

LITHUANIAN PENSION SCHEMES

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I. STATUTORY MANDATORY SOCIAL INSURANCE P-A-Y-G PENSION SCHEME (DB)

About 96 % of the employed population are covered (farmers, sportspeople, creative workers receiving authorship payments are insured in a mandatory way since 2009).

Old age, work-incapacity (disability), widows'/widowers' and orphans' pensions (since 2004 an early retirement pension scheme for the long-term unemployed if less than 5 years were left until the retirement age (0.4% reduction for every full month remaining until the retirement age)).

Legal retirement age is 62.5 years for men (from 2003) and 60 years for women (from 2006). (PROPOSED: in 2012-2026 gradually increase pensionable age till 65).

Social insurance contributions for pensions: 23.3 % of gross wage - employer contributions, 3 % of gross wage - employee contributions.

A person can continue working and to receive his earnings from work together with the pension.

No automatic indexation rules.

No minimum social insurance pension.

No income tax is levied on pension benefits paid from the statutory schemes.

II. SOCIAL ASSISTANCE PENSIONS

Provides minimum income to those not eligible to social insurance pensions (old-age, disability and survivors').

Paid from the state budget.

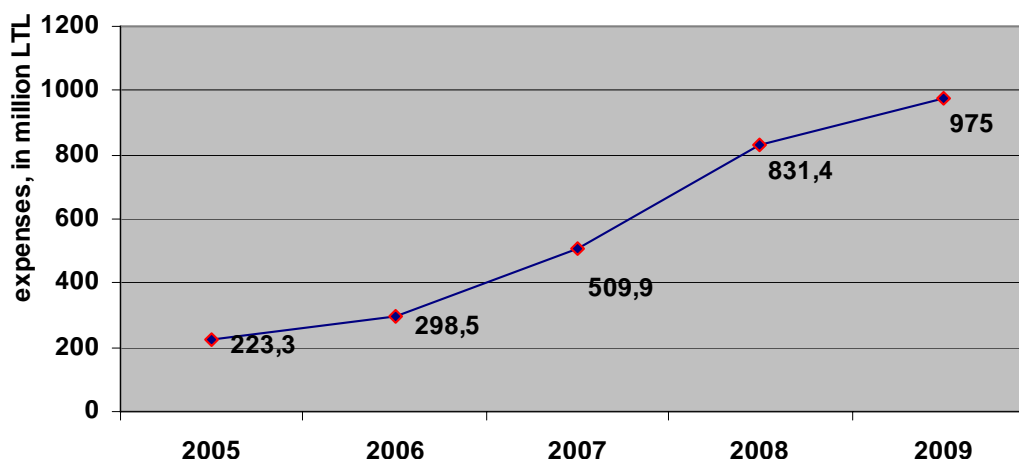
Pension income-tested.

Covers less than 4% of all pensioners and 2% of pension expenditure.

Calculated in relation to basic pension. The amount of the social assistance pension in case of old age is equal to 90% of the basic pension (€94) that amounts to 41% of the minimum monthly salary.

Since recently only 63% of working age population is covered by pension social insurance, increase of social assistance pensions in the future is expected.

Growth in State budget expenses for social assistance benefits in the period from 2005 to 2009



III. STATUTORY PRIVATE QUASI/MANDATORY FUNDED PENSION SCHEME (DC)

Introduced on 1st January 2004. 85 per cent of people covered by state social insurance (996,000 persons) are accumulating a full social insurance pension in 2010.

No restrictions for participation except being insured by the State social insurance pension system and aged below the legal retirement age.

29 pension funds are currently operating in Lithuania. They are managed by 9 management companies (7 investment management companies and 2 life insurance companies).

Financed by a fraction of the social insurance contribution (increasing from 2.5% to 5.5% of gross wage by 2007; since July 2009 – 2 %). Implementing the programme of the Government of the Republic of Lithuania and in order to ensure sufficient funds for the fulfilment of present budget commitments of the State Social Insurance Fund, the rate of a portion of state social pension insurance contributions transferred to pension funds was temporarily reduced from 5.5 to 2 per cent of the employee's salary in 2009–2010.

Pension reform transition costs, which are about to reach the ceiling of 1% of GDP in 2020, are financed from the funds of the state budget.

For annuity calculation sex-specific life tables are used.

