

# Latvia

## Latvia: Pension system in 2020

The new system combines an earnings-related public scheme, based on notional accounts, with mandatory contributions to funded pensions. There is also a safety-net pension.

## Key indicators: Latvia

		Latvia	OECD
Average worker earnings (AW)	EUR	12 913	34 301
	USD	14 749	39 178
Public pension spending	% of GDP	6.8	7.7
Life expectancy	at birth	74.9	80.6
	at age 65	16.8	19.7
Population over age 65	% of working- age population	35.5	30.4

## Qualifying conditions

Women and men who have reached the age of 63 years and 9 months and who have an insurance record of no less than 15 years are entitled to an old age pension.

From 1 January 2014 the retirement age has been increasing by three months every year - until 1 January 2025 when it will reach 65 years.

From 1 January 2014 the minimum insurance period is also increased up to 15 years and starting from 2025 - up to 20 years.

## Benefit calculation

### *Earnings-related*

The new pension system is based on ‘notional accounts’. The pension value is the sum of notional capital at retirement (contributions uprated in line with the covered wage bill) divided by the ‘G-value’ (calculated annually using projected life expectancy at retirement age with a unisex life table).

In the general case the pensions are indexed to inflation plus 50 per cent of real wage sum growth. As of October 2018 the new indexation mechanisms has been applied – the indexation of the old age pension depends on persons’ insurance period: in 2020 if the insurance period is 45 or more years – index of 1,0578 is applied; if the insurance period is 40-44 years - 1,0512 , if the insurance period is 30-39 years – 1,0446; if the insurance period is up to 29 years – 1,0380. In 2020 the indexation ceiling was EUR 454 (set at the level of 50% of the average insurance contribution wage of the previous year). Full pension amount is indexed for politically repressed persons, Chernobyl NPP nuclear clean-up participants and persons with the I disability group.

The contribution rate to the notional accounts reached 14% in 2016. In the interim, the rate is higher so that the defined contribution (see below) plus notional accounts contributions total 20% of earnings.

### *Targeted*

As of January 2020, the calculating base for the minimum state old age pension has been set, which is EUR 80 (for persons with disabilities from childhood - EUR 122.69) per month. The value of this pension varies with the length of service in the pension insurance system:

Years of service:	<20	21-30	31-40	>41
Multiple of minimum pension:	1.1	1.3	1.5	1.7

From 1 January 2019 in the case of death of a pensioner, to the retired surviving spouse on the basis of a claim is granted and paid an allowance of 50% of the deceased pensioners' pension, including supplement to the pension for period accumulated until 31<sup>st</sup> December 1995, for 12 months (before 2019 - a lump sum payment at two months of deceased's pension (without supplement) was paid).

### ***Defined contribution***

People under age 30 on the 1 July 2001 must contribute to a new funded scheme. Those aged between 30 and 49 on 1 July 2001 choose between remaining in the public, pay-as-you-go system alone or belonging to both the public and the funded scheme. Since 2016 the proportion of earnings diverted into the funded scheme is 6%.

At retirement, the accumulated capital must be converted to an income. Firstly, it is possible to add the balance of the fund to the notional capital built up under the pay-as-you-go system and so get a benefit dependent on the g-value. Secondly, buy a whole-life annuity from a life-assurance company (without restriction on, *e.g.*, indexation or provision of survivors' benefits).

### **Variant careers**

#### ***Childcare***

The state covers social insurance contribution payments on behalf of persons who take care of a child who has not reached one and a half years of age and receive the allowance for child care or the parents' benefit (the person concerned may choose the length of leave selecting between 1 year and 1.5 years), recipients of maternity or paternity benefit, benefit for the care of a child with disabilities, remuneration for the care of an adopted child and allowance for the fulfilment of the duties of a foster family.

#### ***Unemployment***

The state covers social insurance contribution payments on behalf of recipients of unemployment benefit and on behalf of unemployed persons with disabilities. The credit is based on the value of unemployment benefit. The unemployed persons with disabilities are also credited without unemployment benefit.

#### ***Early retirement***

Person can request premature pension two years before reaching retirement age, if the insurance period is not less than 30 years.

