

Labklājības ministrija

Gradual implementation of OECD recommendations for Latvia

6.11.2019



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The OECD Reviews of Pension Systems : Latvia – April 2017 - January 2018

The Review assessed the Latvian pension system – all 3 pillars - the two mandatory, earnings related pension schemes(a pay-as-you-go non-financial (notional) defined contribution (NDC) and a funded defined contribution (FDC) scheme).

Voluntary private pension scheme complements the two mandatory schemes.

We are going to concentrate on issues that have caused discussion and on those ones , that have proved difficult to implement



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Reduce old-age poverty and pension inequality

- *Increase substantially the levels of basic and therefore minimum pensions and use the same indexation rule as the one for NDC pensions in payment*

In 2019 the Ministry of Welfare repeatedly submitted **a Plan regarding minimum income guarantees** to the Cabinet, which also includes increase in the minimum pensions.

Considering the overall fiscal scope, Government **approved** just a **part** of the Plan. This means that only the minimum benefits and **pensions for disabled** persons and **minimum old age** insurance pensions are going to be increased. This is included in Budget package and currently the Parliament is working with the package.



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Increase in disability benefits and minimum pensions

	Coefficient	Current amounts, EUR		New amounts from 2020, EUR		Number of persons
		Benefit = 64,03	Disabled since childhood = 106,72	Benefit = 80,00	Disabled since childhood = 122,69	
Disability benefits						
I group	1.3	83,24	138,73	104,00	159,50	18 587
II group	1.2	76,84	128,06	96,00	147,23	
III group	SNCB	64,03	106,72	80,00	122,69	
Minimum amounts of disability pensions						
I group	1.6	102,45	170,75	128,00	196,30	33 000
II grupai	1.4	89,64	149,41	112,00	171,77	
III grupai	SNCB	64,03	106,72	80,00	122,69	



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Increase in minimum amounts of old age pensions

Record	Coefficient	Current amount, EUR		New amounts from 2020. EUR		Number of persons
		Basis = 64,03	Since childhood Basis = 106,72	Basis = 80,00	Disabled since childhood Basis = 122,69	
From 15 - 20 years	1.1	70,43	117,39	88,00	134,96	20 494
From 21 - 30 years	1.3	83,24	138,74	104,00	159,50	
From 31 - 40 years	1.5	96,04	160,08	120,00	184,04	
41 and more years	1.7	108,85	181,42	136,00	208,57	



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Reduce old-age poverty and pension inequality

- *Lower the minimum contribution period...ensure that each additional year of contributions results in higher minimum pension*

There was a proposal to increase minimum pension for each year of contributions- starting from qualifying period needed for entitlement- incorporated in the Plan regarding minimum income guarantees,- not supported due to limited fiscal scope.

Also, 1/3 from contributors pay contributions from wages that do not exceed minimum wage, which poses a threat to social and financial sustainability(guaranteed minimums)



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Reduce old-age poverty and pension inequality

- *Introduce survivor pensions for spouses.....*

Since 2019 a benefit for surviving spouse of a pensioner has been introduced (50% of the deceased spouse's pension amount for a year). Contribution rate was not increased.



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Reduce old-age poverty and pension inequality

- *Steadily increase contributions paid by employees of micro-enterprises and align contributions paid by self-employed to those of dependent employment*

Since 2018 the tax -and consequently contributions - **for micro enterprises** have increased. Numbers of such employees are on the decrease.

As to **self-employed**- they have also been more involved in old age pension insurance. However, this is a complicated and diverse category, 2/3 of them are also employees.

Next year work on new tax reform will start.



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Reduce old-age poverty and pension inequality

Incorporate service pensions back to the main pension scheme

There is strong opposition to such an approach.

However, the OECD and State Audit recommendations help us to tackle efforts to expand these schemes.



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Enhance non-financial (notional) defined contribution scheme

- *Link the official retirement age to future life expectancy gains*

Latvia is still increasing retirement age. This issue is to be tackled after 2025 when we will consider all possible approaches.



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Reduce old-age poverty and pension inequality

- *Index fully the NDC benefits in payment*

There is a gradual shift to better indexation, based on length of contribution record. As of 2019 those with contribution record of 45 years will benefit from indexation with CPI and 85% of real contribution wage sum growth.



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Reduce old-age poverty and pension inequality

- Remove the option to convert the FDC accounts into NDC annuity.

Considering, that participation in II pillar is mandatory, we think that a person must be given such a choice.

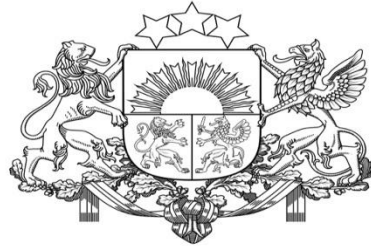
I pillar pensions in payment are being indexed.



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Improve the design of mandatory and voluntary pension schemes

- The industry is currently considering this and real steps are being taken.
- Fees have also been reduced as of 2018.



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Thank you

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