

IOPS COUNTRY PROFILE: ESTONIA



DEMOGRAPHICS AND MACROECONOMICS

GDP per capita (USD)	19 000
Population (000s)	1 282
Labour force (000s)	688
Employment rate	82.5
Population over 65 (%)	17.7
Dependency ratio ¹	32

Data from 2010 or latest available year.

1. Ratio of over 65-year-olds / labour force.

Source: OECD, various sources.

ESTONIA: PENSION FUNDS DATA OVERVIEW

Macroeconomic and Demographic Data	2001	2002	2003	2004	2005	2006
Nominal GDP (millions of national currency)	104,459	116,915	127,334	141,493	160,597	200,562
GDP per capita (US \$)	4,405	5,220	6,852	8,414	9,598	12,007
Population (thousands)	1,357	1,348	1,341	1,335	1,330	1,325
Total Labour Force (thousands)	661	653	661	659	660	ND
Employment rate	87.42	89.70	89.98	90.35	92.03	ND
% population over 65	15.30	15.63	16.03	ND	16.44	16.74
Dependency Ratio	31.42	32.28	32.55	ND	33.15	ND
Life expectancy at birth	ND	ND	ND	ND	71.20	ND
	Women	ND	ND	ND	76.90	ND
	Men	ND	ND	ND	65.40	ND
Fertility rate	1.34	1.37	ND	ND	ND	ND

	2001	2002	2003	2004	2005	2006
Assets						
Total investments (National currency millions)	34	236	1,116	2,684	4,655	7,508
Total investments, as a % of GDP	0.03	0.20	0.88	1.90	2.82	3.74
<i>Of which Assets overseas, as a % of Total investment</i>	58.18	123.37	170.82	178.05	173.93	ND
• % Issued by entities located abroad	48.70	49.21	47.14	48.06	48.41	ND
• % Issued in foreign currencies	51.30	50.79	52.86	51.94	51.59	ND
By pension fund type (as a % of Total investments)						
• Pension funds (autonomous)	0.00	0.00	0.00	0.00	0.00	0.00
• Book reserves (non autonomous)	0.00	0.00	0.00	0.00	0.00	0.00
• Pension insurance contracts	0.00	0.00	0.00	0.00	0.00	0.00
• Other financing vehicle	100.00	100.00	100.00	100.00	100.00	100.00
By pension plan type						
• Occupational assets	0.00	0.00	0.00	0.00	0.00	0.00
• % of DB assets	ND	ND	ND	ND	ND	ND
• % of DC (protected and unprotected) assets	ND	ND	ND	ND	ND	ND
• Personal assets	34	15,105	1,116	2,684	4,655	7,508
Structure of Assets (as a % of Total investments)						
Cash and Deposits	32.61	14.85	8.19	4.42	6.04	6.03
Fixed Income	46.57	60.07	55.89	52.49	45.67	41.14
<i>Of which:</i>						
• Bills and Bonds issued by the public and private sector	46.57	60.07	55.89	52.49	45.67	41.14
• Loans	0.00	0.00	0.00	0.00	0.00	0.00
Shares	17.69	11.44	33.51	35.13	16.93	14.81
Land and Buildings	0.00	0.00	0.00	0.97	0.58	0.36
Other Investments	3.14	13.64	2.42	6.99	30.79	37.66
Contributions and Benefits						
Total Contributions, as a % of GDP	ND	ND	ND	ND	ND	ND
• Employer Contributions, as a % of Total contributions	ND	ND	ND	ND	ND	ND
• Employee Contributions, as a % of Total contributions	ND	ND	ND	ND	ND	ND
Total Benefits, as a % of GDP	ND	ND	ND	ND	ND	ND
• % of benefits paid as a Lump sum	ND	ND	ND	ND	ND	ND
• % of benefits paid as a Pension	ND	ND	ND	ND	ND	ND
• % of benefits paid as an Insurance premium payable for allocated insurance contracts	ND	ND	ND	ND	ND	ND
Membership (in thousands of persons)						
Total members	1	210	357	432	481	520
• % of Total active members	100.00	100.00	100.00	100.00	100.00	100.00
• % of Total passive members	0.00	0.00	0.00	0.00	0.00	0.00
• % of Total deferred members	ND	ND	ND	ND	ND	ND
• % of Other beneficiaries	ND	ND	ND	ND	ND	ND
Number of Pension Funds/Plans						
Total number of funds	4	19	21	22	15	15
Total number of plans	ND	ND	ND	ND	ND	ND

Source: OECD, Global Pension Statistics

ND = data not available

NA = data not applicable

ESTONIA: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

The state pension is a contributory PAYG DB system, providing employment-related pensions (or *full pension*) and a flat-rate national pension. The retirement age for full pension benefits is 63 for men and 60 for women, rising to 63 by 2016. To qualify for a full pension, an employee must have a contribution period of at least 15 years. The minimum full pension benefit is equal to the national pension, EEK 1,268.55. There is no maximum limit to full pension benefits. In 2006, the average public old-age pension was EEK 3,136. Full pension benefits are indexed annually, based on the increase of the CPI and the increase in social contribution revenues. Different government coalitions have increased supplementary pension benefits on an ad hoc basis.

