

Reforming the retirement age in the Baltic States

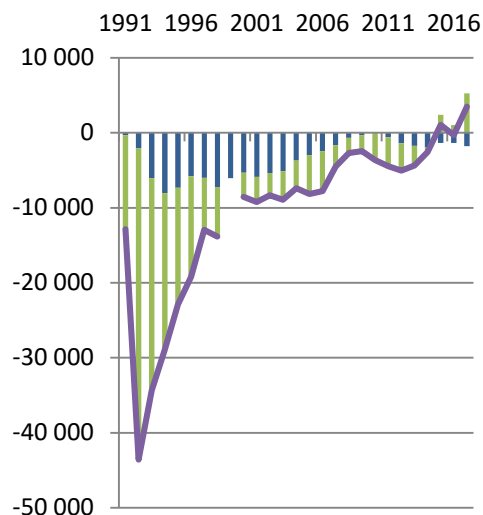
Olga Rajevska
University of Latvia

3rd academic workshop «Active Ageing Policy and Pension Reforms:
Russian and International Experience»

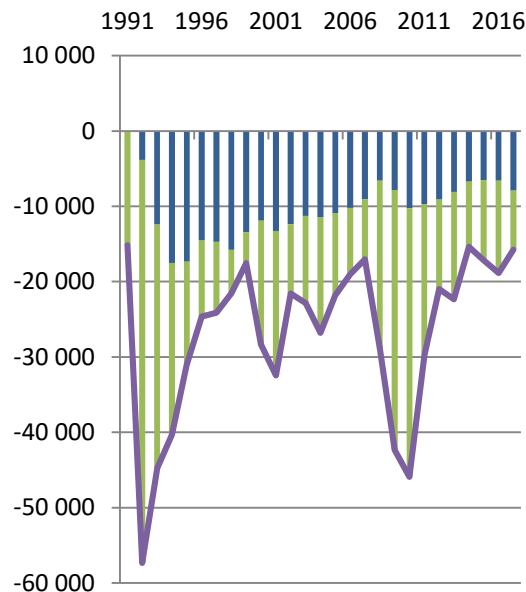
The Institute for Social Policy at the National Research University Higher School of Economics
25 April 2019, Moscow

