Estonia

Estonia: Pension system in 2016

The system combines an earnings-related public scheme with mandatory contributions to funded pensions. There is also a flat-rate, basic element and a safety-net, national pension.

Key indicators: Estonia

		Estonia	OECD
Average worker earnings (AW)	EUR	13 640	34 803
	USD	14 352	36 622
Public pension spending	% of GDP	6.4	8.2
Life expectancy	at birth	77.5	80.9
	at age 65	18.0	19.7
Population over age 65	% of working- age population	31.0	27.9

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Qualifying conditions

In 2016 the pension age of men and women equalised and reached 63 for both sexes. The pension age will further increase gradually to 65 by 2026 for both men and women. In 2017 the pension age is 63 years 3 months. The qualification period is at least 15 years of pensionable service.

Benefit calculation

Basic

The flat-rate base amount was EUR 160.90 per month in April 2017 and is only payable along with an earnings-related pension.

Earnings-related

The earnings-related or so-called insurance component of old-age pensions is calculated based on the amount of contributions paid on an individual's behalf relative to the average contribution paid. The accumulation of the insurance components at retirement is multiplied by the value of one year of pensionable service to calculate pension entitlements. The value of a year of pensionable service was EUR 5.77 in April 2017**.**

There is no ceiling to earnings for contribution or benefit purposes.

Pensions in payment are indexed each April to 20% consumer prices and 80% contribution revenues. This applies to the base amount, the value of a year of pensionable service in the earnings-related component and the value of the national pension under the targeted scheme.

Targeted

A minimum pension guarantee is provided by the national pension. This was EUR 175.94 in April 2017.

The national pension is granted to those who have reached pension age but have not made sufficient contributions for an old-age pension and who have either been permanent residents of Estonia or have resided in Estonia on the basis of a temporary residence permit or temporary right of residence for at least five years immediately before making a pension claim.

It is possible to also apply for a social assistance benefit, if the income is less than a certain level. The benefit amount depends on household size, income and housing costs etc. It is granted by local governments.

Defined contribution

Individuals choosing the funded option must make an additional contribution of 2% of earnings into their pension fund. Full contributions resumed from 2012 after paying only half in 2011 and nothing between June 2009 and 2011. Four percent of the total social security contribution is then also diverted to this fund. New labour-market entrants (that is, those born in 1983 or after) are required to take the funded option. From 2011 only new entrants into the labour force can join the second pillar. Over 660 000 people have taken out individual accounts.

Due to the temporary suspension of the second pillar contributions in 2009-2011, about 280 000 people will get higher contributions to second pillar (applications were voluntary) in 2014-2017. Their state part of contributions will be increased from 4% to 6%. In addition about 106 000 people chose to increase individual contributions from 2% to 3%.

Variant careers

Early retirement

The public pension can be claimed up to three years before the standard pension age provided that the individual retires and if the condition of a 15-year qualification period is met. The pension is reduced by 4.8% for each year of early retirement.

Late retirement

The public pension can be deferred after the normal pension age. Deferring the pension earns an increment of 10.8% per year. During the deferral period, the worker continues to contribute and earn extra entitlement. It is also possible to combine work and pension receipt. In this case, contributions are again paid and the pension is recalculated annually.

Childcare

The state pays the employer contribution on behalf of recipients of childcare allowance up to three years per child. This is 20% on assumed earnings of the minimum wage (EUR 430 in 2016).

From 2013 the system was improved. One parent will get monthly contributions equal to 4% of national average wage into the funded defined contribution pension scheme for a maximum duration of three years per child for children born after 2013. In addition parents will get up to three pensionable service years per child for children born before 2013. This rule depends on the exact date of birth, since some parents already have an extra pensionable service yeas per child due to the old rules.

Unemployment

There are no credits for periods of unemployment.

Personal income taxes and social security contributions

Taxation of pension income

Pension payments count as taxable income. However, while the general non-taxable allowance in 2016 was EUR 2 040 per year, the additional non-taxable allowance for pension income was EUR 2 700 per year. Accordingly, only pension income exceeding EUR 395 per month was subject to income tax

(20%). In 2017 the respective amounts are EUR 2 160 (general non-taxable allowance) and EUR 2 832 (additional non-taxable allowance for pension income), which makes pensions up to EUR 416 per month non-taxable.

