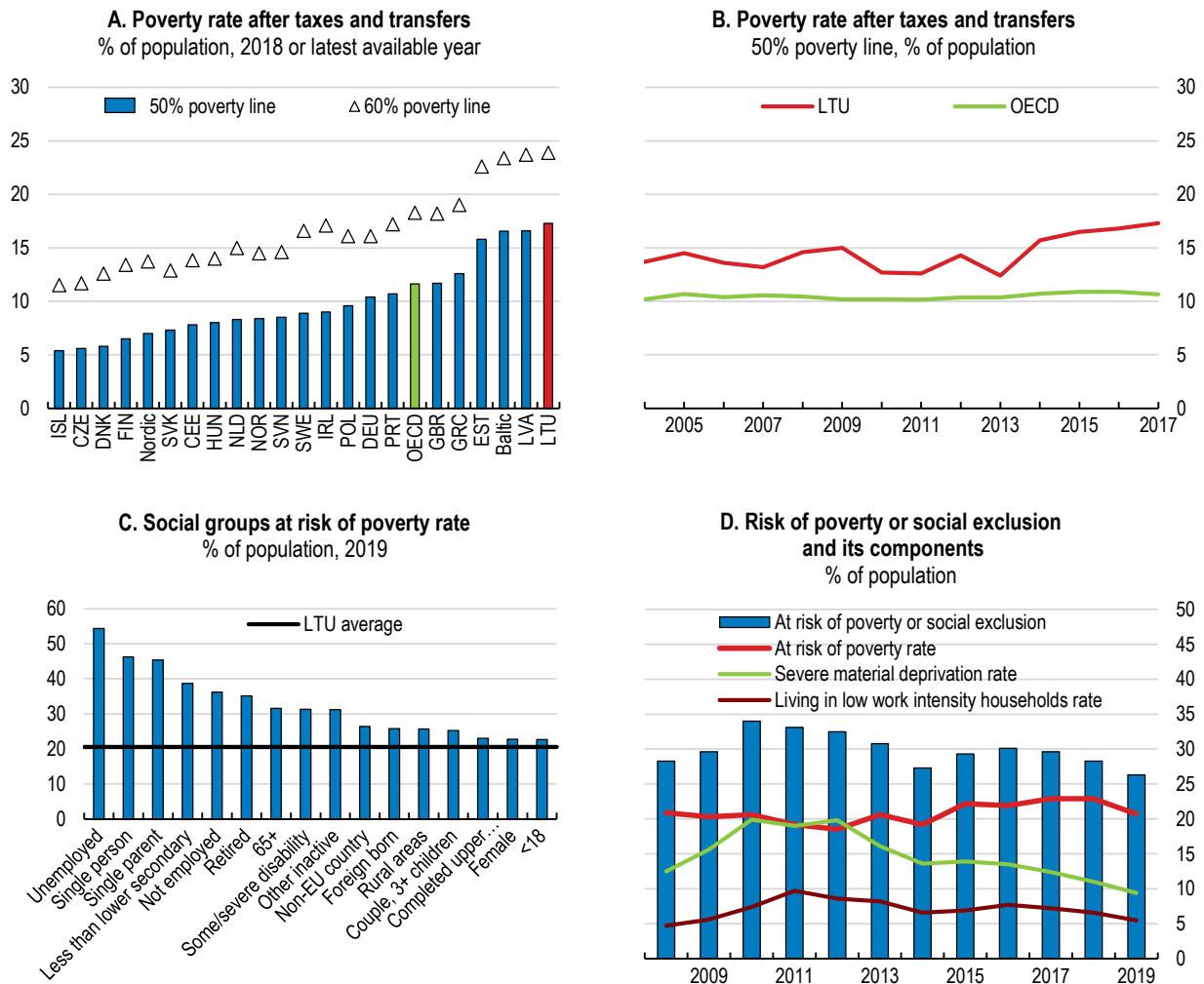# 2 Reducing poverty and social disparities

Reducing poverty remains an important challenge, and the COVID-19-crisis may further reinforce social vulnerabilities. Although it has declined lately, relative poverty remains high in international comparison and is distributed unevenly across population groups with the elderly, people with disabilities, lone parents, the low-educated and the unemployed being particularly affected. A comprehensive approach is required to ensure an effective transition out of poverty and social exclusion. Reforms should strengthen income protection by ensuring that cash benefits provide adequate and tailored support to those in need. An individual-based approach is also essential for the provision of social services to reduce deficits in important areas such as social housing and long-term care for the elderly. Equity in educational opportunity and outcomes could be strengthened further, starting at the early school years, as not all children benefit from early childhood education and care services. Progress in this domain is also crucial for striking a better work-family balance and improving work incentives. More and better quality jobs in the formal sector, especially for the low-skilled, are crucial for reducing poverty. Enlarged participation in life-long learning programmes can help re-skilling and up-skilling towards higher incomes. Increased spending on well-designed labour market activation policies is also important for tackling poverty effectively.

Rapid growth over the past two decades brought Lithuania's per-capita income closer to the OECD average, but relative poverty has increased in recent years and remains high, even though there have been some encouraging signs lately (Figure 2.1). The elderly, people with disabilities, lone parents, the less educated and unemployed are among the most vulnerable groups, facing poverty rates well above the overall population.

Figure 2.1. Poverty rates remain high

A. Poverty rate after taxes and transfers
% of population, 2018 or latest available year

B. Poverty rate after taxes and transfers
50% poverty line, % of population

C. Social groups at risk of poverty rate
% of population, 2019

D. Risk of poverty or social exclusion and its components
% of population

Note: Poverty rate is defined as the share of the population whose income falls below the poverty line, set at 50% of median equivalised disposable income of the entire population (OECD definition). The at-risk-of-poverty rate is the share of persons with an equivalised disposable income below the at-risk-of-poverty threshold, set at 60% of the national median equivalised disposable income (after social transfers) (Eurostat definition). Averages are calculated for the most recent value of all countries with available data (unweighted). Panel A: data for Lithuania are for 2017.
Source: OECD Income Distribution database; Statistics Lithuania; and EU-SILC.

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Denting poverty is a key policy priority not only for minimising the undesirable consequences of social exclusion, but also for increasing the opportunities and productive potential of the affected groups. The need to address poverty effectively is even more urgent in the current juncture as the COVID-19 crisis puts recent labour market improvements at risk, including by increasing informality, with an unequal burden on

the poorer households. Low-skilled jobs tend to be concentrated in the sectors affected mostly by confinement, such as catering and accommodation.

The government has responded swiftly to the crisis through a number of measures to safeguard incomes and jobs and protect the needy (See Box 1.2, in Chapter 1). These include short-time working schemes, support for non-standard workers, more funds for activation policies, as well as increases in social benefits.

While the crisis-related measures can help to turn the poverty clock back, Lithuania continues to face important longer-term poverty challenges that need to be addressed. Comprehensive policy action was taken in the past few years to this end. Reforms increased the adequacy of key cash benefits, especially for families, while strengthening incentives to work and making labour market more flexible. However, social benefits remain comparatively low and the provision of support is not yet individual-based. Social services also need to address better the needs of vulnerable groups through more tailored and comprehensive support. Reducing deficits in important areas such as child care, long-term care and social housing are crucial to poverty reduction. Persisting informality in the labour market also affects poverty, weakening the social protection of the less skilled. At the same time, activation programmes need to strengthen further. The government's social agenda, currently under implementation, addresses many of these shortcomings, making strides in the fight against poverty and social exclusion. Reform efforts need to continue.
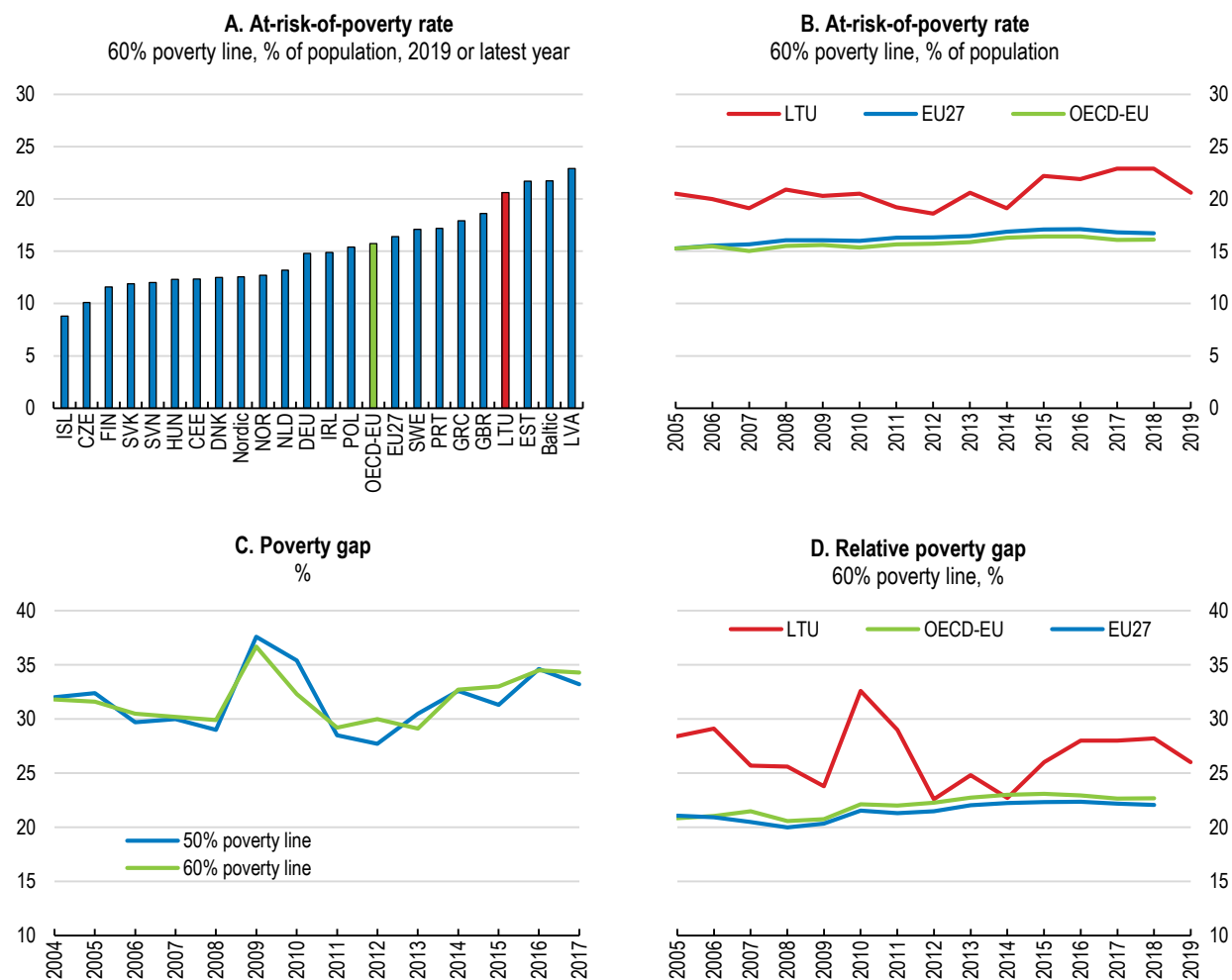
The chapter discusses poverty-related challenges and potential areas of further reforms, covering a wide range of policies as poverty is a multidimensional phenomenon. The next section describes the characteristics of the most affected population groups. Section two then discusses the transfer system and ways to make it a more effective anti-poverty tool for the working-age population and the elderly. Section three focuses on the provision of social services, particularly in the areas of health, long term care and housing. This is followed by an assessment of educational inequalities and reforms to reduce them. The final section examines policies that could help labour market integration of vulnerable groups, including measures to make family-work responsibilities more balanced and activation policies. The analysis focuses on relative poverty, which is the standard measure used in international comparisons of OECD countries. This depicts the proportion of individuals living in households with an income below a pre-defined poverty line. As in other advanced countries, relative poverty is the most prevailing form of poverty in Lithuania (Figure 2.1, Panel D). However, issues related to other forms of poverty, such as severe material deprivation (not being able to afford some necessities of daily life), homelessness, poor quality of housing and energy poverty are also discussed.

Poverty is high and unevenly distributed

Some groups are more at risk of poverty than others

A high share of population in Lithuania lives below the relative poverty threshold. This is consistent across different data sets and poverty metrics. OECD data reveal, in particular, that around 17% of the population had an income below 50% of the median in 2017 (latest year available), a proportion that rises to 24% when the threshold is set at 60% (Figure 2.1, Panel A). In both cases, the poverty rates are above the OECD average. EU data on income and living conditions confirm the need to strengthen inclusiveness: while declined by over 2 percentage between 2018 and 2019, at approximately 21% the at-risk-of poverty rate (i.e. the share of people with an income below 60 % of the national median equivalised disposable income) is still high in international comparison (Figure 2.2). The "poverty gap" has increased in recent years, indicating that the poor households fell further below the poverty line, and despite the recent decline, it remains comparatively large.

Figure 2.2. A large share of population is at risk of poverty and the poverty gap remains large

A. At-risk-of-poverty rate
60% poverty line, % of population, 2019 or latest year

B. At-risk-of-poverty rate
60% poverty line, % of population

C. Poverty gap
%

D. Relative poverty gap
60% poverty line, %

Note: Panels A and B: the at-risk-of-poverty rate is the share of persons with an equivalised disposable income below the at-risk-of-poverty threshold, set at 60% of the national median equivalised disposable income (after social transfers) (Eurostat definition). Panel C: the poverty gap is the ratio by which the mean income falls below the poverty line, defined as 50% or 60% of median equivalised disposable income of the entire population (OECD definition). Panel D: the relative at-risk-of-poverty gap is the relative difference between the median equivalised total net income of persons below the at-risk-of-poverty threshold and the at-risk-of-poverty threshold itself, expressed as a percentage of the at-risk-of-poverty threshold (cut-off point: 60% of median equivalised disposable income after transfers) (Eurostat definition). EU-SILC data refer to the year of reporting. Averages are calculated for the most recent value of all countries with available data (unweighted). Average groups are as follows: EU27: European Union members; OECD-EU: EU countries who are OECD members; Baltic: Estonia, Latvia, and Lithuania; Nordic: Denmark, Finland, Iceland, Norway, and Sweden; CEE (Central European Economies): Czech Republic, Hungary, Poland, Slovak Republic, and Slovenia.
Source: OECD Income Distribution database; Statistics Lithuania; and EU-SILC.

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The risk of poverty is far from evenly distributed across population, varying with individual and household characteristics such as gender, age, employment status and family composition (Figure 2.3). Even though the poverty indicators have improved lately, certain groups, namely women, the elderly, people with disabilities, single-parents, the less educated and those living in rural areas face higher poverty rates than the overall population, with the unemployed being the hardest hit.