Population loss

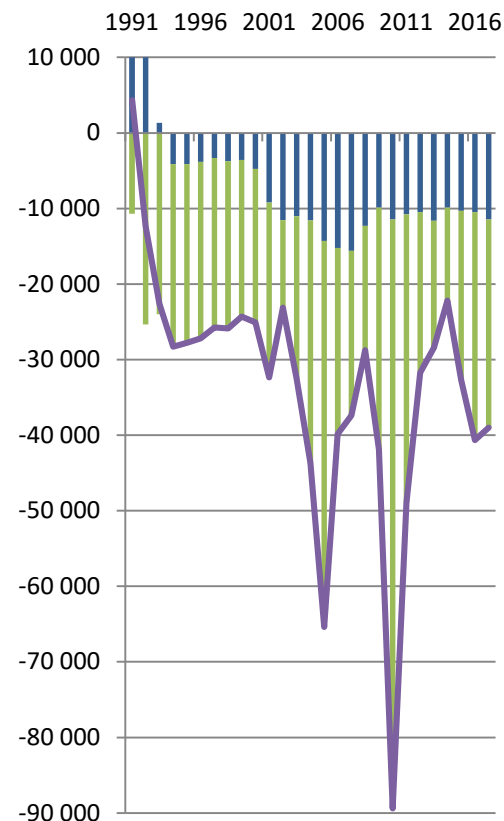
Estonia



Latvia



Lithuania



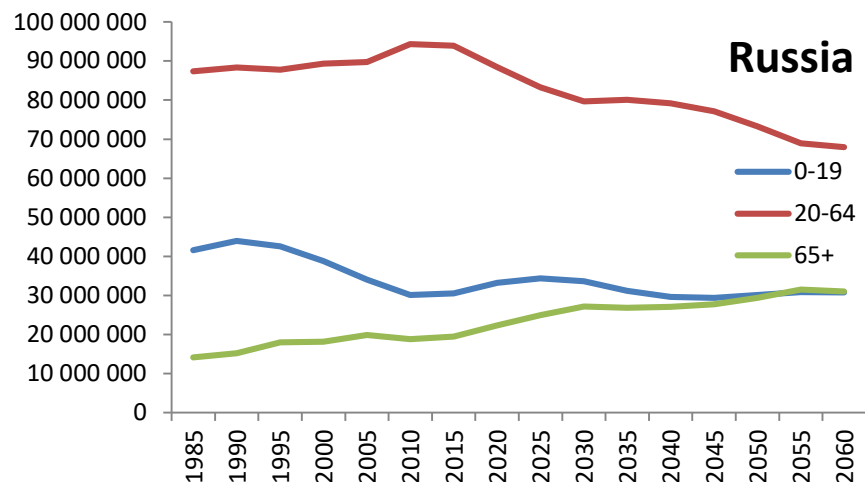
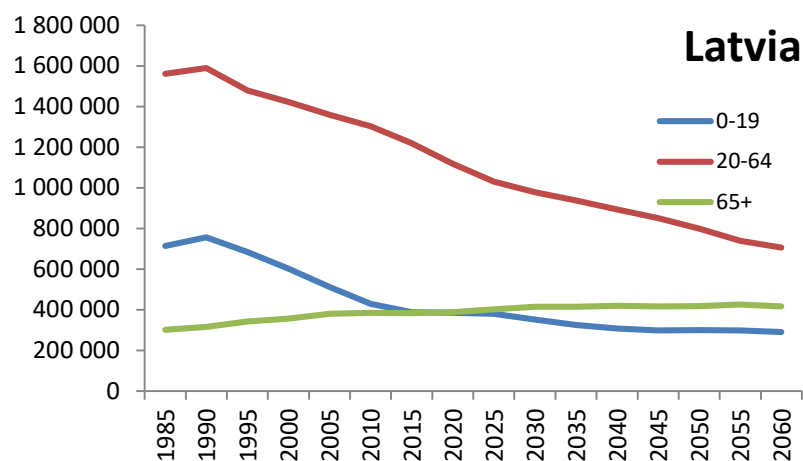
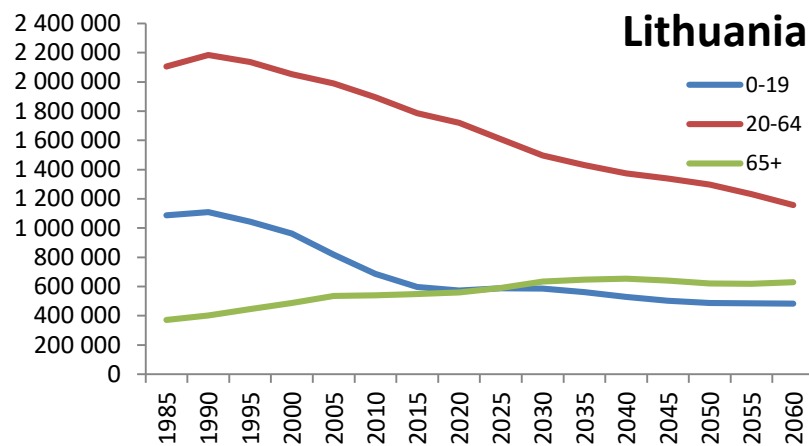
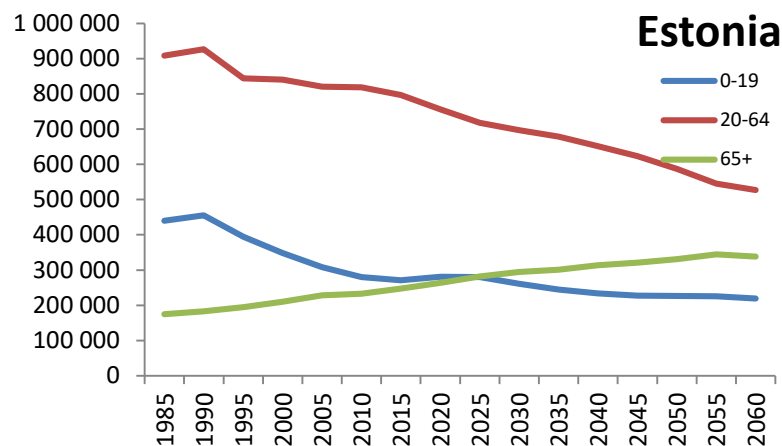
■ Natural change ■ Net migration

