ESTONIA

Estonia: pension system in 2008

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

<table>
<thead>
<tr>
<th></th>
<th>Estonia</th>
<th>OECD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average earnings</td>
<td>EEK 157 000</td>
<td>USD 14 700</td>
</tr>
<tr>
<td>Public pension spending</td>
<td>% of GDP 5.3</td>
<td>7.0</td>
</tr>
<tr>
<td>Life expectancy</td>
<td>at birth 73.0</td>
<td>78.9</td>
</tr>
<tr>
<td></td>
<td>at age 65 80.6</td>
<td>83.1</td>
</tr>
<tr>
<td>Population over age 65</td>
<td>% of working-age population 27.6</td>
<td>23.6</td>
</tr>
</tbody>
</table>

Qualifying conditions

The pension eligibility age is 63 for men and will reach 63 for women from 2016. The qualification period is at least 15 years of pensionable service.

Benefit calculation

Basic

The flat-rate base amount was EEK 1699.94 per month in April 2008 and EEK 1373.58 in 2007/08 and is only payable along with an earnings-related pension.

Earnings-related

Pension benefits are calculated on the amount of contributions paid on an individual’s behalf relative to the average contribution paid. This is the annual pension-insurance coefficient of the person. The accumulation of those coefficients at retirement is multiplied by the value of a year of pensionable service to calculate pension entitlements. The value of a year of pensionable service was EEK 54.43 in July 2007 and EEK 65.01 in April 2008.

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

Pensions in payment are indexed to the arithmetic average of consumer prices and contribution revenues annually each April. This applies to the base amount, the value of a year of pensionable service in the earnings-related scheme and the value of the benefit under the targeted scheme.

Targeted

A minimum retirement-income guarantee is provided by the national pension. This was EEK 1573.31 per month in July 2007 and EEK 1913.14 in April 2008.
**Defined-contribution**

Individuals choosing the funded option must make an additional contribution of 2% of earnings into their pension fund. 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. Most current workers can choose this option (that is, those born in 1942 or after, *i.e.*, up to age 60). Over 580,000 people have taken out individual accounts.

**Variant careers**

**Early retirement**

The public pension can be claimed up to three years before the standard age (i.e. from age 60 in the long term) 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 that an individual retires early.

**Late retirement**

The public pension can be deferred after the normal pension age. Deferring 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 3 years per child. This is 20% on assumed earnings of EEK 700. Individuals who receive parental benefits need to pay the contribution to the defined-contribution scheme.

**Unemployment**

There are no credits for periods of unemployment.

**Personal income taxes and social security contributions**

**Taxation of pensioners**

Pension payments now count as taxable income, but only if they exceed the basic exemption of EEK 27,000 per year plus an additional basic exemption of EEK 36,000 in 2008.

**Taxation of pension income**

There is no special treatment of pension income. The additional basic exemption of EEK 36,000 applies only to the pension income.

**Social security contributions paid by pensioners**

Pensions in payment are not liable for social security contributions.
Pension modelling results: Estonia

Gross relative pension level

Net and gross relative pension levels

Sources of net replacement rate

Taxes paid by pensioners and workers
<table>
<thead>
<tr>
<th>Men</th>
<th>Median earner</th>
<th>Women (where different)</th>
<th>Individual earnings, multiple of average</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>0.5</td>
</tr>
<tr>
<td>Gross relative pension level (% average gross earnings)</td>
<td>41.2</td>
<td>30.1</td>
<td>39.1</td>
</tr>
<tr>
<td>Net relative pension level (% net average earnings)</td>
<td>51.6</td>
<td>38.4</td>
<td>49.5</td>
</tr>
<tr>
<td>Gross replacement rate (% individual gross earnings)</td>
<td>50.9</td>
<td>60.2</td>
<td>52.1</td>
</tr>
<tr>
<td>Net replacement rate (% individual net earnings)</td>
<td>63.1</td>
<td>73.4</td>
<td>65.1</td>
</tr>
<tr>
<td>Gross pension wealth (multiple of average gross earnings)</td>
<td>7.8</td>
<td>9.2</td>
<td>8.0</td>
</tr>
<tr>
<td>Net pension wealth (multiple of average net earnings)</td>
<td>7.6</td>
<td>9.2</td>
<td>7.9</td>
</tr>
</tbody>
</table>

www.oecd.org/els/social/pensions/PAG