Figure 2.3. Some groups face especially high rates of poverty

At-risk-of-poverty rate, % of population, 2019
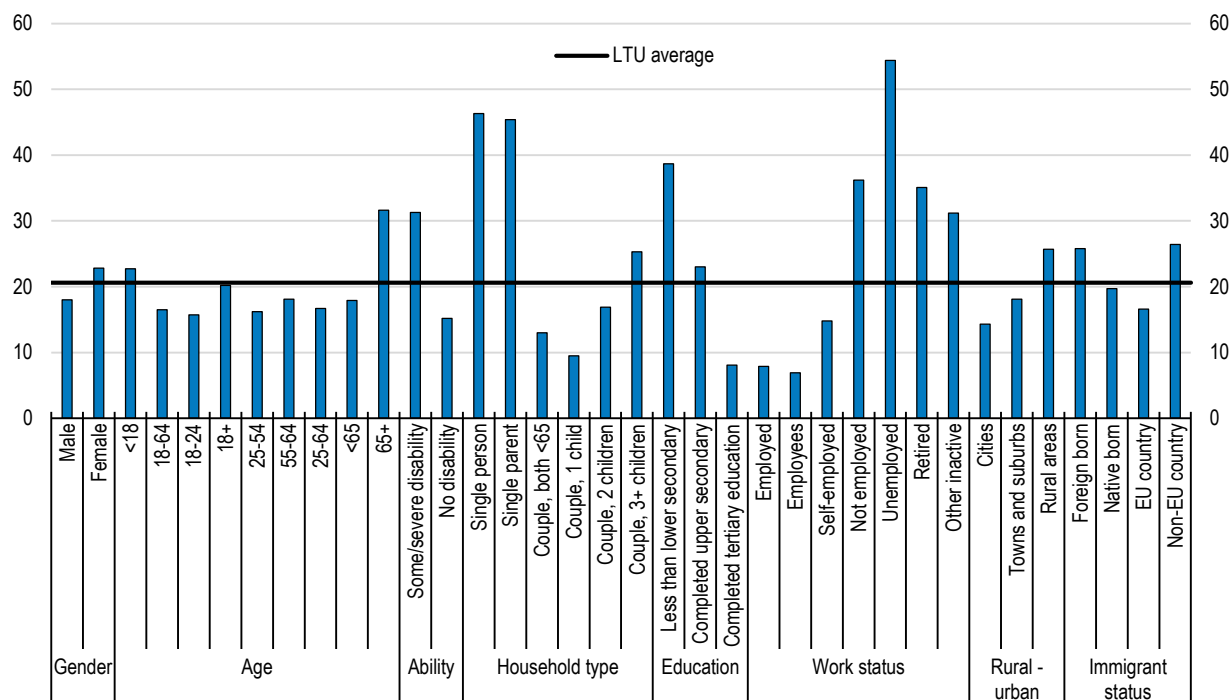
Note: The cut off for the at risk of poverty rate is 60% of median equivalised income after social transfers.
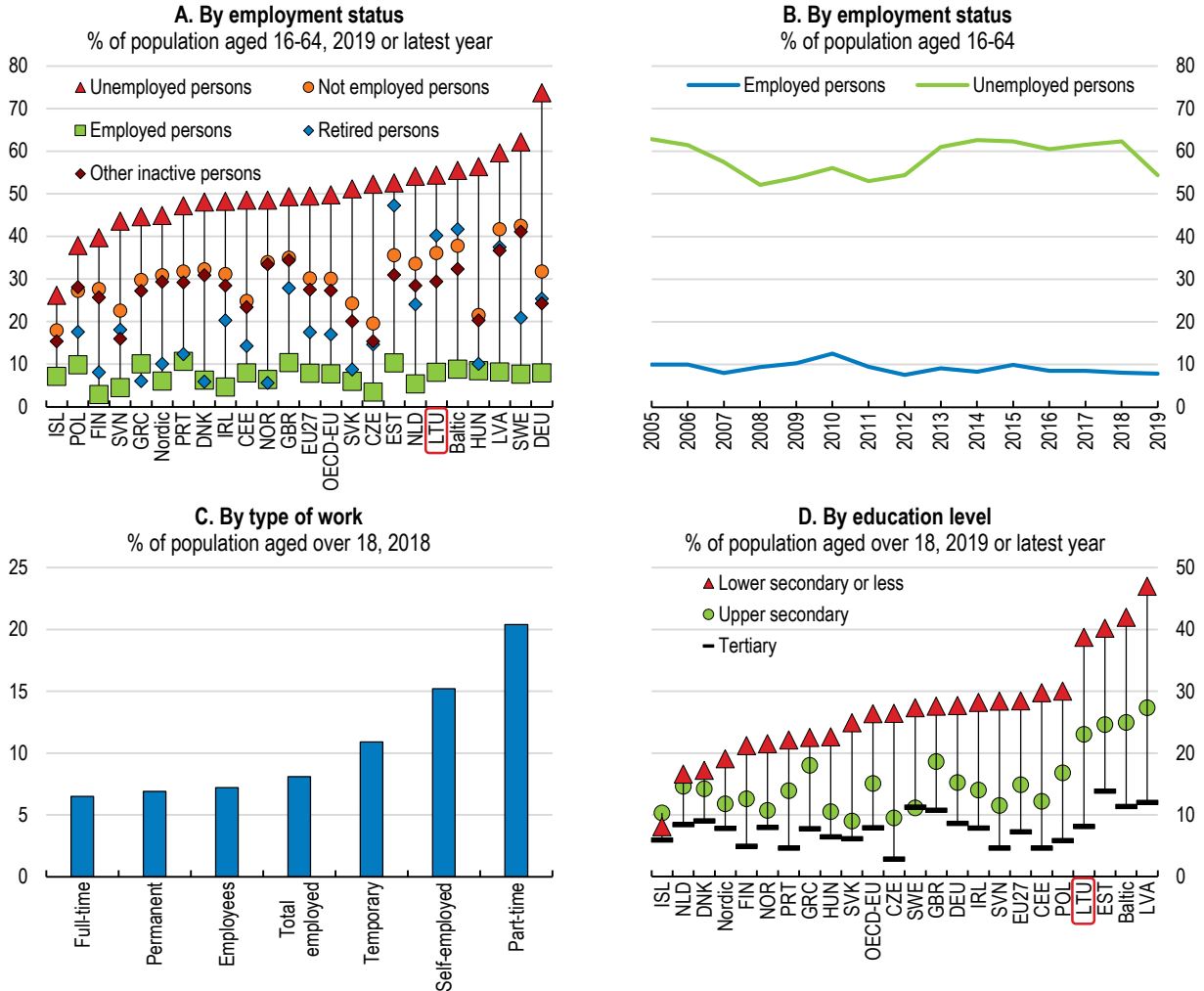Source: EU-SILC; and Statistics Lithuania.

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More than half of the unemployed were at risk-of-poverty in 2019, above the average of the OECD members of EU and around 7 times higher than those in employment (Figure 2.3 and Figure 2.4). Poverty rates among the unemployed increased by approximately 5 percentage points between 2007 and 2018, as wages increased much faster than unemployment benefits, before falling back in 2019 as a result of recent reforms (discussed below). Those who have dropped out of the workforce (aged 16 to 64) also face comparatively high poverty rates. The difference is particularly pronounced when comparing these groups with their peers in full-time and permanent jobs, corroborating the view that good quality jobs is the best antidote to poverty (Causa, Hermansen and Ruiz, 2016[1]). At the same time, poverty at work could be reduced further. While the overall in-work poverty rate does not stand out in international comparison, part-time and temporary workers face disproportionally high rates. The slowing of wages due to the COVID-19 crisis may aggravate the situation (see, Chapter 1).

Figure 2.4. The unemployed and low-educated are at high risk of poverty

At-risk-of-poverty rate by employment type and education level

Note: The at-risk-of-poverty rate is the share of persons with an equivalised disposable income below the at-risk-of-poverty threshold, set at 60% of the national median equivalised disposable income (after social transfers) (Eurostat definition). Averages are calculated for the most recent value of all countries with available data (unweighted). Average groups are as follows: OECD-EU: EU countries who are OECD members; EU27: European Union members; Baltic: Estonia, Latvia, and Lithuania; Nordic: Denmark, Finland, Iceland, Norway, and Sweden; CEE (Central European Economies): Czech Republic, Hungary, Poland, Slovak Republic, and Slovenia.
Source: Statistics Lithuania; and EU-SILC.

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As elsewhere, relative poverty tends to fall with the level of education (Figure 2.3 and Figure 2.4). This is not surprising, given the close relation between educational achievement and labour market outcomes. Recent data reveal, in particular, that the least-educated are around five times more likely to be at-risk-of-poverty than those with the highest education level, above the EU average. The transmission of disadvantage across generations is an important issue to address (Eurostat, 2019[2]). As discussed below, poverty rates are especially high among children (aged less than 18) with low-educated parents, with a risk of a vicious cycle between socio-economic background and economic opportunities (OECD, 2018[3]).

Lithuania also records large differences in poverty rates among genders, with women facing a higher risk than men (Figure 2.3 and Figure 2.5). The gap in poverty rates was close to 6 ½ percentage points in 2019, well above the average of the OECD members of EU, and has increased in recent years. These gender differences seem to mirror to a large extent the poverty patterns among the elderly. Other factors, such as household composition, can also be part of the explanation.

Figure 2.5. Elderly women are affected most by poverty, explaining much of the gender gap

At-risk-of-poverty rate by demographic group
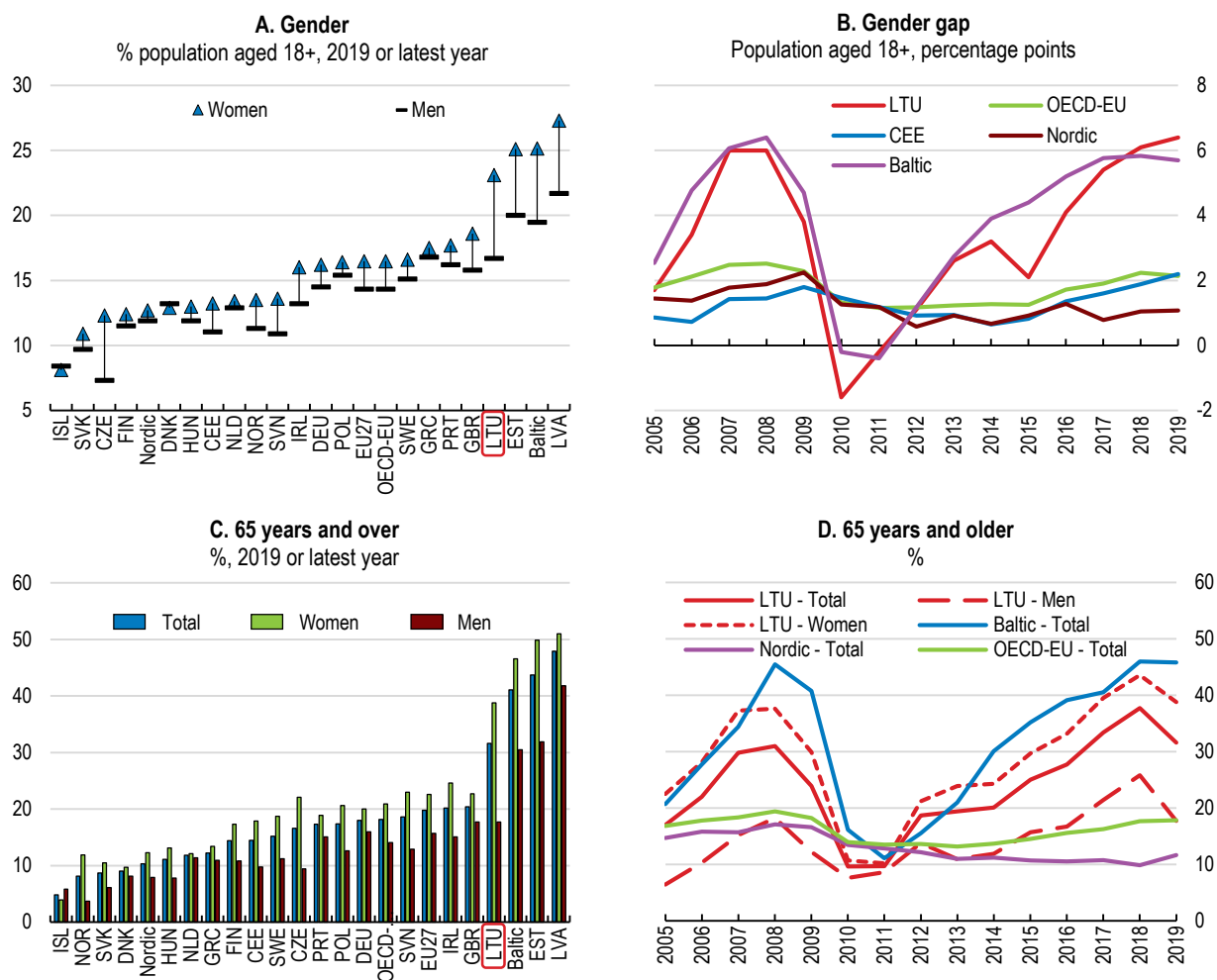
Note: The at-risk-of-poverty rate is the share of persons with an equivalised disposable income below the at-risk-of-poverty threshold, set at 60% of the national median equivalised disposable income (after social transfers) (Eurostat definition). The gender gap in poverty rate is calculated as the male adult poverty rate less the female poverty rate. In Panel D, "total" refer to men and women. Averages are calculated for the most recent value of all countries with available data (unweighted). Average groups are as follows: OECD-EU: EU countries who are OECD members; EU27: European Union members; Baltic: Estonia, Latvia, and Lithuania; Nordic: Denmark, Finland, Iceland, Norway, and Sweden; CEE (Central European Economies): Czech Republic, Hungary, Poland, Slovak Republic, and Slovenia. The gender gap in poverty rate is calculated as the male adult poverty rate less the female poverty rate.
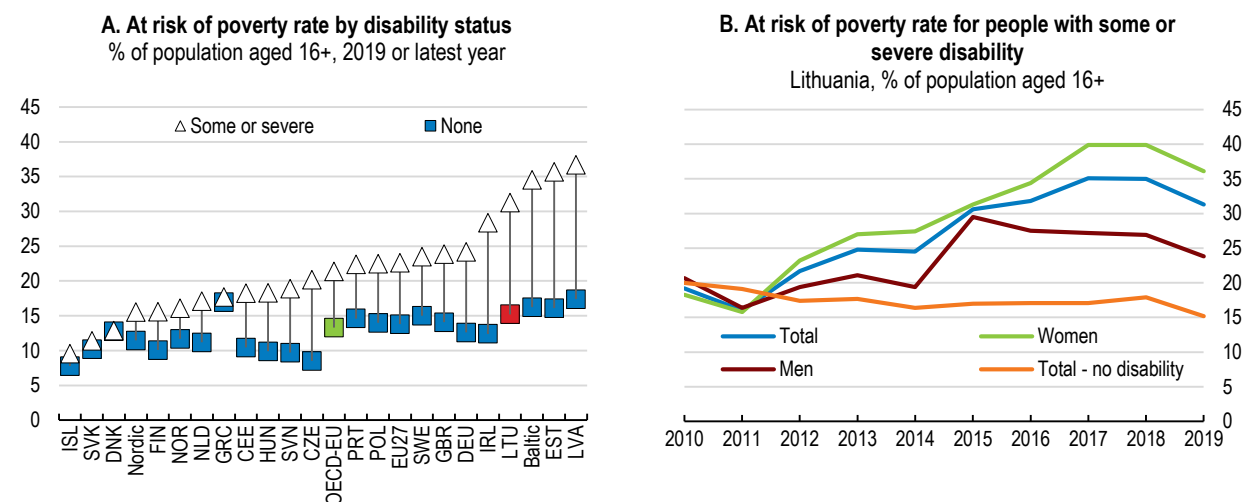Source: Statistics Lithuania; and EU-SILC.

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The elderly face the highest risk of poverty among the age groups (Figure 2.3). Lithuania has one of the highest old-age poverty rates among the European OECD countries, although it ranks below the other Baltic countries (Figure 2.5). Despite a drop in the elderly poverty rate by 6 percentage points in 2019, around a third of those aged 65 years and over still live below the poverty line. This rate is above the national average and around two times higher than that for the 25-64 age-group (Figure 2.3). Elderly women are more exposed to the poverty risk than men, however, that explains much of the overall gender poverty gap prevailing in Lithuania. This pattern, which is also common in other countries, can be largely explained by the lower pension income received by women (Eurostat, 2019[2]). The average pension for women in Lithuania is about 22% lower than that for men, according to official estimates, reflecting lower lifelong earnings and shorter contribution periods due to the earlier statutory retirement age and career breaks. Moreover, women often live in single households because their life expectancy is much higher than men's. Old-age poverty has risen sharply in recent years, as pensions grew at a slower pace than wages (Statistics Lithuania, 2019[4]). This differs from developments in many other countries where the rates remained broadly stable (Figure 2.5). The rise was more pronounced for elderly women than men, augmenting the gender-poverty gap. Wealth inequality is comparatively low in Lithuania (Credit Suisse, 2019[5]), reflecting high homeownership rates, to be taken into consideration when addressing poverty.

Relative poverty is also high among people with disabilities, raising important challenges. Around a third of people with activity limitations (some or severe) live below the poverty threshold, among the largest rates in the EU area (Figure 2.6). Despite the measures taken, poverty rates among people with disability have increased over time, especially among women. The difference in poverty between people with and without disabilities stood at around 16 percentage points in 2019, reflecting the more limited labour market and social integration of the former group (EAPN, 2019[6]).

Figure 2.6. People with disabilities are vulnerable to poverty

A. At risk of poverty rate by disability status
% of population aged 16+, 2019 or latest year

B. At risk of poverty rate for people with some or severe disability
Lithuania, % of population aged 16+

Note: The at-risk-of-poverty rate is the share of persons with an equivalised disposable income below the at-risk-of-poverty threshold, set at 60% of the national median equivalised disposable income (after social transfers) (Eurostat definition). Averages are calculated for the most recent value of all countries with available data (unweighted). Average groups are as follows: OECD-EU: EU countries who are OECD members. Baltic: Estonia, Latvia, and Lithuania; Nordic: Denmark, Finland, Iceland, Norway, and Sweden; CEE (Central European Economies): Czech Republic, Hungary, Poland, Slovak Republic, and Slovenia.
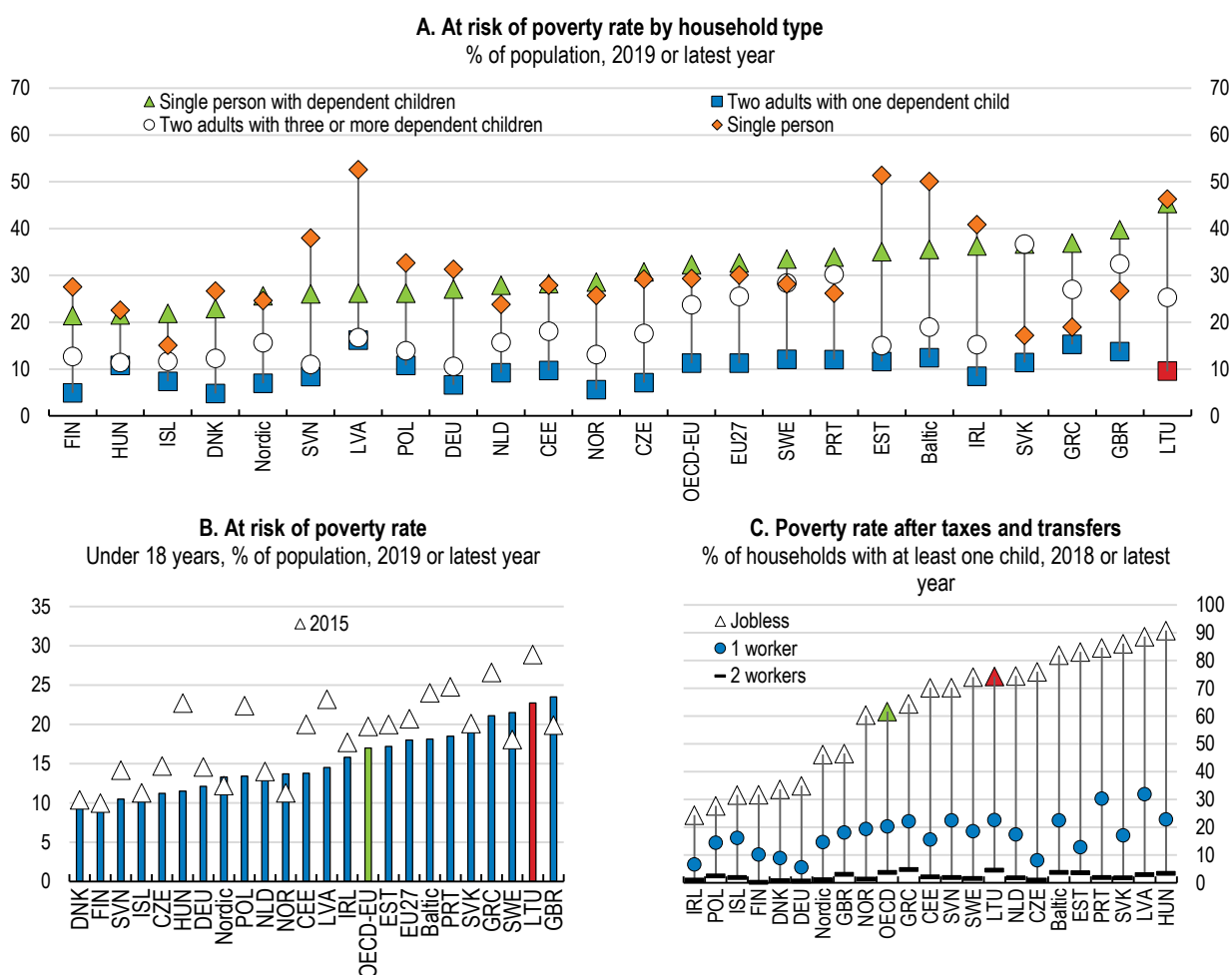Source: Statistics Lithuania; and EU-SILC.