A supplementary part of the old-age pension is reduced in proportion to the size of the contribution rate transferred to pension accumulation.

Approximately 30 per cent of agreements of participants in the accumulation of pensions are inactive (7 percentage points more as compared to 2009), i.e. a portion of the social insurance contribution is not transferred to their accounts. These are the unemployed, mothers raising children, migrants etc.

Data of the Securities Commission and the Insurance Supervisory Commission shows that the average value of a unit of second stage funds increased by 17.31 per cent during the year: that of a unit of share pension funds by 27.56 per cent, that of a unit of medium share part pension funds by 21.6 per cent, that of a unit of small share part pension funds by 13.36 per cent and that of a unit of conservative investment pension funds by 8.01 per cent.

In the accumulation period from 2004 to 2009, LTL 3,362 million was transferred to pension funds. Each year, when drawing up the budget of state social insurance, the Law on the Approval of Indicators of the Budget of the State Social Insurance Fund of the Republic of Lithuania provides for compensation for state social insurance contributions transferred to pension accumulation funds. In 2009 and 2010, the total amount transferred to pension funds will decrease to 0.5 and 0.4 per cent of GDP accordingly. For 2010, LTL 350,000,000 was allocated from the state budget of the Republic of Lithuania and the state's other financial resources for compensation for state social insurance contributions transferred to pension accumulation funds.

A participant in the accumulation of pensions gains the right to change the pension fund manager three years after the pension accumulation agreement comes into force. This right can now be exercised by persons whose agreements took effect between 2004 and 2007 (in 2007, the company could be changed by 441,000 persons, in 2008, by 557,000, in 2009, by 686,000 and, in 2010, by 785,000). As of 2007, 61,500 persons, on their own initiative, changed the pension accumulation company. From January to the end of May 2010, 19,500 persons, more than twice as many as last year, took an opportunity to change the pension fund manager. Deductions related to the closing of an account and the transfer of funds can currently apply to persons changing their pension accumulation company. This amount cannot exceed 0.2 per cent of the accumulated funds, if the manager is changed once per calendar year. If the pension fund manager is changed more frequently, the charge can account for up to 4 per cent of the transferred amount.

Since the beginning of the reform, funds have been changed by 114,000 participants. As many as 3,850 agreements on pension benefits have already been concluded. Since amounts accumulated within several years are not sufficient yet to acquire an annuity (under the Law on the Accumulation of Pensions, an annuity is compulsory where the basic annuity amounting to half of the basic pension can be acquired for the accumulated amount), persons who attained the old-age retirement age are currently paid lump-sum or periodical benefits (annuities are paid to several persons only).

In order to make a right decision on a pension accumulation company, a person can use information posted on the website www.pensijusistema.lt and compare the performance of pension funds operating in Lithuania and administrative fees charged by them. This website gives addresses and contact telephones of all companies providing pension accumulation services and supervisory authorities, and detailed statistics on the pension accumulation scheme.

Chart 1. Participation in private funds (age).

