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ASSET-BASED POLICY IMPLEMENTATION MODEL IN LITHUANIA

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ABSTRACT. The article presents a hypothetical model of the asset-based policy implementation applicable to Lithuania, upon opening long-term savings accounts for all the country's newborns and allocating the accumulated funds to the Children's Opportunity Fund. The findings of the article are based on the results of a representative survey of Lithuanian population described in Laurinavicius and Galiniene (2013) and on the outlook of the asset-based policy models implemented in foreign countries. The object of the research is the asset-based policy implementation model applicable to Lithuania. The main tasks are to describe basic parameters of the model, its functioning principles, and expected results. The paper also analyses various options of policy financing and overviews investment possibilities of accumulated funds. The paper finds that the asset-based policy could be implemented in Lithuania, thus, reducing wealth inequality and poverty rate, in a way that everybody becomes investor and capital owner.

KEYWORDS: asset-based policy, poverty reduction, children's savings accounts, Children's Opportunity Fund.

JEL classification: D63, I38.

Introduction

Income inequality and high poverty rate stem the evolution of society and state; they have a significant impact on health and education of residents, conditions of housing, and delinquency rate. Income inequality and wealth disparity cause political discontent that may lead to serious social upheaval.

Traditional methods that deal with poverty and social inequality focus on issues of income and consumption with particular importance given to the idea of progressive taxation and increase of various benefits to the poor. This policy, called income security or income support policy, is a passive one: it supports individuals in distress; however, it is not intended to develop their possibilities (Sherraden, 2002, 2003). Research works suggest that transfer of benefits to the poor does not reduce a pre-transfer poverty rate (Danziger, Plotnick, 1986).

Modern, post-industrial economy needs active social policy based on savings, investments, and wealth accumulation, encouraging personal development and providing motivation for development of one's knowledge, skills, and abilities. Such a new kind of social policy that emphasizes long-term possibilities based on accumulated wealth is called *asset-based policy* (Sherraden, 1991). The interest in asset-based welfare became increasingly popular throughout the world in the last decade of the 20th century. Efforts have shifted from scientific research to practical implementation of ideas: asset-based policy is tested and implemented in Anglo-Saxon countries (Great Britain, USA, Canada) and English-speaking countries of Southeast Asia.

The topic of Social Policy is widely analysed in the works of Lithuanian authors: the works of the Lithuanian Social Research Center, Institute of Labor and Social Research (J. Aidukaitė, B. Gruževskis, A. Šileika, R. Zabarauskaitė, D. Skučienė, R. Lazutka, V. Stankūnienė, I. Blažienė etc.) are of great importance. Aidukaite (2009, 2010, 2011) analyses Lithuanian social welfare system, reforms, and formation of social security institutions in a historical (post-Soviet) perspective; Guogis (2008, 2011, 2012), Guogis, Gruževskis (2010), focus on the models of Lithuanian social policy and welfare, examine social services and social security; Jasilionienė (2005), Stankūnienė *et al.* (2001, 2003, 2005), Šileika, Tamašauskienė (2003) explore the family policy and benefits to families; Lazutka (2003, 2007), Lazutka *et al.* (2008), Žalimienė, Lazutka (2009), Žalimienė (2011), Skučienė (2008, 2010), Blažienė (2002), Blažienė, Zabarauskaitė (2011), Zabarauskaitė, Blažienė (2012) focus on the questions of social maintenance and social support in Lithuania, analyse welfare of inhabitants and inequality of income; Pajuodienė, Šileika (2001), Zabarauskaitė (2004, 2005, 2007), Šileika, Zabarauskaitė (2006, 2009), Šileika *et al.* (2009) analyse questions of poverty methodology, measurement, poverty rate, factors of poverty, various social layers, and life standards.

It could be stated that majority of Lithuanian authors analyse living standards and poverty indicators, income inequality, its dynamics, reasons, and certain ways to solve these problems; however, the asset-based policy, as a new measure to solve social problems, is scarcely explored in the articles of Lithuanian authors. The articles of Laurinavičius (2012a,

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1. Parameters

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2012b, 2013), Laurinavičius An., Laurinavičius (2011), Laurinavičius, Galiniene (2013) are the first ones to analyze the possible impact of the asset-based policy on inequality and poverty rate. In the latter one Laurinavičius and Galiniene review the papers of Lithuanian authors on the topic of social policy and check if the topic of asset-based policy has ever been explored. They briefly analyse the efficiency of current social security policy in Lithuania and social-economical state of inhabitants. They conclude that in order to reduce inequality, current social policy should be reformed, and the current income support (or income security) policy should be replaced by the asset-based policy, which stresses the development of skills, knowledge, and capabilities, promotes savings, investments, and building of assets and gives everyone a possibility to become a capital owner. The above-mentioned article presents results of a representative survey that has been conducted to explore Lithuanian inhabitants' opinion on the asset-based policy. The survey revealed that the vast majority of Lithuanian inhabitants would agree with the implementation of asset-based policy, based on children's savings accounts.

Foreign authors paid a lot of attention to the asset-based policy and its practical implementation. Especially significant studies were conducted by the IPPR (*Institute for Public Policy Research*) in the UK; Public Policy Institute *New America Foundation*, Institute CFED (*Corporation for Enterprise Development*) and the Center for Social Development at University of Washington (St. Louis, U.S.) in the U.S. Goals and features of the asset-based policy were widely analysed by Meyer *et al.* (2008a, 2008b), Ackermann *et al.* (2005), Sherraden (1991), Lerman, McKernan (2008), Sherraden (2010), Elliott, Wagner (2007), Marks *et al.* (2009), Finlayson (2008, 2009), Maxwell, Sodha (2005), Beverly *et al.* (2008), De Meza *et al.* (2008), Willis (2008), Thaler, Sunstein (2008), Thaler, Benartzi, (2004), Wheeler-Brooks (2008), Prabhakar (2009, 2010), Cramer (2010), Sherraden *et al.* (2010), Mason *et al.* (2009), Goldberg *et al.* (2008), and others. Various authors have come up with several different methods to implement asset-based policy: one-time grant to all individuals reaching majority; regular monthly benefits for all citizens of the country, after reaching majority; benefits to newborns: one-time transfer by the Government to the children's savings accounts (hereinafter - CSA) opened to all the newborns; matched savings accounts for the poor and transfers by the Government that match at a certain ratio and to a certain limit the personal savings transferred to these accounts.

This article based on the results of a representative survey of Lithuanian population described in Laurinavičius, Galiniene (2013) and on the outlook of the asset-based policy models implemented in foreign countries presents a hypothetical model of the asset-based policy implementation applicable to Lithuania, describes its key parameters, functioning principles, sources of financing, and expected results.

The object of this research is the asset-based policy implementation model in Lithuania. The methodology used in this research is a comparative and logical data analysis, graphical data representation, hypothetical model development, and model sensitivity analysis.

1. Parameters of the Asset-Based Policy Implementation Model

After assessing the advantages and disadvantages of the main asset-based welfare implementation approaches proposed by the foreign authors and used in practice, it would be advisable to choose the option of children's savings accounts in Lithuania: this model has already been applied in a number of foreign countries (UK, Canada, Singapore, S. Korea, Hong Kong, etc.); besides, this model is easier to implement in a political sense because

paying small benefits to newborns requires much less public spending than paying large benefits to everyone attaining adulthood. In addition, the longer the asset accumulation process is, the greater amounts of capital can be accumulated.

The children's savings account model is based on the idea that long-term savings-investment accounts should be opened for each newborn, provided that the initial deposit for such accounts is made by the State Government and the funds accumulated therein are open for disposal only in adulthood. The use of such funds may be either restricted for specific purposes or completely free.

Based on the asset-based policy implementation purposes, referred in literature and applied in practice, there might be set several different objectives to the policy model proposed for implementation in Lithuania (Table 1).

Table 1. Objectives of the asset-based policy and their indicators

	Objectives	Indicators
Main	Reduction of income and wealth inequality and poverty rate	Changes in Gini coefficient, poverty rate
Secondary	Increase of financial knowledge	Average estimate of the financial planning and management classes in high school
	Development of saving skills and increase of saving rate, accumulation of financial capital	Accumulated capital in CSA after 18 years, a share of parents' savings in the accumulated capital
	Increase in birth rate	Changes of birth rate
	Increase in access to higher education	Higher education coverage, the number of Lithuanian students having graduated from the foreign universities
	Increase in the level of investment and innovation	Changes in the level of domestic investment, FDI, changes in the Summary innovation index

Source: authorial computation.