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Child poverty remains closely related to vulnerability of the household. Around half of single parents in Lithuania live below the poverty line, well above the average of the OECD members of EU (Figure 2.3 and Figure 2.7). Relative poverty also affects two adult households with children, with the risk increasing with

the family size. Families with three or more dependent children, in particular, face a poverty rate that is over two and a half times greater than their counterparts with one dependent child, despite a narrowing in the difference over the past few years. This raises concerns about child poverty. While child poverty rates have declined, around a quarter of children are still at risk-of-poverty, above the shares in comparator countries (Figure 2.7). The well-being of children is closely linked to the structure and employment status of the household, with children from single-parent and jobless households facing higher risk of poverty (Thévenon et al., 2018[7]). Parents' education also matters. Children with low-educated parents have a high likelihood of growing up in poverty. Single-adult households also experience high risk-of-poverty rates, that can be explained partly by the fact that in such households there is no partner to cushion the impact of temporary income shocks (Eurostat, 2019[2]). Moreover, single-adult households are usually made up of jobless young people or pensioners who have very low incomes.

Figure 2.7. Child poverty varies with the household type

A. At risk of poverty rate by household type
% of population, 2019 or latest year

B. At risk of poverty rate
Under 18 years, % of population, 2019 or latest year

C. Poverty rate after taxes and transfers
% of households with at least one child, 2018 or latest year

Note: The poverty rate is the ratio of the number of people (in a given age group) whose income falls below the poverty line; taken as half the median household income of the total population (OECD threshold). The at-risk-of-poverty rate is the share of persons with an equivalised disposable income below the at-risk-of-poverty threshold, which is set at 60% of the national median equivalised disposable income (after social transfers) (Eurostat threshold). Averages are calculated for the most recent value of all countries with available data (unweighted). Average groups are as follows: OECD-EU: EU countries who are OECD members; EU27: European Union members; Baltic: Estonia, Latvia, and Lithuania; Nordic: Denmark, Finland, Iceland, Norway, and Sweden; CEE (Central European Economies): Czech Republic, Hungary, Poland, Slovak Republic, and Slovenia.
Source: Statistics Lithuania; EU-SILC; and OECD Income Distribution Database.

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Poverty rates further vary according to region and immigrant status. The risk of poverty in rural areas is nearly double that of urban areas (Figure 2.3 and Figure 2.8). This difference is large in international comparison, mirroring largely regional differences in unemployment rates. Other factors, such as remoteness and the ageing population in rural areas, may also contribute (Bertolini, 2019[8]). Despite recent declines, the poverty rate in rural areas remains at around 26%. A better integration of immigrants from non-EU countries could also help reducing poverty and social disparities. While Lithuania exhibits a relatively small poverty-origin gap at an aggregate level, immigrants from non-EU remain more exposed to the risk of poverty than the natives, and especially immigrants from EU countries (Figure 2.3 and Figure 2.8). This indicates scope for further reducing work-related obstacles, such as problems with credential recognition or language barriers (Eurostat, 2019[2]).

Figure 2.8. Poverty rates vary according to region and, to a lesser extent, immigrant status

At-risk-of-poverty rate, % of population, 2019
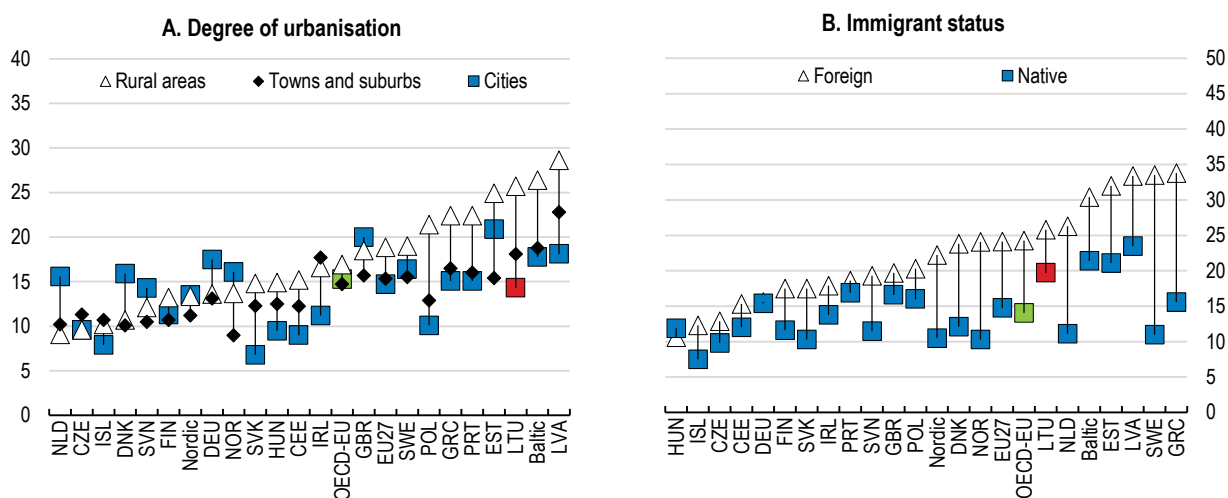
Note: The at-risk-of-poverty rate is the share of persons with an equivalised disposable income below the at-risk-of-poverty threshold, set at 60% of the national median equivalised disposable income (after social transfers) (Eurostat definition). Averages are calculated for the most recent value of all countries with available data (unweighted). Average groups are as follows: OECD-EU: EU countries who are OECD members; EU27: European Union members; Baltic: Estonia, Latvia, and Lithuania; Nordic: Denmark, Finland, Iceland, Norway, and Sweden; CEE (Central European Economies): Czech Republic, Hungary, Poland, Slovak Republic, and Slovenia.
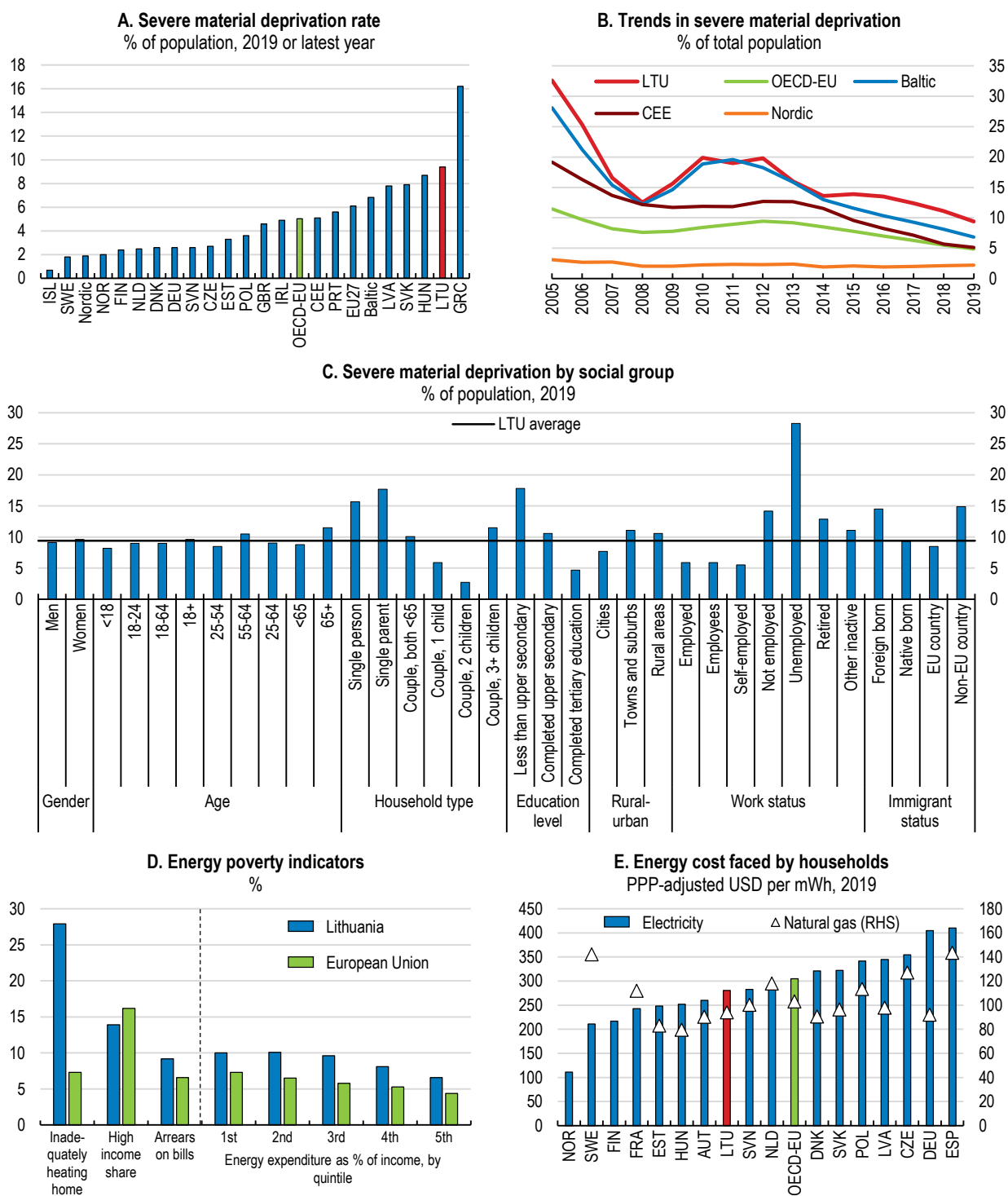Source: EU-SILC.

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Some vulnerable groups are also likely to experience other forms of poverty

Certain households face absolute poverty, not being able to afford some necessities of daily life. The severe material deprivation rate (a Eurostat measure of absolute poverty), has declined steadily in recent years as incomes increased. Nevertheless, around 10% of the population remain in hardship, well above the average of European OECD countries (Figure 2.9). For some vulnerable groups, such as lone parents, larger families, immigrants, the low educated and the unemployed, severe material deprivation is comparatively high. The elderly, especially females, also tend to be more severely-materially deprived compared to younger groups. Homelessness and poor quality of housing (discussed below) is an important form of deprivation in Lithuania.

Figure 2.9. Many households experience severe material deprivation and energy poverty

A. Severe material deprivation rate
% of population, 2019 or latest year

B. Trends in severe material deprivation
% of total population

C. Severe material deprivation by social group
% of population, 2019

D. Energy poverty indicators
%

E. Energy cost faced by households
PPP-adjusted USD per mWh, 2019

Note: Panel A: Severe material deprivation rate is defined as the enforced inability to pay for at least four of a list of nine key deprivation items.
Panel D: The three leftmost indicators refer to: Inability to keep home adequately warm (2018); High share of energy expenditure in income (2015); Arrears on utility bills (2018). Data on income quintiles are for 2015. Averages are calculated for the most recent value of all countries with available data (unweighted). Country average groups are defined as in Figure 2.2.
Source: Statistics Lithuania; EU-SILC; and OECD Energy Prices and Taxes database.

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Recent EU indicators further highlight challenges arising from energy poverty. Around 28% of households in Lithuania were unable to keep their home warm in 2018, compared to an EU average of 7.5%, while 9% fell into arrears with their utility bills, with the risk of experiencing disconnection of supply (Figure 2.9) (Energy Poverty Observatory, 2020[9]). Many households, especially low-income ones, spend a high share of their income on energy bills, posing a budgetary burden. Energy poverty is closely linked to the level of household income, but low income is not the sole driver (Bouzarovski and Thomson, 2020[10]); (Longo et al., 2020[11]). The housing stock might not be of adequate quality to avoid energy poverty. Around 35 000 energy inefficient multi-apartment buildings are currently waiting to be refurbished (European Commission, 2020[12]). The poor quality of heating insulation of many dwellings in Lithuania increases household energy bills, despite comparatively low energy prices, requiring improvements in housing quality and energy efficiency, as discussed below.

Improving the effectiveness of the transfer system in reducing poverty

The tax-transfer system does not reduce poverty decisively. OECD data suggest that, in 2017, taxes and transfers have dented poverty rate by less than 15 percentage points, approximately 2 ½ percentage points less than the OECD average (Figure 2.10). The difference vis-à-vis the average increases to 3 percentage points, when the poverty threshold is set at 60% of the median income. Social spending remains low in international comparison both in the case of in-kind services and cash support, including for minimum-income benefits that can have a financial impact on all age groups (Figure 2.11). While these data do not take into account reforms over the past few years that have increased the generosity of social benefits, especially for families, they indicate scope for further increases. Low spending, together with a lack of a well-developed individualised approach to social benefit and service provision, makes the social protection system less effective in combating poverty (Box 2.1).

Figure 2.10. The tax-transfer system could be more effective in reducing poverty

Percentage point reduction in poverty rate from taxes and transfers, 2018 or latest year
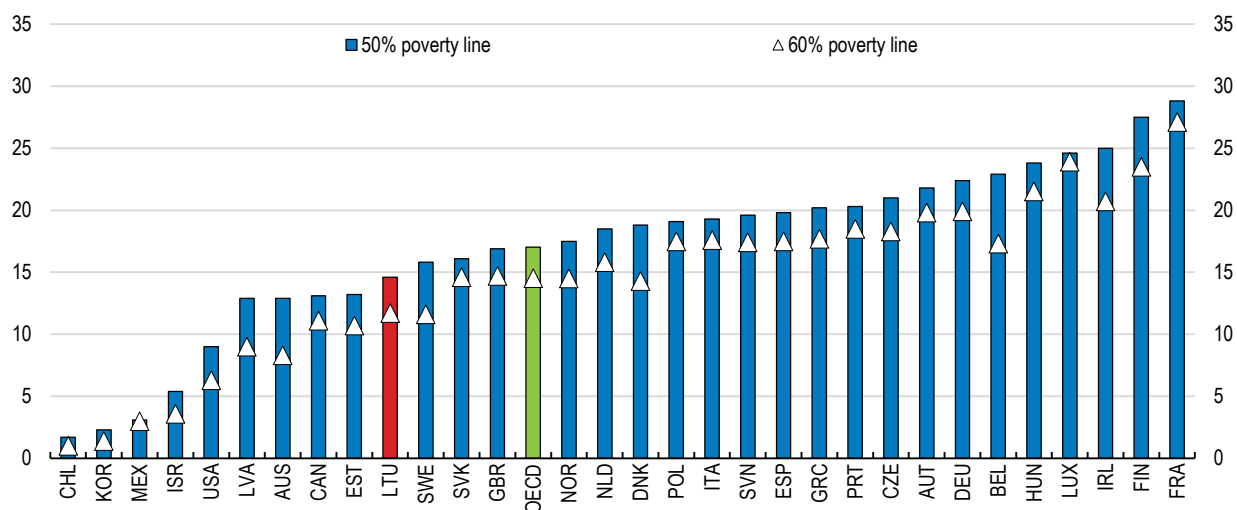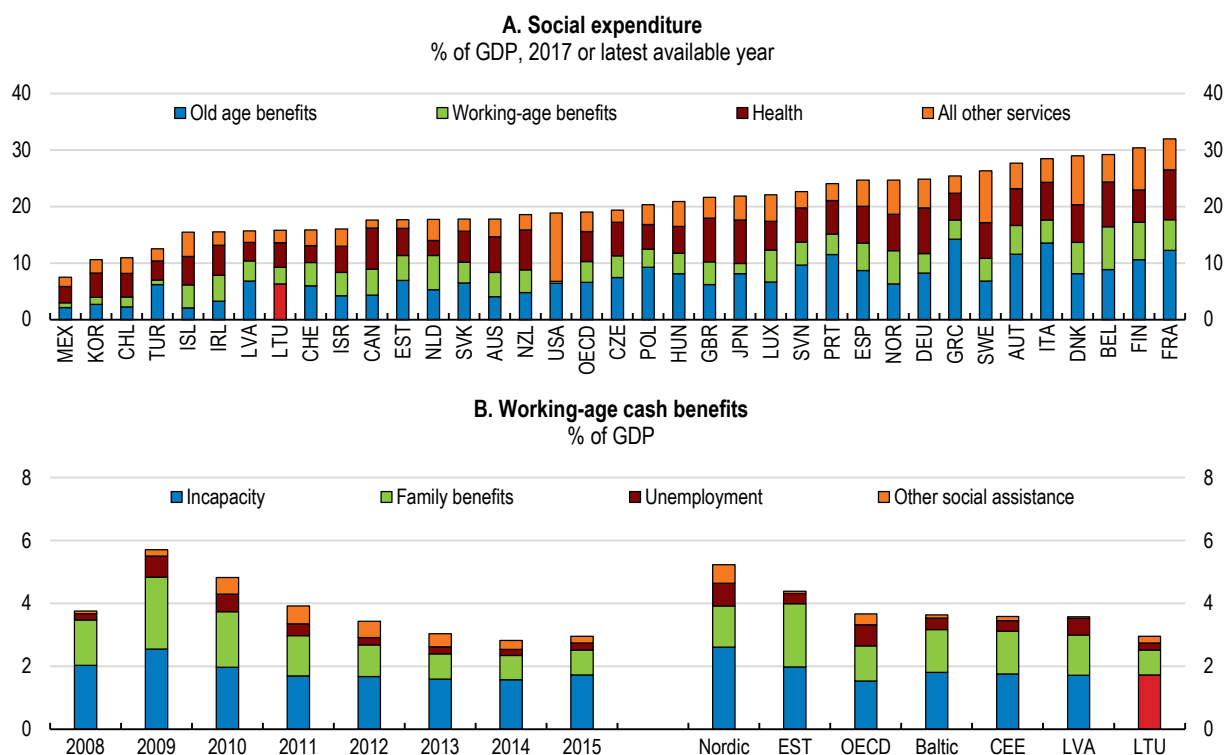

Note: Figure shows the reduction in the percentage of households with pre-tax income below 50% and 60% of the national median household income that results from taxes and transfers. Data for Lithuania refer to 2017.
Source: OECD Income Distribution Database.

