Pensions at a Glance 2023

Estonia

Estonia: Pension system in 2023

The system combines an earnings-related public scheme with voluntary 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	19 996	39 182
	USD	21 057	41 261
Public pension spending	% of GDP	6.6	7.7
Life expectancy	at birth	79.0	80.7
	at age 65	83.6	84.6
Population over age 65	% of working-age population	35.6	31.3

Qualifying conditions

In 2023 the statutory retirement age is 64 years and 6 months for both men and women. The statutory retirement age is increasing gradually to 65 by 2026 for both men and women and thereafter is linked to increases in life expectancy with the one-to-one link. The qualification period is at least 15 years of pensionable service.

Benefit calculation

Basic

The flat-rate, contribution-based basic pension (called base component) was EUR 275.62 per month in January 2023 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 a points. A year's contribution at the average earnings of contributors earns one pension point. Since 2021, the annual number of points is computed as (number of individual points + 1)/2. Therefore, the calculation has become more redistributive, e.g. someone with twice average earnings will now have 1.5 points credited instead of 2. Conversely, those earning 50% of average earnings will have 0.75 points credited instead of 0.5.

The accumulation of the points at retirement is multiplied by the value of one year of pensionable service to calculate pension entitlements. The monthly value of a year of pensionable service was EUR 7.718 in April 2022**.** There is no ceiling to earnings for contribution or benefit purposes. Points values are valorised with the average wage growth.

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

An old-age safety-net benefit, called minimum pension guarantee, is provided by the national pension. This was EUR 275.34 in April 2022.

The minimum pension guarantee 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 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.

Voluntary private pensions

There is an additional voluntary defined contribution scheme. Employees pay 2% of the gross salary to the pension fund with the state adding 4 p.p. from the 20% employer's pension contribution rate. Along with contributions being transferred to pension fund, pensions entitlements from the social security are reduced proportionally.

Until 2021, the funded pension was mandatory for the persons who were born in 1983 and later. The right and obligation to pay the contributions arises on 1 January of the year following the year when a person becomes 18 years old.

From 1 January 2021 this component has become voluntary. The following new options are now available:

- in addition to accumulating money in pension funds, money can be accumulated via pension investment accounts.
- people have been given the right to use the money accumulated under certain conditions while they are still accumulating their pensions.
- upon reaching retirement age, each person will be able to decide how to use the accumulated money.

Variant careers

From 2021 onwards, people can choose the most suitable time for retirement, suspend their pension if they wish, or take half the pension. The concept of a flexible pension is based on actuarial neutrality: the size of the entire pension asset is the same regardless of the time of retirement, the suspension or partial withdrawal of the pension.

People can increase his or her old-age pension (half-size to full size) or reduce it (from full to half-size) or stop it once a month, or 12 times a calendar year. The amount of the pension will be changed at the beginning of the next month.

Early retirement

The public pension can be claimed up to five years before the standard pension age. In case of retiring up to one year before the retirement age at least 20 years of pension qualifying period is needed, up to two years before 25 years of qualifying period, up to three years before 30 years of qualifying period, up to four years before 35 years of qualifying period and up to five years before 40 years of qualifying period. The pension reduction depends on the time of retirement, the lifetime table of Statistics Estonia and the interest rate curve of the current values of central government debt securities published by the European Central Bank in the euro area. The life table and interest rate data used to calculate the multiplier for reducing the old-age pension is updated on 1 January each year.

Late retirement

The public pension can be deferred after the normal pension age. Deferring the pension earns an increment that depends on the time of retirement, the lifetime table of Statistics Estonia and the interest rate curve of the current values of central government debt securities published by the European Central Bank in the euro area. 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 paid, and the pension is recalculated annually. The life table and interest rate data used to calculate the multiplier for increasing the old-age pension is updated on 1 January each year.

Childcare

Until 2013, the state paid the employer contribution on behalf of recipients of childcare allowance up to three years per child. This is 20% of the minimum wage (EUR 654 in 2022).

From 2013, the childcare credits have become more generous. One parent gets monthly contributions equal to 4% of the 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 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 yeas per child due to the old rules.

Unemployment

There are no credits for periods of unemployment.

Self-employed

The self-employed are covered by the same pension schemes as employees and they pay the nominal contribution rate equal to the total contribution rate of employees and employers. The contributions are paid on income from the self-employment after deducting social-security contributions.

Personal income taxes and social security contributions

Taxation of pensioners

No special relief is available for pensioners.