The flat-rate national pension amounts to EEK 1,268.55 per month (2006) and is equal to the minimum full pension benefits. It is adjusted annually by Parliament. The retirement age for a national pension is 63. The individual must have resided in Estonia for at least 5 years, not receive pension benefits from another country and fail to qualify for full pension benefits.

FUNDED PENSION SYSTEM

Coverage

Labour market entrants (employees and self-employed) born in or after 1983 must join the scheme. Workers born between 1942 and 1982 can choose whether to remain in the state-run social security system or to join the privately administered scheme. Workers over 60 cannot join the new system. In 2006 the coverage rate was 50.5% of the employed population.

Contributions

Employee contributions amount to 2% of their gross monthly salary, employers contribute 4%, reducing their 20% social pension tax to 16%. The self-employed pay 4% of their declared earnings.

Benefits

Individuals will receive payments from mandatory funded pension when they reach the pensionable age and receive a public pension, provided they have contributed to the privately administered system at least 5 years before the date of retirement. Benefits are paid out as life annuities. Benefit payments from mandatory supplementary pension scheme start in 2009.

Tax treatment

Contributions and investment return are tax exempt, but pension benefits are taxed. The normal income tax rate is used, however, a higher tax threshold is applied to the sum of public and mandatory pension benefits: EEK 5,000 instead of EEK 2,000. In 2007, the income tax rate is 22%, but the law envisages a decrease to 20% in 2009.

Pension fund management companies

Individual accounts under both the mandatory scheme are managed by specialised pension fund managing companies. Members enjoy individual portfolio choice (no restrictions). Pension funds managed by pension companies have no legal personality. Pension fund assets must be held independently from those of the manager.

By the end of 2006, 519,726 people participated in the mandatory funded tier and total assets stood at EEK 7.427bn (0.475bn EUR). On 31 October 2006, progressive funds accounted for 403,595 of total members in the mandatory pension system, balanced funds for 76,616 and conservative funds for 38,544. There were 15 mandatory pension funds in Estonia, managed by 5 pension asset management companies. Pension fund managing companies usually offer two or three types of mandatory pension funds that invest 0% (conservative fund), 25% (balanced fund) or up to 50% (progressive fund) in equities and are obliged to offer at least one conservative fund. Pension fund managing companies may invest in hedge funds (20%), real estate (40%). There is no limit to investment in EEA and OECD countries.

Fees

Members are free to choose their pension fund management company, but they can change mandatory pension fund units or start making contributions to a new pension fund only once a year. No switching fees apply, but unit issue and unit redemption fees do, as does a management fee.

The OECD estimates that the gross replacement rate of the public pension system and the mandatory funded scheme for the average worker is 51.6% (60.9% net). In the future, the replacement ratio from all tiers is expected to remain the same or increase slightly.

VOLUNTARY

PERSONAL PLANS

Coverage

There are no requirements for joining a voluntary fund. The funds themselves may set requirements, for example a minimum monthly contribution.

Contributions

Contribution levels are laid down in the contract between the individual and the fund.

Benefits

The minimum period for participating in a voluntary scheme is 5 years. Members can withdraw the accumulated benefits before retirement, but in that case they forfeit the income tax advantage (*i.e.* income tax must be paid over the total sum). Another restriction is that persons can only redeem voluntary pension fund units two years after the issuance of those same units. Payment of voluntary pension benefits starts at the time agreed upon in the insurance contract or in the agreement concluded with a pension fund, but not before the age of 55. Payment methods are flexible and can range from a single payment to a life-time pension.

Tax treatment

Contributions are deductible from income tax up to 15% of the annual income. Benefits are taxed at 10%, while lifelong annuities are tax-exempt. Investment income is not taxed.

Management companies

Voluntary pension funds are managed by management companies, which are subject to the same regulation as those managing mandatory funds. Voluntary pension funds are less strictly regulated than mandatory funds. There are no maximum limits for equity investments and there are no limits for securities issued by low rating issuers. Limits for investing in securities from one single issuer or real estate are also less strict.

