

# Pensions at a Glance 2023



# Latvia

## Latvia: Pension system in 2022

The new system (started operating on 1 January 1996) 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	16 758	39 182
	USD	17 647	41 261
Public pension spending	% of GDP	6.8	7.7
Life expectancy	at birth	75.8	80.7
	at age 65	81.8	84.6
Population over age 65	% of working-age population	38.0	31.3

## Qualifying conditions

Women and men who have reached the age of 64 years and 3 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 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 have been applied – the indexation of the old age pension depends on persons' insurance period: in 2022 if the insurance period is 45 or more years – index of 1.2369 is applied; if the insurance period is 40-44 years – 1.2341, if the insurance period is 30-39 years – 1.2314; if the insurance period is up to 29 years – 1.2287. In 2022 the indexation ceiling was EUR 534 (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 total 20 per cent pension contribution rate has been split between non-funded pension and funded pension scheme (14 per cent goes to the non-funded pension scheme, 6 per cent to the funded pension scheme).

Since July 2021 a minimum contribution object has been introduced, in 2022 it is EUR 1 500 per quarter (the minimum monthly wage EUR 500 x 3 months) or 6 000 per year.

### ***Targeted***

As of January 2021, the calculating base for the minimum state old age pension has been set as a percentage of the median income, which is EUR 136 (for persons with disabilities from childhood - EUR 163) per month. The value of this pension varies for each insurance year and there is no maximum length of insurance.

The minimum old-age pension for the minimum insurance period (15 years) is determined by applying a coefficient 1.1 to the old-age pension calculation base. For each subsequent insurance year which exceeds the required insurance minimum, the coefficient is increased by the amount of 0.02 for each extra year. Therefore, the minimum monthly amounts vary from EUR 149.60 in case of 15 years of insurance period to EUR 247.52 in case of 51 years of insurance period. For those with disabilities since childhood, the minimum monthly amounts vary from EUR 179.30 in case of 15 years of insurance period to EUR 296.66 in case of 51 years of insurance period.

### ***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.

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The following persons may claim an early pension five years before the standard retirement age, i.e., at age of 59 years 3 months in 2022:

- 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 59 years (women with an insurance period of at least 15 years and 3 years 9 months insurance under conditions concerned) and 62 years 3 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 62 years 3 months (women with an insurance period of at least 20 years and 5 years insurance under conditions concerned) and 62 years 3 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 54 years (women with an insurance period of at least 15 years) and 59 years (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 59 years 3 months.
- women with disabilities for life may retire from the age of 64 years 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 (EUR 500 in 2022) contribute 10% of their income (compared to the 20% rate for employees). The self-employed having income at least at the minimum wage or exceeds it, contribute for the old-age pension the 20% from a freely chosen object, which is not smaller than the amount of the minimum wage, and 10% from the difference of the income and the freely chosen object.

## **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 for the first half of 2022 is EUR 2 100 (or EUR 350 per month) and for the second half the year - EUR 3 000 (or EUR 500 per month). 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 78 100, – 23%, part of annual income, which exceeds EUR 78 100 – 31%.