The following persons may claim an early pension five years before the standard retirement age, *i.e.*, at age of 58 years 9 months in 2020:

- politically repressed persons with an insurance period of not less than 30 years;
- persons with an insurance period of not less than 25 years if they have taken care of five or more children or of a child with disabilities during a period of at least 8 years until the child reaches the age of 18, and if they have not been deprived of the right to provide care or custody rights.

Also, the following persons may claim their pension before they reach the standard retirement age:

- persons, who until 1996 worked under particularly hazardous and arduous conditions may retire from the age of 57 years 6 months (until 30.06.2020), 58 years (from 01.07.2020) (women with an insurance period of at least 15 years and 3 years 9 months insurance under conditions concerned) and 61 years 9 months (men with an insurance period of at least 20 years and 5 years of insurance under conditions concerned);
- persons, who until 1996 worked under hazardous and hard-working conditions may retire from the age of 61 years 9 months (women with an insurance period of at least 20 years and 5 years insurance under

conditions concerned) and 61 years 9 months (men with an insurance period of at least 25 years and 6 years 3 months of insurance under conditions concerned);

- persons with dwarfism and blind persons may retire from the age of 52 years 6 month (until 30.06.2020), 53 year (from 01.07.2020) (women with an insurance period of at least 15 years) and 57 years 6 month (until 30.06.2020), 58 years (from 01.07.2020) (men with an insurance period of at least 20 years);
- persons who took part in the Chernobyl NPS nuclear clean-up with an insurance period of not less than 15 years may retire from age of 58 years 9 months;
- women with disabilities for life may retire from the age of 62 years 6 month (until 30.06.2020), 63 years (from 01.07.2020) with an insurance period of at least 20 years.

### ***Late retirement***

It is possible to defer pension after the standard retirement age. Amount of pension is higher if the person will require old age pension after the standard retirement age.

### ***Self-employed***

The self-employed with income lower than the minimum wage contribute 5% of their income (compared to the 20% rate for employees). The self-employed having income at least at the minimum wage, contribute the 20% from the minimum wage amount and 5% from income exceeding the minimum wage.

## **Personal income tax and social security contributions**

### ***Taxation of pensioners***

Pensions granted in conformity with the law “On State Pensions” before 1 January 1996 are not subject to taxation. For persons to whom a pension is granted or recalculated after 1 January 1996 in conformity with the law “On State Pensions” a taxable minimum is EUR 3 600 per year. There is also an additional tax relief for persons with disabilities (EUR 1 848 per year for persons with I, II disability groups, EUR 1 440 per year for persons with III disability group), for politically repressed persons (EUR 1 848 per year) and for a dependent (EUR 3 000 per year).

### ***Taxation of pension income***

As from 2018 progressive personal income tax rate has been implemented: for annual income up to EUR 20 004 – 20%, part of annual income which exceeds EUR 20 004, but does not exceed EUR 62 800, – 23%, part of annual income, which exceeds EUR 62 800 – 31.4%.

