



OECD Reviews of Pension Systems: Latvia



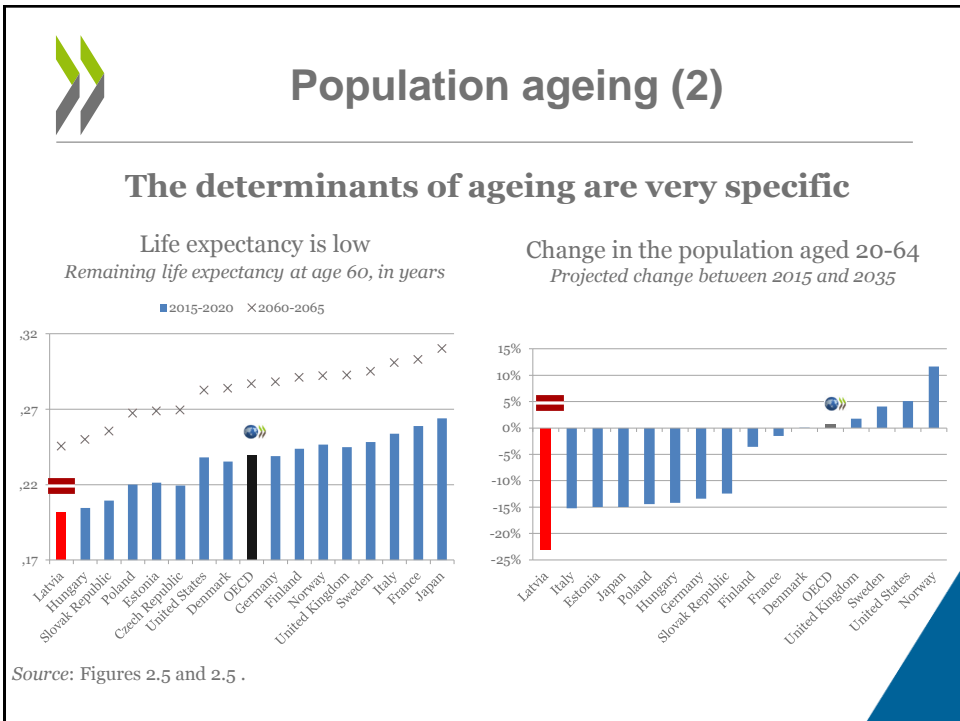
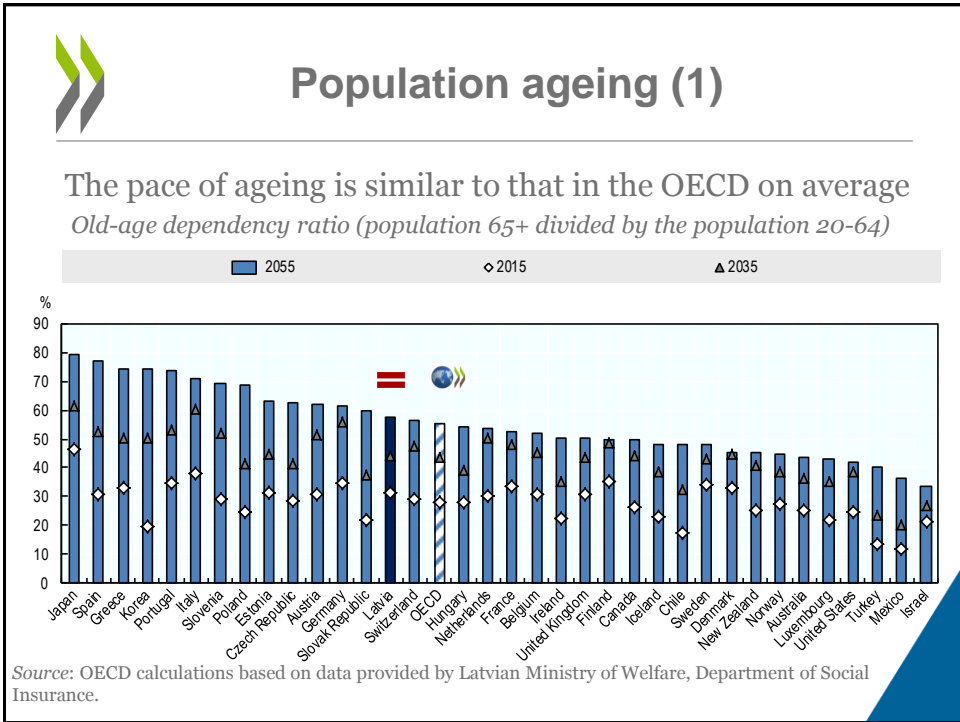
Hervé Boulhol