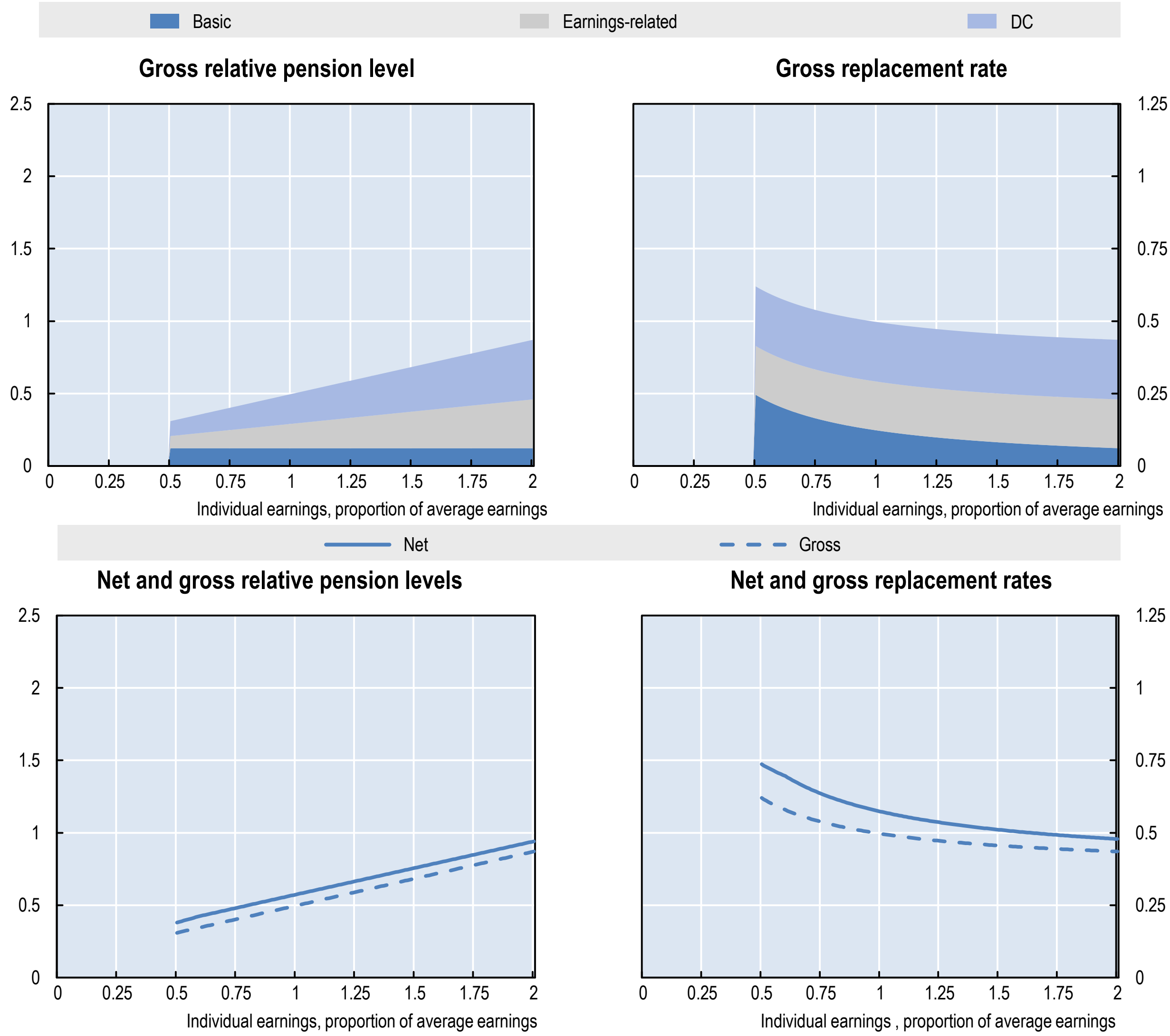
Taxation of pensioners

The taxation rules above apply to non-working pensioners. Working pensioners also benefit from the additional non-taxable allowance on pension income, but as for the general non-taxable allowance they have to choose either to apply it for their pension income or their earnings from work.

Social security contributions paid by pensioners

Pensions in payment are not liable for social security contributions.

Pension modelling results: Estonia in 2061 retirement at age 65



Men	Individual earnings, multiple of average					
Women (where different)	0.5	0.75	1	1.5	2	3
Gross relative pension level	31.0	40.3	49.7	68.4	87.1	124.5
(% average gross earnings)						
Net relative pension level	38.1	48.2	57.4	75.7	94.1	130.8
(% net average earnings)						
Gross replacement rate	62.0	53.8	49.7	45.6	43.5	41.5
(% individual gross earnings)						
Net replacement rate	73.7	63.5	57.4	51.1	47.8	44.6
(% individual net earnings)						
Gross pension wealth	10.2	8.9	8.2	7.5	7.2	6.9
(multiple of individual gross earnings)	*12.3*	*10.7*	*9.9*	*9.1*	*8.7*	*8.3*
Net pension wealth	12.2	10.5	9.5	8.4	7.9	7.4
(multiple of individual net earnings)	*14.6*	*12.6*	*11.4*	*10.2*	*9.5*	*8.9*

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.

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