It should be noted that in order to facilitate implementation of the asset-based policy, the message of the increase in financial knowledge and savings rate should be communicated. Other authors' studies and surveys carried out in other countries prove that the asset-based policy, more precisely the children's savings accounts, are easily introduced in response to a low household savings rate and poor financial literacy. The policy should be launched with small initial deposits for the opened newborns' accounts and an option for parents and guardians to supplement the accounts with their own savings. In the long course, supporters of this policy might increase the initial deposit, the degree of progressivity etc. The major challenge is to introduce the policy; subsequent policy adjustments and improvements are a much easier task.

Engagement in this policy should be universal, applicable to all newborns of the country, born after a certain date (if possible, certain cohorts of children could be included retrospectively). In order to ensure a universal engagement, accounts of all newborns should be automatically opened within a month after the child's birth.

Newborns' accounts could be available in any credit institution that would be willing to participate in the policy and to open investment accounts that satisfy the main policy conditions (i.e., blocked withdrawal of funds, etc.). Implementation of the policy would require a special investment fund, the units of which should be acquired by the policy participants. Taking into account the key objectives of the policy, such a fund should be named as the Children's Opportunity Fund (hereinafter – the Fund). A new public management and supervisory authority to supervise the Fund should be created as well.

The legal framework of the policy, the Fund, supervisory authority should be endorsed by a special law. A principal scheme on the asset-based policy implementation in Lithuania is provided in Figure 1.

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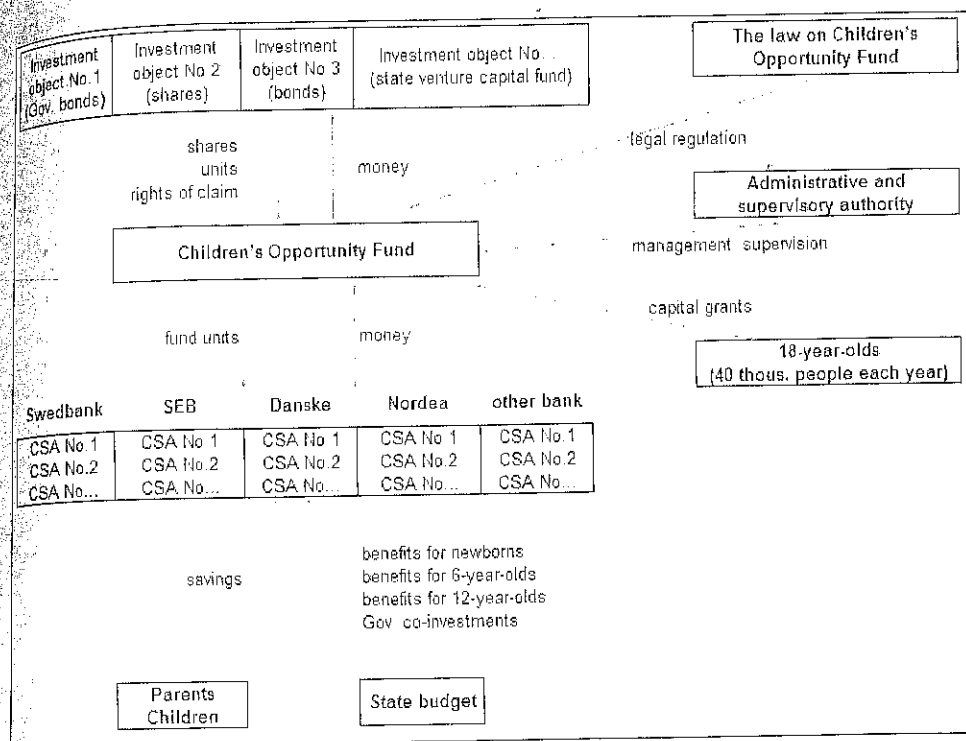
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Source: authorial computation.

Figure 1. The Principal Scheme on the Asset-Based Policy Implementation in Lithuania

Children's Opportunity Fund would receive incomes from children's savings accounts in return for its investment units. The resources of the Fund would be allocated for the acquisition of shares, units, bonds, or rights of claim of investment objects. The Fund's investment policy is more widely described at the end of the article.

Children's savings accounts, in turn, would have two sources of financing:

- benefits from the state budget: initial benefits to newborns, additional benefits to 6-year-olds and 12-year-olds, and *Gov. co-investments* (definition provided below) for children whose parents or guardians are attributed to the at-risk-of-poverty rate;
- personal savings (investments of children's parents, guardians, and children themselves in CSA).

It should be noted that the size of benefits from the state budget depends on the state's ability to finance the new policy, on the one hand, (the policy financing sources are discussed in greater detail at the end of the article) and on the criterion of adequacy (i.e., so that the accumulated capital would allow achieving the objectives of the policy at the maturity stage), on the other hand. Taking into consideration these criteria as well as results of the Lithuanian population survey conducted in 2013 (Laurinavičius, Galiniene, 2013) (hereinafter – the Survey), the initial benefits of the asset-based policy should amount for 5,000 LTL. Nevertheless, given the above-mentioned rule for easier implementation of the „cheaper” policy, it is advisable to allocate lower benefits for newborns and additional benefits for

children at a certain age. Thus, payments to the opened children's savings accounts should be as follows:

- benefits for newborns – 3,000 LTL. About 35,000 children are born in Lithuania each year, so initial costs of the policy implementation would amount to 100M LTL per year; in comparison, this corresponds to 0.8% of the State Social Insurance Fund Board's budget or 0.4% of the Government expenditure;

- additional benefit for a child at the age of 6 – 1,000 LTL;
- additional benefit for a child at the age of 12 – 1,000 LTL.

In order to meet the criterion of progressiveness, benefits to children born into families attributed to the at-risk-of-poverty rate should be twice as large, i.e., 6,000 LTL at birth, 2,000 LTL at the age of 6, and 2,000 LTL – at the age of 12.

Every month the child's parents, guardians, or the children themselves might supplement the CSA with a certain amount of money. In order to encourage savings, it is advisable to take the following measures:

- parents' or guardians' funds transferred to the CSA could be subjected to the personal income tax allowance (Art. 21 of the Law on Personal Income Tax should be supplemented), which currently is applied for life insurance premiums. The annual limit of parents' or guardians' savings to be granted with allowance would be 1,200 LTL for a child (100 LTL/month/child);

- investment earnings on a CSA would be exempted from the personal income tax (Art. 17 of the Law on Personal Income Tax should be amended).

Taking into consideration the risk that wealthier individuals can save more and, thus, in the future, whereupon children attain the age of majority, this policy could increase rather than reduce social inequality; it is appropriate to provide matched benefits from the state budget, which would match the parents' or guardians' (attributed to the at-risk-of-poverty rate) deposits allocated to the CSA (hereinafter – the Gov. co-investments). Gov. co-investments would have the following limits:

- *match ratio* would be equal to 1:1, i.e., if the child's parents or guardians deposited 100 LTL to the CSA, the same benefit would be transferred to the CSA from the state budget;

- *match limit* (or match cap) would be 300 LTL per year (i.e., 25 LTL/month) for a child. Empirical studies have proved that the match limit is understood by people as a clear signal of what level of savings is expected of them, and they try to achieve it (Schreiner, Sherraden, 2007). It is, therefore, likely that the annual Gov. co-investments limit of 300 LTL would encourage to deposit the same amount of personal savings to the CSA. The size of Gov. co-investments is limited to 300 LTL per year, since it is an „expensive” tool of the asset-based policy: assuming that all newborns' parents belonging to the at-risk-of-poverty rate would always take advantage of the maximum amount of Gov. co-investments, this tool would cost 2M LTL to the state budget for the first policy year and up to 32M LTL – for the 18th and subsequent years.

The funds accumulated in a CSA would not be allowed to use before the child attains 18. Children at the age of 18 (children themselves, but not their parents or guardians) would receive the entire accumulated amount to be used for the following four purposes:

- 1) For studies in Lithuanian and foreign institutions of higher education (during the Survey, approved by 98% of the Lithuanian population). The capital amount accumulated in a CSA would not only facilitate studies in national universities, but would also encourage the youth to go abroad to the best worldwide universities. Such type of spending of the funds accumulated in the CSA would not only contribute to the implementation of the main

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objective of the asset-based policy which is to reduce the income and wealth inequality and poverty rate, but would also help to achieve one of the secondary goals that is to increase access to higher education (measuring it by higher education coverage rate and by the number of Lithuanian students that have graduated from foreign universities).