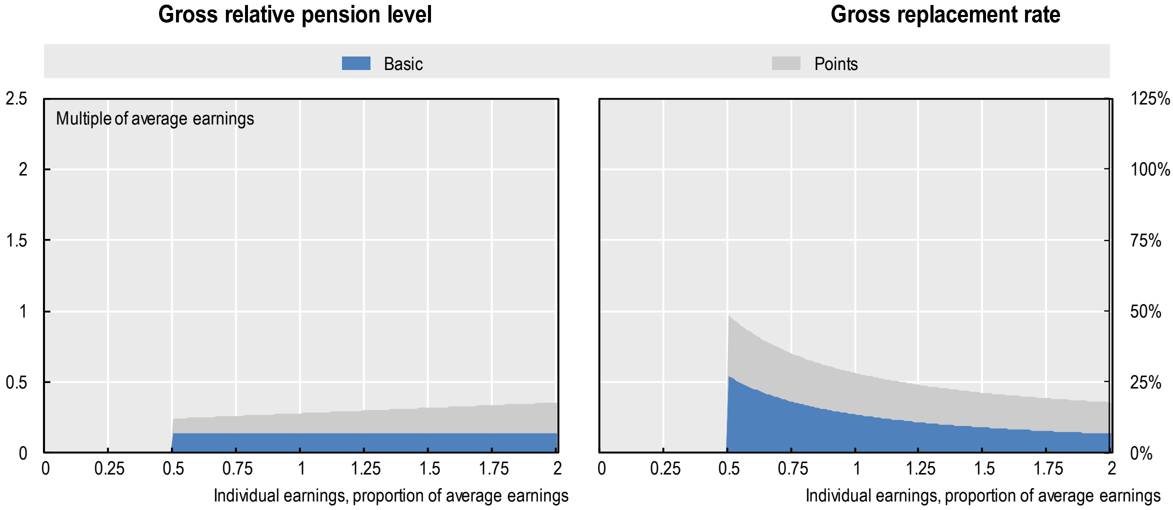
Taxation of pension income

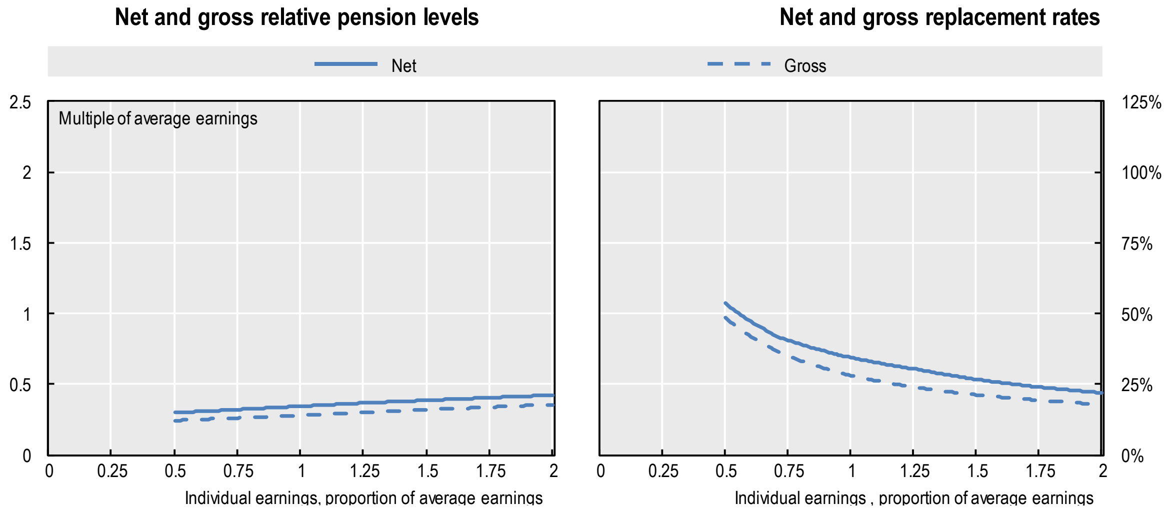
No special relief is available for pension income.

Social security contributions paid by pensioners

Pensions in payment are not liable for social security contributions.

Pension modelling results: Estonia in 2071 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	24.3	26.2	28.1	31.9	35.6	43.2
(% average gross earnings)						
Net relative pension level	29.8	32.1	34.4	38.6	42.3	49.7
(% net average earnings)						
Gross replacement rate	48.6	34.9	28.1	21.2	17.8	14.4
(% individual gross earnings)						
Net replacement rate	53.6	40.5	34.4	26.7	21.9	17.2
(% individual net earnings)						
Gross pension wealth	7.9	5.7	4.6	3.5	2.9	2.3
(multiple of individual gross earnings)	9.1	6.6	5.3	4.0	3.4	2.7
Net pension wealth	8.7	6.6	5.6	4.3	3.6	2.8
(multiple of individual net earnings)	10.1	7.6	6.5	5.0	4.1	3.2

Assumptions: Real rate of return 2.5%, real earnings growth 1.25%, inflation 2%, and real discount rate 1.5%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equals 90%. Labour market entry occurs at age 22 in 2022. Tax system latest available: 2022.