There are currently 15 voluntary pension funds in Estonia. Four pension fund management companies administer voluntary pension funds. At the end of 2006 there were nearly 24,000 people participants (compared to approximately 75,000 persons who had purchased life insurance products). Total market assets amounted to EEK 820.57m in 2006, while total insurance assets were EEK 1.65bn.

POTENTIAL REFORMS

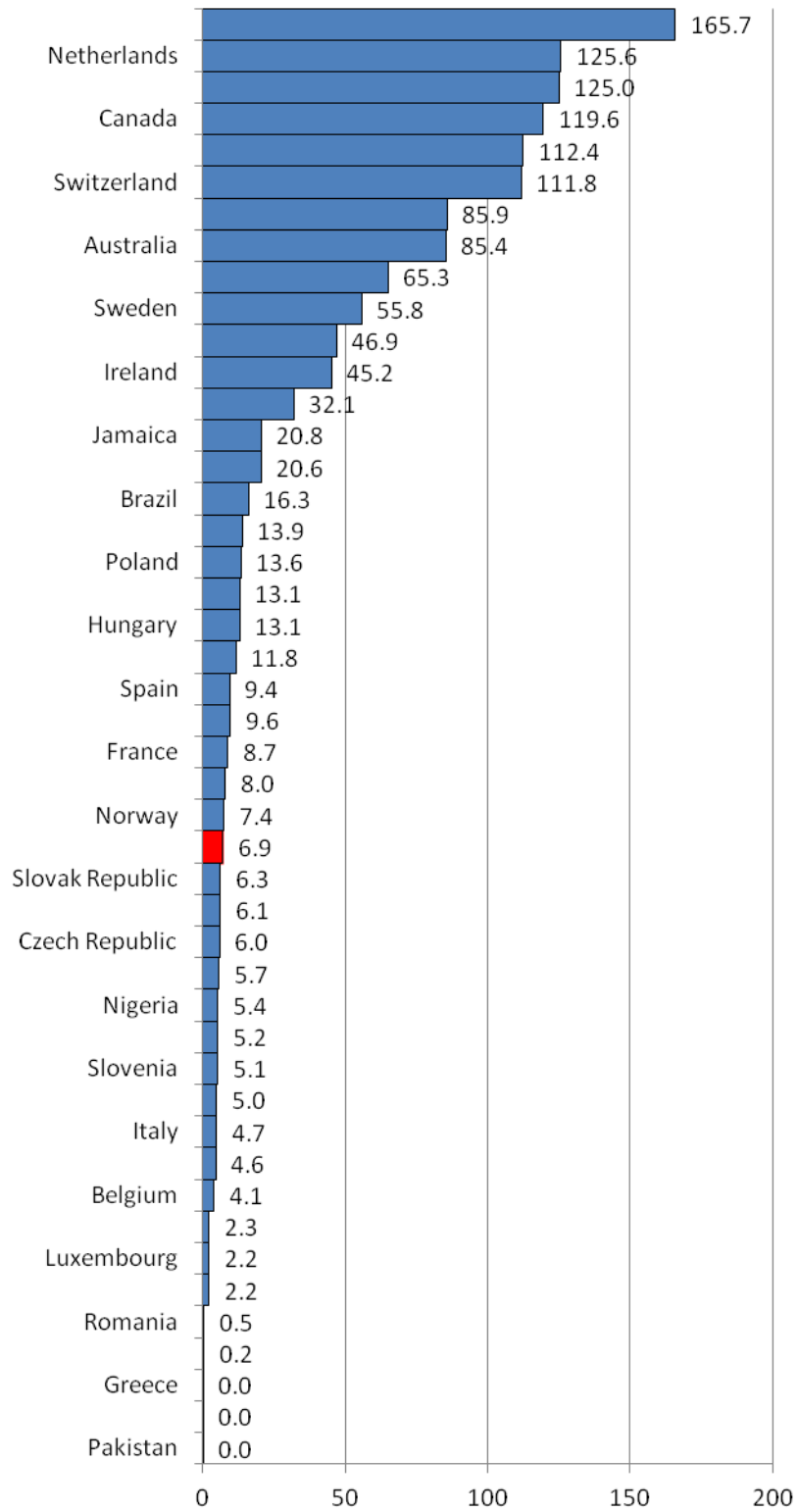
Several international as well as local experts have evaluated pension reform in Estonia as one of the most successful in Europe, stressing the high participation rate. There have been no major amendments in the mandatory personal pension system since its establishment in 2002. The biggest challenge today is to develop procedures and products for benefit payments, which start from 2009. The government considers modifying fee limits, investment restrictions, fund switching and aspects of the default option, but no decisions have been taken yet.