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Figure 2.11. Social spending is low by international standards

A. Social expenditure
% of GDP, 2017 or latest available year

B. Working-age cash benefits
% of GDP

Note: Panel A: Working-age benefits includes spending unemployment, family benefits, incapacity, and other social assistance. Panel B: Only cash benefits are included (i.e. excludes in-kind benefits). Average groups are as follows: OECD-EU: EU countries who are OECD members; EU27: European Union members; Baltic: Estonia, Latvia, and Lithuania; Nordic: Denmark, Finland, Iceland, Norway, and Sweden; CEE (Central European Economies): Czech Republic, Hungary, Poland, Slovak Republic, and Slovenia. International comparison data refer to 2017 or the latest available year. Data for LTU and OECD average are for 2015.
Source: OECD Social Expenditure database.

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Additional social spending can be financed through efforts to utilise under-exploited tax bases, including by tackling tax evasion. Measures to improve tax compliance are envisaged by the government to bring in additional tax revenues of approximately 0.4% of GDP (Ministry of Finance, 2019[13]). Broadening the tax base to sources less detrimental to growth must be part of the solution for securing the revenue necessary to increase social spending and improve further the adequacy of social benefits, especially as compliance gains are uncertain given that they are difficult to forecast. There is scope, in context, to tap the revenue potential of property and environmental taxes where Lithuania collects less than the OECD average (Chapter 1). This would also allow shifting taxes away from labour, making the tax mix more inclusive.

Box 2.1. The social protection system: main features

The social support system is based on the social insurance principle (OECD, 2018[14]). Insurance-based benefits, including unemployment, incapacity and old age, are administrated and provided by the State Social Insurance Fund Board (SoDra), while the 60 municipalities administer most non-contributory income support benefits and have responsibility for the provision of social services. Cash benefits are funded directly from municipal budgets, but the central government also contributes via allocations and grants.

The financing of social services is a shared responsibility of the municipalities and central government. Under the law on Social Services, social care for the elderly, adults with disability, children with disability (except for persons with severe disability) and those exposed to social risk are financed from the municipal budget. Social care for persons with severe disability and social care of families are financed from the targeted subsidies to municipal budgets from the state budget. Municipalities provide both "general" social services, including social work counseling and provision of food, clothing and transportation; as well as "specialised" social services such as measures to develop social skills and home visits (OECD, 2018[14]). The municipalities also have responsibility for the provision of early education and care for children aged under 7 years, though a large part of the funding comes from the central government.
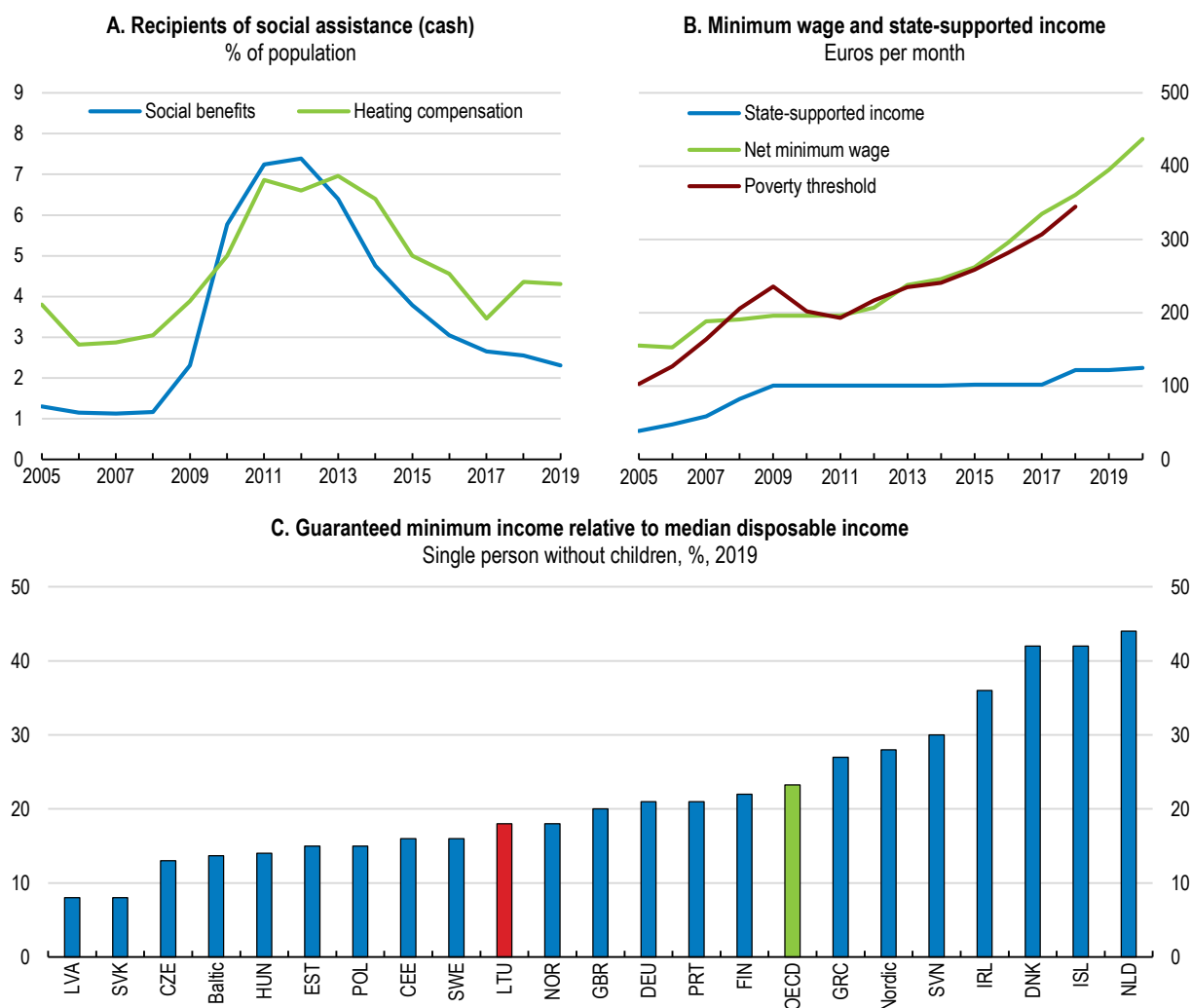
Regarding health care, Lithuania moved in the late 1990s away from a health system mainly funded through state and local budgets to one funded by the National Health Insurance Fund (OECD, 2018[15]). However, municipalities are responsible for organising the provision of primary and social care, and for public health activities at the local level. They also own the majority of polyclinics and small-to medium sized hospitals. Furthermore, municipalities provide social housing or partial assistance for the rental costs or costs related to purchase of housing (Lazutka et al., 2019[16]). Under the Constitution, municipalities are autonomous with regard to development of local policy and service provision.

Working-age benefits can be raised further and better tailored to recipients' needs

A number of measures were introduced over the past two years to strengthen working-age benefits. These include an increase in state-supported income and its indexation to the amount of minimum consumption needs from 2019, revisions in unemployment benefits that increased coverage and made payment rates more generous, and changes in the family benefits notably through the introduction of a universal-child benefit (non-means tested) in 2018 (OECD, 2018[15]). An income disregard for social assistance recipients was also introduced allowing recipients with income from work to keep some of their earnings. These reforms go in the right direction, striking a balance between increased income support and work incentives. Government estimates point to a positive impact of the measures in terms of poverty reduction in 2018 compared to the previous year (by around 1 to 2 percentage points), with a positive, but smaller, estimated impact also in 2019.

Reform efforts need to continue, given the scale of the poverty challenge and the need to address additional social protection gaps arising from the COVID-19 crisis (Figure 2.1). Improving further the adequacy of social benefits, which provide last resort income support to low income households, would have a broad financial impact. The state-supported income (SSI), the base for social benefits, has increased by over 20% in early 2018, for the first time in the decade (Figure 2.12). Since 2019, the SSI is indexed to the amount of minimum consumption needs, thereby adjusting automatically for price level changes. Nonetheless, the guaranteed minimum income scheme still alleviates poverty risks to a lesser extent than the OECD average, according to recent data.

Figure 2.12. Cash benefits can be strengthened further

A. Recipients of social assistance (cash)
% of population

B. Minimum wage and state-supported income
Euros per month

C. Guaranteed minimum income relative to median disposable income
Single person without children, %, 2019

Note: Panel B: the poverty threshold is defined as 60% of the median equivalised income. Panel C shows income of a jobless single person claiming guaranteed minimum income benefits (but not unemployment benefits) as a percentage of the median disposable income for the whole population. Housing benefits for rented accommodation are not included. For Lithuania, the calculations include social benefit.
Source: Ministry of Social Security and Labour; and OECD Tax-Benefit Model.

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Ensuring that social benefits provide a strong safety net would require additional increases in state-supported income (SSI) that are likely to go beyond those foreseen by the indexation formula, while maintaining strong work incentives. There should also be a balance between minimum income and minimum pensions. The rise in SSI would increase not only the level of social benefits, but also that of the Heating Compensation (the other component of Cash Social Assistance Scheme), which is paid if heating costs exceed more than 10% of the difference between household income and the SSI. Heating Compensation makes a significant contribution to disposable income of households eligible for such benefits, covering around 4 ½ percent of the population. It is also an important instrument to tackle energy poverty (Figure 2.9). To protect the vulnerable groups from the adverse consequences of the cessation of activities during the quarantine, the government has expanded the coverage of cash social assistance, by raising the limit of income establishing the right to social benefit, and increased the level of social payments

for singles and families (Box 2.2). Moreover, social benefits were differentiated depending on the duration of payment. A higher compensation for home heating costs has also been provided in the case of single persons. It is welcome that these measures are to remain in place after the end of the quarantine. Consideration could be further given to the regional differentiation of social benefits, as recommended by a recent OECD report (OECD, 2018[14]).

There is scope to strengthen further the adequacy of other key cash benefits for the working-age population. A recent audit report concluded that the social support (cash benefits, services) provided and other income (for instance, wages and rent) do not cover sufficiently the minimum consumption needs of the poor (National Audit Office, 2019[17]). The level of universal child benefit has increased by 20% since early 2020 and the amount of the supplement granted to low income and larger families has been doubled. Official estimates suggest that these changes would reduce child poverty rates by 2.5 percentage points, adding to previous gains since the introduction of the universal child benefit scheme in 2018. Moreover, to help alleviating the impact of COVID-19 crisis, an additional child benefit of EUR 40 will be granted to low-income families with up to two children (Box 2.2). Around 33 000 children will receive such benefit, according to official estimates. Crisis-related initiatives also entail a lump-sum benefit for all children. Measures to reduce child poverty are welcome but their positive impact should be balanced against potential disincentives to work, especially for women.

The duration of unemployment benefit could be extended to help those out of work for a long time. Revisions in mid-2017, under the New Social Model, increased the coverage of unemployment benefits by easing eligibility conditions, and made them more generous by extending the duration of benefits to 9 months (regardless of contribution history) and raising payment rates. The maximum period of unemployment benefit could increase further as proposed by the previous Survey (OECD, 2018[15]) and financed, for instance, by a reduction in the relatively generous replacement rates in the initial months of an unemployment spell (OECD, 2018[14]). Most OECD countries grant unemployment benefits for at least twelve months. Such reform would strengthen the support for the long-term unemployed, which accounted already for 30% of the unemployed before the outbreak of the pandemic, while ensuring the effective labour market re-integration of these workers. An alternative reform, currently under consideration by the government, is to make the temporary jobseeker's benefit (Box 2.2) permanent, upon a close examination of its effectiveness. Such benefit is targeted at those not eligible for unemployment insurance benefit, or when its payment has expired. The level of the permanent benefit should be aligned to that of the unemployment insurance benefit, while minimising disincentives to work.

Social spending on disability, on the other hand, needs to be carefully monitored. Spending on disability pensions and sickness benefits is relatively high, accounted in 2015 (latest available data) for over half of overall working-age income support (Figure 2.11). A recent OECD analysis highlighted, in this context, the need to further improve the quality of work capacity assessments (Pacifico, 2017[18]). Despite reforms, they continue to rely too strongly on medical certificates, with relatively little consideration is given to the persons' physical, social and professional capabilities.

Box 2.2. Social measures in response to the COVID-19 crisis

A range of measures were introduced to protect the most exposed groups from the adverse economic consequences of the pandemic. In particular:

Confinement assistance measures

Measures applied during the quarantine period, commenced in mid-March 2020, include: short time work schemes in the form of wage subsidies (covering between 70% and 90% of the accrued wage) that ensure that workers receive at least the minimum wage during the downtime; a flat benefit (EUR 257 per month) for insured self-employed; sickness benefits for cares; and increased sickness benefits for employees infected by the virus. Official estimates suggest that over 100 000 of employees, and 60 000 of self-employed, have benefited in May 2020 from the two first measures.

The confinement measures also included a training grant (around 40% of the minimum monthly salary) for the unemployed, if the VET programme registered was suspended during the quarantine, paid to almost 2 000 people in March 2020, and the possibility for differing or arranging the payments of energy bills. Greater security of energy supply for final consumers was ensured by limiting disconnections.

Post-confinement assistance measures

Additional social measures were approved in May 2020, amounting to 2% of GDP, to support business and households after the end of the quarantine. It is estimated by the government that, upon implementation, these measures will benefit about 1.4 million people. Initiatives comprise:

Assistance measures to safeguard jobs, including the extension of short time work schemes introduced during the quarantine for another six months, on the condition that an employer had not proceeded in dismissals during the confinement period. The subsidy covers between 30% and 100% of the accrued wage, up to a maximum limit, with the highest rates applying in the first two months after the quarantine.

Assistance measures to help workers to return to the labour market include the extension of flat benefit for self-employed for another two months after the end of the quarantine; support for job creation in high unemployment regions and for vulnerable groups; easing hiring restrictions for apprentices with the public employment service (PES) subsidising 70% of their wage (up to a limit); and, increased funding through PES for vocational training. In addition, a jobseeker's benefit was introduced for unemployed persons not entitled to unemployment social insurance benefit or its payment has expired. This will apply for 6 months and amounts 33% of minimum monthly salary (MMS). Unemployment benefit recipients will get additionally 7% of MMS each month until end-2020.

Finally, measures to help those most in need include a lump sum benefit (EUR 200) for the elderly and disabled and increases in social benefits. The limit of income establishing the right to social benefit was increased from 1 to 1.1 SSI (state-support income) and the amount of social benefit was raised and differentiated according to the duration of payment. In addition, a higher share of housing heating costs will be compensated in the case of single persons. Measures further entail an increase in disregard income (the part of the work income not included when establishing a person's right to cash social assistance) by 5 percentage points, as well as of the in-work benefits for long-term unemployed. Part of the unemployment benefit and the temporary job search benefit will not be included in the disregard income, with the proportion varying according to household composition and number of children. Moreover, low-income families with one or two children will receive an additional child benefit of EUR 40. A lump-sum benefit for all children will also be granted. Initiatives further include the introduction of a temporary non-evaluation of property, as well as measures regarding social housing (discussed in the text) that will remain in place after the quarantine.

Source: Ministry of Social Security and Labour.

The development of an individual-based approach to the provision of social support is crucial for improving effectiveness. Rapid progress in this domain becomes an even higher priority in view of the expected rise in social needs in the aftermath of the COVID-19 crisis. The importance of more tailored support to individual needs is also stressed by the recent report of the national audit. According to the report, municipalities do not provide social support (income and services) on the basis of individual plans, nor do they evaluate whether it ensures minimum needs (National Audit Office, 2019[17]). Moreover, the support provided is not comprehensive as it entails mainly social cash benefits, rather than combining all forms of support. The challenges of enhancing customisation of social support should not be underestimated, however, given the complexity of identifying individual needs (de Mello and Dutz, 2012[19]). As a welcome step, a project underway aims at the creation of a "client e-file" by 2021 that will record all social benefits and services received by an individual or family. This allows for a more tailored and better-coordinated provision of social support.

