

LITHUANIA



DEMOGRAPHICS AND MACROECONOMICS

Nominal GDP (National currency millions)	96,739.7
GDP per capita (USD)	11,308.0
Population (000s)	3,389.9
Labour force (000s)	1,603.1
Employment rate	95.7
Population over 65 (%)	15.6
Dependency ratio	32.9

Data from 2007 or latest available year.
 1. Ratio of over 65-year-olds the labour force.
 Source: OECD, various sources.

COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions

- Public pension system, i.e. old-age pensions
- Social assistance scheme, applicable to those who do not qualify for the old-age pension benefits

Private pensions: occupational (mandatory)

- Individual account: it is partially funded individual account which started in 2004
- Additional pensions saving: additional savings are allowed, and it is set up through special voluntary funds

Source: OECD Global Pension Statistic.

PENSION FUNDS DATA OVERVIEW

LITHUANIA: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

The public pension system is financed by employer and employee contributions, which amount to 23.7% and 2.5% respectively, with minimum earnings for contributions purposes set at 550 litas. To qualify for a full pension an individual must reach the normal retirement age (62.5 for men, 60 for women) and have at least 30 years of contributions to the social security system. Pension benefits are calculated using the basic pension, the length of service and the “insured income level”, which is determined by government decree. A partial pension is available to those with 15 years of contributions, with benefits reduced in proportion to the number of years of contributions less than 30. Early retirement of up to 5 years is possible for persons with at least 30 years of contributions, with benefits reduced by 0.4% for every month the pension is awarded before reaching the normal retirement age. Pensions can be deferred between 1 and 5 years if the person has at least 30 years of contributions, with the pension increased by 8% for each year of deferral. Indexation of earnings-related pensions is done by the government on an ad hoc basis by means of changes to the pension basic pension and the pension calculation formula.

A social assistance scheme provides benefits that are worth 0.9 times the basic pension (266 litas) to those who are aged 62 and 6 months (men) or 60 (women) and do not qualify for old-age pension benefits. The average retirement replacement ratio is currently around 40%¹.

OCCUPATIONAL VOLUNTARY

Since July 2006, it has been possible to set up occupational pension funds, though as of early 2007 no entities offered either type of product. It is envisaged that many aspects of the occupational pension plan, including fee levels, can be negotiated through collective bargaining and laid down in collective agreements.

PERSONAL VOLUNTARY (INDIVIDUAL ACCOUNTS)

Coverage

A partially funded system of individual accounts started operating in 2004. Coverage is voluntary. Anyone who paid social insurance contributions and had not yet reached the normal retirement age could join before 1 December 2003. The decision to join the funded pension pillar was irreversible.

Contributions

A percentage of salaries normally paid to social security is diverted from the State Social Insurance Fund Board (SoDra) to individual pension accounts managed by pension funds and life insurance companies. In the funded system, 28.5% of total social insurance contributions go to the social security pension and 5.5%

¹ Source Hewitt Associates, ‘*International Pension Funds and their Investors 2005/6*’

towards the funded pension system. Employee contributions amount to 2.5% (2007). Employers may pay all or part of employee contributions, for example by virtue of a collective agreement.

Benefits

Participants must reach the public retirement age to acquire the right to pension plan benefits. Pension benefits may be deferred upon request. Benefits are paid out as a life annuity. A lump sum or periodic portions may be paid out, provided that the amount remaining in the participant's account is sufficient to buy an annuity equal to the state social insurance basic pension.

Taxation

Where employers pay employee contributions, they are tax-deductible up to a ceiling. Employer contributions are considered tax-free income for the employee. Pension benefits are subject to income tax. No information is available regarding the taxation of investment income.

Fees

Once switching between management companies becomes possible, the following switching fees will apply: when changing once a year, the transferring fee cannot exceed 0.2% of the assets in the account. If the transferring is more frequent, the fee may increase to 4%. One transfer to a pension fund within the same management company is free of charge. Subsequent changes may incur a fee of up to 0.2% of the value of the account. A management company is not allowed to charge deductions higher than 10% of every contribution to a pension fund and 1% of every pension account per year. No other deductions from participant's assets (contribution and investment fees) are allowed.

PERSONAL VOLUNTARY (ADDITIONAL PENSIONS SAVING)

Coverage

Additional voluntary pension savings are also allowed, through special voluntary funds (in operation since 2004) or life insurances. Life insurance products are tax free for employees. There are no restrictions on joining a voluntary personal pension plan.

Contributions

Contribution levels are laid down in the contract with the provider and are tax free up to 25% of annual taxable income.

Benefits

Benefits are taxed at a lower rate of personal income tax (15% instead of 27%). The tax advantage is lost if the contract is terminated before the participant reaches the retirement age.

MARKET INFORMATION

Personal voluntary (Individual accounts)

Pension funds are established as pension fund management companies. They offer pension plans that are subject to prior approval from the Ministry of Labour and Family Affairs. At least one of the plans offered must be a conservative plan. Participants adhere to a pension plan by concluding an agreement with the pension fund. Collective agreements may also be used. Switching between different management companies is not allowed during the first three years of operations of the system (i.e. until the end of 2007), but switching funds within a management company is allowed. There are no limitations on investment abroad. Most pension funds invest their assets in foreign securities.

According to IPE, early 2007, there were 12 providers in the voluntary funded old-age pension system. Hansa and SEB were absolute market leaders: together they accounted for a 75% market share. It further reported that mid-2006, 56% of all assets on the market was invested in medium-equity funds, 23% in small-equity funds, 15% in conservative funds and less than 2% in the riskiest funds (70-100% equity weighting).

OECD estimates of gross replacement rates from the public and individual account pension together for an average worker are 53.4% (71.3% net).

Personal voluntary (Additional pensions saving)

Early 2007, SEB held an 80% market share of the total of 17,600 participants.

POTENTIAL REFORM

No concrete reforms are currently proposed, though there have recently been calls to increase the contribution level to the funded voluntary system to 10%².

REFERENCE INFORMATION

KEY LEGISLATION

The state pension system is regulated by the Law on State Social Insurance Pensions (1994). The funded pension system is regulated by the Law on Voluntary Supplementary Pension Accumulation (2003). More information about the funded pension system can be found on the website www.pensijusistema.lt. The voluntary occupational pension tier is regulated by the Law on Occupational Pension Accumulation (2006). The Personal Income Tax Law is relevant to both funded pension tiers.

KEY REGULATORY AND SUPERVISORY AUTHORITIES

The state pension system is supervised by the Ministry of Social Security and Labour (www.socmin.lt), while the funded pension system is supervised by the Ministry of Social Security and Labour, the Securities Commission (www.lsc.lt; licensing of management companies, investment rules) and the Insurance Supervisory Commission (www.dpk.lt; life insurance companies).

² IPE.com, 29 March 2007, "Call for further Lithuanian reform"