REFERENCE INFORMATION

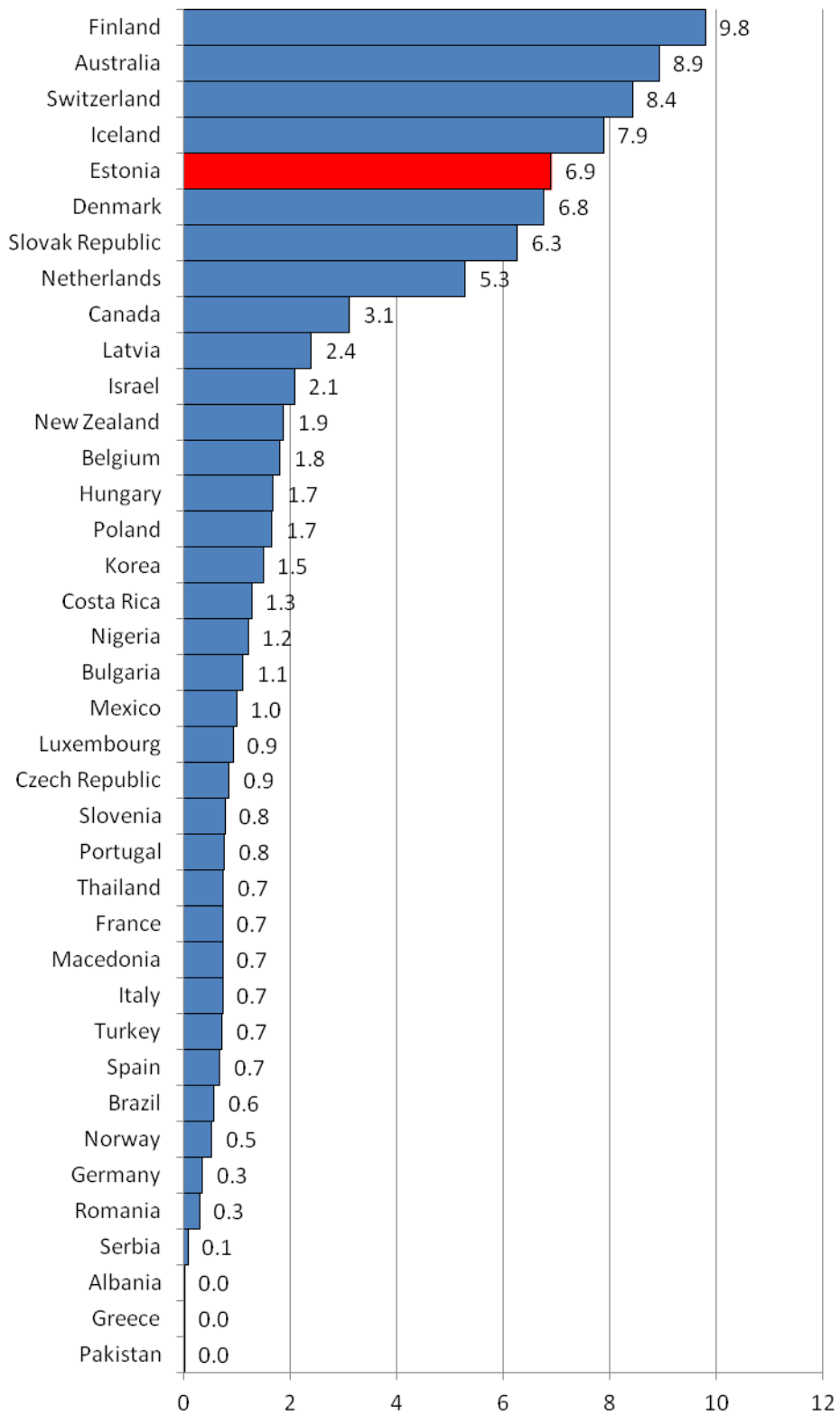
RELEVANT LEGISLATION AND SUPERVISORY AUTHORITY

The Funded Pensions Act and the Investment Funds Act regulate the funded pension system. The Financial Supervision Agency is the supervisor: www.fi.ee.

Pension Fund Assets as a % GDP 2009



Pension contributions as a % GDP, 2009



Pension Benefits as a % GDP, 2009