There is also scope for improving the accessibility to social support. The audit report highlighted, in this context, the need for systematic and regularly updated information on the availability of benefits and services and corresponding eligibility conditions, as well as the establishment of an electronic system that enables applications for all types of social support (National Audit Office, 2019[17]). The government has prepared a plan to address these shortcomings. The creation of an e-platform is underway. Well-designed indicators to monitor the effectiveness of social assistance system are also essential and efforts to this end need to continue. The Nordic Welfare Indicator system could provide useful insights in this regard (Nordic Council of Ministers, 2017[20]). This entails 30, easily accessible, indicators that cover nine areas (health, education skills, employment, work-life balance, incomes, housing, social networking and social security), with a special emphasis on the vulnerable groups.
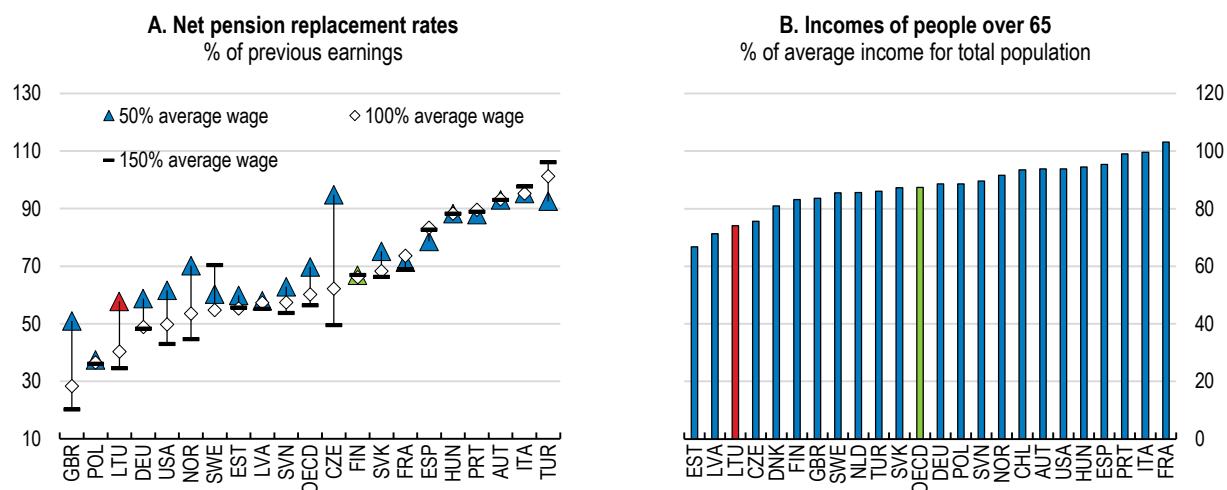
The pension system needs to safeguard more against old-age poverty

Lithuania's pension system is very redistributive, as reflected by the higher net replacement ratios for low-income earners, but pensions remain modest (Figure 2.13). The income of people over 65 was equivalent to around three-quarters of the average income for total population in 2016, well below the OECD average (close to 90%) and the Nordic countries. Pensions account for over 60% of older people's overall income in Lithuania (OECD, 2019[21]).

Following a recent reform, pension benefits were indexed to the overall wage bill, starting from 2018, while the insurance period for a full pension is set to increase gradually from 30 to 35 years by 2027. The reforms also entailed an ad hoc increase in the general (non-earning related) component by 16%. The changes are expected to improve the financial sustainability of the pension system but might decrease the adequacy of pensions over the longer term. Indeed, while rising initially, the benefit ratio is projected to fall in the longer term as the total wage bill, used to index pensions, is expected to rise more slowly than wages due to shrinking labour force (European Commission, 2019[22]). Those having a shorter work history will be particularly affected by the pension reform, as the increase in the insurance period for a full pension under the new rules reduces the basic ("general") pension component for persons with the required minimum (15 years) contribution history by 14% in 2027 (OECD, 2018[14]).

To better protect the elderly against poverty, an additional top-up is granted to those receiving the lowest social insurance pensions. The government further considers to increase in 2020 and 2021 the general part (non-earnings related) of the old-age pension by more than foreseen by the automatic pension index, subject to budget constraints. Since 2019, the general part of the social insurance pension scheme, that is not earnings-related, was shifted to the state budget. It is important that pension outlays are appropriately financed out of general taxation or alternatively finances.

Figure 2.13. The pension system is very redistributive but net replacement rates are low

A. Net pension replacement rates
% of previous earnings

B. Incomes of people over 65
% of average income for total population

Note: Panel A: Net replacement rate (NRR) is defined as the individual net pension entitlement divided by net pre-retirement earnings, taking into account personal income taxes and contributions paid by workers and pensioners. NRRs s are theoretical for a person entering the labour market at the age of 20 years and working without interruption until the statutory retirement age. For Lithuania, a 2% contributions to the private funded pension scheme was assumed. Panel B: data refer to 2016 or the latest year available for each country. OECD refers to a simple average over all OECD countries with available data (latest year).
Source: OECD calculations based on pension models and Pension at a Glance 2019.

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Minimum-income pensioners, receiving a social assistance pension, require special attention. These are elderly or disabled persons with insufficient rights for a social insurance pension. While increased by 6% between 2019 and 2020, the level of social assistance pension for old-age remains low, making up less than 30% of the minimum wage. The government should consider raising gradually further social assistance pensions, to help reducing high old-age poverty rates, while strengthening means-testing. Widespread homeownership, for example, provides benefits to retirees. Older homeowners usually have paid off their mortgages, and thus fully benefit from not having to pay rent. Strengthening means-testing would require the development of an administration system to assess the "net" income of pensioners. Consideration could also be given to merge old-age social assistance pension with other social benefits, making it more transparent and simpler to be accessed by those eligible. To mitigate the impact of the COVID-19 crisis, the government has approved a lump-sum benefit of EUR 200 for the elderly and disabled (Box 2.2).

Providing high quality social services for vulnerable groups

Social services should address better the complex and different needs of the vulnerable groups by providing a tailored and comprehensive support. Spending on social services remains low in international comparison (Figure 2.11). Only 3.3% of the municipal budget in 2018 was allocated to the provision of social services such as care for the elderly and persons with disabilities (Box 2.1). Local authorities could also use more efficiently the funds allocated to their budgets for social support. Payments of cash benefits have decreased in recent years, due to rising incomes and other factors. However, municipalities use approximately only half of the funds allocated to their budgets for the provision of social benefits, even though the demand for other means of social assistance, such as services and other financial benefits, remains unmet (National Audit Office, 2019[17]). Under current legislation, any unused funds for social

benefits becomes part of the municipal budgets and can be used for other social support measures (OECD, 2018[14]).

Other shortcomings of the social protection system also make it difficult to reach the needy. Well-developed systems that identify client needs and facilitate information sharing across local authorities are missing. As a positive step, the range of provided family services have widened in recent years. Social worker support has increased and a basic family service package was introduced in 2019 encompassing 14 types of services. However, important challenges remain. Reducing deficits in the provision long-term care and social housing and ensuing high quality health care services for all are crucial to reduce poverty.

Improving the provision of health care services

Lithuania's health insurance system compares well with the EU average in terms of coverage for outpatient and inpatient care, but coverage for dental care and pharmaceuticals is relatively low (Figure 2.14, Panel A). Less than 2% of the population reported unmet needs for medical examination in 2019, mainly due to waiting time, which is below the EU average (Figure 2.14, Panel B). Still some social groups, such as the elderly and the less educated, tend to report relatively larger unmet needs. A recent study further highlights disparities between the urban and rural population in terms of accessibility to emergency services (Lazutka, Poviliunas and Zalimiene, 2018[23]). The unequal distribution of medical personnel across the country makes it more difficult to ensure access to needed health services in certain remote municipalities. The COVID-19 crisis poses challenges with regard to healthcare access. Many medical procedures have been postponed due to pandemic with a potential impact on waiting times. There are also inequalities in health outcomes, that might be exacerbated by the crisis. More people in the top income quintile tend to report that their health is good compared to their peers in the bottom quintile, with the difference exceeding the OECD average (Figure 2.14, Panel C). Moreover, Lithuania has among the highest education-related inequalities in health outcomes (measured life expectancy at birth) in OECD area (OECD, 2019[24]). While such disparities may be explained by many factors, including differences in life-style and health literacy, access limitations to quality health care services play also an important role.
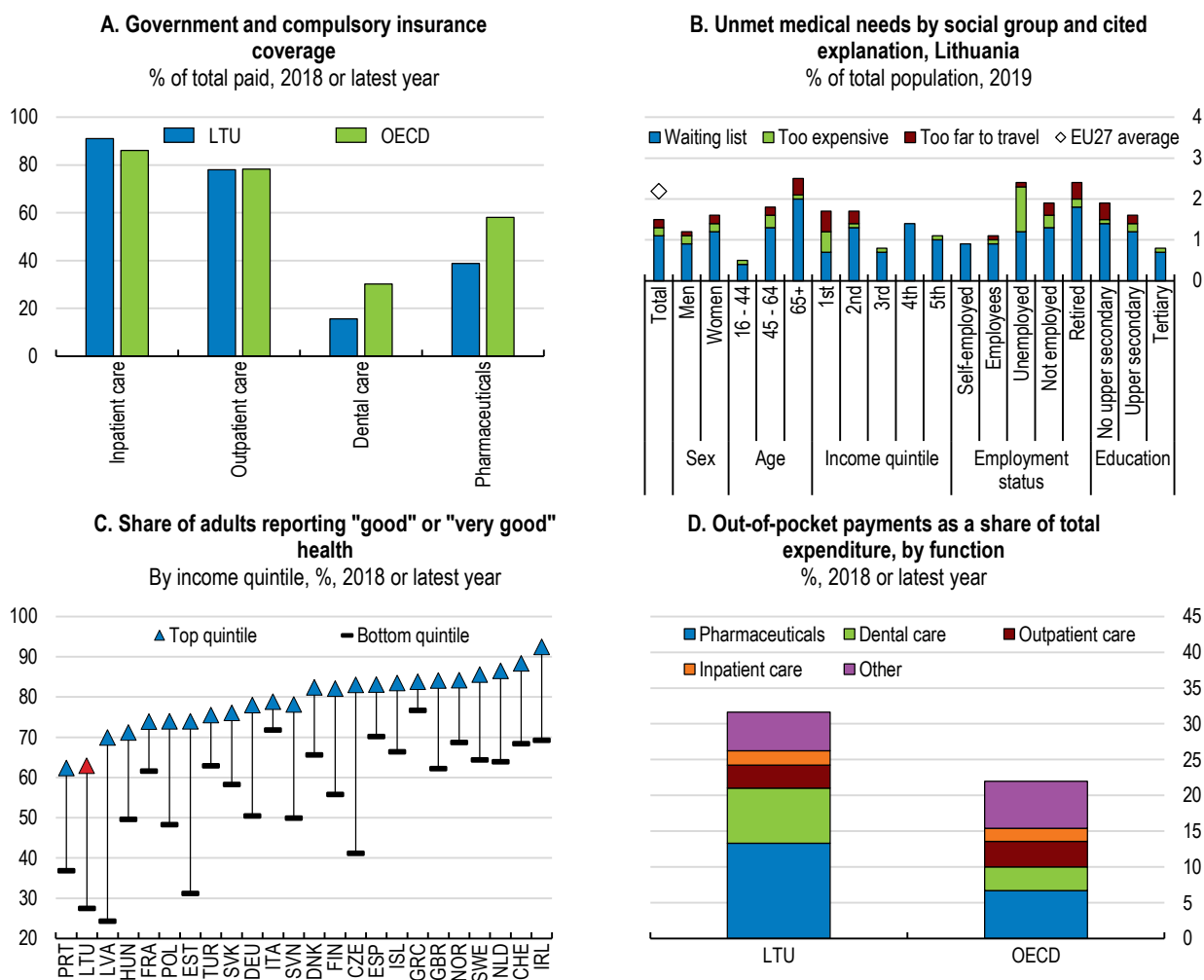
A comparatively large share of healthcare costs are born by patients in Lithuania, affecting disproportionately vulnerable groups. Out-of-pocket (OOP) payments represented around a third of health spending in Lithuania in 2018, well above the OECD average (Figure 2.14). Most OOP spending is used to pay for pharmaceuticals, followed by dental care, where public health care coverage is more limited. Private health insurance is not developed in Lithuania, and hence households incur the bulk of private spending. For over 15% of households, out-of-pocket payments exceed 40% of total household (net of subsistence needs) income, affecting mainly the poorest quintile of the population (OECD and European Observatory, 2019[25]).

Recent reforms have reduced out-of-pocket (OOP) payments on medicines. Average co-payment per prescription reduced by 61% between June 2017 and June 2019 and the share of OOP expenditure on reimbursable medicines has fallen by over 13 percentage points over the same period. This reflects the expansion of the reimbursement list, as well other reform measures such as an increase in the reimbursement levels and introduction of a maximum patient co-payment for subsidised pharmaceuticals. Moreover, since July 2020, low-income pensioners or people with disabilities, as well as those aged 75 and over, are exempted from co-payments for pharmaceutical and medical expenses. These initiatives reduce the impoverishing effect of out-of-pocket spending on part of the population. Co-payment exemptions for vulnerable groups could be expanded, on the basis of careful assessment.

The availability and accessibility of primary health care services have increased in recent years with the introduction of new mental health care services and the possibility of remote services (eHealth), including prescription of medicines and consultation. In addition, children, pensioners and people with disability were granted access to free dental services. The Lithuanian Health Strategy 2014-2025 opts to promote an integrated health care (clusters) policy involving health, education and social institutions. The aim is to

ensure accessible and timely health care services for all residents, reducing prevailing urban-rural differences. Some clusters are already in operation. A systematic collection of data that allow to monitor the impact of these reforms and enable a more detailed diagnostic on the possible barriers to access in health care services is essential for effective policy response.

Figure 2.14. Access to health care can improve

A. Government and compulsory insurance coverage
% of total paid, 2018 or latest year

B. Unmet medical needs by social group and cited explanation, Lithuania
% of total population, 2019

C. Share of adults reporting "good" or "very good" health
By income quintile, %, 2018 or latest year

D. Out-of-pocket payments as a share of total expenditure, by function
%, 2018 or latest year

Note: Panel B: unmet medical needs are self-reported. EU27 average refers to the total population reporting "Too expensive OR too far to travel OR waiting list", and is a simple average over the 27 EU members with available data. The total population refers to those aged 16 and over.
Source: OECD Health Statistics database; and EU-SILC.

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Addressing challenges in long-term care

Lithuania's demographic trends increase the need for long-term care services. As the society ages, the share of people depending on others to carry out daily activities is set to increase by over 31% within the next 50 years, around 10 percentage points higher than the EU average (European Commission, 2019[26]). The government's long-term strategy is to better integrate elderly in their communities through a transition from institutional social care to community services by 2030. Since 2013, services of integral assistance at home have been provided in municipalities via the implementation of EU-funded projects. These aim not only at quality integrated nursing and social care at home for disabled and elderly persons, but also to

provide professional consultative assistance to the carers. The number of recipients of social services at home increased by over 10% between 2013 and 2018, as a result. This is important for improving the quality of life for persons with long-term nursing and care needs, but also for addressing shortfalls in the supply of institutionalised long-term care (OECD, 2018[27]). Around half of the elderly in need of residential care were on a waiting list in 2014.

Building on previous initiatives, an inter-institutional plan for the period 2019-2021 aims at the further development of integral assistance for the elderly at home and the expansion of the network of independent living and day-centres, on the basis of international experience. The establishment of a new type of social insurance for long-term nursing is under consideration. NGO projects, involving visiting the elderly, especially in the rural areas, and activities undertaken jointly with youth volunteers, are to be supported. These are promising steps towards expanding non-institutionalised long-term care. The government could also explore a more flexible model of long-term care service provision, entailing co-production from different types of providers (Lazutka, Poviliunas and Zalimiene, 2018[28]). This would increase flexibility in the combination of services and enhance competition among provides. Under current arrangements, a full range of services is usually provided by a single provider (an informal carer, a public or private provider), limiting the choice. As a welcome step, social services are to be accredited from January 2022. Under the new rules, a person eligible for social care will have the opportunity to choose a provider in accordance with the established procedures, while the municipality will be able to conclude an agreement with the chosen provider (or the social service institution providing accredited care) on financing the costs of the delivered services. The reform should go ahead as planned. The importance of informed choices is also highlighted by an in-depth OECD analysis on social service integration (OECD, 2015[29]) (Box 2.3).

Box 2.3. Integrating care for the elderly: some practices based on cross-country experience

There is no optimal way to integrate elderly care, given the variety in governance and delivery methods of services, but some good-practice examples emerge from cross-country evidence. An in-depth OECD analysis concludes the following:

- Services should be integrated from a patient, rather than a provider, perspective to enable service users to make informed choices about their care.

- Strategies focused on outcomes and evidence-based guidelines contribute to an effective delivery of integrated elderly care.

- Appropriate training initiatives are also crucial for the effective delivery of integrated elderly care.

- Embedding integrated care policies within traditionally fragmented service delivery structures requires efforts. This is because such structures can create disincentives to integrating care. Enforcing central steering power or legislation to support the provision of integrated care can be a promising strategy in this context. Regional differences in the provision of integrated care need to be carefully monitored.

- Financial integration is essential to avoid cost shifting when multiple sectors are involved in services delivery. Promising examples of policies include pooling together budgets or resources under a single funding envelope or integrating budgets for defined care services.

- A more accurate measurement of the quality of care co-ordination is necessary. Data from user surveys and administrative data can be used for the development of quality indicators.

Source: (OECD, 2015[29]).

A coherent governance framework is essential for an efficient provision of long-term care services. There is no separate long-term care system in place at present in Lithuania; rather, long-term needs are addressed through a range of different healthcare and social services under the auspices of two ministries. The two parts of long-term care are financed through different budgets. The health care part is financed

from the Compulsory Health Insurance Fund, while the part within the social system relies on local budgets and central budget subsidies. This duality increases complexity, making difficult the assessment of population needs. The government focus on an integrated system of long-term care services is, therefore, appropriate. Clear roles and responsibilities among the agents participating in the policy making and service delivery is essential in order to avoid potential overlaps under the integrated long-term care model.

A funding mechanism to support the provision of integrated long-term services is under development. Whereas 59 out of 60 municipalities have already implemented a more integrated model of nursing and care services at home, this is financed by EU-funds and the state or municipality budget for social service care. The preparation of a uniform regulation to underpin long-term care services, along with the establishment of a fund to finance such services that will rely on domestic sources, are part of the government agenda. A recent OECD study stresses the importance of financial integration when multiple sectors are involved in service delivery, to avoid cost-shifting (OECD, 2015[29]) (Box 2.3). Pooled funding is probably the most commonly used model across the OECD countries to finance integrated care, according to the study. This entails contributions by each body involved in service delivery to a common fund to be spent on pooled functions or agreed services.

Strengthening the provision of home nursing services is important. Insurance payments do not cover currently the real costs of such services, weakening incentives for provision (Lazutka, Poviliunas and Zalimiene, 2018[28]). Recent steps aiming to enhance the co-operation between providers of outpatient health care services at home and providers of social services at home through a formal agreement are welcome. Supporting informal carers, including via flexible working conditions, is also crucial to the provision of quality long-term care at home (European Commission, 2019[26]). The successful implementation of an integrated model of long-term care services further hinges upon a more individualised approach to the provision of social services and easily accessible information to public on the availability of, and eligibility conditions for, such integral assistance. Research suggests that greater customisation in the provision of social services contributes to inclusiveness (de Mello and Dutz, 2012[19]).

