


Estonia

Estonia: Pension system in 2012

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

| | | Estonia | OECD |
|------------------------------|-----------------------------|---------|--------|
| Average worker earnings (AW) | EUR | 11 000 | 32 400 |
| | USD | 14 400 | 42 700 |
| Public pension spending | % of GDP | 7.9 | 7.8 |
| Life expectancy | At birth | 74.2 | 79.9 |
| | At age 65 | 16.3 | 19.1 |
| Population over age 65 | % of working-age population | 29.1 | 25.5 |

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Qualifying conditions

The pension eligibility age is 63 for men and will reach 63 for women from 2016. After that, retirement age will increase gradually to 65 in 2026 for both men and women. The qualification period is at least 15 years of pensionable service.

Benefit calculation

Basic

The flat-rate base amount was EUR 120.2 per month in April 2012 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 EUR 4.34 in July 2011 and EUR 4.52 in April 2012.

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

Pensions in payment are indexed to 20% consumer prices and 80% 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 EUR 134.1 in April 2012.

Defined contribution

Individuals choosing the funded option must make an additional contribution of 2% of earnings into their pension fund. Full contributions resumed from 2012 after paying only half in 2011 and nothing between June 2009 and 2011. Four per cent 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. From 2011 only new entrants into the labour force can join the second pillar. Over 630 000 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

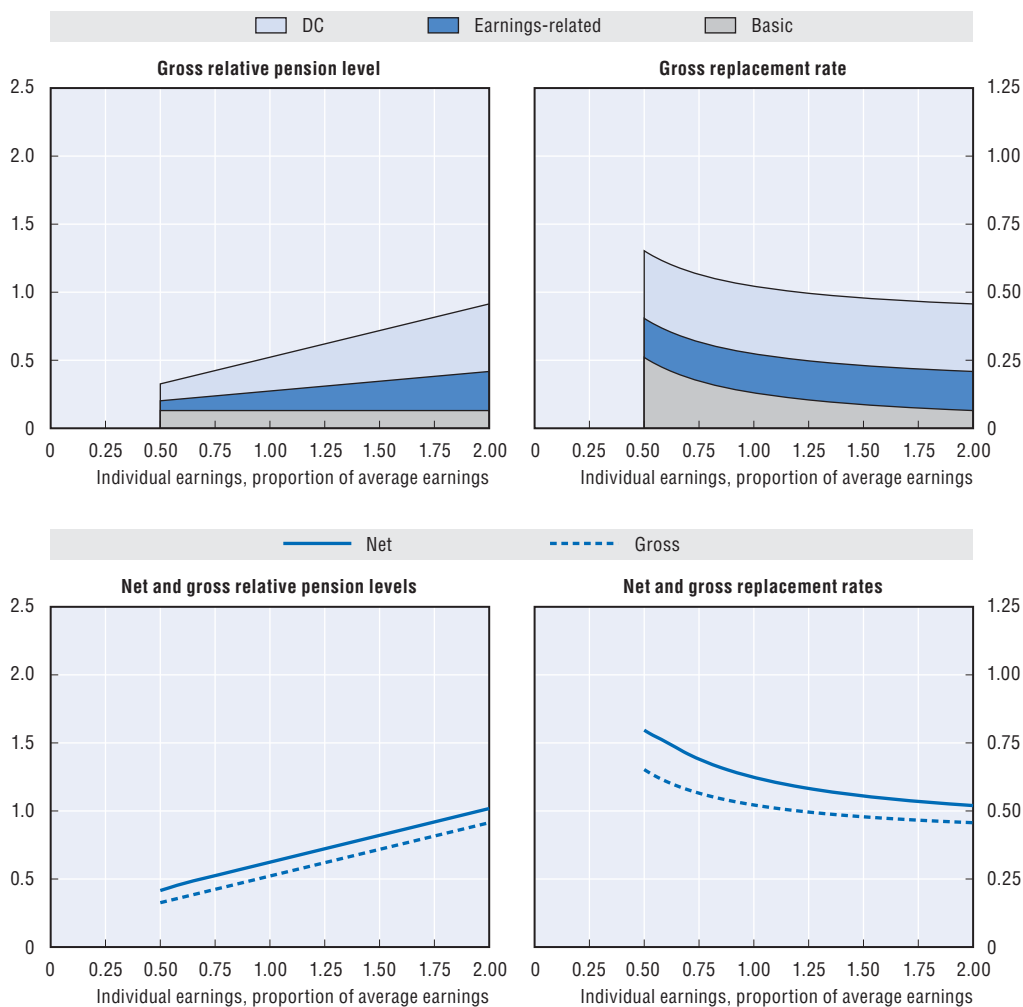
The state pays the employer contribution on behalf of recipients of childcare allowance up to three years per child. This is 20% on assumed earnings of minimum wage (EUR 290 in 2012). Individuals who receive parental benefits need to pay the contributions (contribution rate is 1%) to the defined-contribution scheme.

From 2013 the system will change. One parent will get monthly contributions equal to 4% of national average wage into the earnings-related pension scheme for a maximum duration of three years per child for children born after 2013. In addition parents will get up to three pensionable service years per child for children born before 2013. This rule depends on the exact date of birth, since some parents already have extra pensionable service year per child due to old rules.


Unemployment

There are no credits for periods of unemployment.

Pension modelling results: Estonia



| Men Women (where different) | Median earner | Individual earnings, multiple of average | | | | |
|---|---------------|--|------|------|------|-------|
| | | 0.5 | 0.75 | 1 | 1.5 | 2 |
| Gross relative pension level (% average gross earnings) | 44.8 | 32.6 | 42.4 | 52.2 | 71.8 | 91.4 |
| Net relative pension level (% net average earnings) | 54.9 | 41.5 | 52.5 | 62.4 | 82.1 | 101.8 |
| Gross replacement rate (% individual gross earnings) | 55.3 | 65.2 | 56.5 | 52.2 | 47.9 | 45.7 |
| Net replacement rate (% individual net earnings) | 67.1 | 79.7 | 69.0 | 62.4 | 55.5 | 52.0 |
| Gross pension wealth (multiple of individual gross earnings) | 8.4 | 10.1 | 8.7 | 8.0 | 7.2 | 6.9 |
| Net pension wealth (multiple of individual gross earnings) | 8.1 | 10.1 | 8.4 | 7.5 | 6.5 | 6.0 |
| | 10.3 | 12.8 | 10.7 | 9.4 | 8.2 | 7.6 |

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