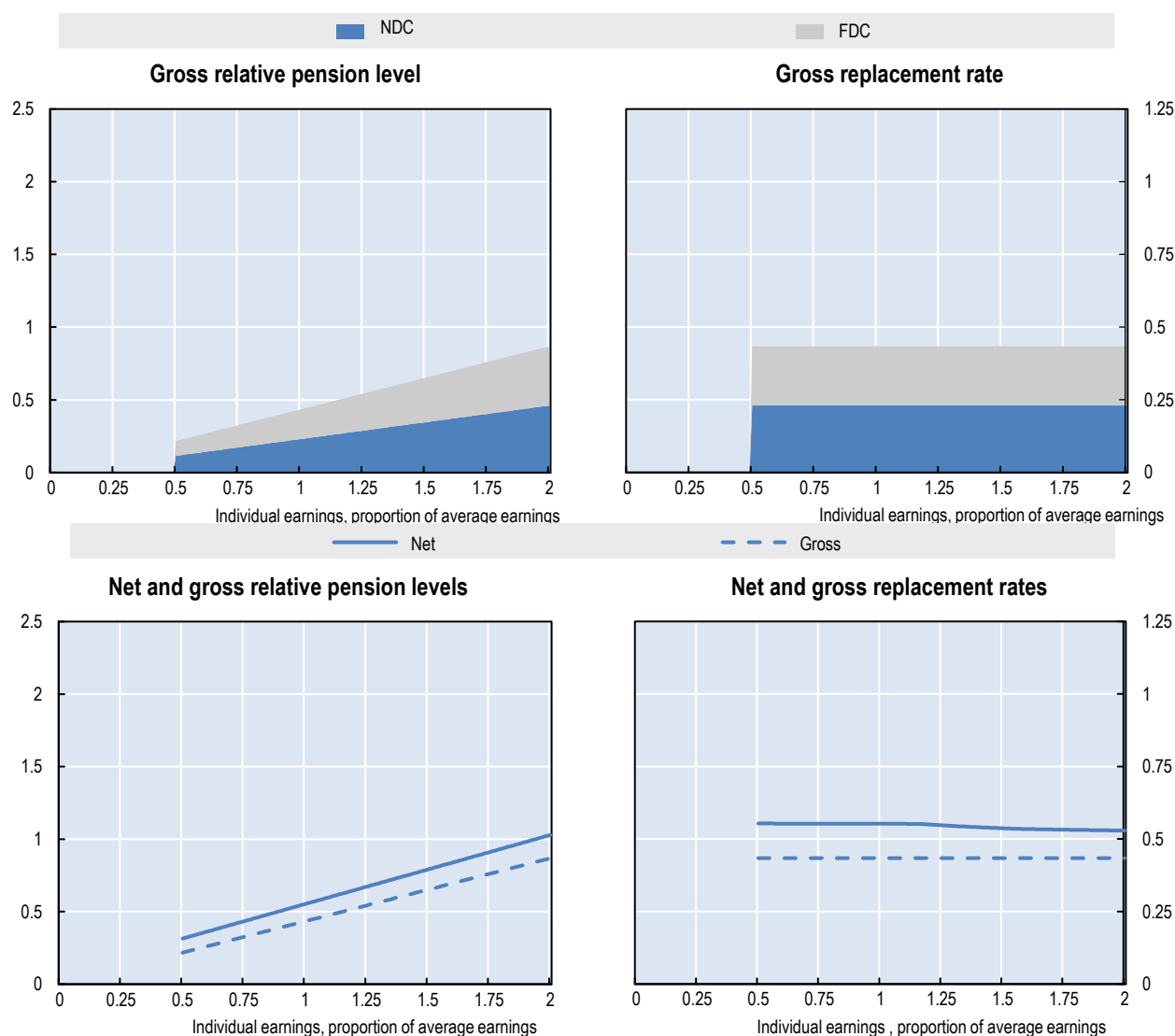
### ***Social security contributions paid by pensioners***

If the employee has reached an age that entitles them to receive an old age pension, the social insurance contribution rate in 2020 is 30.87% (employee 9.56% and employer 21.31%)

Social security contributions paid are income-tax deductible.

The employees who have reached an age that entitles them to receive an old age pension make social insurance contribution payments against pension insurance, employment injuries and occupational diseases insurance, maternity and sickness insurance, parental insurance, health care insurance and do not make social insurance contributions against invalidity insurance and unemployment insurance. Non-working pensioners do not pay any social security contributions.

## Pension modelling results: Latvia in 2063 retirement at age 65



Men <i>Women (where different)</i>	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	3
Gross relative pension level (% average gross earnings)	21.7	32.6	43.4	65.1	86.8	130.2
Net relative pension level (% net average earnings)	31.4	43.3	55.3	79.1	102.9	150.5
Gross replacement rate (% individual gross earnings)	43.4	43.4	43.4	43.4	43.4	43.4
Net replacement rate (% individual net earnings)	55.4	55.3	55.3	53.7	52.9	52.2
Gross pension wealth (multiple of individual gross earnings)	7.0	7.0	7.0	7.0	7.0	7.0
Net pension wealth (multiple of individual net earnings)	8.9	8.9	8.9	8.6	8.5	8.4

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 2020. Tax system latest available: 2020.