1990-2018

Estonia	-16%
Latvia	-28%
Lithuania	-24%
Russia	-1%

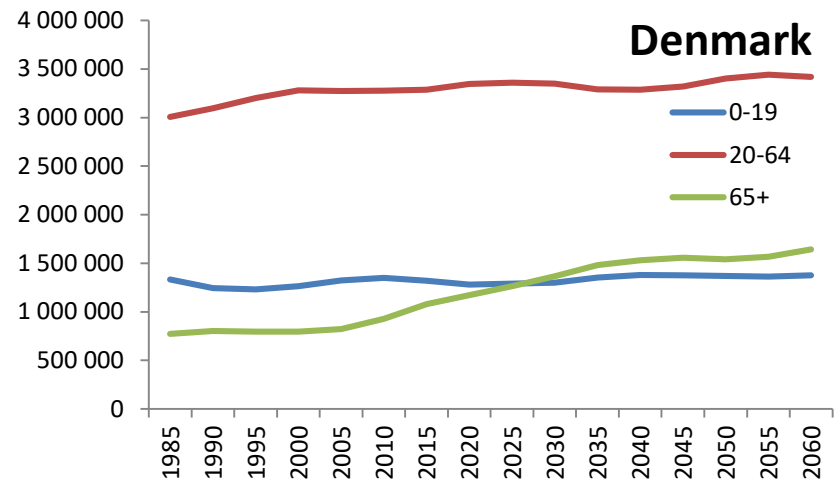
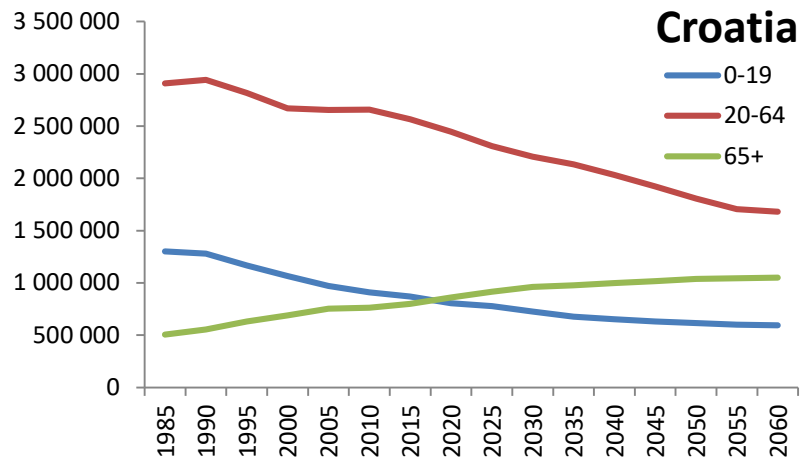
Eurostat

Total population by broad age group



Source: United Nations, Department of Economic and Social Affairs, Population Division (2017). World Population Prospects: The 2017 Revision, custom data acquired via website

