

Estonia

Estonia: Pension system in 2018

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

		Estonia	OECD
Average worker earnings (AW)	EUR	16 103	35 230
	USD	19 008	41 584
Public pension spending	% of GDP	7.0	8.0
Life expectancy	at birth	78.2	80.7
	at age 65	18.1	19.7
Population over age 65	% of working- age population	34.9	31.2

StatLink  <http://dx.doi.org/10.1787/888934042998>

Qualifying conditions

In 2018 the pension age is 63 years and 6 months for both men and women. The pension is increasing gradually to 65 by 2026 for both men and women and thereafter is linked to increases in life expectancy. The qualification period is at least 15 years of pensionable service.

Benefit calculation

Basic

The flat-rate base amount was EUR 175.44 per month in April 2018 and is only payable along with an earnings-related pension.

Earnings-related

The earnings-related or so-called insurance component of old-age pensions is calculated based on the amount of contributions paid on an individual's behalf relative to the average contribution paid. The accumulation of the insurance components at retirement is multiplied by the value of one year of pensionable service to calculate pension entitlements. The value of a year of pensionable service was EUR 6.161 in April 2018.

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

Pensions in payment are indexed each April to 20% consumer prices and 80% contribution revenues. This applies to the base amount, the value of a year of pensionable service in the earnings-related component and the value of the national pension under the targeted scheme.

Targeted

A minimum pension guarantee is provided by the national pension. This was EUR 189.31 in April 2018.

The national pension is granted to those who have reached pension age but have not made sufficient contributions for an old-age pension and who have either been permanent residents of Estonia or have resided in Estonia on the basis of a temporary residence permit or temporary right of residence for at least five years immediately before making a pension claim.

It is possible to also apply for a social assistance benefit, if the income is less than a certain level. The benefit amount depends on household size, income and housing costs etc. It is granted by local governments.

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 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. From 2011 only new entrants into the labour force can join the second pillar. Over 700 000 people have taken out individual accounts.

Due to the temporary suspension of the second pillar contributions in 2009-2011, about 280 000 people will get higher contributions to second pillar (applications were voluntary) in 2014-2017. Their state part of contributions will be increased from 4% to 6%. In addition about 106 000 people chose to increase individual contributions from 2% to 3%.

Variant careers

Early retirement

The public pension can be claimed up to three years before the standard pension age 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 of early retirement.

Late retirement

The public pension can be deferred after the normal pension age. Deferring the 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 the minimum wage (EUR 470 in 2018).

From 2013 the system was improved. One parent will get monthly contributions equal to 4% of national average wage into the funded defined contribution 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 an extra pensionable service years per child due to the old rules.

Unemployment

There are no credits for periods of unemployment.