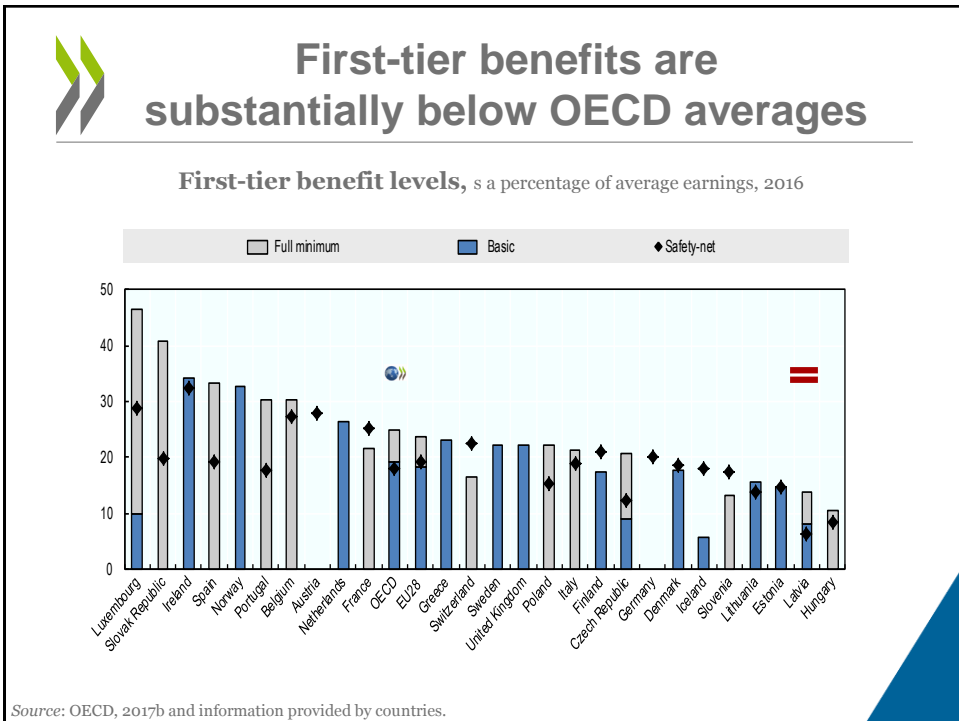
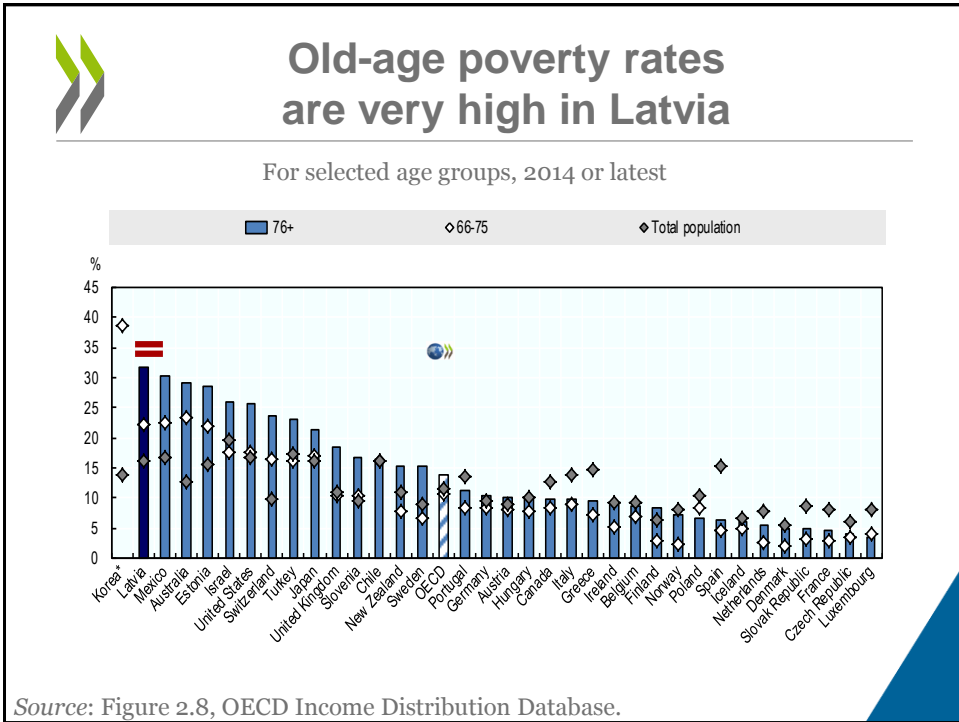
Senior Economist, OECD Directorate for Employment, Labour and Social Affairs
Riga, 7 March 2018



NDC experience in Latvia

- First country to fully implement an NDC system
- Introduction of the NDC pension in 1996 and difficult transitional issues involved in moving from the dysfunctional Soviet pension system were managed well
- Transparency and financial sustainability were significantly improved
- OECD countries looking to establish individual accounts in a financially sustainable way within PAYGO can learn a lot from the more than 20 years of Latvia's experience

