ACCRUED-TO-DATE PENSION ENTITLEMENTS IN SOCIAL INSURANCE: FACT SHEET

LITHUANIA

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1. Table 29 column A: Defined contribution schemes (funded, non-general government)

1. General description of the scheme and the calculation model

a. Coverage of the scheme

Quasi-mandatory (2nd pillar) scheme is recorded under column A. Private pension funds are managed by insurance companies and management enterprises. Approximately 90% of labour force take part in this scheme.

The quasi-mandatory private funded pension scheme was introduced on 1 January 2004. The second tier of the statutory pension system is voluntary: employees are free to choose whether or not to opt-in. Opting-out from the scheme once joined is not allowed before retirement (only a single-time possibility of the opting-out due to the change of legislation related to the participation conditions was offered in 2019). The procedure of auto-enrolment to the scheme was introduced in 2019. All the employees below 40 years of age are enrolled with the right to opt-out within a set period (6 months); the auto-enrolment procedure is repeated every 3 years. Older employees can join the scheme voluntarily. There are no other limitations on participation except to be insured under the social insurance pension system and aged below the legal retirement age.

The scheme before the reform of 2019 was a defined contribution scheme financed by a fraction of the social insurance contribution (2% of gross wage), participant's individual salary (2%) and a supplementary contribution paid for the participant out of the state budget (2%). Another option was to transfer only the part (2%) of social insurance contribution. Since 2019, contributions into the statutory funded pension funds comprise 3% of the participant's salary and 1.5% of the national average salary as a supplementary contribution paid for the participant out of the state budget. Employers and employees can voluntarily contribute more than 3%, qualifying for a tax relief.

At the retirement, a participant who accumulated less than 10807 EUR, receives his/her assets as lump sums. In case pensioner accumulates more than 10807 EUR, his/her assets are transferred to The State Social Insurance Fund Board (SODRA), pensioner has an obligation to purchase a pension annuity. Such pension entitlements are recorded in Column D, because SODRA in classified in General Government.

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b. Institutional set-up	
Data sources/ suppliers	Central Bank of Lithuania
Which institution is running/managing the calculations?	Column A is filled by Statistics Lithuania using administrative data received from Central Bank. Surveys are not conducted for this purpose.

2. Any other comments

Voluntary 3rd pillar scheme is not recorded in table 29, as it is not linked with occupation. Both pillar pension funds are covered in financial and non-financial accounts. It is the main reason of inconsistencies with Table 29.

All benefits in Column "A" are recorded as lump-sums. Annuities are not separately measured due to small amounts and the fact that no new annuities are issued by private sector since July, 2020.

2. Table 29 column B: Defined benefit schemes and other non-defined contribution schemes (funded, non-general government)

This type of scheme does not exist in Lithuania.

3. Table 29 column D: Defined contribution schemes (funded, general government)

1. General description of the scheme and the calculation model

a. Coverage of the scheme

In 1st of July, 2020 The State Social Insurance Fund Board under the Ministry of Social Security and Labour (SODRA) became the centralised provider of pension annuity services.

Scheme covers all persons who participated in quasi-mandatory (2nd pillar) scheme (column A), accumulated more than 10807 EUR, and became pensioners. Their assets were transferred from private pension funds to SODRA. Participants had an obligation to purchase a pension annuity from SODRA.

b. Institutional set-up	
Data sources/	SODRA
suppliers	
Which institution is	SODRA provides financial information. Statistics Lithuania fill the table.
running/managing the	
calculations?	

2. Any other comments

Pension Annuity Fund, managed by actuaries of SODRA, is fully funded. Its assets are invested, accumulated positive returns are later shared with pension receivers.

4. Table 29 column E: Defined benefit schemes (funded, for general government employees, classified in financial corporations)

This type of scheme does not exist in Lithuania.

5. Table 29 column F: Defined benefit schemes (funded, for general government employees, classified in general government)

This type of scheme does not exist in Lithuania.