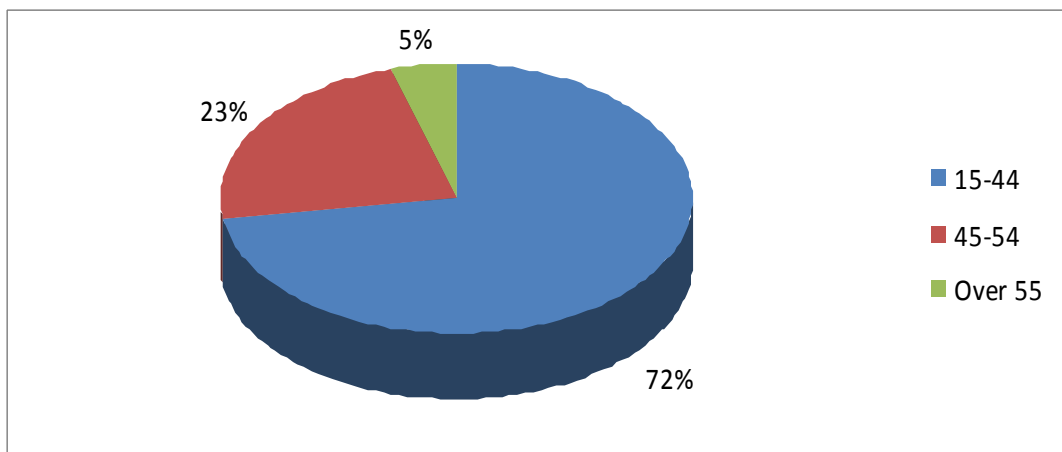
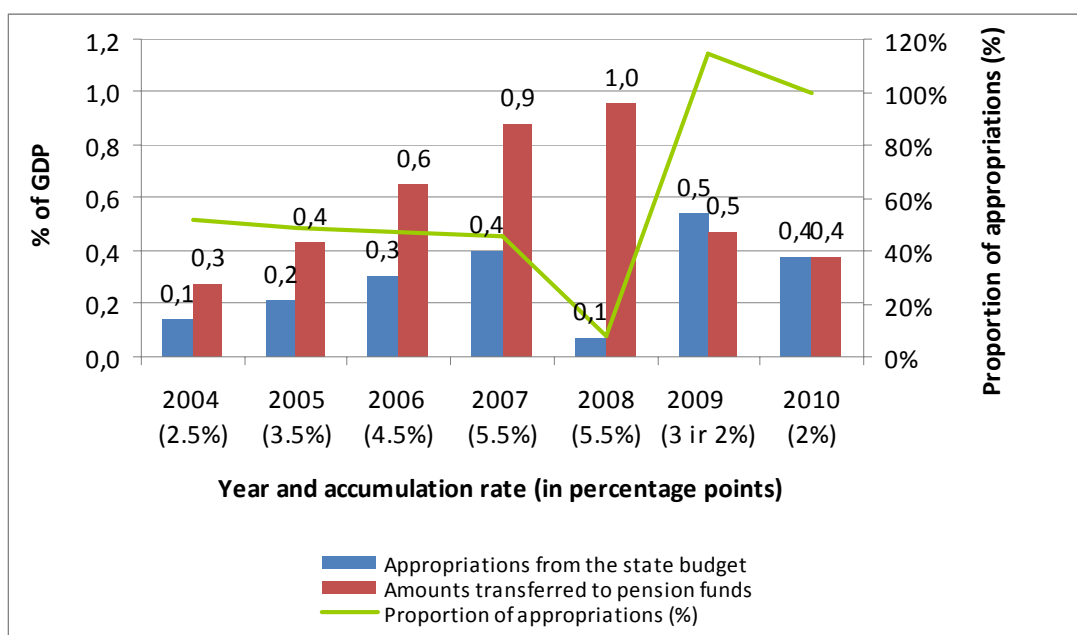


Chart 2. Transfers of amounts to pension funds (in percentage of GDP) and their compensation from the state budget from 2004 to 2010



IV. VOLUNTARY PRIVATE FUNDED PENSION SCHEME

Started operating only in 2004.

Accounting for mere 0.1% of the total labour force of Lithuania.

Tax allowances if contributions to pension funds do not exceed 25% of the person's annual earnings.

Acquisition of annuity is not mandatory.

V. TEMPORAL MEASURES DURING CRISIS

On 28 October 2009, a National Agreement¹ was signed between the Government of the Republic of Lithuania and social partners: the largest trade unions, business and employers as well as pensioners' organizations. Under this Agreement, the Government undertook to implement measures for financial consolidation, including a temporary and differentiated reduction in all pensions, pursuing the essential objective to pay social benefits on time, so that recipients of the smallest pensions would be protected and recipients of bigger pensions and other income would jointly assume a heavier burden of reduction.

