee. The expansion of the coverage and development of the system was reflected in the growth of the number of local sickness insurance funds and an almost sixfold increase in the number of insured persons between 1919 and the late 1930s (Sõrmus 1931; Raid 1939). For the insured persons sickness insurance paid for the cost of medical services, in several cases the funds had established their own facilities. Besides the insurance system which covered the population in paid employment and their family members, another part of medical services was provided by private doctors and institutions. For that part of services, the costs were generally covered by patients. In case the means were not available, care was provided through the local governments.

During the Soviet period the health insurance was abolished and replaced by a different system. The foundations of the new system originated from the context of pre-transitional and transitional mortality and morbidity conditions when various infectious diseases and exogenous causes of death were the primary concern. The focus of health care shifted to the treatment of specific illnesses rather than individuals passing through different health statuses. As for the general development of the system, the priority was given to quantitative aspects such as the number of doctors, medium-level personnel, hospital beds etc. According to the available statistics, the referred target indicators increased throughout the entire postwar period, peaking in the 1980s (Figure 2). The same quantitative indicators would demonstrate the superiority of Estonia's health care system over most, if not all developed countries. However, when compared to mortality development, no positive effect of the expanding health care system can be traced over almost four decades. In the 1970s, even the reduction in life expectancy occurred. Similarly to the Soviet pension scheme, the medical system foresaw separate hospitals and polyclinics for the privileged or departamental (e.g. railway system) categories.

Figure 2

Number of hospital beds and physicians Estonia 1970-1997



The societal transition in the 1990s has caused changes the health care system. However, the noticeable results have so far been limited to administration and financing, involving the return to the principles of health insurance. In 1991, the direct health insurance tax accounting for 13 per cent of payroll was imposed, and the tax is paid by the employer. These funds have contracts with medical institutions which are paid according to the provided services; small patient fees and co-payments have been also introduced. The principal advantage of the new system was the institutional detachment of payment from the service provider, but this has also introduced undesirable economic incentives (Vask 1998). Mostly proceeding from the considerations of greater efficiency, the transition has witnessed some reduction of medical staff and facilities (Figure 2). Compared to 1989, the number of physicians has dropped by more than 10 per cent with the biggest reduction taking place in 1992–1993. Aggravating the already distorted ratio of nurses to doctors, the number of medium-level medical personnel has dropped to an even greater extent. The stock of hospital beds has been cut by more than third, mostly due to conversion of many small and poorly equipped hospitals into institutions of long-term care. On the other hand, except the dentists, the care is still mostly provided by state and municipal institutions (EMSB 1996).

The newly introduced health insurance has not made a substantial difference for the elderly, as all non-working elderly are automatically insured. More important, perhaps, has been the availability of pharmaceuticals, the demand for which increases towards old age. After a period of acute shortage in the early 1990s, the assortment of drugs has improved significantly, and now the availability is restricted primarily by the purchasing power. While drugs to hospital inpatients are free of charge, outpatient prescriptions must be covered by recipients. Though there are some facilities introduced for persons aged 65 and over, the availability of pharmaceuticals can sometimes develop into a problem for them. Detailed information on the use and accessibility of medical services among the elderly will become available from the recently conducted health interview survey.

3. Social and institutional care

In prewar Estonia, the primary responsibility for the care of persons who, because of health or other reasons could not manage by themselves and lacked the support from kin, was assigned to local governments, similarly to other Nordic countries. Besides the local governments, the significant contributions of various voluntary organisations should also be underlined. The principles of the care system, legally enforced in 1925, were based on the ideas of the time and international legislative experience, in the same period the training of social workers was started (Pullerits 1927). The assistance was generally aimed at enhancing the capacity of self-support, and respectively, much attention was paid to the development of non-institutional care. If the latter proved non-applicable or inadequate, people were

admitted to institutions. The network of institutional care units included children's homes, institutions for physically or mentally disabled, institutions for war invalids and homes for the elderly. In the second half of the 1930s, local governments operated more than 30 homes of the elderly with about three thousand inhabitants. Another form of institutional care relevant for the elderly were the special sheltered dwellings_which were usually provided with a plot of land. In these dwellings, the elderly accounted for four fifths of the residents, totalling about two thousand in the 1930s (RSKB 1937). Most of the activities in such institutions were performed by the residents themselves which eased the costs of maintenance.

Under the Soviet model of social care, institutionalisation was regarded primarily from the medical point of view, which explains the lack of information on the demographic and social characteristics of the institutionalised population; the principles of social care were altered. The care was centralised into a limited number of state institutions, all those previously maintained by local governments and private organisations were closed. Regarding the elderly, other services of social care were abandoned and the institutionalisation served as the single option. The emphasis of institutional care shifted and the homes of the elderly became largely medical-type establishments. Although the conditions and level of service there was rather poor, the limited availability imposed rather strong restrictions to admission. Only those older persons living alone who had no relatives and could not cope on their own, were eligible. In reality, even the eligible were often denied admission and long queues were common. From the viewpoint of an elderly person, institutionalisation involved losing the rights to an apartment, and 90 per cent of his pension was detained for the expenses of the institution (Bachverk and Saia 1988). As institutional care was centralised into fewer units, it usually also meant the move to another location (county) and the loss of previous social networks. Although consistent time series on institutionalised elderly are difficult to obtain, the level of institutionalisation seems to have declined in the postwar period compared to the earlier level. This by no means indicates a low demand, but is rather a sign of a unified social service system, which did not consider the twice higher proportion of the elderly in Estonia compared to the average in the Soviet Union.

