

# Latvia

## Latvia: Pension system in 2016

The new system combines an earnings-related public scheme, based on notional accounts, with mandatory contributions to funded pensions. There is also a safety-net pension.

## Key indicators: Latvia

		Latvia	OECD
Average worker earnings (AW)	EUR	10 173	34 803
	USD	10 705	36 622
Public pension spending	% of GDP	7.5	8.2
Life expectancy	at birth	74.6	80.9
	at age 65	16.3	19.7
Population over age 65	% of working- age population	31.5	27.9

StatLink  <http://dx.doi.org/10.1787/888933635750>

## Qualifying conditions

Women and men who have reached the age of 62.9 and who have an insurance record of no less than 15 years are entitled to an old age pension.

From 1 January 2014 the retirement age has been increasing by three months every year - until 1 January 2025 when it will reach 65 years.

From 1 January 2014 the minimum insurance period is also increased up to 15 years and starting from 2025 - up to 20 years.

## Benefit calculation

### Earnings-related

The new pension system is based on ‘notional accounts’. The pension value is the sum of notional capital at retirement (contributions uprated in line with the covered wage bill) divided by the ‘G-value’ (calculated annually using projected life expectancy at retirement age with a unisex life table).

In accordance with the last changes in pension legislation indexation from 2014 is consumer price index (CPI) plus 25% of wage sum growth. Also a ceiling of indexed part of pension’s amount is defined. In 2016 the amount of pensions up to which indexation is applied was changed and a new index introduced; pension or it’s part not exceeding EUR 332 with an index of 1.0186.

The contribution rate to the notional accounts will reach 14% from 2016. In the interim, the rate is higher so that the defined contribution (see below) plus notional accounts contributions total 20% of earnings.

### Targeted

The guaranteed minimum old age pension depends on the state social security benefit, which was EUR 64.03 per month in 2016. The value of this pension varies with the length of service in the pension insurance system:

Years of service:	<20	20-30	30-40	>41
Multiple of minimum pension:	1.1	1.3	1.5	1.7

### ***Defined contribution***

People under age 30 on the 1 July 2001 must contribute to a new funded scheme. Those aged between 30 and 49 on the 1 July 2001 choose between remaining in the public, pay-as-you-go system alone or belonging to both the public and the funded scheme. The proportion of earnings diverted into the funded scheme is 6%.

At retirement, the accumulated capital must be converted to an income. Firstly, add the balance of the fund to the notional capital built up under the pay-as-you-go system and so get a benefit dependent on the *g*-value. Secondly, buy a whole-life annuity from a life-assurance company (without restriction on, *e.g.*, indexation or provision of survivors' benefits).

### **Variant careers**

#### ***Childcare***

The state covers social insurance contribution payments on behalf of persons who take care of a child who has not reached one and a half years of age (the person concerned may choose the length of leave selecting between 1 year and 1.5 years).

#### ***Unemployment***

The state covers social insurance contribution payments on behalf of recipients of unemployment insurance and on behalf of unemployed disabled persons. The credit is based on the value of unemployment benefit.

#### ***Early retirement***

Person can request premature pension two years before reaching retirement age, if the insurance period is not less than 30 years.

#### ***Late retirement***

It is possible to defer pension after the standard retirement age. Amount of pension is higher if the person will require old age pension after the standard retirement age.

### **Personal income tax and social security contributions**

#### ***Taxation of pensioners***

Pensions granted in conformity with the law “On State Pensions” before 1 January 1996 are not subject to taxation. For persons to whom a pension is granted or recalculated after 1 January 1996 in conformity with the law “On State Pensions” a taxable minimum is LVL 1980 per year.

#### ***Taxation of pension income***

There is a flat rate tax of 24% on all income above a threshold in 2013. Pensions granted before 1996 are not subject to taxation. Pensions granted or recalculated from 1996 onwards are subject to taxation.

In 2016 the flat rate tax of 23% is levied on all income above threshold.