Meeting the housing needs of the less advantageous and combating homelessness
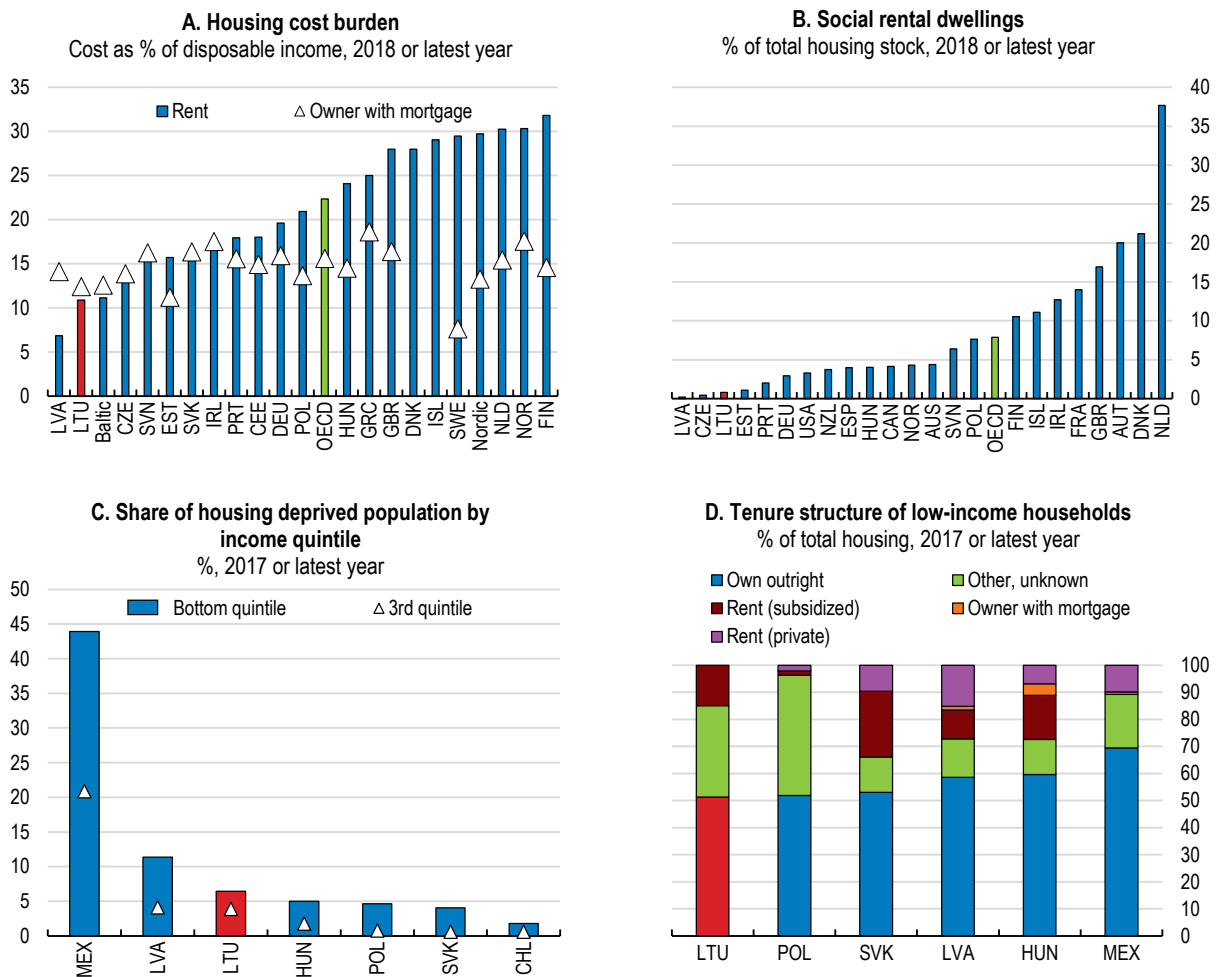
There is scope to strengthen housing support for vulnerable groups. The eligible population for social housing was streamlined and a rent subsidy was introduced in 2015 for those individuals or families who are living in rental accommodation, while awaiting for social housing. This helps to reduce the housing cost burden for tenants in Lithuania (Figure 2.15). In addition, the stock of social housing was increased by 9% between 2015 and 2019, supported by EU funds. Still the investment level remains low. Social rental housing stock accounted for less than 1% of the total in 2018, compared to an OECD average of 8%. Moreover, due to inadequate maintenance of social housing, some of the stock (around 2.2% in 2019) is at emergency condition or unfit for habitation. All the habitable social housing are currently in use, but over 10 000 households are still on the waiting list according to official estimates. The average waiting time in the largest cities can range between 10 to 15 years (FEANTSA, 2016[30]). Access to rent assistance also remains low. Around 9% of those waiting for social housing received such support in 2018, according to a recent report (Lazutka et al., 2019[16]). The rent subsidy is currently provided only in 34 out of 60 municipalities.

In an effort to address undersupply of social housing, since 2019, municipalities are permitted to rent housing from private or legal persons and sublet it to individuals (families) awaiting for social housing. This measure is welcome, especially as the eligibility conditions for social housing have eased recently. Its impact, however, will depend on home-owners' response. The lack of a well-developed housing rental market in Lithuania and insufficiently attractive renting conditions (e.g. the housing lease agreement must be for at least one year) may reduce home-owners' incentives to respond to demand. Improving the effectiveness of rent compensation scheme is also important, given the low take-up rates of the scheme and its limited coverage. To improve accessibility to rental scheme, the assessed income limits for eligibility

were raised by 60% in 2019 and the requirement to be on the waiting list was removed. In addition, more favourable conditions of rent compensation were introduced in response to the COVID-19 crisis (Box 2.2). Under the new arrangements, a compensation is paid for larger floor areas, while taking better into account family composition in determining the compensation rate.

Steps were also taken to shorten the long waiting time for social housing. A new law, in particular, set the upper limit for the waiting to five years initially and then to three years. A municipality will have to reimburse the actual rental costs in case it cannot meet its obligation by the end of this period. These initiatives can help reducing unmet needs for social housing but appropriate investment levels needs to be ensured if the problem is to be addressed in a decisive manner. Well-designed projects are essential in this regard, also helping to contain costs.

Figure 2.15. Social housing stock remains low and many households face poor housing conditions

A. Housing cost burden
Cost as % of disposable income, 2018 or latest year

B. Social rental dwellings
% of total housing stock, 2018 or latest year

C. Share of housing deprived population by income quintile
%, 2017 or latest year

D. Tenure structure of low-income households
% of total housing, 2017 or latest year

Note: Averages are calculated for the most recent value of all countries with available data (unweighted). Average groups are as follows: EU27: European Union; EU22: EU countries who are OECD members; Baltic: Estonia, Latvia, and Lithuania; Nordic: Denmark, Finland, Iceland, Norway, and Sweden; CEE (Central European Economies): Czech Republic, Hungary, Poland, Slovak Republic, and Slovenia. Panel A: Median rental costs include both private and subsidised rent. Panel B: OECD refers to the simple average over the 26 countries for which data are available. Panel C shows the incidence of severe housing deprivation (% of total population) by income quintile. Housing deprivation is a measure of poor amenities and is calculated by referring to those households with a leaking roof, no bath/shower and no indoor toilet, or a dwelling considered too dark. Panel D shows the tenure structure of the lowest income quintile. Only countries where at least 3% of population in the bottom quintile is housing deprived are shown.
Source: EU-SILC; and OECD Affordable Housing Database.

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The COVID-19 crisis heightens the need for an effective response to persisting housing challenges, including homelessness. Over 4 000 people were homeless (living in shelters or in crisis centers) in 2019, according to official statistics. These figures, however, may underestimate the extent of the problem, especially in urban areas, as they do not include people living in rough, or doubled up with friends or family. Lithuania does not have an integrated strategy for addressing homelessness; rather the problem is tackled indirectly, mainly through social housing (Lazutka et al., 2019[16]). A number of countries, including Denmark, Finland, Norway and Poland, have introduced Housing First models that aim to meet the high and complex needs of homeless through a combination of permanent housing and support services. Cross-country evidence suggests that support following the principle of Housing First can provide a sustainable solution to address chronic homelessness (OECD, 2015[29]). Initiatives at local level, such as the Vilnius programme on homelessness over the period 2013-2018, focusing on accommodation and integration, are a positive step in this regard and could be supported through a national programme.
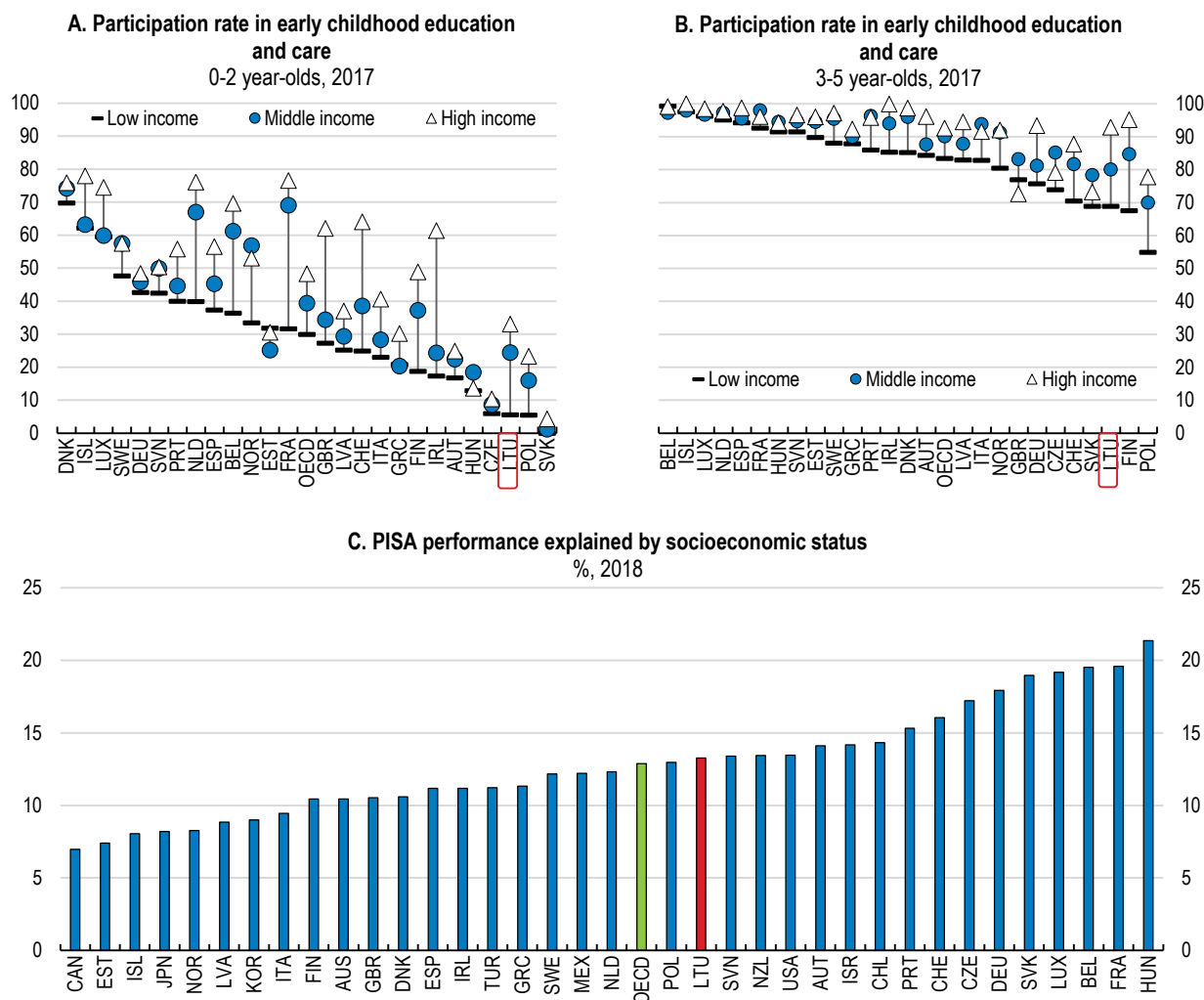
Improving housing quality

Poor quality housing adds to poverty challenges. Around 6 ½ percent of low-income population (bottom quantile) in Lithuania experience severe housing deprivation, living in overcrowded and poorly equipped dwellings (Figure 2.15, Panel C). This rate fell significantly since 2010 but it is still high in international comparison. Housing quality remains an important challenge in post-socialist countries where much of the stock of housing was privatised after the independence; the current owners of these dwellings often have financial difficulties to maintain and upgrade them (Tsenkova, 2014[31]; OECD, 2020[32]). A high share of low-income households live in dwellings that are owned outright (Figure 2.15, Panel D). Poor quality housing is more of concern in rural than urban areas, according to available data (Eurostat, 2020[33]).

To encourage renovation, low-income apartment owners receive a subsidy covering fully renovation costs. This complements previous reforms, and in particular the changes in heating compensation provisions in 2013, that stipulates reduced compensation rates for a period up to 3 years in case of non-participation in the renovation of a multi-apartment block decided by the community. Official data saw an increasing trend in renovation projects in recent years. Consideration could be given to the establishment of a carefully-designed fund to support investment in renovation, drawing on the experience of the Slovak Republic (OECD, 2020[32]) (see, Chapter 3). The Slovak Housing Development Fund has proven successful in supporting new affordable buildings and the maintenance and upgrading of existing ones. Overtime, the Fund has become increasingly reliant on its own sources of financing. The refurbishment of social housing should receive special attention, especially in light of the low social housing stock in Lithuania (Figure 2.15, Panel B). Addressing housing quality in an effective manner would improve the energy-efficiency of dwellings, helping in turn to tackle energy poverty while achieving environmental objectives (Figure 2.9).

Reducing educational inequalities

Equity in educational opportunity and outcomes could strengthen, starting at the early schooling years. Not all children benefit from early childhood education and care (ECEC) in Lithuania, despite the critical role that ECEC can play in reducing the impact of social disadvantage (OECD, 2017[34]). A recent audit report concludes that 9 out of 60 municipalities face a shortage of places, while 37 of them lack available places in the preschool institutions chosen by parents (National Audit Office, 2018[35]). Private centres make ECEC more widely accessible but, despite public support, many low-income families struggle with affordability (OECD, 2020[36]). These constraints translate into large inequalities in ECEC participation between children from less advantaged backgrounds and their more affluent peers, especially in the case of very young children (Figure 2.16).

Figure 2.16. Socio-economic background still counts for educational outcomes

A. Participation rate in early childhood education and care
0-2 year-olds, 2017

B. Participation rate in early childhood education and care
3-5 year-olds, 2017

C. PISA performance explained by socioeconomic status
%, 2018

Note: Panels A and B: Data for Switzerland refer to 2014, and for Iceland to 2016. Data are OECD estimates based on information from EU-SILC. Data refer to children using centre-based services (e.g. nurseries or day care centres and pre-schools, both public and private), organised family day care, care services provided by (paid) professional childminders, and, in some countries, children in primary education. Income level is based on the child's position in the national income distribution. "Low income" refers to children in the first three deciles, "middle income" to those in the middle four deciles, and "high income" to those in the top three deciles of disposable income. OECD is the simple average of the 26 countries with available data. Panel C: results show the average strength of the socioeconomic gradient: the percentage of variation in PISA performance across reading, mathematics and science that is explained by economic, social and cultural status (ESCS).
Source: OECD (2020), Is Childcare Affordable? OECD Policy Brief on Employment, Labour and Social Affairs; and PISA 2018 results.

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Regional differences in ECEC participation are also considerable, with the enrolment rates of 3-6 year-olds in rural areas being approximately half those in urban areas (European Commission, 2019[22]). This reflects the lower demand for such programmes in rural areas, as well as limited transportation services for children living in distance from their pre-school (OECD, 2017[34]). Reforms underway aiming at the modernisation and expansion of kindergartens are appropriate, given supply shortages, as is the focus on children from disadvantaged background. The expansion of early childhood education and care needs to continue, financing the cost from savings elsewhere. Better assessing imbalances in ECEC provision requires a systematic collection of information on children who were unable to access such facilities. The development of a more comprehensive monitoring system is essential to ensure consistently high quality early childhood education (OECD, 2017[37]).

There is also scope to ensure greater equity in student outcomes. The 2018 PISA results show that socioeconomic factors have a larger impact on performance in Lithuania compared to other Baltic countries and the Nordics (Figure 2.16, Panel C). This is of concern as students with poor PISA scores do not generally catch up later in life (OECD, 2015[38]). Educational achievements further vary considerably among different municipalities and schools, with a significant gap between students from rural and urban areas (EAPN, 2018[39]). Student outcomes in many smaller schools, located usually in rural areas, fall behind the EU, but as well national average (National Audit Office, 2017[40]). Recent reforms attempted to reduce inequalities in educational outcomes including through the introduction in 2019 of targeted funding ("quality basket"), as part of a two-year project to improve learning achievements, and the development of all-day schools by the municipalities. The latter helps particularly students from disadvantaged background. As a further step, a reform project underway aims to set out by 2022 the legal and financial conditions for safe and inclusive schools. It expands, in this context, the provided educational assistance, while also creating the appropriate structures for students with special needs. These initiatives should be implemented as scheduled, and go hand-in hand with ongoing reforms that upgrade and modernise core education.

Recent reforms also aim to address social inequalities in tertiary education. Official data suggest that students from low-income families are almost three times less likely to enrol in universities than their peers from more affluent families, and when enrolled, they are less likely to attend a high-ranking university. Moreover, students from the lowest income quartile tend to have much lower completion rates compared to those in top quartile (OECD, 2017[37]). A new law for higher education sets the same admission requirements (in terms of the number of national entry tests a student has to pass) for state-funded and non-state-funded student places in universities and colleges. Under previous arrangements, such requirements were much stricter for state-funded student places, affecting particularly students from less advantaged background who are more likely to seek government support for their studies. Moreover, the monthly amount of scholarship for doctoral degrees was increased by 83% in 2019, helping students from less affluent families to pursue further studies. The outcomes of these reforms in terms of improving equity in tertiary educational opportunities need to be closely monitored.