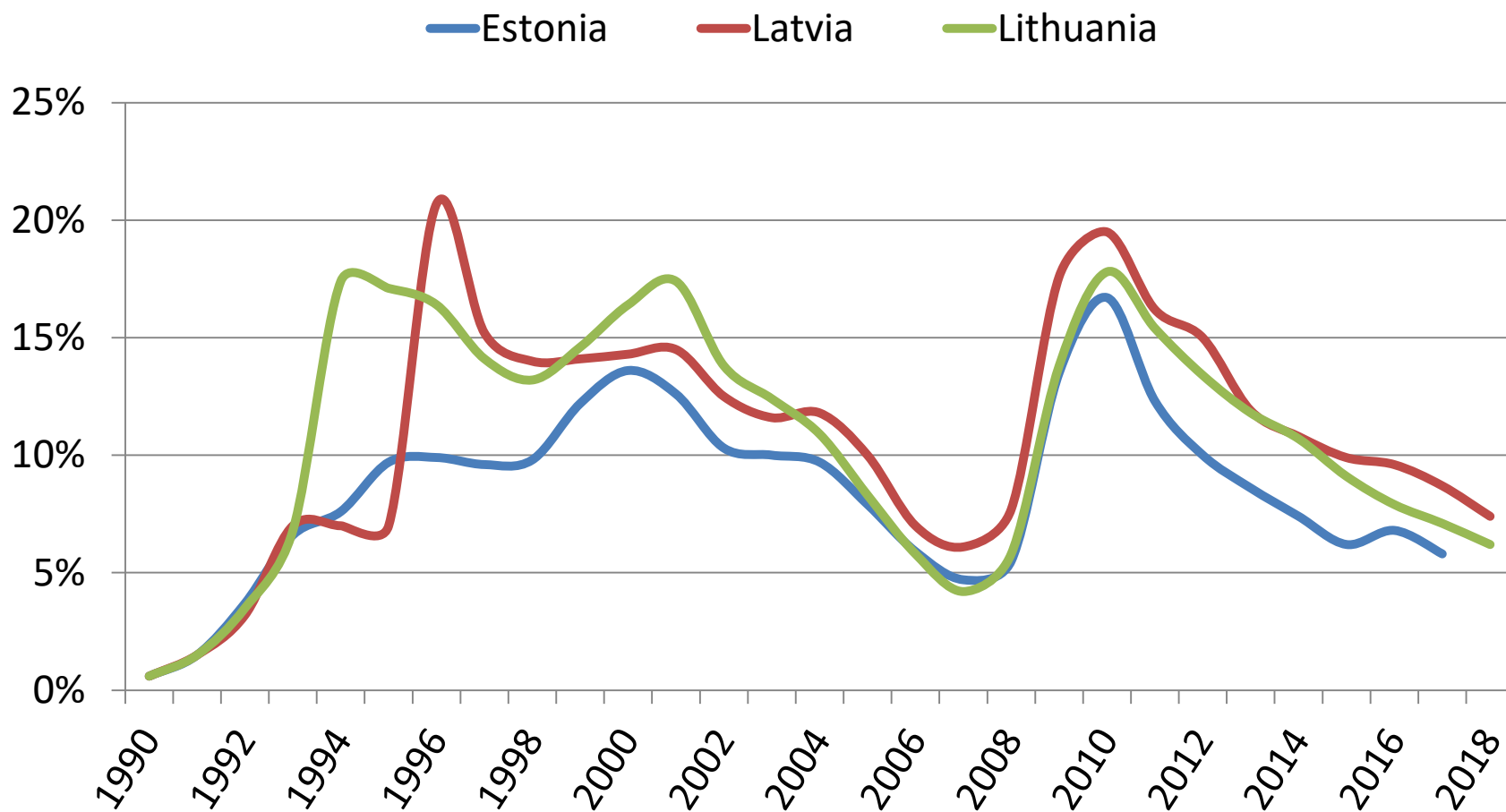
Total population by broad age group



Source: United Nations, Department of Economic and Social Affairs, Population Division (2017). World Population Prospects: The 2017 Revision, custom data acquired via website