2) For housing down payment (during the Survey, approved by 52% of the Lithuanian population). The accumulated amount of capital would be sufficient for a down payment of the average new housing in the capital (considering that the average price of housing in Vilnius amounts to 200,000 LTL and a client must cover at least 15% of the housing price with owning funds, down payment for housing amounts to 30,000 LTL). This means that the amount of capital accumulated in the CSA would meet the criterion of adequacy, i.e., would allow achieving the goal to reduce the income and wealth inequality and poverty rate by forming the society of owners. Besides, it has been revealed that residential housing is an essential component in order to optimize investment portfolios of the residents (Laurinavičius, Bikas, 2009):

- residential investment ensures a higher return with less volatility (i.e., less risk per unit of return) than financial investment;
- the correlation of the return to the real estate market with the return on the stock and bond markets is low or, even, negative; therefore, real estate is the right choice for the efficient diversification of the investment portfolio;
- positive correlation of the return to the real estate market with changes in the CPI suggests that the real estate provides a good insurance against inflation;
- a real estate in the investment portfolio significantly reduces its risk at an appropriate level of return, or increases its return at an appropriate level of risk.

Consequently, such an investment and housing loans optimize the investment portfolio.

It should be noted that the above-mentioned way of spending funds accumulated in the CSA would allow formatting a more equivalent housing market that entrusts development of dwellings for professional real estate development companies and not for the companies that engage in speculative real estate projects (Laurinavičius, Galiniene, 2011).

- 3) To start a business (41% of the Lithuanian population supported it).
- 4) For health care services (32% of the Lithuanian population supported it), when a child is terminally ill or has a disability.

Control of the accumulated funds' spending eligibility should be delegated to the administrative and supervisory authority. Taking into consideration that personal behaviour, upon receiving benefits at the age of majority, is certainly determined by the social class and asset management skills (which differ greatly as people's skills and interests are influenced by unequal opportunities in the past); it is necessary to develop a financial education programme. Such education could improve asset management skills of lower social classes to those of the middle class representatives and help to realize that saving today would ensure a greater security for tomorrow. Given the fact that the rate of voluntary participation in financial education courses is low (Scanlon, Adams, 2009), as well as regarding the approval expressed by the respondents of the Survey, mandatory financial education programmes should be introduced in all secondary schools in the country.

In order to determine the need for financing of the asset-based policy from the state budget and expected rates of capital accumulation per individual, simulation was conducted. Under the simulation, the above-mentioned benefit amounts and the following assumptions were used:

- initial birth rate: 35,000 children per year (the average of the last five years' birth rate);

- change in birth rate: +1% per year (evaluating the positive impact of the policy on the birth rate);
- at-risk-of-poverty rate: 20% (data for 2011);
- change in at-risk-of-poverty rate: -0.25% per year;
- average annual return of the Children's Opportunity Fund: +5% (weighted average interest rate of the Lithuanian Government bonds with maturity longer than 1000 days from 01-01-2001 to 30-11-2012 is 5.1%);
- investments of parents not belonging to the at-risk-of-poverty rate in the CSA: 50 LTL/month (86% of Survey respondents indicated they were able and willing to deposit such amount to the CSA);
- Gov. co-investments in the CSA of children who are at-risk-of-poverty rate 300 LTL per year (25 LTL /month);
- investments of parents belonging to the at-risk-of-poverty rate in the CSA: 25 LTL/month (parents would seek to fully „utilise“ Gov. co-investments, which would be 25 LTL/month; thus, the total deposits for the accounts of these children would be equal to the deposits for the accounts of the children who are not at-risk-of-poverty rate, i.e., 50 LTL/month);
- the policy has been initiated in 2014, and its first cycle continues until 2032, when accumulated funds can be withdrawn by the first generation of youth participating in the programme.

Discussed assumptions are shown in Table 2¹.

Table 2. Assumptions of the Asset-Based Policy Implementation Model

Number of births per year	35,000	
Annual change in birth rate, %	1.00%	
At-risk-of-poverty rate, %	20.00%	
Annual change in at-risk-of-poverty rate, %	-0.25%	
Annual return on investment, %	5.00%	
Benefit amounts	Not for the poor	For the poor
State benefit to a newborn, LTL	3,000	6,000
State benefit at the age of 6, LTL	1,000	2,000
State benefit at the age of 12, LTL	1,000	2,000
Parents' investments, LTL/month	50	25
Gov. co-investments, LTL/month		25

Source: authorial computation.

Based on these assumptions the below shown results of the model were obtained. With different assumptions, the results could vary, however the above-mentioned assumptions were retrieved from the Survey and Statistics Lithuania.

2. Expected Results of the Asset-Based Policy Implementation Model

The Fund's membership would increase from 35,000 members in the first year of policy implementation to 686,000 during the last year of the relevant cycle, and then the rapid growth would stop as new members (the newborns) of the Fund would be offset by the

¹ Hereinafter, terms used in figures and tables „poor“ and „not poor“ are equivalent to the terms used in the text „belonging to the at-risk-of-poverty rate“ and „not belonging to the at-risk-of-poverty rate“.

number of leaving you take place only due to Taking into account initial need for policy LTL by 2031. The growth of 6-year-olds, and later children belonging to the

Source: authorial computation

Figure 2. Hypothetical

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Source: authorial computation

Figure 3. Hypothetical Annual

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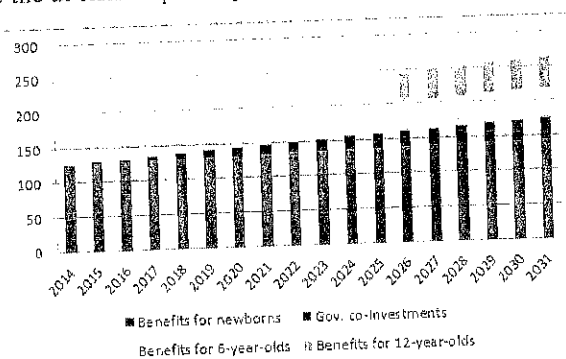
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number of leaving youth (18 year olds). A slight increase in the number of members could take place only due to the positive change in the number of births.

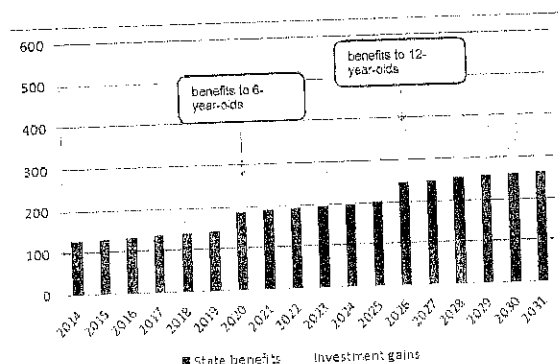
Taking into consideration the above-discussed assumptions, calculations show that the initial need for policy financing would reach 126M LTL (see Figure 2) and increase to 262M LTL by 2031. The growing need would be influenced by the increasing birth rate, benefits to 6-year-olds, and later - to 12-year-olds, as well as the Gov. co-investments in the CSA of children belonging to the at-risk-of-poverty rate.



Source: authorial computation.

Figure 2. Hypothetical Need for Financing of the Asset-Based Policy in 2014-2031, Million LTL

All the state benefits through individual savings accounts would reach the Children's Opportunity Fund (see Figure 1). The Fund's assets would also grow due to return on investment (see Figure 3). Although during the first year of policy implementation the impact of the return on investment would not be significant, in the 18th (and subsequent) year of the Fund's existence the return on investment would account almost 50% of its income.

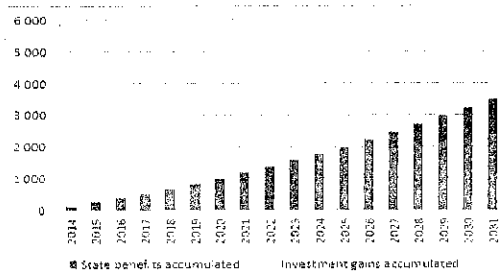


Source: authorial computation.

