

Lithuania

Lithuania: Pension system in 2020

The new system has a two-tier public scheme, with an earnings-related and a flat-rate benefit. There are also voluntary contributions to second tier funded pensions scheme.

Key indicators: Lithuania

		Lithuania	OECD
Average worker earnings (AW)	EUR	16 426	34 301
	USD	18 761	39 178
Public pension spending	% of GDP	6.2	7.7
Life expectancy	at birth	75.5	80.6
	at age 65	17.6	19.7
Population over age 65	% of working- age population	34.7	30.4

Qualifying conditions

Pensionable age is 64 years for men and 63 years for women in 2020. Pension ages are increasing by four months per year for women and by two months per year for men until they reach age 65 years in 2026. Individuals must have 15 years' of coverage to receive a pension. To qualify for a contribution year, contributions at least equivalent to the minimum wage (on average EUR 607 per month in 2020) need to have been made.

Benefit calculation

Basic

The general part of pension is a flat-rate contributory benefit. In 2020, the full rate is earned with 31.5 years of contributions (increasing by six months each year until reaching 35 in 2027). Proportionally reduced and increased benefits are paid for people with shorter and longer contribution periods. In 2020, the monthly basic pension was EUR 180.95.

Earnings-related

The earnings-related part is a points based system. Pension points are calculated as the ratio of individual social security pension contributions to the average social security pension contributions in the country. The ceiling is set at 5 times the average wage. Points are calculated based on income only after 1994 but the service years - on both periods: before and after 1994. All career years after 1994 will be included in the calculation instead of best 25 as applied previously.

For every year before the reform (1994-2017) insured income coefficients will be transformed to an yearly number of points by multiplying them by 0.78. Since 2018, the average wage earner accrues 1 point a year theoretically though in practice it is 1.1 because of the average wage¹ used for the calculation. Pension point value in 2020 was EUR 3.81.

The basic pension amount and the pension point value are adjusted each year by the growth of the wage fund in the economy, averaged over the past three years, the current year, and the next three years as projected.

Defined contribution

¹ Average wage means the average gross monthly wage in the 3rd and 4th quarters two years before and the 1st and 2nd quarters of the previous year, as published by the Lithuanian Department of Statistics.

The funded pension scheme is auto-enrolment scheme with all employees below 40 years enrolled with the right to opt-out within the specified period (six months). The auto-enrolment procedure is repeated every three years. From 1 January 2019, the contribution rate is 3% from employees gross wage, with a 1.5% contribution from the state calculated on the country's average wage. The second tier of the statutory pension system is quasi-mandatory: 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),

Variant careers

Childcare

From January 2008 persons taking care of children for three years are insured for the full social insurance pension on the basis of amount of maternity (paternity) allowance or the minimum wage for the periods not covered by the allowance.

A maternity (paternity) allowance shall be paid from the period of a childcare leave after the end of a maternity leave until the child reaches the age of two years.

Since 1 July 2011 maternity (paternity) allowance depends on the length of the period chosen: in case of one year the allowance will comprise 77.58% of beneficiary's reimbursed remuneration and in case of two years chosen – 54.31% for the first year and 31.03% for the second. It is possible during the second year to work without any reduction in the childcare allowance. In case of a multiple birth, the amount of the allowance will depend on the number of children born at the same time, but it cannot be higher than 77.58% of earnings.

The maximum duration of childcare leave is three years. However, during the third year, child care benefit is no longer payable. Nevertheless, the employer is required to maintain the workplace for the person who is on parental leave. The months during which the person is on the child care leave, are continued to be taken into account as the periods of social insurance – the person is covered by pension and unemployment social insurance by the State. Important to notice that at the third year of childcare the person, who is taking care of the child has the social insurance calculated on the minimum monthly wage approved by the Government.

Periods of maternity and childcare are covered both by I pillar pension and contributions to the II pillar pension solely from State. From 1 January 2014 the State pays contributions equal to 2% (1.5% since 2019) of the country's average wage of the year before last to the pension accumulation accounts of people that have children up to three years old and receiving maternity benefits or are insured by the State. For persons that have more than one child the State will pay contributions for each child they have to one of the parents.

Unemployment

Unemployment benefit receiving periods are credited for the full pension, maximum of 9 months.

Unemployment insurance benefit consists of two parts: fixed and variable. The fixed component equals 23.27% of the Minimum monthly wage valid in the month for which benefit is paid. Calculation of the variable component considers the insured income received by the person during the previous 30 month (including months with zero income) starting two months preceding the date of the unemployed registration at Employment Service.

Insured income includes all incomes of an individual from which the unemployment insurance contributions were paid or had to be paid (including unemployment insurance and partial work benefits, sickness, maternity, paternity, and childcare benefits and benefit for illness resulting from an occupational accident or an occupational disease).

The variable part of the unemployment insurance benefit is calculated as follows:

- from the 1st to the 3rd months of payment it equals 38.79% of the average monthly insured income;
- from the 4th to the 6th months –31.03%;

- from the 7th to the 9th months –23.27 %. The unemployment benefit cannot exceed 75% (from 1 July 2019 – 58.18%) of the average monthly wage in the national economy (which is published every quarter by the Department of Statistics). The duration of payment is prolonged by 2 months for those within 5 years of pension age.

Self-employed

The rules refer to individuals who perform individual activity under an individual activity certificate. The income base for social insurance pension contributions is 90 per cent of insurable income but the ceiling is no more than 43 times average monthly wage. The insurable income includes social security contributions at the rate of 20.81%, which covers also contributions for unemployment insurance at 1.31% rate.