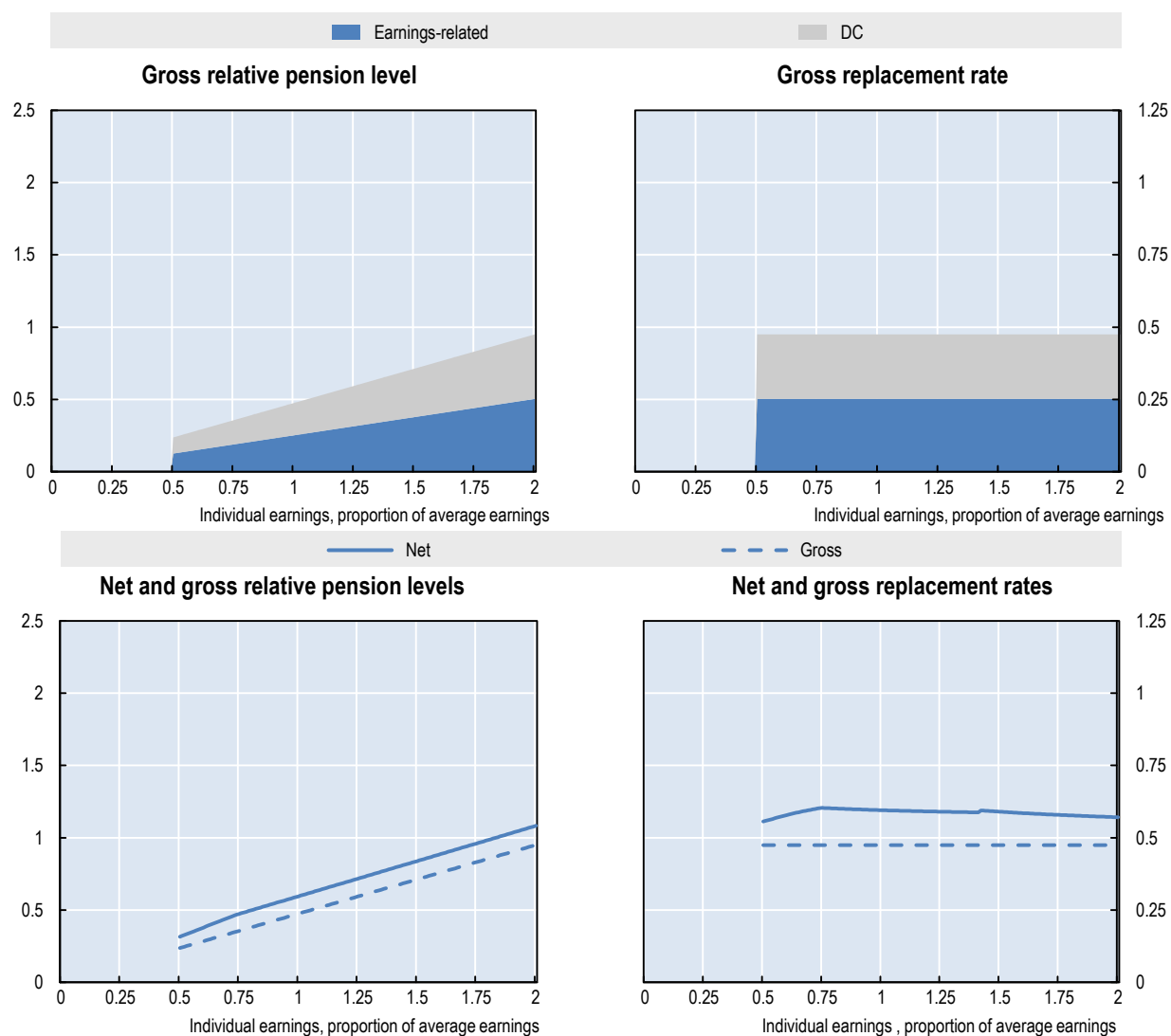
#### ***Social security contributions paid by pensioners***

If the employee has reached an age that entitles them to receive an old age pension, the social insurance contribution rate in 2016 is 28.75% (employee 8.85% and employer 19.90%)

Social security contributions paid are income-tax deductible.

The employees who have reached an age that entitles them to receive an old age pension make social insurance contribution payments against pension insurance, employment injuries and occupational diseases insurance, maternity and sickness insurance, parental insurance and do not make social insurance contributions against invalidity insurance and unemployment insurance. Non-working pensioners do not pay any social security contributions.

## Pension modelling results: Latvia in 2061 retirement at age 65



Men Women (where different)	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	3
Gross relative pension level (% average gross earnings)	23.8	35.6	47.5	71.3	95.0	142.5
Net relative pension level (% net average earnings)	31.6	47.4	59.5	83.9	108.2	156.9
Gross replacement rate (% individual gross earnings)	47.5	47.5	47.5	47.5	47.5	47.5
Net replacement rate (% individual net earnings)	55.7	60.3	59.5	59.0	57.1	55.7
Gross pension wealth (multiple of individual gross earnings)	7.3	7.3	7.3	7.3	7.3	7.3
Net pension wealth (multiple of individual net earnings)	8.5	9.3	9.1	9.1	8.8	8.6

Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equal 90%. Labour market entry occurs at age 20 in 2016. Tax system latest available: 2015.

StatLink  <http://dx.doi.org/10.1787/888933635769>