Figure 3. Hypothetical Annual Changes in the Children's Opportunity Fund's Assets in 2014-2031, Million LTL

In such a way, the Fund's asset value would increase from 126M LTL in 2014 to 5.1B LTL in 2031 (see Figure 4), and then the growth would stop since the increase in assets, resulting from state benefits and investment gains, would be offset by pay-outs of the accumulated capital to young people leaving the Fund (the first generation of young people

would leave the Fund in 2032)². In the simulated scenario the first generation leaving the Fund would take 461M LTL.



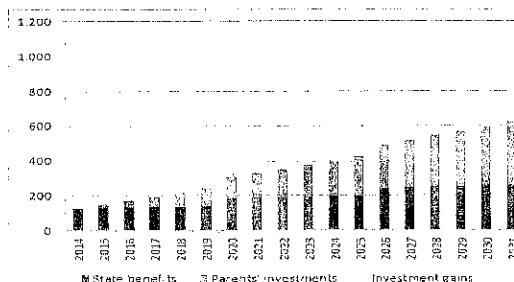
Source: authorial computation.

Figure 4. Dynamics of the Assets of the Hypothetical Children's Opportunity Fund in 2014-2031, Million LTL

The larger part of the Fund's assets, i.e., 3.5B LTL, would consist of the received state benefits; however, 1.6B LTL would be earned by the Fund (i.e., almost one-third of the Fund's assets).

It should be noted that Figure 3 and Figure 4. present changes in the Fund's assets and its size, considering solely payments from the state budget (including Gov. co-investments for children belonging to the at-risk-of-poverty rate) and their investment gains, but not taking in consideration parents' and guardians' contributions and their investment gains (after all, Gov. co-investments would not be possible without parents' investment). However, the main purpose of these figures is to demonstrate a marginal need of public funds for implementation of the asset-based policy; thus, the absence of private investments in these figures is not a material shortcoming.

If parents made the assumed investments in the CSA (respectively parents of the not poor children – 50 LTL/month per child, and parents of the poor children – 25 LTL/month per child), the annual income of the Fund would account to 126M LTL in the first year and increase to 1B LTL in the 18th year of policy implementation (state benefits would account to 25% of inflows, parents' investments - 35% of inflows, and investment gains - 40% of inflows) (Figure 5).



Source: authorial computation.

Figure 5. Hypothetical Annual Changes in the Children's Opportunity Fund's Assets in 2014-2031, Million LTL, with Parents' Investment

² Note: the Fund's balance of incomes and payments would be equal to 0, provided that the birth and poverty rates did not change; otherwise the balance of incomes and payments would not be equal to 0 and the Fund's asset size would slightly vary.

In this way LTL in 2031 (se unchanged). In the 955M LTL. The as state benefits - 3.5 investment gains - 2

Source: authorial compu
Figure 6. Dynamics of

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Table 3. Hypothetical at

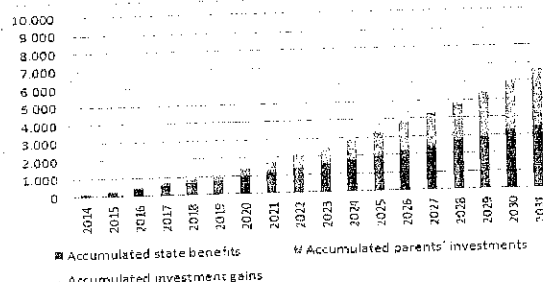
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It can be seen 42% -52% of the tot presented amounts of adequacy, i.e., the Lit objectives set for the should be accumulated opportunities for stud independent, etc.).

It is likely that third scenarios for Tab 81% of Survey responde the asset-based policy increased by appropri

In this way, the Fund's asset value would increase from 126M LTL in 2014 to 9.2B LTL in 2031 (see Figure 6) and then would stop changing (with other assumptions unchanged). In the simulated scenario the young generation leaving the Fund would take 955M LTL. The assets of the Fund would consist of the three nearly equal parts: accumulated state benefits - 3.5B LTL, accumulated parents' investments - 3.1B LTL, and accumulated investment gains - 2.6B LTL.



Source: authorial computation.

Figure 6. Dynamics of the Assets of the Hypothetical Children's Opportunity Fund in 2014-2031, Million LTL, with Parents' Investment

After reviewing the hypothetical situation of the Children's Opportunities Fund and its need for financing, it is important to analyse what is likely to result from the policy at an individual level. Table 3 presents expected amounts of capital accumulated during 18 years:

Table 3. Hypothetical amounts of capital accumulated by participants of the Children's Opportunity Fund after 18 years, LTL

	Not poor		Poor	
	Without investment	With investment	Without investment	With investment
State benefit	5 000	5 000	10 000	10 000
Gov. co-investments	0	0	0	5 400
Parents' investments	0	10 800	0	5 400
Investment gains	5 356	11 435	10 712	16 791
Account balance after 18 years	10 356	27 235	20 712	37 591

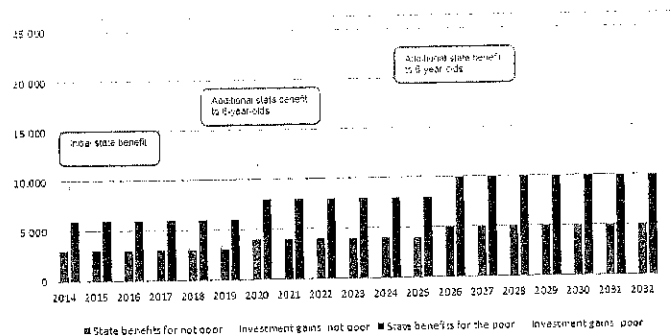
Source: authorial computation.

It can be seen that the long-lasting policy would result in investment gains equal to 42% -52% of the total accumulated capital in any scenario. It should be noted that the presented amounts of capital accumulated within 18 years would meet the criterion of adequacy, i.e., the Lithuanian population believes that such capital would allow achieving objectives set for the asset-based policy (according to 64% of Survey respondents, there should be accumulated 10,000-50,000 LTL in the CSA in order to give young people greater opportunities for studies, first business, to pay a down payment for housing, to feel independent, etc.).

It is likely that implementation of the asset-based policy would help in the first and third scenarios for Table 3 to come true. First of all, this is supported by Survey respondents: 81% of Survey respondents would agree to deposit into their children's investment accounts if the asset-based policy was implemented. In addition, as already mentioned, deposits could be increased by appropriate amendments to the Personal Income Tax law. And finally, the

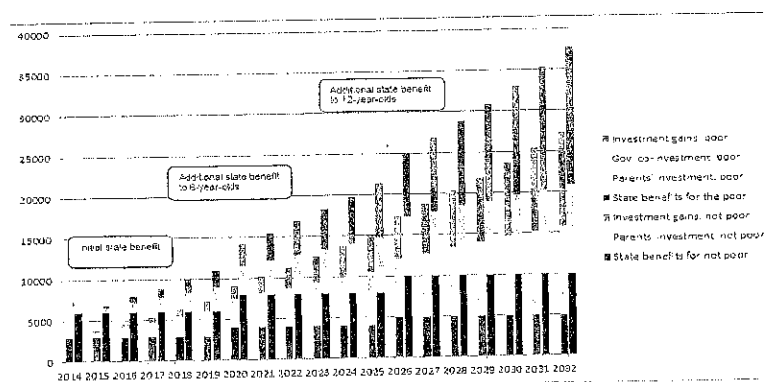
poorest residents would be encouraged to save by Gov. co-investments (results of the Survey have demonstrated that if personal savings were subject to the Gov co-investment incentive, it would significantly reduce the percentage of population tending to invest a minimum amount in the CSA, and increase the percentage of residents tending to invest a maximum amount in the CSA).

The Figures below show the capital accumulation process from the first to the last year of the relevant asset-based policy implementation cycle, when personal funds are not invested (Figure 7) or are invested (Figure 8) in the children's account.



Source: authorial computation.

Figure 7. Account Balance of the Participant of the Children's Opportunity Fund (without Parents' Investment) in 2014-2032, LTL



Source: authorial computation.

