IOPS COUNTRY PROFILE: LITHUANIA

Demographics and Macroeconomics

Nominal GDP (National currency millions)	**45,113.8**
GDP per capita (USD)	**35,309.0**
Population (000s)	**2,808.9**
Labour force (000s)	**1,464.8**
Employment rate (15-64)	**72.4**
Population over 65 (%)	**19.6**
Dependency ratio[1] (old age)	**30.1**

Data from 2018 or latest available year.

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

Source: OECD, various sources.

LITHUANIA: COUNTRY PENSION DESIGN

Structure of the Pension System

Public pensions

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

Private pensions: individual, quasi-mandatory

- Individual account: it is funded individual account which started in 2004. Since January, 2019 sources of financing: person's private contribution (3% from the person's wage) and the state's contribution (1,5% from the national average wage)
- Additional pensions saving: additional savings are allowed, and it is set up through special voluntary funds

Source: OECD Global Pension Statistic

LITHUANIA: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

The public pension system is financed by employee contribution, which amount to 8.72 %[1], and by State budget. To qualify for a full pension in 2019 an individual must reach the normal retirement age (63 and 10 months for men, 62 and 8 month for women) and have at least 31 years of contributions to the social security system. Pension benefits are calculated using the basic pension, the length of service and acquired pension points and pension point value. 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 31. Early retirement of up to 5 years is possible for persons with at least 31 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 with the pension increased by 8% for each year of deferral. Indexation of basic pension and pension point value is done each year according to the growth of the wage fund in the economy - averaged over the past three years, the current year, and the next three years as per projection.

A social assistance scheme provides benefits equal to the social assistance basis (EUR 132) to those who are aged 63 and 10 months (men) or 62 and 8 months (women) and do not qualify for the old-age pension benefits. If the old-age pension is less than the social assistance basis, a part of social assistance pension is paid.

The average net retirement replacement ratio is currently around 42%[2].

OCCUPATIONAL VOLUNTARY

Since July 2006, it has been possible to set up occupational pension funds, though as of early 2019 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. Since 2019, the auto-enrolment has been implemented for workers under 40 years of age with the right to opt out. Notwithstanding, coverage is voluntary: individuals are responsible to choose to participate or not in the private pension scheme and decide in which particular pension fund he or she should participate. The decision to join the funded pension pillar is irreversible.

Contributions

Since 2019, the second-pillar pension funds were separated from the State Social Insurance Fund Board (SoDra): the state social insurance pension will no longer be reduced. Persons are able to transfer a sum which constitutes 3 percent of their monthly wage, while the state contribute by paying a contribution of 1.5 percent of the national average wage[3]. Employers may pay additional contributions, for example by virtue of a collective agreement.

---

[1] The financing of the general part of social insurance pensions was shifted on general taxes. For this reason, the pension insurance tariff was decreased whilst the income tax was increased.

[2] Source: calculations done by the Ministry of Social Security and Labour of Lithuania.

[3] Those who have not been involved in the pension scheme up until 2019, and those who have been paying the pension contribution, which consists of 2 percent of the contribution paid to the State Social Insurance Fund, will have the opportunity to increase the contribution gradually: beginning with a 1.8 percent contribution 2019, and culminating in 3 percent after five years.

Benefits

Participants must reach the public retirement age to acquire the right to pension plan benefits. Pension benefits may be deferred.

By 2020, the State Social Insurance Fund will become the centralised provider of annuity services. Deferred and standard annuities have been set as the two types thereof, and the mandatory annuity purchase limit has been reduced to EUR 10,000. This means that annuity should be purchased only after accumulating a sum of no less than EUR 10,000. If the accumulated sum is equivalent to, or less than, EUR 3,000, the respective person will be provided with a lump sum. If the accumulated sum is between EUR 3,001 and 10,000, the respective person will be provided with periodic payments (which shall be terminated once all the money has been used up). If the wealth accumulated in the pension fund exceeds EUR 60,000, the respective person shall have the right to receive the excess amount from the pension accumulation company as a lump sum. Standard pension annuity refers to the type of annuity whereby the payment of pension benefits to the person who had purchased the annuity commence immediately and lasts for life.

