

# IOPS COUNTRY PROFILE: ESTONIA



## DEMOGRAPHICS AND MACROECONOMICS

GDP per capita (EUR)	21163
Population (000s)	1 328
Labour force (000s)	702
Employment rate	688,4
Population over 65 (%)	20
Dependency ratio <sup>1</sup>	38

Data from 2019 or latest available year.

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

Source: OECD, various sources.

## ESTONIA: COUNTRY PENSION DESIGN

### STRUCTURE OF THE PENSION SYSTEM

#### Public pensions

- The state social insurance PAYG DB system, providing employment-related pensions (or *full pension*) and a flat-rate national pension

#### Private pensions: personal (mandatory)

- Mandatory funded pension system (2nd pillar), based on individual accounts
- Financed from individual contributions of employed and self-employed, collected by the Tax Board and transferred to the Registrar, who purchases units of the pension fund and registers the units in the individual pension accounts
- Pension fund assets are managed and invested collectively by pension management companies

#### Private pensions: personal (voluntary)

- Fully-funded, privately managed pension scheme, based on individual accounts (3rd pillar)

Source: OECD Global Pension Statistic

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## 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 years and 9 months for both men and women (2019). The pension age is increasing gradually to 65 by 2026 for both men and women and thereafter is linked to increases in life expectancy. 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, EUR 205,21. There is no maximum limit to full pension benefits. In 2019, the average public old-age pension was EUR 480. 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 EUR 205,21 per month (2019) and is equal to the minimum full pension benefits. It is adjusted annually by the Parliament. The retirement age for a national pension is 63 and 9 months. 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.

#### *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. Benefits are paid out as life annuities, programmed withdrawals or lump sums. Benefit payments from mandatory supplementary pension scheme started in 2009.

#### *Tax treatment*

Beginning from 1 January 2018 the overall tax-free amount (basic exemption) of up to 6000 euros per year or up to 500 euros per month will be applied on all types of income and the increased basic exemption on pension and compensation for accident at work will not be applied in the future.

In year 2019:

- annual income up to 14 400 euros gives 6000 euros as annual basic exemption

- in case annual income increases from 14 400 euros to 25 200 euros, basic exemption decreases according to the following formula:  $6000 - 6000 \div 10\,800 \times (\text{income amount} - 14\,400)$
- if annual income is above 25 200 euros, basic exemption is 0.

From 2015, the income tax rate is 20%.

### *Pension fund management companies*

Individual accounts under both the mandatory and voluntary pension 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 2019, 746 000 people participated in the mandatory funded tier and total assets stood at 4,75 bn EUR. There were 24 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 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; they can change mandatory pension fund units 3 times per year or start making contributions to a new pension fund every day. No switching fees apply, there is only 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 or maximum 6000 EUR per year. 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 11 voluntary pension funds in Estonia. Four pension fund management companies administer voluntary pension funds. At the end of 2019 there were nearly 44,000 people participants (compared to approximately 50,000 persons who had purchased life insurance products). Total market assets amounted to EUR 200m in 2019, while total insurance assets were EUR 270m.

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## 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 of financial service providers, including Pension Management Companies (PMCs) and life insurance companies: [www.fi.ee](http://www.fi.ee).

Pensionikeskus opens pension accounts for members of the mandatory pension funds system, in which the pension fund units bought by means of contributions are registered. The Pensionikeskus also maintains an account in the Bank of Estonia to which all contributions collected by the Tax Board are transferred and are then used to purchase units of the respective pension funds: [www.pensionikeskus.ee](http://www.pensionikeskus.ee)