6. Table 29 column G: Defined benefit schemes (unfunded, for general government employees, classified in general government)

1. General description of the scheme and the calculation model

a. Coverage of the scheme

The state pension system functions independently from the social insurance pension system. The so-called state pensions system evolved after the 1995 pension reform, which tried to clear up the pension system from the privileges such as double counting of the pensionable record for victims of occupation and war or early retirement for mothers of large families and others. All these special provisions were moved to the separate pension system financed from the state budget and not based on any type of contributions. The state pensions are awarded to the persons with distinguished achievements for the state (1st and 2nd degree), officials and military servants, judges, scientists and for victims and deprived persons, mothers of large families. Some of them are earnings-related (e.g. officials and military servants state pensions and judges' state pensions) some are calculated on the special state pension's basis (e.g. 1st and 2nd degree, scientists, mothers and pensions of deprived persons). Since 2014 state pensions are also paid to mothers that have birthed 5 or more children (previously – 7 or more children).

State pensions are awarded irrespective of the eligibility to social insurance pensions and may be paid out along with them. The state pension system is financed directly from the state budget. About 11% of pensioners receive this type of pension.

This column covers old age and survivors' pensions.

This column covers old age and survivors pensions.		
b. Institutional set-up		
Data sources/ suppliers	The Ministry of Social security and Labour provides year by year projection of pension benefits by kind of pensions, age of beneficiaries, and gender. Population projections published by Eurostat and data compiled by Statistics Lithuania: ESA 2010 Table 9 on taxes and social security contributions are used in calculation model. Surveys are not conducted for this purpose.	
Which institution is running/managing the calculations?	Pension benefit projections are modelled by Ministry of Social Security and Labour of Lithuania. Statistics Lithuania is responsible for all further calculations necessary to measure pension entitlements and fill the table 29.	
c. Major formulas: Benefi	it formula; Indexation of benefits	
Benefit formula	Some of pensions are earnings-related (e.g. officials and military servants state pensions and judges' state pensions are based on their average salary received during last five years of their career. Persons who worked their job less than five years do not receive this type of pension. Possibility to receive this type of pension is based on estimation of the past trends), some are calculated on the special state pension's basis, which is defined by Government (e.g. 1st and 2nd degree, scientists, mothers, and pensions of deprived persons).	
Indexation of benefits	Indexation of earnings-related state pensions is fully aligned to nominal wage growth for new pensions. Non-earnings-related state pensions are not indexed.	

d. Type and structure of the calculation model

Lithuanian calculation model is based on Aging Working Group (AWG) pension projections modelled by Ministry of Social Security and Labour. These projections provide sex-specific, age-specific, and year-specific pension expenditure data.

Expenditure projections are discounted using recommended discount rates to measure accrued-to-date pension entitlements.

Calculation model was created by native specialists of Mathematics and informatics together with specialists of Statistics Lithuania.

2. Assumptions and methodologies applied

a. Discount rate

Recommended discount rate at 2% in real terms and 4% in nominal terms is used for base case. ±1% rates are used for sensitivity analysis.

b. Wage growth

During the projection period the insurable income is indexed to nominal wage growth.

c. Valuation method: ABO/PBO

PBO

3. Data used to run the model

a. Mortality tables

Eurostat's most recent population projections are used for demographic assumptions.

b. Entitlement statistics; other relevant statistics

4. Reforms incorporated in the model

All legislated reforms are incorporated in the model.

5. Specific assumptions

a. How are careers modelled?

Careers are modelled according to country-specific factors such as shifts in retirement age, maternity leave, unemployment rates in the past, etc.

b. How are survivor pensions calculated?

Survivors of state pension receiver can get a survivor's pension. Widows (-ers) can get 20% of the deceased state pension. And every orphan can get up to 30% of the pension.

c. How is the retirement age modelled over time?

According to recent reform, retirement age is being increased annually by 4 months for women and by 2 months for men until it reaches the age of 65 for both genders in 2026.

d. Other specific features of the model

6. Any other comments

Impacts of recent reforms and other actuarial changes are recorded together in row 7. It is currently not possible to record these values separately. Most of the change belongs to the recent pension reforms. Impact due to change of other actuarial assumptions (such as net migration) is low.