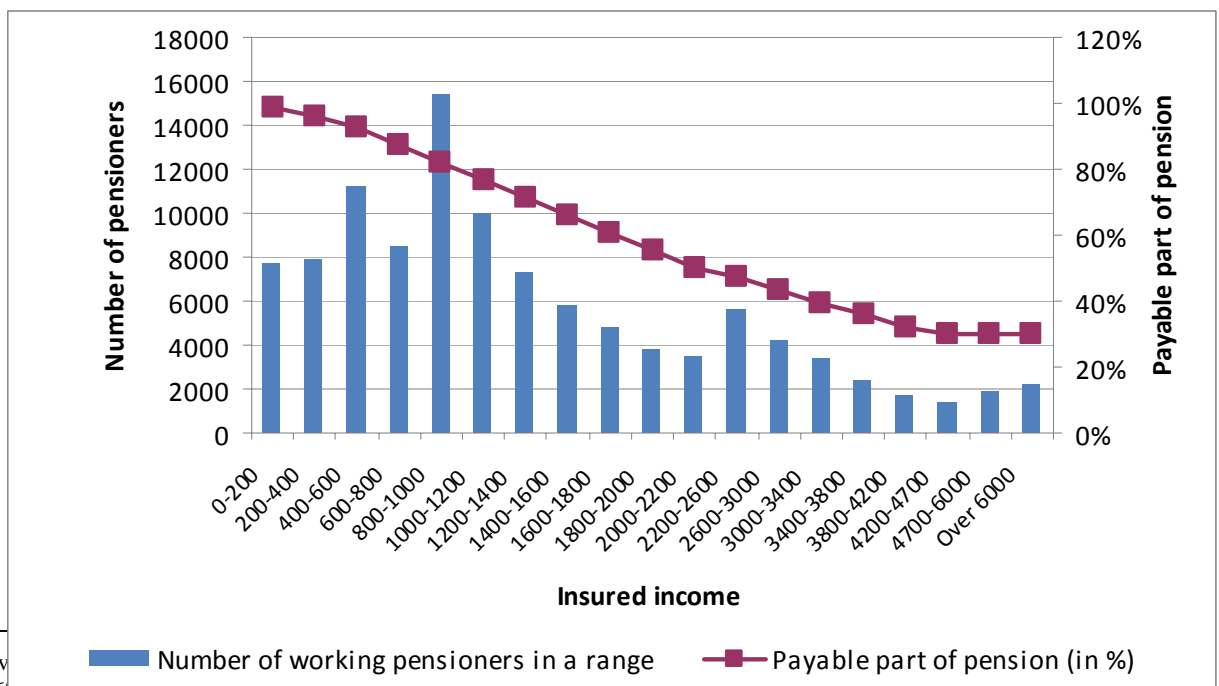
In 2010-2011 all pension above the threshold of 650 LTL temporally reduced (exception: disabled persons who lost 75-100 % of capacity for work: no reduction) – in average by 5 %.

Additional reduction for working pensioners - progressively, depending on income (max. reduction – 70 %; in average – 17 %). No additional reduction for working disabled.

Pensions will be restored since 2012.

Reduced pensions should be compensated in the future (*ruling of Constitutional Court of 20 April 2010*). Compensation of reduced pensions – when the State social insurance fund's budget is balanced or when political decision will be taken.

Chart 3. Variation in the part of pensions and compensations taking into account the amount of insured income



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VI. NEW REFORMS IN 2012

On Eurostat demographic projections, the population of Lithuania will decline to 2.5 million from 2009 to 2060. Moreover, the population of working age (from 15 to 64 years of age) will decrease from 58.6 to 41.4 per cent (of the total population), while the elderly population (aged 65 and older) will more than double from 16 to 32.7 per cent. It means that instead of the current ratio of people of working age to people over 65 years of age, which stands at 1.6, only 1 will remain. Consequently, the essential goal of the reform is creation of a financially sustainable system which is able to generate adequate benefits.

It's important to maintain the principle that economic values (i.e. the current economic crisis) should be subordinated to the state social insurance pension guarantees.

It is necessary to adopt in the highest level (Parliament) a new guidelines of the entire social security system.

The main goals of reform:

- to encourage employment (particularly) young persons, women, elderly persons),
- to refuse privileged benefits,
- gradually increase a retirement age (65 years),
- revise all social security system benefits,
- to balance the budget of the social security fund,
- to introduce reserve fund,
- to encourage participation in all private pension funds, to encourage the participation in the professional pension funds, assigning a certain part of liability for his own welfare to a person himself. If person participates in the private pension fund, the tax deduction or state subsidy will be applied,
- participants of the pension system should be constantly notified of the obtained rights to the state social security pension,
- independent permanently operating body (social partners council) liable for revision of the pension system or assessment of its course, establishing may help to consolidate management and transparency of the pension system,
- more transparency, more information about pension rights,
- to maintain pensions guarantees but also to give more responsibility for the persons,
- to improve the long-term sustainability of public finances and to ensure that financial market regulation.