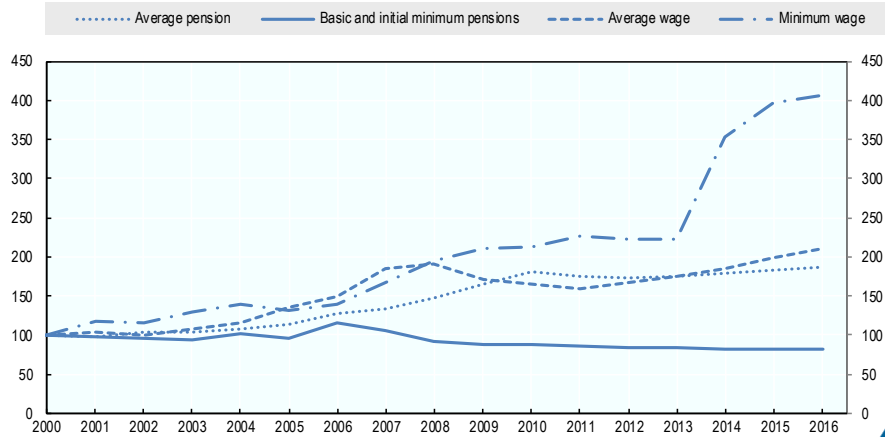






Basic and minimum pension have lagged behind wages and average pensions

Real term trends since 2000



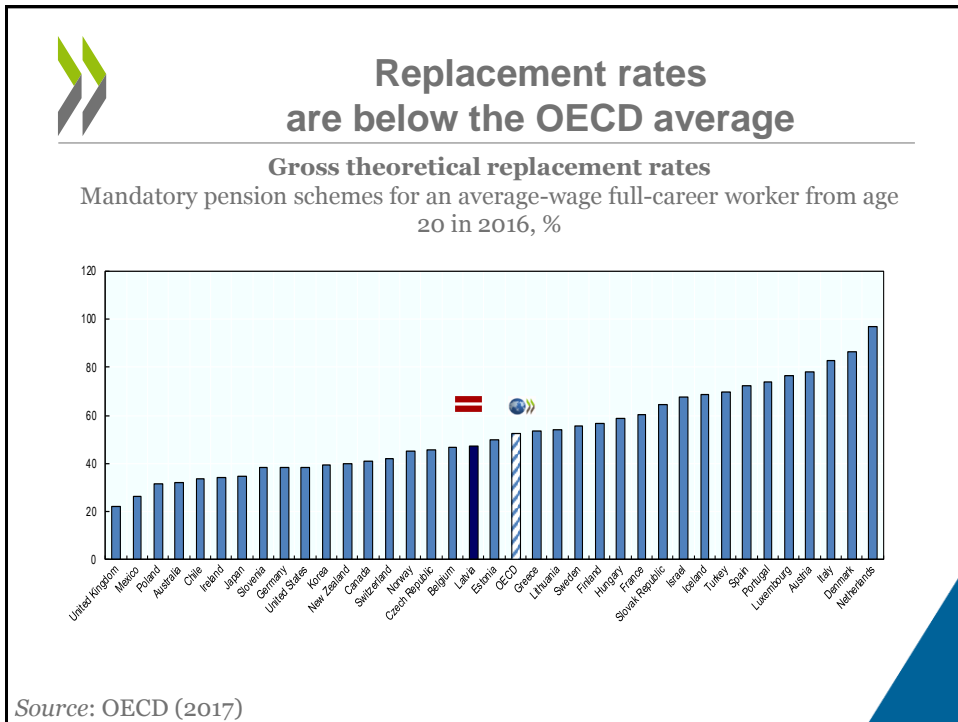
Note: Numbers are normalised at their 2000 real value (=100).

Source: OECD calculations based on data provided by the Latvian Ministry of Welfare and the OECD Labour Statistics.



Fighting old-age poverty

- Increase substantially the basic pension and use the same indexation rule as for NDC pensions in payment
- Ensure that each additional year of contribution results in a higher minimum pension benefit
- Introduce survivor pensions for spouses within the mandatory earnings-related schemes



Improve the functioning of NDC

- Link the official retirement age to future life expectancy gains
- Stabilise the contribution rate going to NDC pension to 14%
- Use cohort life expectancy in the NDC annuity divisor and index fully the NDC benefits in payment to the nominal growth of the contribution base
- Remove the option to convert the FDC accounts into an NDC annuity. The provision of annuities for the FDC should clearly be separated from the management of the NDC scheme



Investment regime in FDC: issues identified

- Low returns over past 10 years
- Default investment strategy is only appropriate for very risk-averse individuals and those approaching the retirement age
- Conservative investment strategies compared to other countries
- Administrative fees are high in international comparison



Improve FDC pensions

- Introduce a default life-cycle investment strategy so that the amount of risky assets falls as people get closer to retirement
- Increase transparency requirements to foster competition
- Continue efforts to reduce fees in the pension industry through fee disclosure and harmonise regulations between mandatory and voluntary schemes
- Make sure that individuals have access to complete and comparable information about all asset managers' pension plans when selecting a plan

 **Thank you**

Further information:

<http://oe.cd/pensions-latvia-2018>

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OE CD flagship pension publications:

Pensions at a Glance

http://dx.doi.org/10.1787/pension_glance-2017-en

Pensions Outlook

http://dx.doi.org/10.1787/pens_outlook-2016-en