Unemployment rates

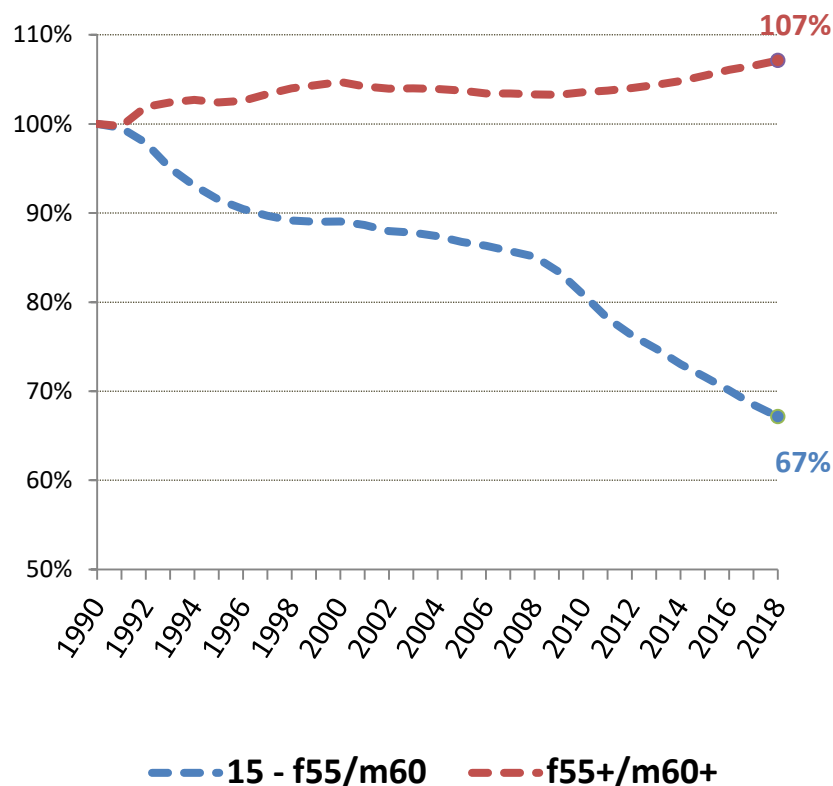
% of active population



Source: ILO (before 2004), Eurostat (after 2004)

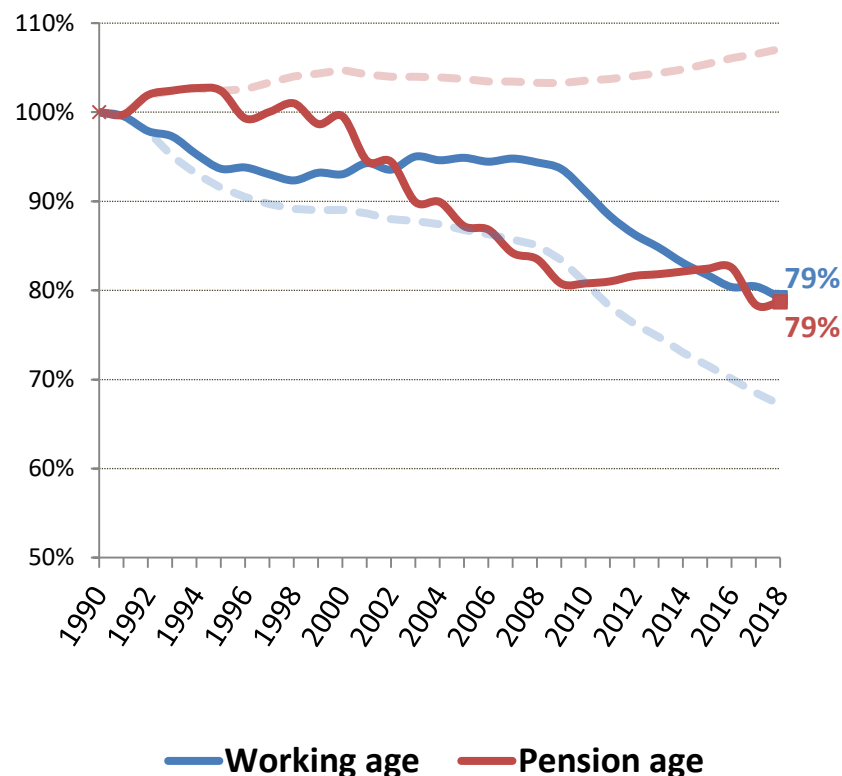
Latvia: population changes in age groups (1990 = 100%)