Figure 8. Account Balance of the Participant of the Children's Opportunity Fund (with Parents' Investment) in 2014-2032, LTL

In order to evaluate the impact of the above-mentioned assumptions to the simulation results, a sensitivity analysis was conducted. First of all, the impact of the assumptions about the need for financing was evaluated. Table 4 shows how the need for financing would vary during first and last year of policy implementation, as well as over the entire 18-year period with changes in poverty and birth rate levels. The basic scenario is marked in grey colour. It can be stated that growing birth and poverty rates increase the need for financing (because of prenatal and progressive nature of the policy). However, even realization of the „extreme“ scenario would increase the need for financing over the period of 18 years would only by 24%.

Table 4. Finance implementation

Need for financing from the b	
Annual change in birth rate, %	1
	2
	3

Source: authorial computation.

It should be r regulate; therefore, th amounts and procedu are much easier to reg financing is crucial. 7 the last year and ove reducing the initial b newborns belonging a marked in grey colo implementation of the additional benefits to t

Table 5. Financial implementation,

Need for financing from t	
Benefits, thous. LTL	1t + 1
	2t + 1
	3t + 1
	4t + 1

Source: authorial computation.

Another impor assumptions about the the accumulated capit participants varies up investment, parents' in grey colour. It can be s strongly influences the assumed rate of the ret weighted average intere 1000 days from 01-01. policy, investment in r might earn 5%. Howev could be much higher (c

The abbreviation „3t + (t + 1c“ n additional benefit for 12-year-olds is

Table 4. Financing needs during first and last years, and over the 18 years period of policy implementation, upon changes in poverty and birth rate levels, million LTL

Need for financing from the budget during the 1st and 18th year, million LTL						Need for financing from the budget over 18 years, million LTL					
		Annual change in at-risk-of-poverty rate, %						Annual change in at-risk-of-poverty rate, %			
		-0,50%	-0,25%	0,00%	0,25%			-0,50%	-0,25%	0,00%	0,25%
Annual change in birth rate, %	0%	126-216	126-231	126-246	126-261	Annual change in birth rate, %	0%	3 132	3 239	3 345	3 452
	1%	126-245	126-262	126-279	126-296		1%	3 370	3 486	3 602	3 717
	2%	126-280	126-298	126-317	126-336		2%	3 633	3 759	3 884	4 010
	3%	126-319	126-340	126-361	126-382		3%	3 924	4 060	4 197	4 334

Source: authorial computation.

It should be noted that the above mentioned assumptions are difficult to control and regulate; therefore, they can be named as „external factors” in this model. In this case the amounts and procedures of state benefits could be named as „internal factors”, because they are much easier to regulate. It should be noted that the impact of these factors on the need of financing is crucial. Table 5 shows how the need of financing would change from the first to the last year and over the 18 years period of policy implementation, upon increasing or reducing the initial benefit for the newborn³ and upon changing the ratio of benefits for newborns belonging and not belonging to the at-risk-of-poverty rate. The basic scenario is marked in grey colour. It can be stated that in order to take advantage of the easier implementation of the policy, the simplest way would be to adjust amounts of initial and additional benefits to the level that is acceptable for the politicians and the society.

Table 5. Financing needs during first and last years, and over the 18 years period of policy implementation, upon changes in amounts and procedures of state benefits, million LTL

Need for financing from the budget during the 1st and 18th year, million LTL					Need for financing from the budget over 18 years, million LTL				
		Ratio of benefits to the poor and not poor					Ratio of benefits to the poor and not poor		
		1,25	1,50	2,00			1,25	1,50	2,00
Benefits, thous. LTL	1t + 1t + 1t	37-152	39-157	42-166	Benefits, thous. LTL	1t + 1t + 1t	1 693	1 752	1 868
	2t + 1t + 1t	74-195	77-202	84-214		2t + 1t + 1t	2 410	2 499	2 677
	3t + 1t + 1t	110-239	116-246	126-262		3t + 1t + 1t	3 128	3 247	3 486
	4t + 1t + 1t	147-282	154-291	168-310		4t + 1t + 1t	3 845	3 995	4 295

Source: authorial computation.

Another important part of the sensitivity analysis is the impact of changes in assumptions about the account balance of the Fund's participants after the 18 years (i.e., on the accumulated capital). Table 6 shows the way the account balance of the Fund's participants varies upon the changes in the amount of state benefits, annual return on investment, parents' investment, and Gov. co-investment. The basic scenario is marked in grey colour. It can be seen that due to a long-lasting policy the rate of return on investment strongly influences the final balance of the CSA. However, it should be noted that the assumed rate of the return of 5%, chosen for the basic scenario, is strong enough, since the weighted average interest rate of the Lithuanian Government bonds with maturity longer than 1000 days from 01-01-2001 to 30-11-2012 was 5.1%. Thus, even if a passive investment policy, investment in national debt securities, is chosen, the Children's Opportunity Fund might earn 5%. However, in case another investment policy has been chosen, the earnings could be much higher (e.g., if annual return on investment reached 8% i.e., an average of U.S.

³ The abbreviation „3t + 1t + 1t” means that the initial payment is 3,000 LTL, an additional benefit for 6-year-olds is 1,000 LTL, and an additional benefit for 12-year-olds is 1,000 LTL.

stock market return in 1990-2010, child's account deposited by the assumed amount of parents' investment would have 39 / 55 thousand LTL, rather than 27 / 38 thousand LTL).

The first two tables in *Table 6* show how much of the capital would have been accumulated by the children from not poor and poor families upon the changes in the amount of state benefits and the annual return on investment. The table on the left shows the accumulated capital of the children whose parents would not additionally invest, and the table on the right of children whose parents would invest as provided in key assumptions.

It should be noted that the above-mentioned assumptions, from the point of view of a separate individual, are difficult to control and regulate; therefore, they can be named as „external factors” in this model. In this case the personal savings rate could be named as „internal factor” because it is much easier to regulate. Two lower tables in *Table 6* show how much of the capital would have been accumulated by the children from not poor and poor families upon changes in the parents' investment level and the annual return on investment. Due to the long-lasting policy and compound interest rule even a slight growth in the level of parents' savings could significantly increase a child's account balance: e.g., if a particular child's parents deposited the account with 100 LTL every month, their child could have 44 thousand LTL rather than 27 thousand LTL (with other assumptions unchanged) in his/her account at the age of majority.

Table 6. Capital accumulated by the Fund's member upon the changes in the amount of state benefits, annual return on investment, a level of parents' investment, and Gov. co-investment, thousand LTL

Account balance for not poor / poor in 18 years (without additional investment), thous. LTL							Account balance for not poor / poor in 18 years (with additional investment), thous. LTL						
		Annual return on investment, %							Annual return on investment, %				
		3,00%	4,00%	5,00%	6,00%	3,00%			4,00%	5,00%	6,00%		
Benefits, thous. LTL	1t + 1t + 1t	4t / 9t	5t / 10t	6t / 11t	6t / 13t			1t + 1t + 1t	18t / 23t	20t / 25t	22t / 29t	25t / 31t	
	2t + 1t + 1t	6t / 12t	7t / 14t	8t / 16t	9t / 18t			2t + 1t + 1t	20t / 26t	22t / 29t	25t / 33t	28t / 37t	
	3t + 1t + 1t	8t / 15t	9t / 18t	10t / 21t	12t / 24t			3t + 1t + 1t	22t / 30t	24t / 33t	27t / 38t	31t / 43t	
	4t + 1t + 1t	9t / 19t	11t / 22t	13t / 25t	15t / 30t			4t + 1t + 1t	23t / 33t	26t / 37t	30t / 42t	33t / 48t	

Account balance for not poor / poor in 18 years (limit of Gov. co-investment 300 LTL/year), thous. LTL							Account balance for not poor / poor in 18 years (limit of Gov. co-investment 600 LTL/year), thous. LTL						
		Annual return on investment, %							Annual return on investment, %				
		3,00%	4,00%	5,00%	6,00%	3,00%			4,00%	5,00%	6,00%		
Parents' investment, LTL/month*	0	8t / 30t	9t / 33t	10t / 38t	12t / 43t			0	8t / 44t	9t / 49t	10t / 54t	10t / 61t	
	25	16t / 30t	17t / 33t	19t / 38t	21t / 43t			25	15t / 44t	17t / 49t	19t / 54t	19t / 61t	
	50	22t / 30t	24t / 33t	27t / 38t	31t / 43t			50	22t / 44t	24t / 49t	27t / 54t	27t / 61t	
	75	29t / 30t	32t / 33t	36t / 38t	40t / 43t			75	29t / 44t	32t / 49t	36t / 54t	36t / 61t	
	100	36t / 30t	40t / 33t	44t / 38t	49t / 43t			100	36t / 44t	40t / 49t	44t / 54t	44t / 61t	