7. Table 29 column H: Social security pension schemes (unfunded)

1. General description of the scheme and the calculation model

a. Coverage of the scheme

The Social insurance pension scheme in Lithuania is universal; it covers all employed workers regardless of the type of employment. It was reformed in 1995 by introducing the insurance principle, extending the career requirement for full coverage, abolishing early retirement provisions and increasing the retirement age. It includes old-age, disability and widow(er)s/orphans social insurance pensions.

Until tax reform in 2019, this pension scheme was financed out of such contributions: 23.3% of gross wage used to be paid by the employer and 3% by the employee. Since 2019 all contributions are paid by employee. Self-employed people also have an obligation to insure themselves.

There are several population groups which contributions for the full pension calculated on minimum wage are covered by means of state budget, namely persons taking care of children under three years or of disabled persons, individuals having the status of an artist.

b. Institutional set-up	Institutional set-up	
Data sources/ suppliers	The Ministry of Social security and Labour provides year by year projection of	
	pension benefits by kind of pensions, age of beneficiaries, and gender. Data on	
	payments of pension benefits are obtained from State Social Insurance Fund Board.	

	Population projections published by Eurostat and data compiled by Statistics
	Lithuania: ESA 2010 Table 9 on taxes and social security contributions are used in
	calculation model.
	Surveys are not conducted for this purpose.
Which institution is	Pension benefit projections are modelled by Ministry of Social Security and Labour of
running/managing the	Lithuania. Statistics Lithuania is responsible for all further calculations necessary to
calculations?	measure pension entitlements and fill the table 29.
c. Major formulas: Benef	fit formula; Indexation of benefits
Benefit formula	The overall pension consists of two parts: (i) a flat-rate basic pension (also called general part of pension), and (ii) earnings-related part of pension (also called individual part of pension).
	(i) Basic pension:
	The basic pension is a flat-rate contributory benefit. The full amount is paid for those with the obligatory years of contributions, with a proportionally reduced benefit available for people with shorter contribution histories.
	According to the 2016 reform (applicable since 2018), a change in the calculation of the basic pension was implemented for all initial pensioners. The change increased the general part for pensioners with service years exceeding 30, but did not have any impact for others. Under the new rules, every additional year of contributions raises the general pension component by around $1/30 = 0.33\%$ (if eligible retirement age was reached before 2018). This value will decline to $1/35 = 0.29\%$ by 2027.
	 General part of pension = β × B β – ratio of persons' insurance period to qualifying insurance period for full pension; B = Basic pension amount (198,29 EUR in 2021).
	The requirement of insurance period for full pension will gradually rise from 30 in 2017 to reach 35 years by 2027.
	(ii) Earnings-related pension:
	The new pension formula defines pension points as the ratio of a person's past social insurance contributions and the average contributions paid in the economy. This should lead to a slower and more transparent accrual of entitlements in the future. The new formula for the calculation of the earnings-related (called individual) part is:
	FDD. Www
	ERP = V × p
	where:
	 ERP – individual part of pension; V – pension points, acquired throughout the whole working career; p – pension point value.
Indexation of benefits	A new indexation mechanism applies since 1 January 2018. The new rule couples' pensions with the wage sum in the economy, i.e. the product of average wages and total employment in full-time equivalents. Both the basic pension amount and the pension point value are annually adjusted by the growth of the total wage bill in the economy, averaged over the past three years, the current year, and three forecasted years.
	and three forecasted years. As a result, the change in the average pension is directly linked to the sum of contributions paid, hence accounting for the projected workforce decline.

d. Type and structure of the calculation model

Lithuanian calculation model is based on Aging Working Group (AWG) pension projections modelled by Ministry of Social Security and Labour. These projections provide sex-specific, age-specific, and year-specific pension expenditure data.

Expenditure projections are discounted using recommended discount rates to measure accrued-to-date pension entitlements.

Calculation model was created by native specialists of Mathematics and informatics together with specialists of Statistics Lithuania.