Deferred pension annuity refers to the type of annuity which is purchased by the participant after reaching retirement age, yet the payment of the pension annuity benefits commence after reaching the age of 85 and last for life. This means that between the ages of 65 and 84 the respective person receives periodic payments from the pension fund, and upon reaching the age of 85 – the deferred pension annuity benefits, which are paid by the State Social Insurance Fund.

Taxation

Pension contributions are paid directly to pension funds by members (employees). Pension contributions are exempt from the personal income tax. The part of pension contributions that exceeded 3 % of the income on which contributions of the state social insurance are calculated may be deducted from member's income taxable by the personal income tax (with the certain restrictions).

Fees

A management company is not allowed to charge deductions higher than 0.8% (2019)[4] of every pension account per year for life-cycle funds and 0.2 % for the asset preservation fund. No other deductions from participant's assets (contribution and investment fees) are allowed.

Also, switching fees between pension funds are applied: the transferring fee cannot exceed 0.05% of the assets in the account.

PERSONAL VOLUNTARY (ADDITIONAL PENSIONS SAVING)

Coverage

Additional voluntary pension savings are also allowed, through special supplementary voluntary pension funds (in operation since 2004) or life insurances. There are no restrictions on joining a voluntary personal pension plan.

Contributions

Pension contributions are considered as expenses incurred by a resident of Lithuania, therefore contributions are exempt from the personal income tax.

There exists a possibility to benefit from incentive. Pension contributions may be deducted from member's income taxable by the personal income tax; however, the total amount of annual contributions to private pension funds, life insurance premiums and payments for certain types of studies shall not exceed EUR 1,500, and the total amount of all deductible expenses (pension contributions, life insurance premiums, payments for studies, payments for childcare service, car repair service and apartment or other building repair / construction service) shall not exceed 25% of an individual's annual taxable income.

Pension contributions paid by an employer to a pension fund are exempt from the personal income tax, if total amount of contributions (pension contributions, life insurance premiums insurance contributions for

[4] 2020 – 0.65 %, 2021 – 0.5 %.

additional (voluntary) health insurance) during the tax period does not exceed 25% of employee's income related to employment.

Benefits

A portion of pension benefits, equal to paid contributions, are tax exempt if a member, who receives benefits, did not benefit from incentive.

Pension benefits are subject to the personal income tax (standard rate of 15% is applied to the annual income amount below 120 average salaries applicable for the calculation of a base of a state social insurance contributions and 20 % tax rate applied to the exceed amount) if a member benefited from incentive and he / she does not comply with conditions defined above.

MARKET INFORMATION

Personal voluntary (Individual accounts)

Pension funds are established by pension fund management companies. Since 2019, the life-cycle concept has been introduced in the system and life-cycle funds and asset preservation funds have been established. The investment risk of life-cycle funds changes with the basis of participants' age. The asset preservation funds are created for the pension savings of those who have reached retirement age.

Participants adhere to a pension plan by concluding an agreement with a pension fund management company regarding participation in the pension fund managed by that company (it is not applicable in case of the auto-enrolment). Switching between different management companies or within pension funds managed by the same management company is allowed. There are no limitations on investments abroad. Most pension funds invest their assets in foreign securities.

According to the Bank of Lithuania, there were 5 pension asset management companies (i.e. providers), which manage 40 pension fund. UAB Swedbank investicijų valdymas and UAB SEB investicijų valdymas were market leaders: together they accounted for a 63% market share (2019 III Q data).

OECD estimates of gross replacement rates from the public and individual account pension together for an average worker are 54% (71% net).

Personal voluntary (Additional pensions saving)

Participants adhere to a pension plan by concluding an agreement with a pension fund management company regarding participation in the pension fund managed by that company. Collective agreements may also be used. Switching between different management companies or within pension funds managed by the same management company is allowed.

According to the Bank of Lithuania (2019 III Q data) there were 3 pension asset management companies (i.e. providers), which manage 12 pension fund. 38% of all assets on the market was invested in mixed investment pension funds, 25% in bond pension funds, 37% in equity pension funds.

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). 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 and the Bank of Lithuania (www.lb.lt).