



Support to the State Social Protection Fund on the introduction of funded element within the insurance-pension system, establishment of non-state pension funds and development of legal framework for regulating their activity
Twinning Project AZ/13/ENP/SO/24



ANNEX 84

Pension system of Latvia Experience and practice

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Gesellschaft für
Versicherungswissenschaft
und -gestaltung e.V.



Persons covered by compulsory social insurance

All employed and self-employed persons, at the age of at least 15 are subject to social insurance

Contribution rate

- total – 34.09%
- for employer – 23.59%
- for employee – 10.50%

earmarked for the public old-age pensions: 20% of wage

Pension System

1st pillar: Notional defined contribution pension scheme – NDC PAYG (since 1st January 1996)

2nd pillar: State mandatory funded pension scheme – FDC (since 1st July 2001)

3rd pillar: Voluntary private pension scheme (since 1st July 1998)

«Health Formula» for Pensions

Stable, sustainable growth of economy and business development

Public **trust** to long term savings, individual responsibility for retirement planning and savings needs

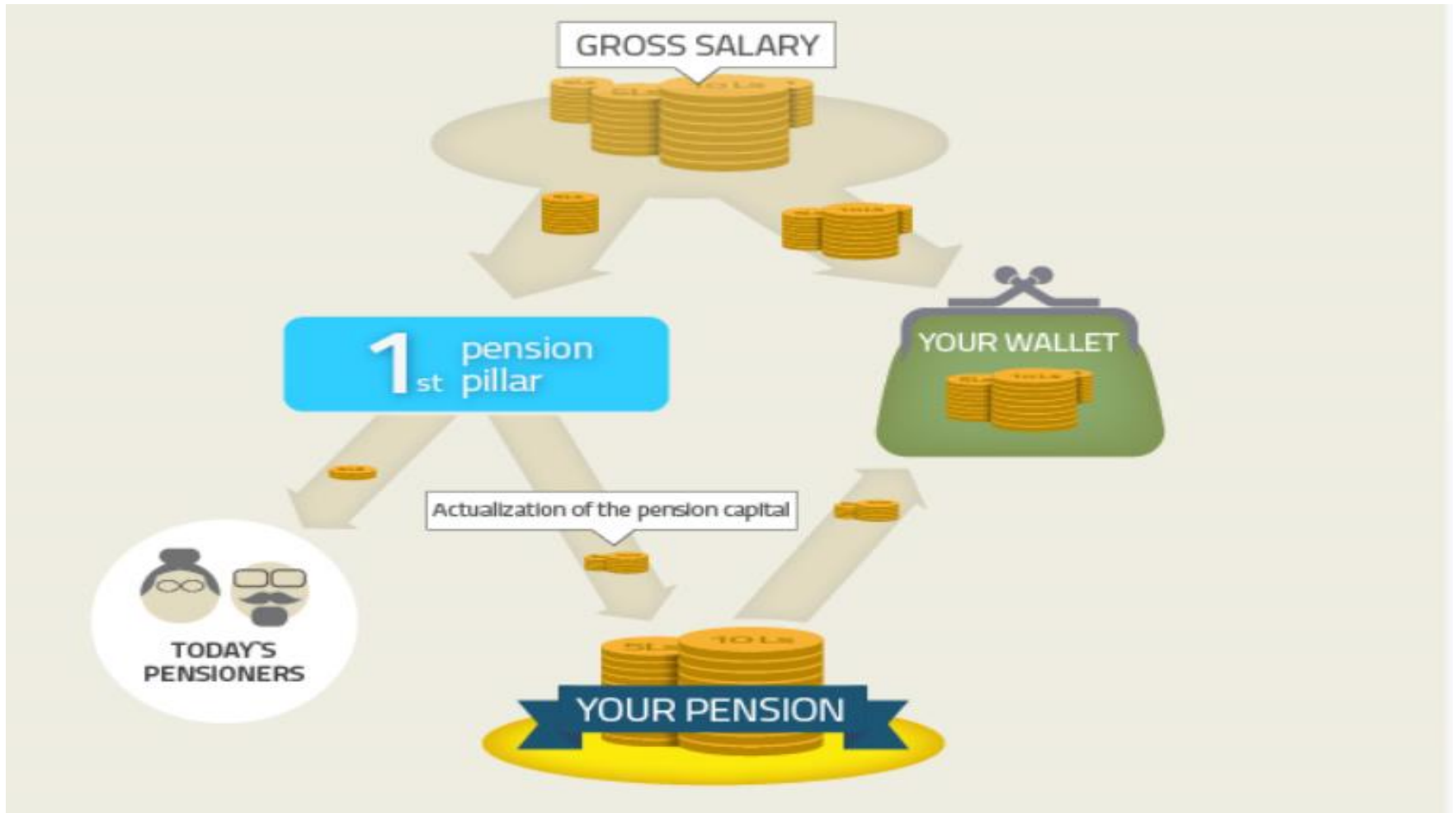
State support and public **awareness** about pension system, public **education** and debates

