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Changes to the pension accumulation scheme

Partner news

PENSION SCHEME PRIOR TO 2019

Pension schemes provide the opportunity to build a reserve for future retirement.

The Lithuanian pension scheme became operational in 2004, allowing residents to accumulate a part of their social insurance contributions in private pension funds. The development and implementation of the system was prompted by demographic changes in society. The ageing of the population and increasing flows of emigrants will result in decreasing numbers of employed persons who pay social insurance contributions. Having regard to demographic changes in society, the Lithuanian pension scheme was developed and implemented in order to allow persons of retirement age to receive payments from a number of different sources and to ensure additional income for residents as they reach old age. Participation in the pension scheme is voluntary. The accumulation of a part of the state social insurance contributions in private funds may be selected by persons who have not yet reached retirement age and who receive insurable income.

In 2004, the part of social insurance contributions accumulated in pension funds was set at 2.5 percent, 3.5 percent in 2005, 4.5 percent in 2006, and 5.5 percent in 2007 and 2008. On 1 July 2009, due to the unfavourable state of the economy, the size of the contributions transferred to pension funds was temporarily reduced. In July 2009, the contribution was set at 2 percent of a person’s insurable income, 1.5 percent in 2012, and 2.5 percent in 2013.

Persons who have entered into the pension scheme in 2013 or later are subject to new conditions. Contributions to the personal pension account of the participant are paid from three sources: the contribution paid to the State Social Insurance Fund, an additional contribution paid by the participant from his/her own funds, and the state budget.

During the period between 1 April 2013 and 30 November 2013, persons who have entered into agreements prior to 2013 had the opportunity to decide on their manner of participation in the pension scheme, choosing between terminating the transfer of social insurance contributions to pension funds and, beginning with 2014, simply remaining in the system of the State Social Insurance Fund; continuing accumulation by contributing with personal funds and receiving an additional contribution from the state budget; or participating in the pension scheme under prior conditions, i.e., by providing pension funds only with social insurance contributions of pre-determined size.

Upon choosing accumulation under the new conditions (with additional contributions paid by the state and the participant himself/herself), or upon signing a pension scheme agreement after 1 January 2013, the pension contributions in 2014 onwards have consisted from a 2 percent contribution to the State Social Insurance Fund, an additional 1 percent contribution paid from the participant's own funds, and a 1 percent pension contribution paid from the state budget (which consisted of the gross average wage earned by the country's employees during all four quarters of the year prior to the last, which was published by Statistics Lithuania).

Since 2016, the contribution paid from the participant's own funds was set at 2 percent of his/her income, and the contribution paid for the participant from the state budget was set at 2 percent. Since 2020, the pension contribution was set to be 3.5 of the contribution paid to the State Social Insurance Fund, the additional contribution paid by the participant from his/her own funds was set to be 2 percent, and the additional contribution paid for the participant from the state budget was also set to be 2 percent.

PENSION SCHEME AFTER 2019

The following pension formula shall come into force on 1 July of the present year: the State Social Insurance Fund will no longer transfer any contributions to pension funds, and persons who wish to build a reserve for retirement will be able to transfer a sum which constitutes 3 percent of their monthly wage, while the state will contribute by paying a contribution of 1.5 percent of the national average wage. Those who have not been involved in the pension scheme up until now, and those who have been paying the pension contribution, which consists of 2 percent of the contribution paid to the State Social Insurance Fund, will have the opportunity to increase the contribution gradually: beginning with a 1.8 percent contribution this year, and culminating in 3 percent after five years. The gradual increase of the contribution will look something like this:

- 1.8 percent in 2019;
- 2.1 percent in 2020;
- 2.4 percent in 2021;
- 2.7 percent in 2022;
- 3 percent in 2023.

Those who have been involved in the pension scheme under the 2+2+2 model will pay the full contribution (3 percent) from the start. It should be noted that the pension formula 3+1.5 has been specified in accordance with the new tax system whereby the taxes paid by the employer and the employee have been consolidated.