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

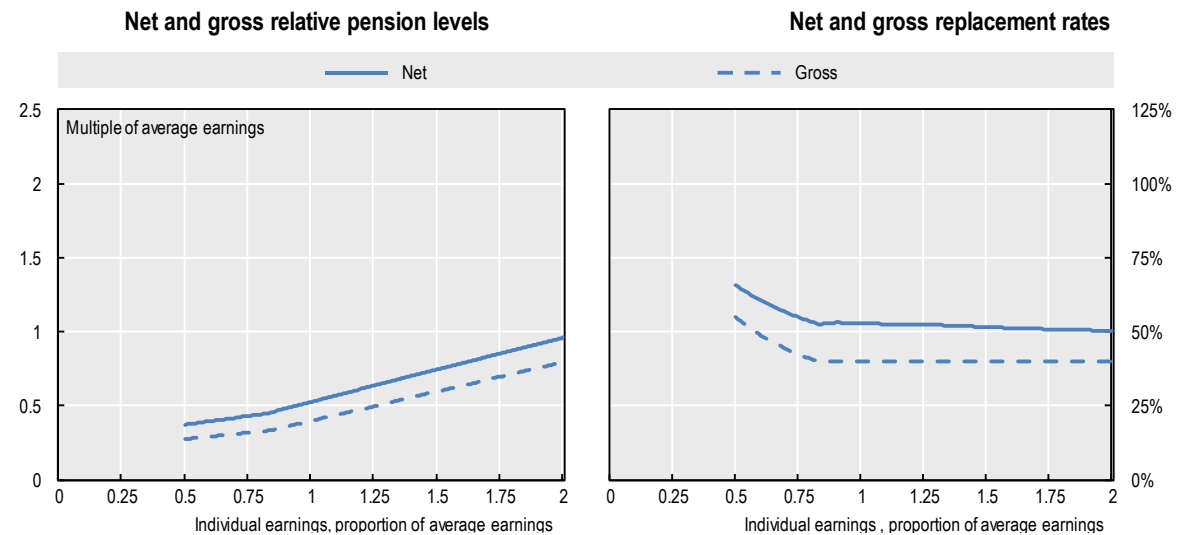
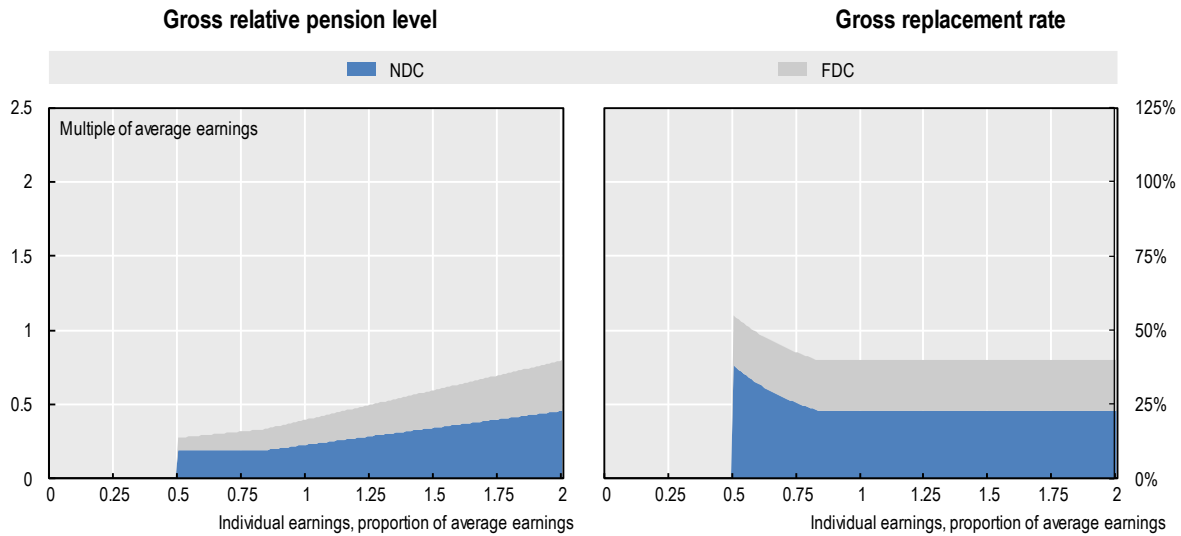
If the employee has reached an age that entitles them to receive an old age pension, the social insurance contribution rate in 2022 is 30.02% (employee 9.25% and employer 20.77%).

Pensioners are exempted from the minimum contribution paying.

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 2065 retirement at age 65



	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	3
Men						
Women (where different)						
Gross relative pension level (% average gross earnings)	27.5	31.8	39.8	59.7	79.5	119.3
Net relative pension level (% net average earnings)	37.3	43.0	52.8	74.4	95.9	139.0
Gross replacement rate (% individual gross earnings)	55.0	42.3	39.8	39.8	39.8	39.8
Net replacement rate (% individual net earnings)	65.7	54.9	52.8	51.5	50.3	49.0
Gross pension wealth (multiple of individual gross earnings)	9.7	7.5	7.0	7.0	7.0	7.0
Net pension wealth (multiple of individual net earnings)	11.6	9.7	9.3	9.1	8.9	8.6

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.