* investment of parents not belonging to the at-risk-of-poverty rate are simulated
Assumption that investment of parents belonging to the at-risk-of-poverty rate are always equal to the limit of Gov co-investment, is made

the assumed amount of 38 thousand LTL). Capital would have been changes in the amount on the left shows the fully invest, and the table assumptions. On the point of view of a they can be named as state could be named as es in Table 6 show how from not poor and poor 1 return on investment t growth in the level of ce: e.g., if a particular air child could have 44 unchanged) in his/her

Amount of state benefits, investment, thousand LTL

in 18 years (with additional us. LTL)			
return on investment, %			
4.00%	5.00%	6.00%	
20t / 25t	22t / 28t	25t / 31t	
22t / 29t	25t / 33t	28t / 37t	
24t / 33t	27t / 38t	31t / 43t	
26t / 37t	30t / 42t	33t / 48t	

in 18 years (limit of Gov. co-st), thous. LTL

return on investment, %			
4.00%	5.00%	6.00%	
9t / 49t	10t / 54t	10t / 61t	
17t / 49t	19t / 54t	19t / 61t	
24t / 49t	27t / 64t	27t / 61t	
32t / 49t	36t / 64t	36t / 61t	
40t / 49t	44t / 64t	44t / 61t	

6 million LTL, and it

A, as it is provided in 6 million LTL during only constitute 25% of 40%); (ment) would increase e of the Fund's assets L in 2014 up to 9.2

3C), 2014

billion LTL in 2031, where the accumulated state's benefits would constitute 3.5 billion LTL, accumulated parents' investments - 3.1 billion LTL, and the accumulated investment gains - 2.6 billion LTL;

4) the accumulated capital of the participant of the Children's Opportunity Fund would depend on how much his/her parents were willing to invest, and it could reach 10,000-37,000 LTL (due to the long term of the policy investment gain that would constitute 42%-52% of the accumulated capital). This amount of capital would meet the criterion of adequacy, i.e., according to the Survey of Lithuanian population, it would allow implementing objectives set for the asset-based policy;

5) it should be noted that the above mentioned amounts of capital could be accumulated if choosing a passive investment policy: investing in the Government bonds. If a riskier investment policy (which will be presented below) was chosen, the return (as well as the amount of accumulated capital in the CSA) would increase significantly.

3. Policy Financing Options

On the one hand, the size of new benefits from the state budget is restricted by the state's capacity to finance the new policy and, on the other hand, due to falling of the benefits into the criterion of adequacy. These two factors obviously act in opposite directions: the state's capacities are limited; however, in order to meet the criterion of adequacy and increase the Fund's benefits for young people in the future, appropriations of this policy should increase today.

It can be stated that the proposed hypothetical policy model meets the criterion of adequacy (the results of population Survey prove that); yet, what is the state's capacity for financing this policy? It should be stated that the state has three options:

- reduction of some current budget expenditure to undertake on new liabilities (to be pursued to reduce or completely waive appropriations of a similar purpose in the current budget),
- introduction of new taxes (to be pursued to introduce new taxes for financing solely this policy)
- increase of existing taxes (to be pursued to increase rates of existing taxes and to allocate the increased tax revenues to new policy).

In order to evaluate the option of reducing some current budget expenditure, the Survey residents have been asked about reduction of benefits for the newborn (i.e., single payment for a child) from 1,430 LTL to 1,000 LTL. The Survey has shown that reduction of current benefits for the newborn, among all the other proposed asset-based policy financing options, would be maximally disapproved by the population (76% of population did not approve reduction of the benefit). It should be as well noted that even significantly reduced single payments for the newborn would hardly contribute to the new policy financing: such reduction would save only 14M LTL, while the need for financing of asset-based policy would reach approx. 126M LTL during the first year.

The discussion of two other options for financing asset-based policy, i.e., introduction of new taxes or increase of the existing ones should include the analysis of the following options:

- the increase of Personal income tax (hereinafter – PIT) rate by 1 percent (from 15% to 16%);
- the introduction of progressive personal income tax rate;
- the introduction of a real estate tax to be paid by all Lithuanian residents.

The first option would be efficient in fiscal terms: due to the increase of tax rate by 1 percentage point, with other circumstances unchanged (i.e., regardless of the „Laffer curve“ law of tax avoidance upon the increase of the tax rate), the budget would additionally attract about 280M LTL of revenues (recalling that the initial need for financing of the policy would be 126M LTL which would increase to 262M LTL by 2031). Thus, the advantages of this option are obvious: fiscal capacity, easy administration, low probability of tax avoidance. The main shortcoming is the lack of political will to increase the tax, which had been reduced a number of times.

It is quite difficult to evaluate the second option in terms of fiscal performance, because it would depend on specific tax rates and income levels to which they would be applicable. The main drawback of this option is that it would be difficult to determine how much revenues would be attracted by the introduced progressive rate and what part of the funds could then be allocated to the new policy. The key advantage is that the progressive taxation represents the idea of greater social justice; thus, its purposes are close to the objectives of the asset-based policy.

The third option, introduction of a real estate tax to be paid by all Lithuanian residents, is the source of policy financing, which is most frequently mentioned by the supporters of the asset-based welfare concept. It should be noted that Lithuania still has no common tax for real estate owned by the natural persons; though, in 01-01-2012 the amendments of the Law on Real Estate Tax came into effect establishing that the total value of immovable property owned by natural persons which exceeds 1 million LTL would be taxed at the rate of 1%. However, this is a tax of limited scope which levied about 1,600 individuals (families), and its expected revenue was just 17M LTL.

In order to ensure a stronger taxation of more wealthier individuals (i.e., owning more or relatively more expensive real estate), the primary individual's or family's housing is generally granted with certain tax allowances. The following types of allowances can be distinguished:

- total tax exemption for primary housing;
- tax exemption for a certain area of housing;
- tax exemption for a certain value of housing;
- reduction of a tax rate or the amount payable for housing.

In 2010 the Ministry of Finance of Lithuania developed real estate tax base expansion guidelines, which provided all the population's property at a 0.3-1% rate to tax: the first housing, with the taxable value exceeding the tax-exempt amount or with the area exceeding the tax-exempt area, was proposed to be taxed at a minimum rate of 0.3%, and all other property at a rate of 1.0%. Several options for tax allowances were also evaluated (the Ministry of Finance, 2010). A brief summary of the options and expected tax revenues are presented in Table 7.

It may be seen that the first two propositions provide some exemption for the value of housing, the third and fourth propositions provide some value/area exemption, based on the number of housing occupants, and the fifth one provides total tax exemption for the primary housing. It should be noted that the real estate tax revenue forecasts are based on the real estate mass appraisal results on 2010.

It could be stated that the third and fourth propositions are inappropriate because of the overly complex administration and control mechanism (in measuring the number of occupants). The first, second, and fifth propositions are easy to control. The first two propositions provide an individualized non-taxable value for various municipalities taking into consideration differences of housing value levels, while the fifth one is easily

comprehensible to the housing; thus, tax (even more low-value flats, the most expensive pro

Table 7. Cor

No.	Contents of the pr
1	One housing, subje in the most expensi
2	One housing, subje residential house is an option for munic
3	One housing, subject of the housing, ca residence therein
4	One housing, subject who declared the res
6	Total exempt of prin

Source: the Ministry of Fin

It should be not efficient enough to fina real estate tax rates, e.g could significantly conti

Besides, the Sur of the discussed sources PIT rates, or the real revealed that responden the proposed alternative support of the majority compromise, in respect c Table 8 presents options that has already l

Table 8. The adv

Type	Financing sou
reduction of some current budget expenditure	reduction of single paym for a newborn
increase of existing taxes	increase of rate by 1 (from 15% 16%)
increase of existing taxes	introduction of progressive personal income tax rates

comprehensible to the major public. Nevertheless, the fifth option ignores the value of housing; thus, tax (even if minimal) should be paid even by those individuals who have two or more low-value flats, while the most extensive allowance would be granted to residents with the most expensive property.