2. Assumptions and methodologies applied

a. Discount rate

Recommended discount rate at 2% in real terms and 4% in nominal terms is used for base case. $\pm 1\%$ rates are used for sensitivity analysis.

b. Wage growth

During the projection period the insurable income is indexed to nominal wage growth.

c. Valuation method: ABO/PBO

PBO

3. Data used to run the model

a. Mortality tables

Eurostat's most recent population projections are used for demographic assumptions.

b. Entitlement statistics; other relevant statistics

4. Reforms incorporated in the model

All legislated reforms are incorporated in the model.

The requirement of insurance period for full pension will gradually rise from 30 in 2017 to reach 35 years by 2027 (in line with the legislated rise in the statutory retirement age).

The reform included in the projections was 2018 amendments in the social insurance pension system. The main components of this reform are the automatic indexation of pensions to the overall wage sum, the switch from DB to point system, the change of calculation of the general part of pension, the increase of eligibility requirements for the "full" general pension component from 30 years in 2017 to 35 years by 2027. Those measures were reflected in the 2018 Ageing Report. But after the implementation of the reform, mainly the recalculation of all pensions in 2018 and 2019 there were additional effects (not reflected in the 2018 Ageing Report, but included in the projections now) that increased the number of old-age pensioners and average pension comparing to pure formula effect:

- The service years before 2018 were incorporated more precisely (all factual values of service years were automatically taken). Before the 2018 Law, a pension was subject to recalculation exclusively after the request of a working pensioner and only full years of service were considered.
- A more favourable calculation of old-age pension for the formerly disabled. The years spent in disability now are treated as normal service years when calculating the general pension. This had an impact on the starting position of the projections comparing to previous 2018 Ageing Report projections. There was a big shift in 2019 (there was an automatic recalculation for the old-age disabled) from disability to old-age as the recalculated pensions according to the old-age pension formula was higher. The starting position of the projection shows this shift in the increased number of old-age pensioners and the decreased number of old-age disability pensioners. Only the most severe disability groups will not shift to the old-age scheme as the disability formula is more favourable for them.

5. Specific assumptions

a. How are careers modelled?

Careers are modelled according to country-specific factors such as shifts in retirement age, maternity leave, unemployment rates in the past, etc.

b. How are survivor pensions calculated?

Family members of a deceased insured person are entitled to the survivor's pensions. The widow(er) pensions were reformed in 2007. Only widow(er)s of retirement age or disabled are eligible; the pensions are flat-rate (EUR 28,63 in 2021) and are paid as a supplement to the main old-age or disability pension. Orphan benefits are linked to the pension amount of the deceased (50% of the latter's pension). The orphans' pension can be paid till age of 24 if orphan is studying full-time. In case of several orphans in the family the sum of their pension is not more than 100% amount of pension of the diseased. All survivor pensions are indexed by the same index as old-age pensions since 2018.

c. How is the retirement age modelled over time?

Statutory retirement age in 2021 is 64 years plus 2 months for men and 63 years plus 4 months for women. The retirement age is being increased annually by 4 months for women and by 2 months for men until it reaches the age of 65 for both genders in 2026.

d. Other specific features of the model

6. Any other comments

Impacts of recent reforms and other actuarial changes are recorded together in row 7. It is currently not possible to record these values separately. Most of the change belongs to the recent pension reforms. Impact due to change of other actuarial assumptions (such as net migration) is low.

The sharp increase in old-age pension expenditure in 2020 is caused by the high indexation coefficient resulting from very high growth of wage sum in the last years with ad hoc additional increase of basic pension index.

8. Table 29 column K: Entitlements of non-resident households

Counterpart data for resident and non-resident households are not shown separately because pension relationships with the rest of the world are not significant.

9. Links to (national) publications providing further information on the pension schemes

Pension system in Lithuania: https://socmin.lrv.lt/en/activities/social-insurance-1

Retirement age table: https://www.sodra.lt/en/retirement-age-table

Number of members in 2nd pillar scheme by year: https://osp.stat.gov.lt/statistiniu-rodikliu-analize?hash=77e0e829-466f-40d9-92a0-6c717b57fe16

Information about pension annuities: https://www.sodra.lt/en/benefits/information-for-residents/supplementary-accumulated-pension/pension-annuity-payment