Helping labour market integration

More and better jobs to reduce poverty

Employment outcomes for workers with lower skills remained weak, despite a comparatively strong labour market performance in recent years. The gap in employment rates between high and low-skilled workers was around 35 percentage points in 2019, well above the OECD average (Figure 2.17). The COVID-19 crisis may have a disproportional impact on low-skilled jobs, as the lockdown has directly affected sectors such as accommodation and catering services where these jobs are usually concentrated, even if the crisis-support measures alleviate somewhat the impact (Box 2.2) (Bank of Lithuania, 2020[41]).

Figure 2.17. Labour market outcomes vary considerably across skill-groups and regions

A. Employment rate
% of population 15-64

B. Employment rate by group
%, 2019 or latest available year
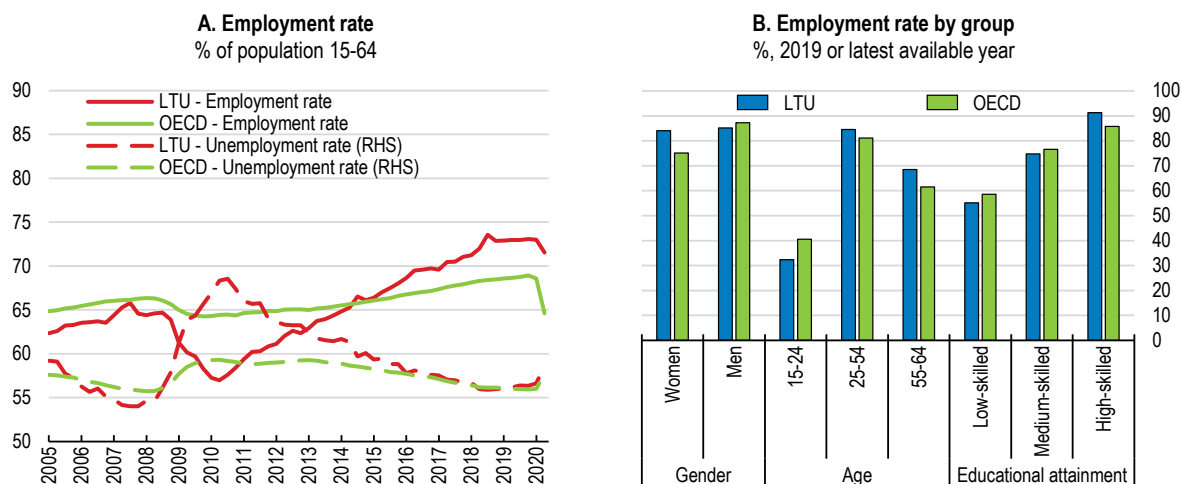
Source: OECD Economic Outlook 107 database; OECD Labour Force Statistics; OECD Education at a Glance database; and OECD Gender database.

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The tax wedge was reduced recently but it can lower further. As a positive step, the tax wedge (measuring the difference between labour cost to the employers and the corresponding net take-pay of the employee) was reduced in 2019, following a labour taxation reform (Figure 2.18). The previous Survey has identified the high tax wedge as an important obstacle to the employability of the low-skilled workers, as well as a potential driver of informality (OECD, 2018[15]). The reform has consolidated social security taxes on the employee's side, but employers are legally obliged to increase gross salaries by 28.9% in order to compensate workers for this shift in the tax burden. The combined social security contribution rate was reduced by around 19 percentage points. The changes have contributed to the reduction in tax wedge for low paid workers by about 2 ½ percentage points in 2019, improving Lithuania's international ranking. Still, the difference with OECD average remains, with scope for further lowering the tax-wedge for low-paid workers while ensuring that benefits are maintained. This needs to be financed by savings elsewhere.

Figure 2.18. The tax wedge can be lowered further

% of total labour cost for single childless worker earning 50% of average wage, 2019
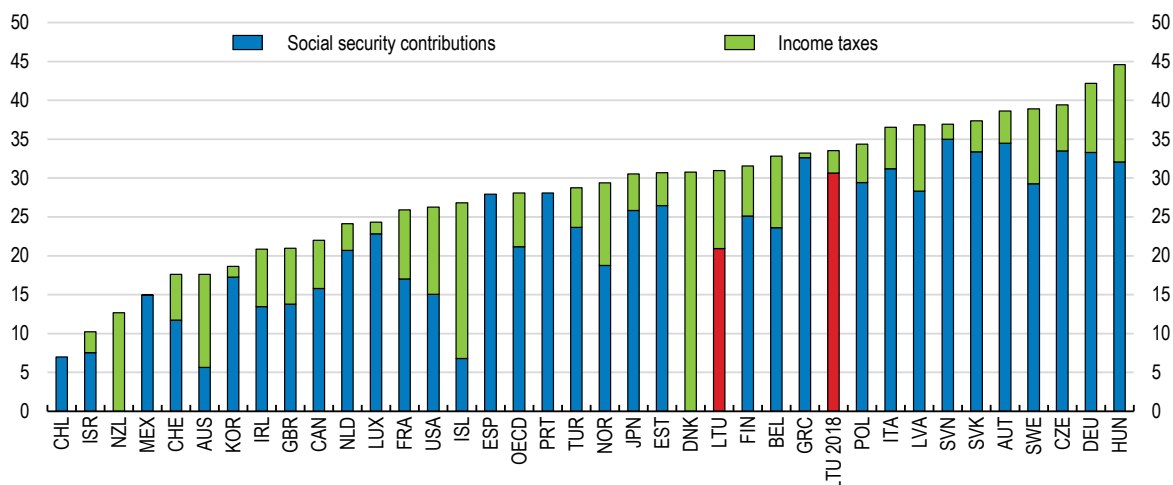
Note: Results show the average tax wedge on labour income for a single childless worker earning 50% of the average wage.
Source: OECD Taxing Wages database.

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Earnings remain low for many workers, fuelling in-work poverty. Real wages increased fast in recent years, reflecting the hikes in minimum wages, but average earnings remain at around 65% of the OECD average (Figure 2.19). Approximately a third of Lithuanian workers are low-paid, earning less than two-thirds of the average, according to the official estimates, with persisting earning inequalities. Following increases in previous years, minimum wages are set to rise further by over 9% in 2020. Additional increases may risk reducing job-market opportunities for less qualified and harm competitiveness. A better tool to fight poverty at work, and also increase work incentives, are well-designed in-work benefits. This is because such schemes address low-pay among the working population without having the disadvantages of high minimum wages (OECD, 2009[42]). As a positive step Lithuania has strengthen in-work benefits in the past two years (discussed below).

Figure 2.19. Earnings remain relatively low and informality is still high
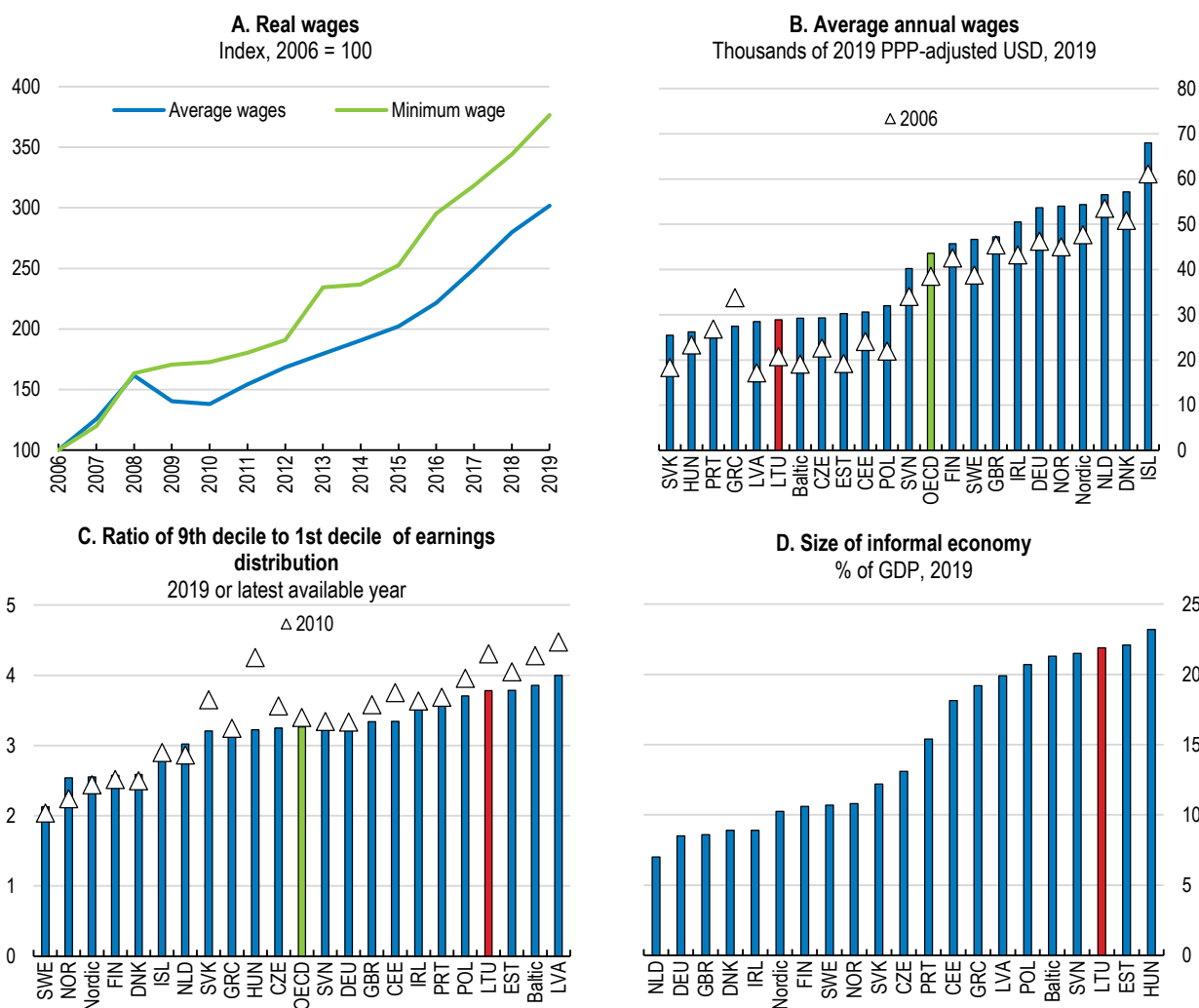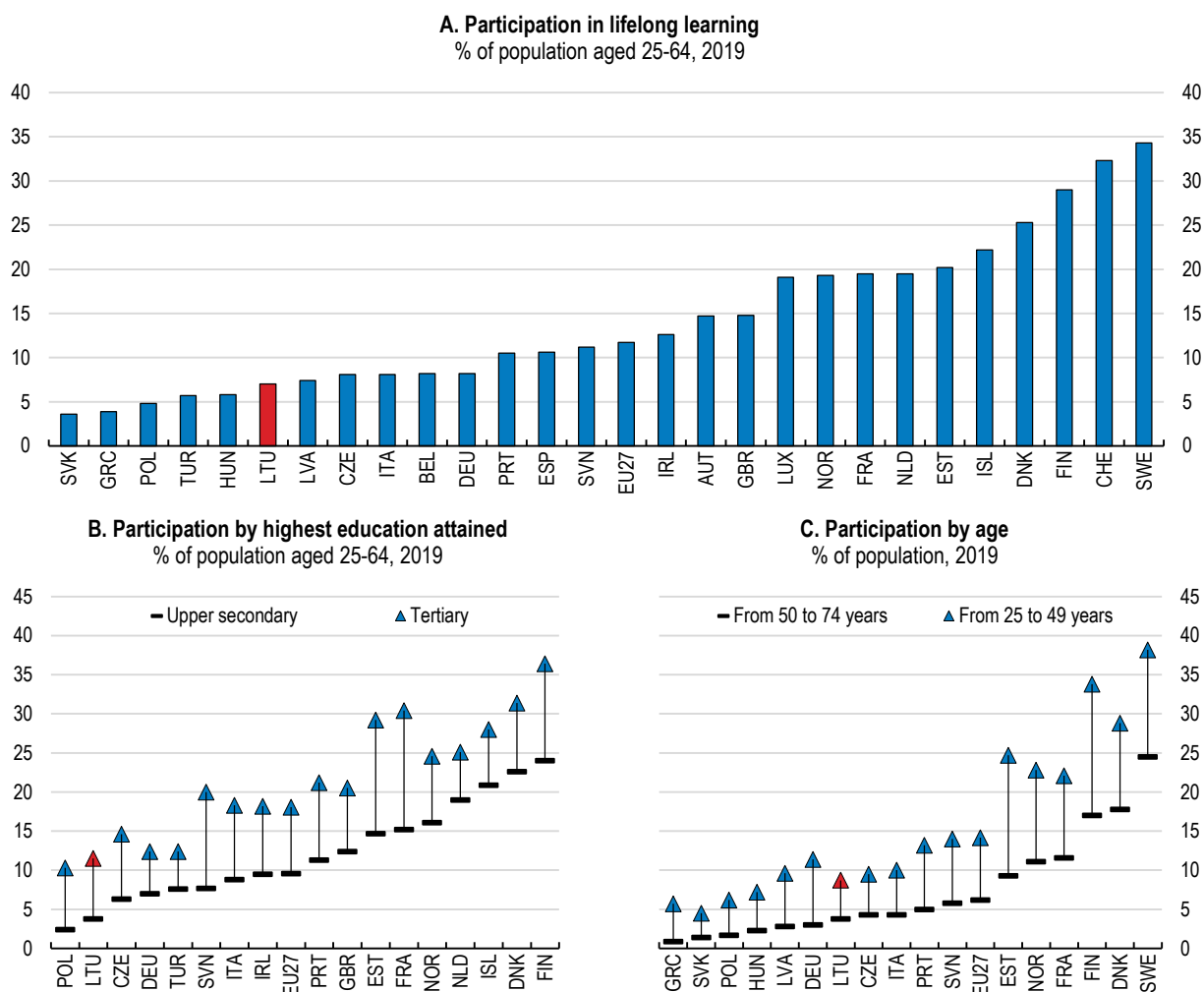

Source: OECD Labour Force Statistics; OECD National Accounts database; OECD Economic Outlook 107 database; Eurostat Labour Market database; and Schneider, F. (September 2019). Latest developments of the shadow economy in the Baltic countries: What are the major causes and what could be done? University of Linz, Austria.

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The most effective way, however, to address in-work poverty is through measures that boost the productivity level of low-skilled workers and promote their career advancement. Effective adult (lifelong)

programmes play a key role in this regard, helping re-skilling and upskilling. Nonetheless, participation in such programmes remains low in international comparison, with engagement varying with age and education level (Figure 2.20). As in other countries, the less educated and those aged over 50 tend to participate less. This is unfortunate as these groups of workers could benefit substantially from re-skilling, as they would become more resilient in economic downturns and/or skills shifts related to technological changes. The relatively low engagement in lifelong programmes could reflect a number of factors including weak incentives, lack of financial support by the employers, and as well limited awareness about such programmes and their potential benefits (OECD, 2017[43]). As a welcome step, the new Labour Code allows employees to take up training for up to five (partially-paid) days per year to attend adult education programmes.

Figure 2.20. Participation in adult learning remains low

A. Participation in lifelong learning
% of population aged 25-64, 2019

B. Participation by highest education attained
% of population aged 25-64, 2019

C. Participation by age
% of population, 2019

Source: EU Labour Force Survey.

Plans to introduce second-chance education for early school leavers and implement procedures for validating non-formal learning need to go ahead (CEDEFOP, 2018[44]). This would increase flexibility in lifelong learning opportunities. Consideration could be given to the development of skills-assessment

schemes that evaluate the level of work experience and acquired skills of early school leavers re-entering the formal school system, as is the practice in Iceland (OECD, 2019[45]). To induce older workers to engage in lifelong learning, incentives might be partially linked to age or length of job tenure, as proposed in the previous Survey (OECD, 2018[15]). Latter Some countries, for example France and the Netherlands, have further introduced financial incentives in the form of individual learning accounts (ILAs) that allow for portability of the training rights between jobs and also employment statuses (OECD, 2019[46]). ILAs have received increasing attention in recent years as they facilitate career transitions. A careful design of financial incentives is essential to achieve better targeting and reduce deadweight costs. These need to be accompanied by well-disseminated information on available adult learning programmes, as well as effective career counselling, to ensure the success of the strategy. A close monitoring of the effectiveness of adult learning programmes in terms of labour market outcomes of the participants is essential.

Combating poverty and social exclusion further requires reducing informality (Figure 2.19, Panel D). "Envelope wages" (i.e. cash in hand, undeclared wages) accounted for over 40% of the overall informal economy in 2018 (Stockholm School of Economics Riga, 2020[47]). While informality implies that actual incomes are underreported, and hence, actual poverty rates might be lower than represented in the official statistics, informal workers usually lack social security coverage and the protection provided by formal contracts. Such workers also tend to have poorer training opportunities, impacting further on job quality and poverty. The new Labour Code, in effect since July 2017, made progress towards tackling informality by lowering the cost of formal employment, through an easing in employment protection legislation for permanent and temporary contracts, and the introduction in 2018 of social insurance contribution "floors". The latter requires employers to pay contributions on the basis of the minimum monthly wage for workers who receive a wage below the minimum. In addition, firms with 20 or more employees are required to establish a work remuneration system, which increases wage transparency. Moreover, under the new Labour Code, the minimum monthly wage can only be paid for unskilled work. The share of full-time employees receiving the minimum monthly wage in total has declined rapidly as a result.

The government monitors on a systematic basis the implementation of the labour code. The State Labour Inspectorate, in particular, is responsible for monitoring the practical enforcement of the law and evaluation of its impact, submitting the results of the assessment on a half-yearly basis. This is important, especially as the number of fixed-term contracts (accounting currently for 5.2% of total) and that of new types of employment contracts, as for instance project-based and apprenticeship contracts, have risen rapidly since the introduction of the new labour code. As in other countries, some of these workers can be particularly vulnerable in the current crisis (OECD, 2020[48]). Developing a comprehensive dataset is another important pre-condition for the effective monitoring and implementation of the new labour code.