Legalization of Personal and Corporate Income (diminish shadow economy)

Wealthy inhabitants

Developed, **stable** and predictable **financial markets** (instruments, market participants – issuers and investors, intermediaries, consultants etc.)

1st Pension Pillar



Basic principles

PAYG

Based on contribution made

Long transitional period

Conditions for the entitlements

Retirement age increases (for both sexes) – from 62 years 3 month in 2014 until 65 years in 2025

An early retirement - 2 years before the statutory retirement age (increases until 2025 - 60 years 3 month in 2014)

Minimum savings period – 15 years (20 years from 2025)

Replacement

Insurance record until 1996 (in transitional period)

Pension capital is accumulated during working life

Indexation of pension capital

Life expectancy after retirement

Minimum pension

Special supplement

Indexation (inflation/wage index)

Possibility to receive pension in working period

Pensions are subject to taxation (except granted before 1996)

Figures (2013)

Actual retirement age – 61.5

Early retirement - 16.5% from newly granted

Minimum pension – 15.5% from newly granted

Replacement rate for newly granted pensions – 37.1%

Expenditure for old age pensions from GDP – 6.9%

2nd Pension Pillar



Basic principles

Based on redistribution of contribution

Contribution rate - 4% in 2014 (5% in 2015, 6% from 2016)

Participation - mandatory (voluntary during a transition period until 2034)

Private management

Individual flexibility

Life annuity or PAYG pension

Figures (2013)