In the 1990s, the development has turned towards the decentralisation of social care; the primary responsibility for the provision of services has shifted from the state back to local governments. Also, different voluntary organisations have started to provide care. This trend is evident, for example, from the number of institutional care units which has increased from 18 in 1990 to 81 in 1997. For the elderly, this has meant a desirable move to smaller units situated closer to a person's usual residence. Another feature of these new developments has been the shift from the mostly medical treatment to a wider social care. Among others, the change in the orientation is reflected in the resumed training of social workers and an increasing emphasis on non-institutional services. According to the Ministry of Social Affairs, the number of persons receiving such services in 1997 somewhat exceeded the number of institutionalised elderly. Local governments have started

to establish day-care centres, which provide services ranging from medical treatment to different interest activities and medical consultation. The elderly can also apply for residence in special small-apartment houses where they can be attended by a social worker and a limited range of services. This type of service is greatly favoured in larger cities where local governments have more substantial resources. To sum up, the care for the elderly has started to diversify in forms and providers, and this direction is expected to develop further. The structure of the services has thus changed, but the availability of services has remained at a low level. The local governments themselves are newly established after the restoration of independence and there is a heavy burden on the local budgets for various needs.

4. Income maintenance

Older persons have always been more exposed to higher risks of losing their habitual standard of living. Abandoning economic activity, more gradual in farm-based agricultural economy and institutionally distinct after the separation of home and workplace, involves the need for economic support in old age. In traditional societies, such support has been provided by families and kin. Demographic transition and population ageing generated the necessity to supplement this system as the redistribution of resources could not be secured at the family level. Under the transformed conditions, pension schemes, discussed earlier in this paper, became the main source of support for the elderly. To make up for various kinds of hardships, pensions have been supplemented with different needs-tested support schemes. Prior to World War II, in Estonia such support was provided by local governments and various voluntary organisations (Pullerits 1927).

During the Soviet period, the existence of poverty was officially not acknowledged, as the socialist society was supposed to provide the entire population with a continuously improving standard of living. Unemployment was also not acknowledged, thus all able-bodied persons were expected to have jobs and provide for their families. This requirement was even legally pursued and individuals who did not work for no obvious reasons, risked with being punished. On the other hand, persons who were not able to work were supposed to be supported by their working family members or state. Correspondingly, there was no scheme for persons whose incomes had for some reason dropped below the subsistence minimum. In fact, however, the cited ideological assumptions did not correspond to the reality (Orwell 1966). Until the 1960s, for example, only a minor part of elderly population was entitled to old age pensions, and regarding younger population, there have always been cases with extremely adverse proportion between income earners and dependents. To ease the circumstances of the latter, regular allowances for single mothers, large families and families with low incomes were introduced in the 1950s (Nõukogude Eesti 1978). Being fixed

and not adjusted to inflation, however, the role of these allowances remained rather insignificant. Avoiding extreme poverty, controlled and subsidised prices for food, transportation and housing were of much greater importance. In that way the basic needs were secured at a very low price or no price at all, and at least homelessness was avoided.

The transition to market economy called for principal changes in the price setting mechanisms, and correspondingly, the former subsidies for basic commodities were abolished. This resulted in the upsurge of prices for housing, food, public transportation, medical services, etc., implying sharp restructuration of consumption patterns. Considering also the decline in economic activity and the emergence of unemployment, it became necessary to introduce specially targeted measures to assist the poorest segments of the population. The first step in this direction was the payment of income compensation for the increase in food prices to non-working pensioners in 1990. In 1994, two basic schemes of income maintenance were introduced. The first, income support scheme, was aimed at households whose per capita income had dropped under the established poverty line. The poverty line has been established by the Government and is periodically revised. There has been no proper methodological basis for defining the line, but in reality it covers the costs of the minimal food basket, approximating the concept to absolute poverty. Regarding the elderly, only those with no pension eligibility qualify for support under the referred scheme. In practice, local governments who decide the eligibility are using the limited funds for irregular support in case of different emergencies. The statistics on the profile of recipients is not available.

Another scheme of income maintenance envisages the payment of housing allowances. Households were entitled to these benefits when the housing costs exceeded 30 per cent of total household income. The excess of these costs was compensated provided that the per capita floor area of the dwelling did not exceed the norm (18 sq m per person plus additional 15 sq m per household). If the first scheme has been of little relevance for the elderly, the housing allowance has been rather important, also relative to other groups of population. The income level has been universally low which implies that the need for the allowance is defined mostly by housing conditions of the elderly. In 1997 two schemes were combined into the subsistence allowance under the Social Assistance Scheme, but no principle change occurred. According to the valid scheme, eligibility to the subsistence allowance is assigned in case the income of the household after covering housing costs is beneath the poverty line, stipulated by the Government.

Inside the elderly population of Estonia, large inequality can be observed defined by the long-term effect of exercised housing policies. In other words, the housing allowance is not so much an income support for the (elderly) population, as an adaptation scheme facilitating the transition from the housing situation of centrally planned to market economy conditions. It is expected that during transitional period the families will be able to choose the dwelling corresponding to their income level.

For the elderly this transition is obviously most difficult because of their low income, as well as for the socio-psychological attachment to their residence.

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