Those who wish to simply resume their participation in the pension scheme are not required to take any action.

Those who wish to relinquish their participation must notify their pension companies of such prior to 30 June 2019. Residents who are currently taking part in the pension scheme, but wish to opt out, may choose either of the following – take all their money back to the State Social Insurance Fund and have their rights to a full retirement pension restored, or terminate their participation in the pension fund and leave the money accumulated thereby until they reach retirement age.

OTHER NEW FEATURES OF THE PENSION SCHEME

Inclusion into the pension scheme: employed persons under 40 years of age, and all persons who are currently taking part in the pension scheme, will be included into the new scheme and will have the opportunity to opt out. The offer to take part in the pension scheme will be sent out to persons who have not been involved up until now every 3 years until they reach 40 years of age. Those who have reached the age of 40 will no longer receive the aforesaid offer. Residents will be notified of their inclusion via the electronic service EGAS of the State Social Insurance Fund, and by registered mail. Those who have terminated their participation in 2013, as well as those who will do so during the first half of 2019, will be offered to return to the system 3 times every 3 years. The above persons shall not be subject to the requirement to be under the age of 40.

Upon receiving information from the State Social Insurance Fund, persons who neither take part in the pension scheme, nor wish to do so, shall notify the Fund of their decision. The decision to opt out of the pension scheme must be submitted to the State Social Insurance Fund by 30 June 2019.

The temporary suspension of the payment of contributions (contribution "holidays"): participants will have the opportunity to suspend the payment of contributions for 12 months during the entire period of participation in the pension scheme. Participants will also be able to take said "holidays" several months at a time, as long as the entire duration thereof does not exceed one year.

Additional contributions: all participants will have the opportunity to contribute a sum in excess of 3 percent of their wages. Participants who opt for additional contributions will be subject to personal income tax relief. Said relief will also be available to employers who pay pension contributions on their employees' behalf.

Life cycle funds: pension accumulation companies will be obligated to offer participants to join pensions funds which are most appropriate to them in terms of age. This means that managers will be obligated to strive towards maximum return on investment when participants are of young age, and work towards securing the wealth accrued over a life time once they start nearing retirement age.

Annuity: by 2020, the State Social Insurance Fund will become the centralised provider of annuity services. Deferred and standard annuity have been set as the two types thereof, and the mandatory annuity purchase limit has been reduced to 10,000 Euros. This means that annuity should be purchased only after accumulating a sum of no less than 10,000 Euros. If the accumulated sum is equivalent to, or less than, 3,000 Euros, the respective person will be provided with a single payment. This money shall be heritable. If the accumulated sum is between 3,001 and 10,000 Euros, the respective person will be provided with periodic payments (which shall be terminated once all the money has been used up). This money shall also be heritable. If the wealth accumulated in the pension fund exceeds 60,000 Euros, the respective person shall have the right to receive the excess amount from the pension accumulation company as a single payment. Standard pension annuity refers to the type of annuity whereby the payment of pension benefits to the person who had purchased the annuity commence immediately and lasts for life. The standard pension annuity is not heritable.

Deferred pension annuity refers to the type of annuity which is purchased by the participant after reaching retirement age, yet the payment of the pension annuity benefits commence after reaching the age of 85 and last for life. This means that between the ages of 65 and 84 the respective person receives periodic payments from the pension fund (which are heritable), and upon reaching the age of 85 – also the deferred pension annuity benefits, which are paid by the State Social Insurance Fund. The deferred pension annuity is not heritable.

The impact of tax consolidation on the accumulation of pensions: the consolidation of the taxes paid by employers and employees will be followed by the reduction of the contributions paid to the State Social Insurance Fund, and of the personal income tax. This will allow the compensation of the 1.5 percent pension accrual contribution.

The operation of pension funds and the payment of benefits is supervised by the Bank of Lithuania.