Increasing incentives to work, including by improving work-family balance

The financial incentives to work were strengthened following recent reforms. Taking up work generally pays off for benefit recipients in Lithuania, given the low level of social benefits compared to minimum wages. However, larger families have comparatively weak financial work incentives, as benefit levels increase with the household size (Figure 2.21).This increases the risk for poverty. An income disregard was introduced in 2018, in line with the experience in other OECD countries (Navicke, Avram and Demmou, 2016[49]). This permits recipients who find employment to keep part of the work income (disregard income) that is not included in the amount of household income establishing eligibility for social assistance. Households may keep between 15% and 35% of work income when receiving benefits, depending on family composition and the number of children. Such measure increases an individual's incentive to take up a job. The amount of the disregard income was increased by 5 percentage points in June 2020, as part of the social package in response to the COVID-19 crisis (Box 2.2).

Recent reforms also increased the duration of in-work benefits for the long-term unemployed recipients of social assistance, from 6 to 12 months. The amount of benefits an unemployed can keep after taking up

work was increased in June 2020, under the crisis-related package, and differentiated depending on the duration of payments (Box 2.2). The effectiveness of income disregard and in-work benefits in bringing benefit recipients into the labour market, and reducing poverty, needs to be regularly evaluated. For, instance, only 3% of social benefit recipients were registered with public employment services (PES) in 2019, according to the official data, compared to 11.5% in 2017. The reasons for the fall in take-up rates of in-work benefits needs to be investigated. Effective job-search assistance and active labour market programmes are essential for the success of these reforms.

Figure 2.21. Larger households have weaker incentives to take up work

A. Single, 50% of average wage

B. Couple, two children, partner out of work, 50% of average wage
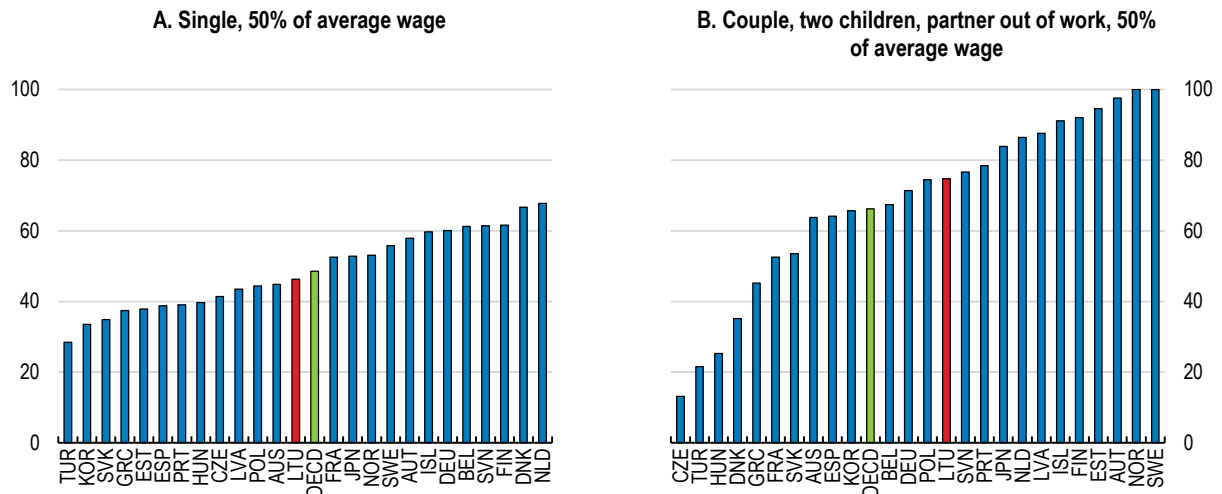
Note: This indicator measures the proportion of earnings that are lost to either higher taxes or lower benefit entitlements when a jobless person takes up employment earning 50% of the average national wage after 24 months of unemployment, giving a measure of the financial disincentives to participate in the labour market.
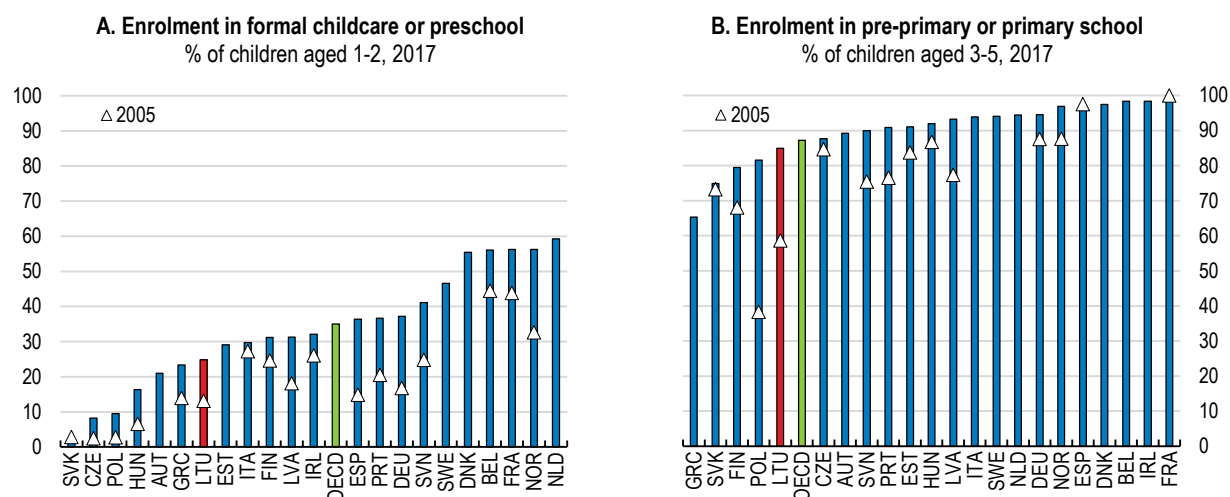Source: OECD Tax-Benefit Model.

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Promising steps were also taken to help families to reconcile family and work responsibilities. The new Labour Code offers to this end more part-time work and remote working opportunities, as well as more flexible working schedules. Recent reforms also changed leave provisions for parents. A father can currently take leave up to the child's first birthday (while keeping the duration of the leave unchanged at 30 days) and, since 2018, paid parental leave is granted to one of the grandparents if both parents wish to return to work. The parental leave scheme was also revised in 2019, with the aim to improve incentives to work. Benefit payments became less generous under the new regime. Parents are still able to choose the duration of the leave – one or two years – but during the second year, the father or mother can work, while also receiving the childcare benefit at the same time.

The gains would be greater if parental leave could be split between mothers and fathers, as in some Nordic countries (OECD, 2017[50]). Only one parent per family is entitled to claim the leave benefit in Lithuania at present that may weaken labour market prospects of the carer. Improving work-family balance also hinges upon the availability of high quality early childhood education and care (ECEC). Despite increases, participation in ECEC remains low in international comparison, especially for children under two year-olds, while access to such programmes is not yet ensured for all children (see above) (Figure 2.22). Swift progress in this domain is advisable. Reducing childcare-related gaps in the employment history of women is important to reduce gender-poverty differences among elderly (Eurostat, 2019[2]).

Figure 2.22. The participation of very young children in ECEC remains low

A. Enrolment in formal childcare or preschool
% of children aged 1-2, 2017

B. Enrolment in pre-primary or primary school
% of children aged 3-5, 2017

Note: Panel A covers education designed to support early development in preparation for participation in school and society. Programmes designed for children below the age of 3. Panel B covers education designed to support early development in preparation for participation in school and society, designed for children from age 3 to the start of primary education.
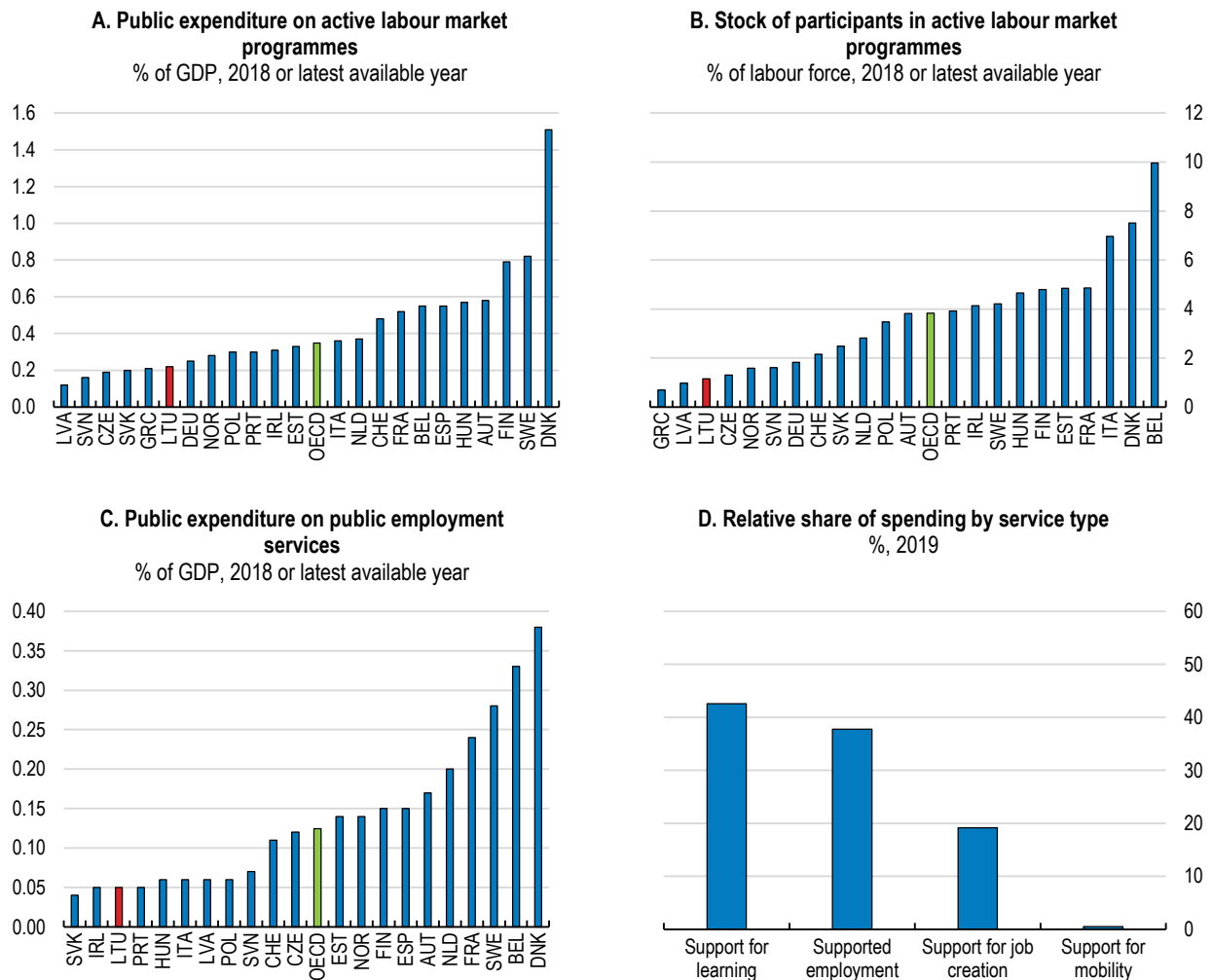Source: OECD Family database.

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Making activation policies more effective

The structure and management of public employment service (PES) was reformed and modernised in the past two years. Reforms included a centralization of the management process of activities planning and human resources, increasing, in turn, by 13% the number of PES employees who work directly with the clients, the establishment of a new service model focusing on face-to-face customer approach and a new performance management system based on unified indicators for all staff positions. The quality of provided services through counselling and electronic registration procedures were also improved and new forms of support for training were introduced, namely apprenticeship, internship and recognition of competencies. These reforms are an important step towards increasing the efficiency of PES and making support and services more client-oriented. According to PES, the effectiveness of ALMPs is improving both in terms of re-employment and job quality.

Important challenges remain however. Spending on active labour market policies (ALMPs) remains low in international comparison and relies heavily on external funding (Figure 2.23). Around 95% of the spending on ALMPs in 2019 came from EU structural funds. This limits the scale of activation policies, and lowers coverage, as EU funding is targeted to specific groups only. In addition, the participation rate in ALMPs fell from around 20% at end-2018 to 12% at end-2019, according to the PES data, as a result mainly of a sharp fall in state contribution. Spending on ALMPs is set to increase in 2020, also entailing crisis-related funds, with a rise in the state budget share in total. The structure of the ALMPs also needs to improve further by putting additional emphasis on support for training. The number of apprenticeships is still low, with a scope to simplify training and employment agreements (European Commission, 2020[12]). The need for appropriately funded and structured ALMPs is even more pressing to reverse the rise in unemployment triggered by the COVID-19 crisis. As part of the response package, the government has increased the PES funding for vocational training and provided wage and eased hiring restrictions for apprentices, with PES subsidising 70% of their wage (up to a limit) (Box 2.2).

Figure 2.23. Activation programmes can improve further

A. Public expenditure on active labour market programmes
% of GDP, 2018 or latest available year

B. Stock of participants in active labour market programmes
% of labour force, 2018 or latest available year

C. Public expenditure on public employment services
% of GDP, 2018 or latest available year

D. Relative share of spending by service type
%, 2019

Note: Panels A and B refer to active labour market programmes covering training, employment incentives, supported employment and rehabilitation, direct job creation and start-up incentives.
Source: OECD Labour Market Programmes database; and Ministry of Social Security and Labour.

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The PES has developed a tool to evaluate and monitor the performance of the activation programmes (ALMPs) on the basis of the employment and wage outcomes of the participants. This is welcome. A project underway aims to strengthen the existing tool, including by adding job quality to the set of indicators measuring ALMPs' performance. It is important that a regular evaluation is undertaken for all programmes, accompanied by a systematic data collection. This would allow adjusting activation programmes, if deemed necessary, and ensure appropriate funding allocation.

Particular attention should be given on strengthening the skills of disabled workers. Around a third of this social group lives below the poverty threshold (Figure 2.6). PES provides support for disabled persons, including through vocational rehabilitation programmes and training. In addition, social enterprises create employment opportunities for individuals with disabilities and other vulnerable groups. A new law on social enterprises in 2020 restricts state subsidies to disabled people of working age only and makes registration to PES mandatory, among other provisions. It is still early, however, to assess its impact.

Ensuring a successful labour market and social integration of the vulnerable groups requires a close collaboration of all stakeholders. The co-operation of PES with municipalities, employers and non-governmental organisations (NGO's) to reduce barriers to integration that go beyond labour market skills, such as lack of social skills, addictions and mobility, is in the right direction. An ongoing pilot project of an integrated service model in six municipalities focuses on unemployed persons with multiple problems, with encouraging results for the long-term unemployed. The expansion of the integrated approach to other municipalities, upon positive outcomes of the pilot, would help the effective transition of the target groups out of poverty.

Table 2.1. Recommendations to reduce poverty and social disparities

Improving the effectiveness of social protection system	
Social spending is comparatively low and the provision of cash benefits and social services is not closely linked to needs of vulnerable groups.	**Further increase the level of minimum-income benefits, while maintaining work incentives** **Increase gradually social assistance pensions, while strengthening means-testing.** **Better tailor the provision of social benefits and services to individuals' needs.**
Accessibility to cash benefits and social services is restricted by the lack of systematic information on benefit availability and the fact that not all types of social support can be requested through electronic applications.	Ensure the timely introduction of an electronic system (e-platform) that enables applications for all forms of social support.
Capacity assessments continue to rely too strongly on medical certificates, increasing disability benefit receipt rates.	Further improve the quality of work capacity assessments by attaching greater importance to physical, social and professional capabilities of persons with disabilities.
The health insurance system has a rather broad coverage, but inequalities in access remain.	Pursue a more detailed diagnostic of possible barriers to access in health care services.
The long-term care services do not effectively reach the elderly population.	**Move to an integrated model of long-term care provision, with a focus on home-care for the elderly.**
Elderly people eligible for long-term care often have access to one provider, limiting choice.	Increase the number of providers of long-term-care services, allowing users to choose their provider.
The stock of social housing is low, with long average waiting times, while some of the stock is at emergency condition or unfit for habitation.	Ensure adequate investment in social housing, based on appropriately-designed projects. Consider establishing a carefully-designed fund for supporting renovation of dwellings, paying special attention to refurbishment of social housing.
Homelessness remains an important poverty-related challenge.	Implement a comprehensive policy, combining provision of housing and services to meet the needs of the homeless.
Tackling educational inequalities	
Access to early childhood education and care is not ensured for all children.	**Continue the expansion of early childhood education and care, with a special emphasis on children from disadvantage background and rural areas.**
Educational achievements vary considerably with students' socioeconomic background and across municipalities while students with disabilities face insufficient inclusive education opportunities.	Continue the implementation of ongoing reforms which aim at making schools more inclusive, while ensuring appropriate structures and educational assistance for students with special needs.
Facilitating labour market integration	
Labour taxes for the low-skilled workers are comparatively high, despite a recent reduction, limiting the employment opportunities for such workers in the post-crisis era.	Reduce further the tax wedge for low paid workers bringing it closer to OECD average, while ensuring that benefits are maintained.
Participation in adult learning remains low, reducing re-skilling and upskilling opportunities.	Introduce second-chance education for early school leavers. Develop skills-assessment schemes for the evaluation of work experience and acquired skills of early school leavers re-entering the formal school system.
Activation policies to strengthen to facilitate labour market integration of those out of work with high poverty rates.	**Increase spending in active labour market programmes, upon a close monitoring of their outcomes and a focus on training programmes.**
The vulnerable groups face multiple barriers to their labour market and social integration that requires a close collaboration of all stakeholders.	Evaluate the outcomes of the pilot projects, expanding the integrated service model to all municipalities upon positive outcomes.

Note: Key recommendations are in bold and can be found again at the end of the executive summary.

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