Table 7. Common real estate tax allowances proposed by the Ministry of Finance

No.	Contents of the proposal	Expected revenue
1	One housing, subjected to a non-taxable amount, close to an average value of a flat in the most expensive zone of a relevant municipality	73M LTL
2	One housing, subjected to a non-taxable amount, close to an average value of a residential house in the most expensive zone of a relevant municipality, providing an option for municipal councils to reduce its value to some extent	55M LTL
3	One housing, subjected to a non-taxable amount, depending on the tax-exempt area of the housing, calculated based on the number of persons who declared the residence therein	50.5M LTL
4	One housing, subjected to a non-taxable area, depending on the number of persons who declared the residence therein	50.5M LTL
6	Total exempt of primary individual's (family) housing from taxes	40M LTL

Source: the Ministry of Finance, 2010 and authorial computation.

It should be noted that none of the above-mentioned real estate tax options is fiscally efficient enough to finance the proposed asset-based policy. However, upon the increase of real estate tax rates, e.g., to 2% (or upon the introduction of a progressive tax rates), this tax could significantly contribute to the new social policy financing.

Besides, the Survey results showed that the population was not likely to approve any of the discussed sources of financing (the increase in PIT rate, the introduction of progressive PIT rates, or the real estate tax for individuals). However, a more detailed analysis has revealed that respondents were heterogeneous (i.e., only 26% of respondents opposed to all the proposed alternatives). Thus, although none of the separately proposed taxes won the support of the majority of the population, the heterogeneity of respondents suggests that the compromise, in respect of a particular tax, might be achieved.

Table 8 presents the advantages and drawbacks of the asset-based policy financing options that has already been discussed.

Table 8. The advantages and drawbacks of the asset-based policy financing sources

Type	Financing source	Advantages	Drawbacks
reduction of some current budget expenditure	reduction of a single payment for a newborn	the pattern (but not the content) of the benefit is similar to the benefits of the asset-based policy; thus, its reduction is meaningful	fiscally inefficient source (14M LTL / year) large disapproval of population (76%)
increase of existing taxes	increase of PIT rate by 1 ppt (from 15% to 16%)	fiscally efficient source (280M LTL / year) would satisfy the total need for financing very simple administration little chance of avoidance the source meets the objectives of the asset-based policy: a part of the current income is saved for the coming generation of young people	lack of political will to increase the fee, which was reduced several times
increase of existing taxes	introduction of progressive personal income tax rates	the content (but not the pattern) of the source of financing is close to the objectives of the asset-based policy (greater social justice)	it would be difficult to determine how much revenue to the budget was attracted with progressive tax rates and how much money could be allocated for financing new policy

Table 8 (continuation). The advantages and drawbacks of the asset-based policy financing sources

introduction of new taxes	introduction of a real estate tax for individuals	the source of the policy financing is most frequently mentioned by supporters of the asset-based welfare	proposals formulated in 2010 are not fiscally effective (40-73M LTL / year)
		favourable situation: Lithuania still has no common real estate tax for individuals	
		upon applying appropriate allowances, wealthier residents would pay more	
		the source meets the objectives of the asset-based policy: past generations' accumulated capital finances the next generation of young people	

Source: authorial computation.

In summary, an increase in PIT rate and the introduction of real estate tax for individuals are the most appropriate options for the asset-based policy financing: both of them meet the objectives of the asset-based policy: to use a part of today's income / past generations' accumulated capital to finance the next generation of young people. They both can be efficient enough in fiscal terms (upon the increase of the PIT rate by 1 ppt or introducing a real estate tax for individuals of 2%), and both of them are relatively easy to administrate (in case of real estate tax, administration could become more challenging, if a number of housing occupants were considered when determining tax allowances). Additional arguments in favour of real estate tax, as the source of financing the asset-based policy, could be the fact that this tax is being discussed for the last few years; thus, its introduction would not be very surprising. In addition, upon applying appropriate allowances (and progressive rates), this tax would be paid only by wealthier residents (i.e., owning more or relatively more expensive real estate).

4. Areas of Investing the Resources of Children's Opportunity Fund

The Functional diagram of the asset-based policy implementation and functioning (Figure 1) shows that the Children's Opportunity Fund would receive all revenues from special children's savings accounts in return for its investment units. Meanwhile, the capital accumulated in the Fund would be allocated for the acquisition of shares, units, or rights of claim of investment objects.

It should be noted that a similar approach is applied in all the reviewed foreign asset-based policy models. For example, suppliers of CSA of the British *Child Trust Fund* programme had to offer standardized products consisting of a diversified stock portfolio and meeting life cycle investment principles. Another option was a savings account, which guaranteed protection of the invested capital and a certain nominal rate of return.

In case of the CSA policy in Lithuania, the following options are proposed for the Children's Opportunity Fund's asset investments:

- investments in Government bonds;
- investment in commercial bonds and shares, investment funds;
- investments in advanced ideas and innovative businesses (funding of the Public Venture Capital Fund).

The first option is an investment of the accumulated resources solely in Government bonds and central banks' securities. An annual return on such investment would likely reach approx. 4-5%, for example, if the investment was made only in the Lithuanian Government securities with a maturity of 3 years and longer, return on such investment would be about 5%.

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(weighted average of the interest rates of Government bonds with maturity of 3 years and over from 2001 to 2012).

It should be noted that the Deposit Insurance Fund, administered by the State Company „Deposit and Investment Insurance”, applies a similar principle. Article 18 of the Law on Insurance of Deposits and Liabilities to Investors states that the resources of Deposit Insurance Fund may be invested „into the securities of the Governments and central banks and into deposits of the Bank of Lithuania”. It should be noted that the Deposit Insurance Fund invests its resources in the Government securities of EU member states only, and the average annual return on these investments was 4% in 2004-2011. Thus, even if a passive investment policy, investment in debt securities, is chosen, the Children's Opportunity Fund might earn 5%, while the investment risk would be minimal.

The second option is investing the Fund's resources in debt and equity securities, investment funds. In this scenario the expected return would be higher; however, the investment risk would increase as well. Nevertheless, in order to add more value not just for a single individual, but for the whole country, the third option should be considered as well: investment of the Fund's resources, or at least a part of them, in advanced ideas and innovative businesses, i.e., for promotion when starting up or innovative businesses or, even, for acquisition of larger innovative national companies (pharmaceutical, laser technology, biotechnology, materials technology, etc.). It would allow to achieve not only the main objective of the asset-based policy, the reduction of income and wealth inequality and at-risk-of-poverty rate, in a way that everybody becomes investor and capital owner, but also an additional task: to increase the level of investment, a faster development of more advanced, high-risk, and more innovative businesses.

Lithuania is characterized by a small amount of accumulated foreign direct investment; besides, a major part of these investments is concentrated in less advanced sectors of the national economy. Accordingly, the country's production efficiency is low, and products are not innovative. Labour productivity in Lithuania is much lower than in many other EU countries. Under current economic conditions, a country, aspiring to win the competition for investment, must be a leader in innovation. However, current assumptions in Lithuania are not suitable for innovative breakthrough, while a situation of innovations is critical: Lithuania is not only attributed to the group of EU countries with the lowest innovation index, but also to the group of states with the slowest index growth rate (Laurinavičius, 2012c).

The real breakthrough in the field of investment and innovation requires an adequate financial infrastructure to be secured by investment funds, which would provide venture capital investments (Laurinavičius An., Laurinavičius, 2011). However, Lithuania has no developed private venture capital fund infrastructure. Lithuania is characterized by risk avoidance (in fear of bankruptcy when starting a start-up, Lithuanians are the first ones across the EU (Innovation Union, 2010)) and collectivism (as well as other Eastern European countries); therefore, venture capital development is slow and will remain slow if there will be no external interference. One way to solve this problem is to develop state venture capital (Laurinavičius An., 2012). However, the main challenge in establishing such a state venture capital fund is the lack of state financing, since the state tends to allocate its limited resources to „fire-fighting”, i.e., to the current social, health, educational policy, etc., rather than to the development of tomorrow's opportunities.

The asset-based policy offers a unique opportunity to establish / finance the fund, which, on one hand, would have sufficient resources to commercialize innovative ideas; thus, making investments in advanced companies and fostering innovative development of the

country, and, on the other hand, would create sustainable conditions for the reduction of social inequality in developing the universal class of investors. Thus, such a „socialized“ investment into the innovative development of the country would be beneficial for the state at the macro-level, while at a micro-level for its every citizen.