Personal income taxes and social security contributions

Taxation of pension income

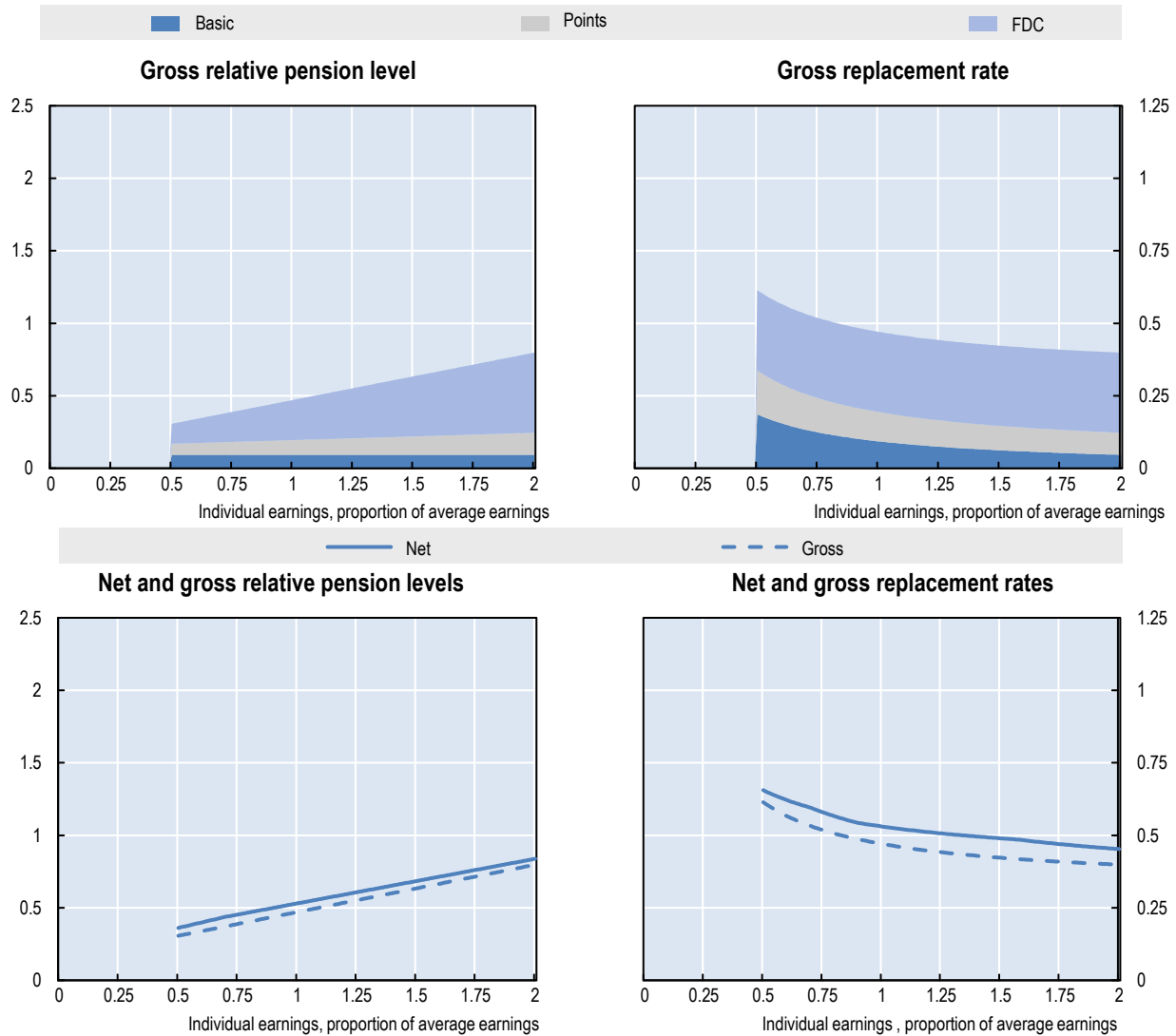
Pension payments count as taxable income. Beginning from 1 January 2018 the overall tax-free amount (non-taxable allowance) of up to 6000 euros per year or up to 500 euros per month will be applied on all types of income and the increased basic exemption on pensions will not be applied. Accordingly, only pension income exceeding EUR 500 per month was subject to income tax (20%) in 2018.

Taxation of pensioners

Social security contributions paid by pensioners

Pensions in payment are not liable for social security contributions.

Pension modelling results: Estonia in 2067 retirement at age 71



Men Women (where different)	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	3
Gross relative pension level (% average gross earnings)	30.7	38.9	47.1	63.4	79.7	112.4
Net relative pension level (% net average earnings)	36.1	45.4	53.1	68.4	83.8	114.6
Gross replacement rate (% individual gross earnings)	61.4	51.8	47.1	42.3	39.9	37.5
Net replacement rate (% individual net earnings)	65.6	58.0	53.1	49.0	45.3	41.2
Gross pension wealth (multiple of individual gross earnings)	8.7	7.3	6.7	6.0	5.6	5.3
Net pension wealth (multiple of individual net earnings)	10.6	9.4	8.6	7.9	7.3	6.7

Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equal 90%. Labour market entry occurs at age 22 in 2018. Tax system latest available: 2018.

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