Early retirement

In case of early retirement, the pension is reduced by 0.32% for every full month remaining until the retirement age, with a maximum of five years. It is possible to either receive a lump sum payment from pension funds or buy a pension annuity after choosing early retirement.

Late retirement

It is possible to defer the earnings-related pension after the standard age and the pension is increased by 8% for every year of deferral.

Personal income tax and social security contributions

Taxation of pensioners

The same taxation rules apply to workers and working pensioners.

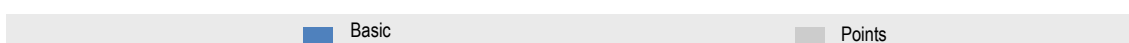
Taxation of pension income

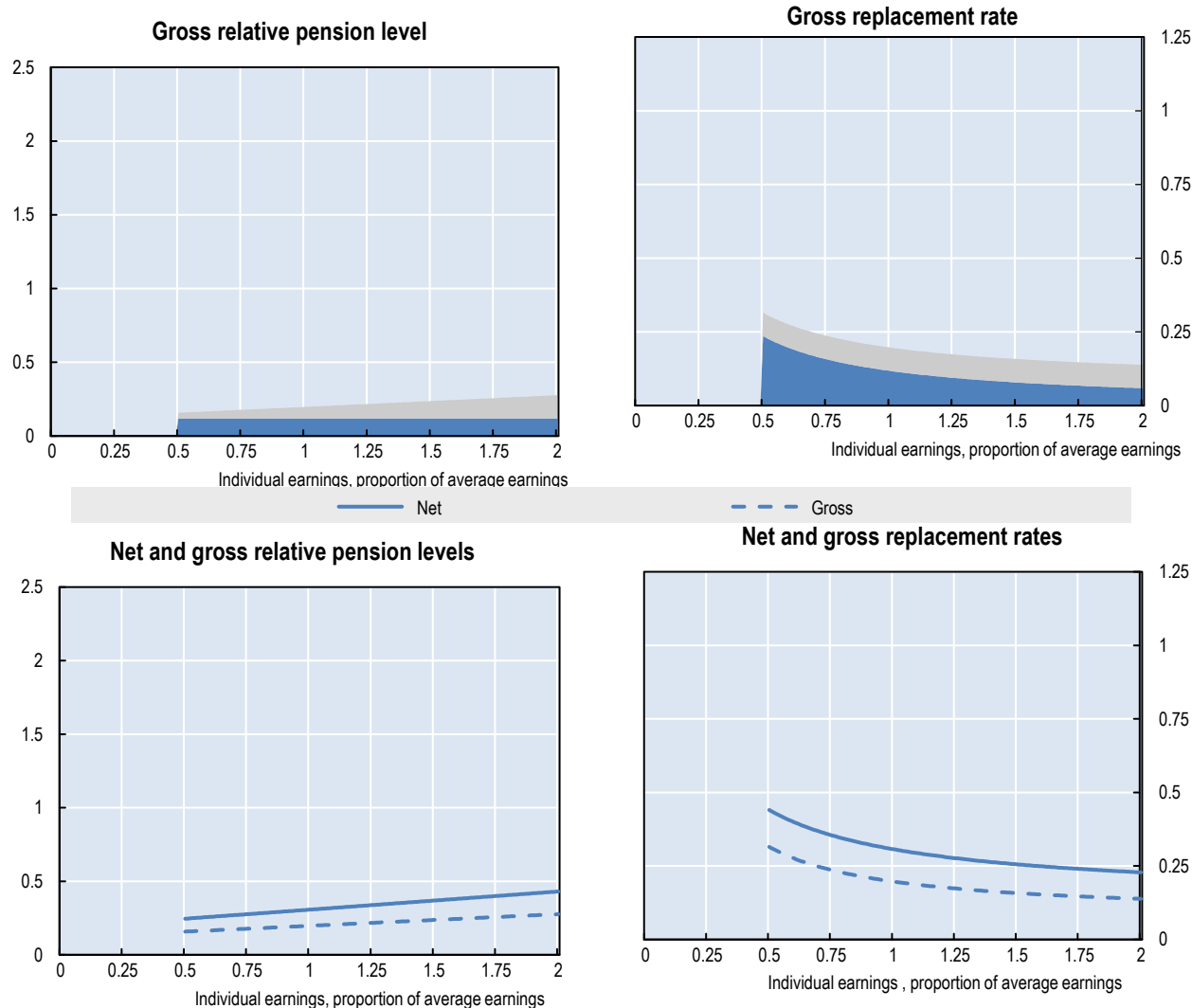
Public pensions are not subject to tax.

Social security contributions paid by pensioners

Public pensions are not subject to social security contributions.

Pension modelling results: Lithuania in 2063 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)	15.7	17.7	19.7	23.7	27.6	35.6
Net relative pension level (% net average earnings)	24.5	27.6	30.7	36.9	43.0	55.4
Gross replacement rate (% individual gross earnings)	31.5	23.6	19.7	15.8	13.8	11.9
Net replacement rate (% individual net earnings)	44.0	35.5	30.7	25.5	22.8	20.0
Gross pension wealth (multiple of individual gross earnings)	5.1	3.9	3.2	2.6	2.3	1.9
Net pension wealth (multiple of individual net earnings)	6.0	4.5	3.7	3.0	2.6	2.2
Net pension wealth (multiple of individual net earnings)	7.2	5.8	5.0	4.2	3.7	3.3
Net pension wealth (multiple of individual net earnings)	8.3	6.7	5.8	4.8	4.3	3.8

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 22 in 2020. Tax system latest available: 2020.