Prereform pensionable age



Source: Eurostat, own calculations

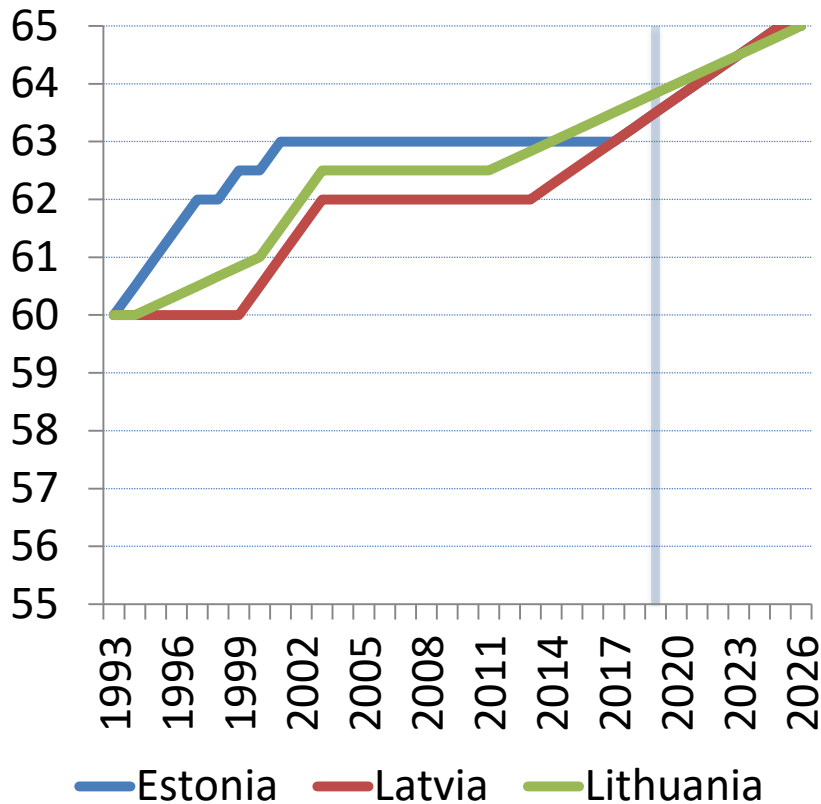
Reformed pensionable age



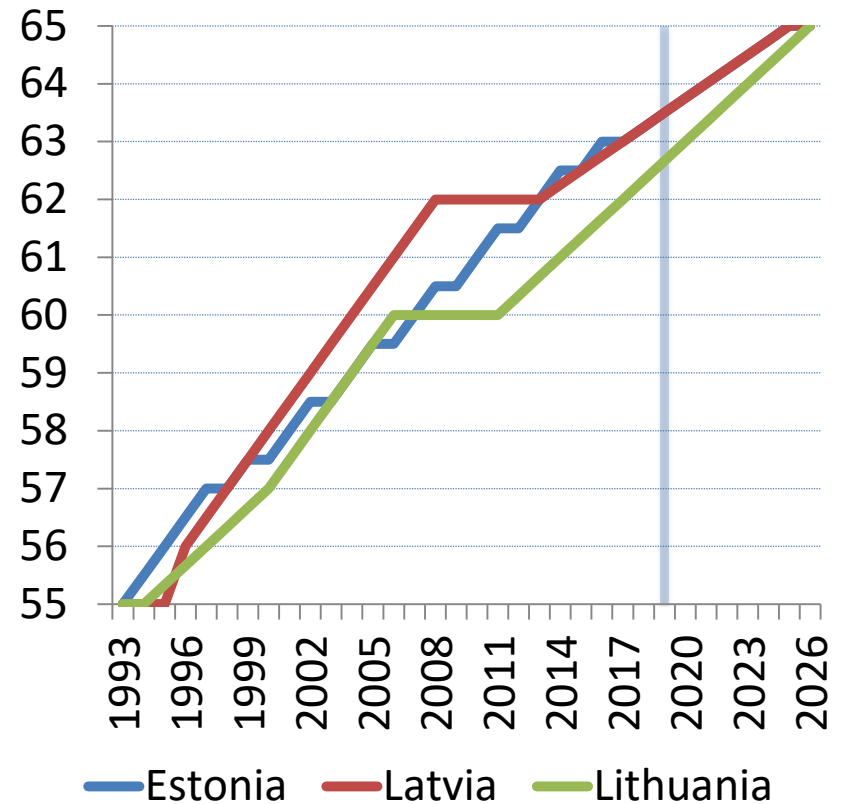
Source: Central Statistical Bureau of Latvia

Statutory pensionable age

men



women



Pension formulae

Estonia and Lithuania –

basic pension + pension points (PP) system

$$\text{Pension} = P_{\text{basic}} + \sum PP \times \text{one-point value}$$

Latvia – notional defined contribution system (*NDC*)

$$\text{Pension} = \frac{\text{notional capital}}{\text{life expectancy at retirement}}$$