Venture capital funds, as a part of the start-ups financing ecosystem, not only provide lacking funds to those businesses, but also promote the growth of the overall national innovation and technological level. Thus, their benefit is fundamental both for private investors, planning to implement innovative but financially risky ideas, and for the whole country: higher value-added production increases the standard of living of every citizen in the long run (Laurinavičius An., Laurinavičius, 2011).

Foreign experience shows that, apart from the above mentioned benefits for start-up businesses and the entire economy of the country, well-managed venture capital funds also bring a substantial benefit to their founders and members. For example, according to the data of 2009, the pioneer of Israeli venture capital funds, *BIRD (Binational Industrial Research and Development Foundation)*, has invested over 250M USD in 780 projects, and the result was 8B USD from direct and indirect sales of its investments. Meanwhile, other Israeli venture capital funds *Yozma*, established in 1992-1997 and having attracted 200M USD of initial investments, according to the data of 2009, possessed a capital of almost 3B USD (Senor, Singer, 2011). Thus, besides the above listed benefits for individual businesses and the entire economy of the country, a state venture capital fund financed by the Children's Opportunities Fund could be also distinguished by social benefits, in particular, by becoming a tool that reduces social inequality.

Summarizing the outlook of the areas of investing the resources of the Children's Opportunity Fund, it can be stated that the lowest-risk investments in Lithuanian (and/or other EU countries') Government securities should ensure an average annual return of 4-5% (this rate of return was applied to the simulation of the asset-based policy results). A higher return would result from a classic investment strategy, i.e., higher-risk investment into commercial debt and equity securities and investments funds. This paper also proposed the third option of investing the Fund's resources, i.e., to invest the Fund's resources or, at least, a part of them in a state venture capital fund. It should be noted that such area of investing funds of the Children's Opportunity Fund – not yet applied in any foreign country – would create a higher value added not just for a single individual, but for the whole country as well. This investment strategy would have a triple effect:

- **On a national level.** The Fund would have sufficient resources to commercialize innovative ideas; thus, promoting innovative development of the country, the growth of technology level, while higher value-added production would increase the standard of living of every citizen in the long run.

- **On a business entity level.** Separate business entities would obtain lacking financial resources: an obvious benefit for private investors, planning to implement advanced, innovative, but financially risky ideas.

- **On a separate individual level.** Well-managed venture capital funds provide a high return to their founders and members, in this case to all youth of the country who would invest in the Children's Opportunity Fund. Thus, it would create sustainable conditions for the reduction of social inequality in developing a universal class of investors, when all the country's citizens become capital owners.

Conclusions

1) In order asset-based policy country's newborns, Government and the the age of majority, make a down payer

2) The main and wealth inequality owner. Other objecti savings, in the birth innovations and inves

3) Summariz model, it can be stat would reach 126 mill. Opportunity Fund's as to 9.2 billion LTL, wh amount invested by th of the policy, investme amount of the accumul opinion of Lithuanian policy.

4) The state n policy: the increase in options meet the object part of capital accum youth. Both of them w introducing the real es administrate.

5) The lowest Government securities Children's Opportunities from a classic investor securities and investmen

6) Another opti or at least a part of them Venture Capital Fund), i acquisition of larger ad Children's Opportunity I create a higher value add

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Conclusions

1) In order to reduce poverty and social inequality, it is proposed to implement the asset-based policy in Lithuania: to open long-term savings-investment accounts for all country's newborns, provided that the initial deposit to such accounts is made by the Government and the funds accumulated therein are allowable to dispose only when reaching the age of majority. These funds would be used to pay for studies, to create a business, to make a down payment for housing, and to pay health care expenditure.

2) The main objective of the asset-based policy should be the reduction of income and wealth inequality and poverty rate, in a way that everybody becomes investor and capital owner. Other objectives should provide an increase in financial education, in the level of savings, in the birth rate, in access to higher education, and an increase in the level of innovations and investment.

3) Summarizing the results of the hypothetical asset-based policy implementation model, it can be stated that the initial annual need of financing for the asset-based policy would reach 126 million LTL and later would increase to 262 million LTL. The Children's Opportunity Fund's asset value (incl. parents' investments) would rise from 126 million LTL to 9.2 billion LTL, while the capital accumulated by the Fund's members would depend on the amount invested by their parents and might reach 10-37 thousand LTL (due to the long-term of the policy, investment gains would amount to 42% -52% of the accumulated capital). Such amount of the accumulated capital would meet the criterion of adequacy, i.e., according to the opinion of Lithuanian population, it would help to achieve objectives set for the asset-based policy.

4) The state might be able to choose from two options for financing the asset-based policy: the increase in the PIT rate and introduction of real estate tax for individuals. Both options meet the objectives of the asset-based policy, i.e., to use a part of current revenue / a part of capital accumulated by previous generations for financing the next generation of youth. Both of them would be feasible in financial terms (increasing the PIT rate by 1 ppt or introducing the real estate tax for individuals of 2%), and both of them are quite easy to administrate.

5) The lowest risk investments in Lithuania's (and/or other EU countries') Government securities should guarantee an average annual return on investment of the Children's Opportunities Fund equal to 4-5%. The higher return on investment would result from a classic investment strategy, i.e., higher-risk investments in commercial debt and equity securities and investment funds.

6) Another option for investing the Fund's resources is to invest the Fund's resources or at least a part of them in advanced ideas and innovative businesses (financing of the Public Venture Capital Fund), i.e., for promotion of start-ups or innovative businesses or, even, for acquisition of larger advanced national companies. Such area of investing funds of the Children's Opportunity Fund has not been applied yet in any other foreign country; it would create a higher value added at the level of a single individual, business entities, and the state.

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TURTU GRĮSTO

Algimantas Laur

Santrauka

Straipsnyje
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į Vaikų galimybių
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valstybės lygmenyje.

REIKŠMINIAI ŽODŽIAI
fondas.

TURTU GRĮSTOS SOCIALINĖS POLITIKOS ĮGYVENDINIMAS LIETUVOJE

Algimantas Laurinavičius, Birutė Galiniene

Santrauka

Straipsnyje pristatomas hipotetinis turtu pagrįstos socialinės politikos įgyvendinimo modelis, taikytinas Lietuvoje, visiems šalies naujagimiams atidarant ilgalaikio taupymo sąskaitas ir jose kaupiamas lėšas nukreipiant į Vaikų galimybių fondą. Pradinį indėlį į tokias sąskaitas turėtų įnešti šalies Vyriausybė, o jose sukauptas lėšas būtų galima panaudoti tik sulaukus pilnametystės. Tokių lėšų panaudojimas būtų skirtas apmokėti studijoms, nuosavo verslo pradžiai, pradinei įmokai už būstą ir sveikatos priežiūros išlaidoms. Straipsnio tyrimai yra paremti reprezentatyvios anketinės gyventojų apklausos rezultatais, aprašytais Laurinavičiaus ir Galinienės (2013), bei turtu grįstos politikos įgyvendinimo modeliu, taikytinu Lietuvoje. Daroma išvada, kad siekiant hipotetinis turtu grįstos politikos įgyvendinimo modelis, taikytinas Lietuvoje. Daroma išvada, kad siekiant sumažinti nelygybę ir skurdą lygi, Lietuvoje turėtų būti įgyvendinta turtu pagrįsta socialinė politika, visiems šalies jaunuoliams tampant investuotojais ir kapitalo savininkais. Vaikų galimybių fondo dalyvio investicinėje sąskaitoje sukauptas kapitalas priklausytų nuo to, kiek jo tėvai investavo. Ji galėtų siekti 10–37 tūkst. Lt. Toks sukaupto kapitalo kiekis atitiktų adekvatumo kriterijų, t.y. Lietuvos gyventojų nuomone, jis leistų įgyvendinti turtu grįstai politikai išskeltus tikslus. Viena iš Fondo lėšų investavimo alternatyvų – dalį Fondo kapitalo investuoti į pažangias idėjas ir pažangius verslus (valstybinio rizikos kapitalo fondo idėja), t.y. skirti pradedančio ar šiuolaikinio verslo skatinimui. Tokia Vaikų galimybių fondo lėšų investavimo kryptis iki šiol nėra pritaikyta nei vienoje užsienio šalyje, ji leistų sukurti daugiau pridėtinės vertės atskiro individo, verslo subjektų ir visos valstybės lygmenyje.

REIKŠMINIAI ŽODŽIAI: turtu pagrįsta politika, skurdo mažinimas, vaikų taupymo sąskaitos, Vaikų galimybių fondas.