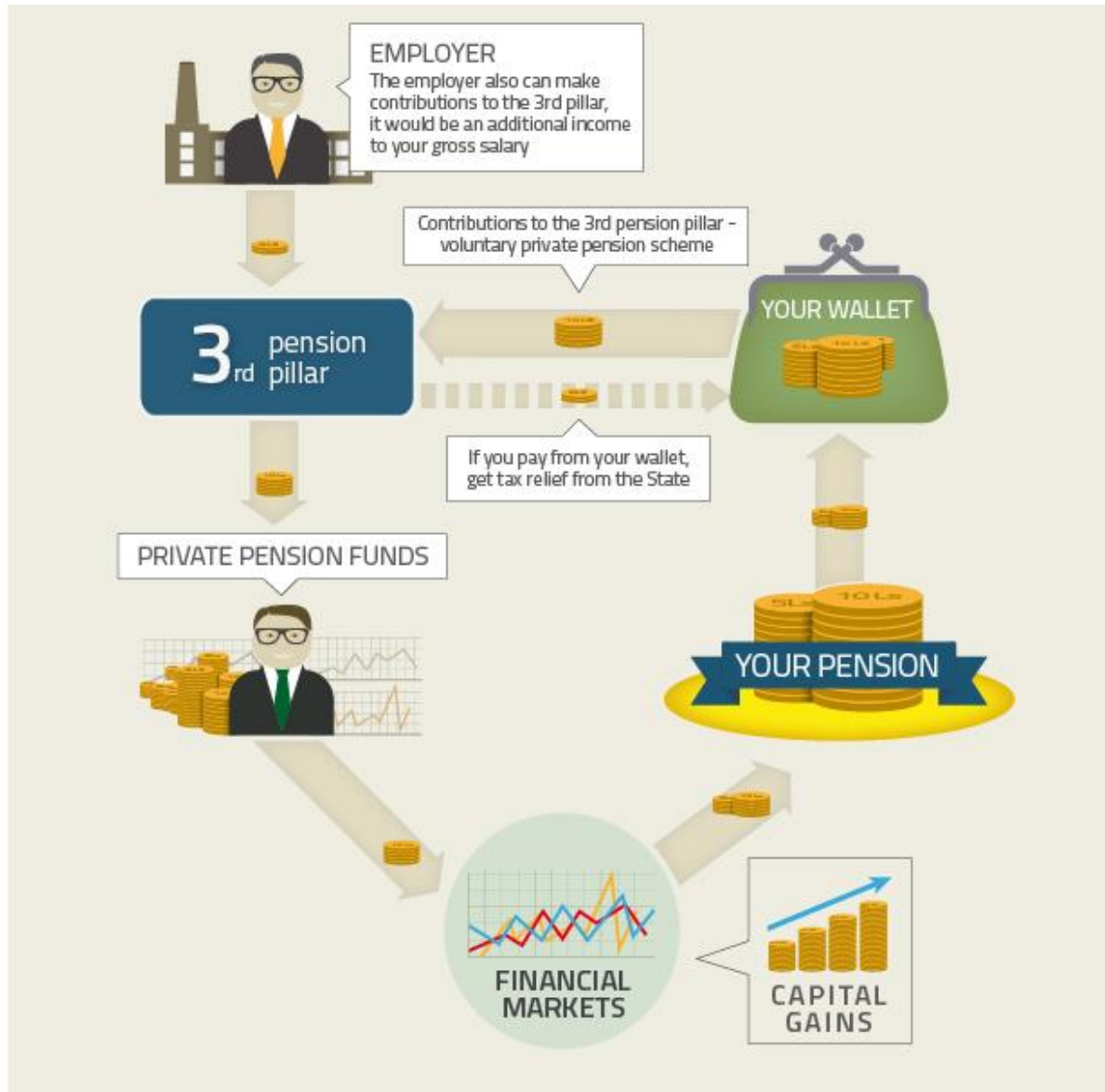
Coverage- about 89% (2013) of economically active population

Assets – 7,2% (2013) of GDP

No guaranteed rate of return

Actual rate of return in last 10 years: + 4.3%

3rd Pension Pillar



Basic principles

Voluntary contributions made by the employer or individual

Private management

Types of funds - Open/Closed-ended private pension funds

Minimum retirement age – 55

Capital is inheritable or transferable to beneficiary

Tax incentives for both – employers and individuals

No guaranteed rate of return – DC scheme

Figures (2013)

Coverage over 22.4% of economically active population (2013)

Actual rate of return in last 10 years:
+4.04%

Assets – 1% of GDP (2013)

Assessment of the operation of the pension system

Financially stable in the long term

- *The Pension Sustainability Index by the German company Allianz Global Investors has ranked Latvia's pension system 9th best in the world*

Less dependent from demographical situation

Based on **individual responsibility** as well as on corporate participation (develops labor market)

Develops **long term savings** in economy

Stimulates development of **domestic financial institutions/infrastructure** and financial instruments market

Self steaming instrument – long term savings can be invested in economy (public & private partnership) to support economical growth and wealth

Projected gross pension spending (% of GDP)

	Level		Change	
	2005	2010	2010-2020	2010-2060
Gross public pension expenditures				
AR 2012 *	6,1	9,7	-2,5	-3,8
Gross private mandatory pension expenditures				
AR 2012 *	-	-	+0,1	+2,9

* European Commission The 2012 Ageing Report

Still few challenges of the pension system

Shadows economy, low average salary and poverty risks in future

Education of society, pensions awareness

Consumer protection issues on financial instruments, DC schemes without guaranties, cost structure

Information access on individual pension savings, pension forecast tools and consultancy needs

Increase **responsibility** on Individual participation

Consistency and **sustainability** of tax legislation

Trust issues for government and financial institutions