Pension Reform in Estonia

Current situation
The 3 (4?) pillars

1st pillar
PAYG

2nd pillar
Company pension
or
2nd pillar?
Individual capitalisation

3rd pillar
Individual pensions
1st pillar PAYG

- Today: only PAYG
- Pension age: M 63, W 57.5
- Pension age (> 2016): 63
- Early retirement at age 60
II pillar framework

- **Quasi-compulsory**
  - compulsory for persons born > 1983
  - Choice on switching before July 2002
  - paying additional mandatory 2 % contributions
  - switching back not allowed

- **Size of contributions:**
  - 6% of payroll
  - employee - additional 2 % (withhold by employer)
  - employer - 4 % of 20% $\Rightarrow$ 16% remains for I pillar
II pillar framework

• Accumulation: II pillar PFs similar as III pillar PFs
• 1 person - several PFs, collection to one
• switching all together
• Management companies (registered in Estonia)
  – capital requirement - EUR 3 mln
  – compulsory participation in PF- min 1 %
• 1 FMC - several PFs (different investment strategy)
Second pillar benefits

- **Benefits** from age 63 options:
  - compulsory annuity provided by life insurance companies (different types of annuity contracts)
  - mixed (minimum annuity + programmed withdrawal from PFs)
  - only programmed withdrawal (small sums)

- **Taxation**: EET scheme
  - minimum non-taxable monthly income level for I+II pillar benefits
  - ordinary tax rate 26%
Current situation in second pillar

- Applications for II pillar management company license
  - Today 4 applications
  - In future we hope at least 3 more
Flexible third pillar

- Two basic forms:
  - pension funds $\Rightarrow$ DC
  - pension insurance $\Rightarrow$ DC or DB
- Individual, not occupational scheme
- Favorable exit conditions (55, disability, before)
- Extremely favorable tax treatment
- No central guarantee fund nor state guarantees
III pillar in practice

- **pension insurance**
  - 5 licensed life insurance companies of 6
  - 32 000 contracts
  - EEK 200 mln with 3 year
Amount of III pillar insurance premiums
Contracts in Force

Two companies have together more than 50% of contracts
III pillar in practice

Premiums accumulated

- Bico-Elukindlustus: 44%
- Hansapanga Kindlustus: 11%
- Ühispana Kindlustus: 24%
- Seesam Elukindlustus: 18%
- Sampo Elukindlustus: 3%
III pillar in practice

- **4 pension funds**
  - Hansa PF:
    - 800 members;
    - EEK 18,5 mln
  - Union bank PF:
    - 270 members;
    - EEK 10,1 mln
III pillar in practice

LHV PF:
- 130 members;
- EEK 1,9 mln

Sampo PF:
- 90 members;
- EEK 4,7 mln

- Total: 1290 members and EEK 35,2 mln
III pillar in practice

Market share by members

- Hansa Asset Management: 10%
- Ühispanga Varahaldus: 7%
- LHV varahaldus: 21%
- Sampo varahaldus: 62%
III pillar in practice

Market share by assets under management

- Hansa Asset Management: 53%
- Ühispanga Varahaldus: 13%
- LHV varahaldus: 29%
- Sampo varahaldus: 5%
Recent developments

• New United Financial Supervisory body
  ESTONIAN FINANCIAL SUPERVISION AUTHORITY