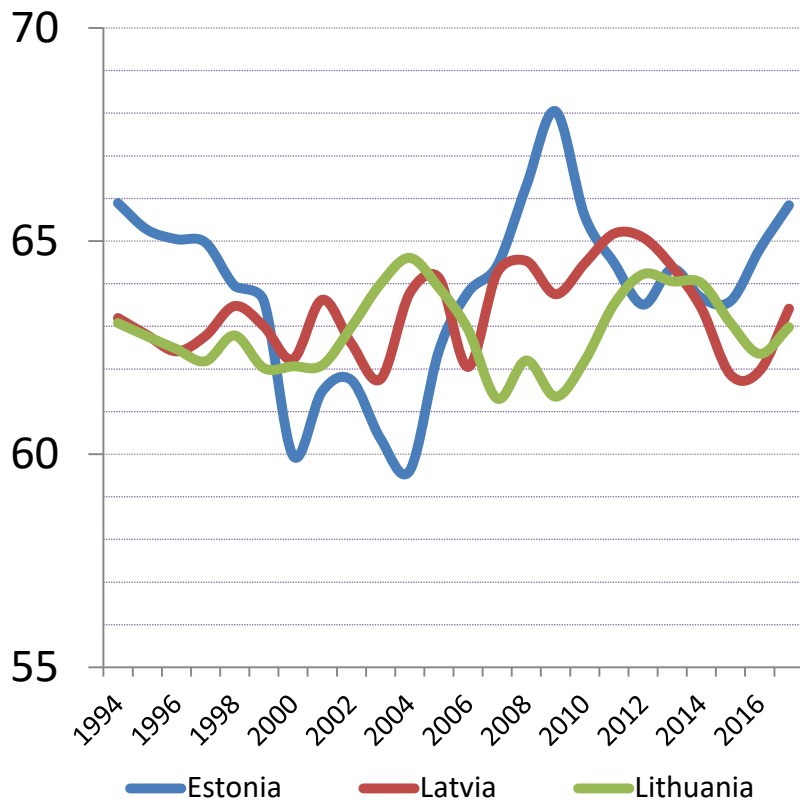
Early / deferred retirement

	Early retirement		Deferred retirement
Estonia	3 years	-0.4% per month	+0.9% per month (+10.8% per year)
Latvia	2 years (*)	1) life expectancy ↗ 2) ½ of the imputed amount until reaching the statutory age	life expectancy ↘
Lithuania	5 years (*)	-0.4% per year	+8% per year

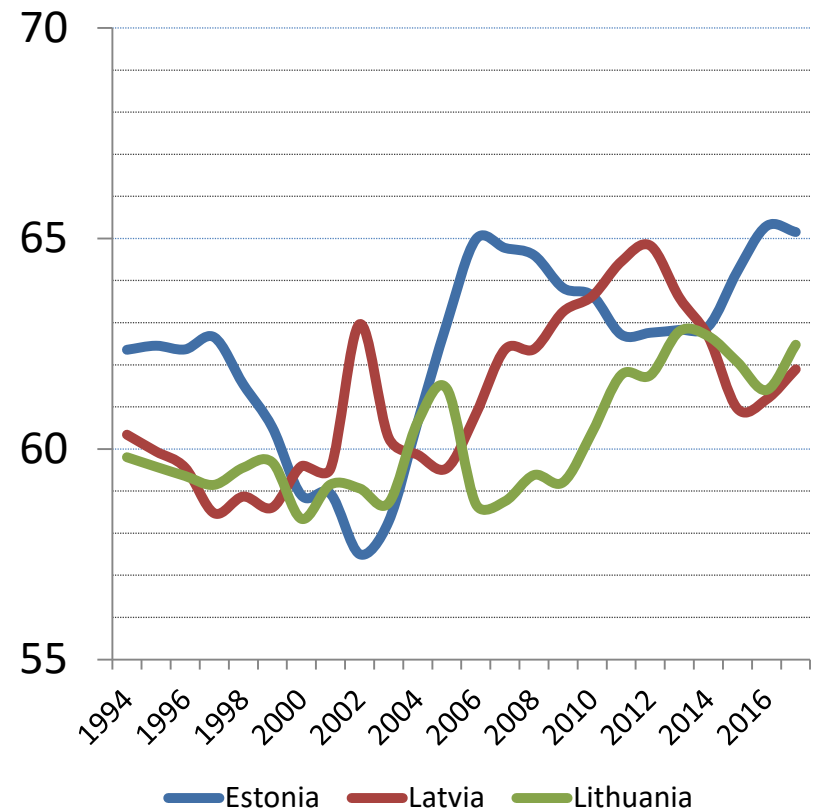
* - min 30 years of insurance record

Effective retirement age

men



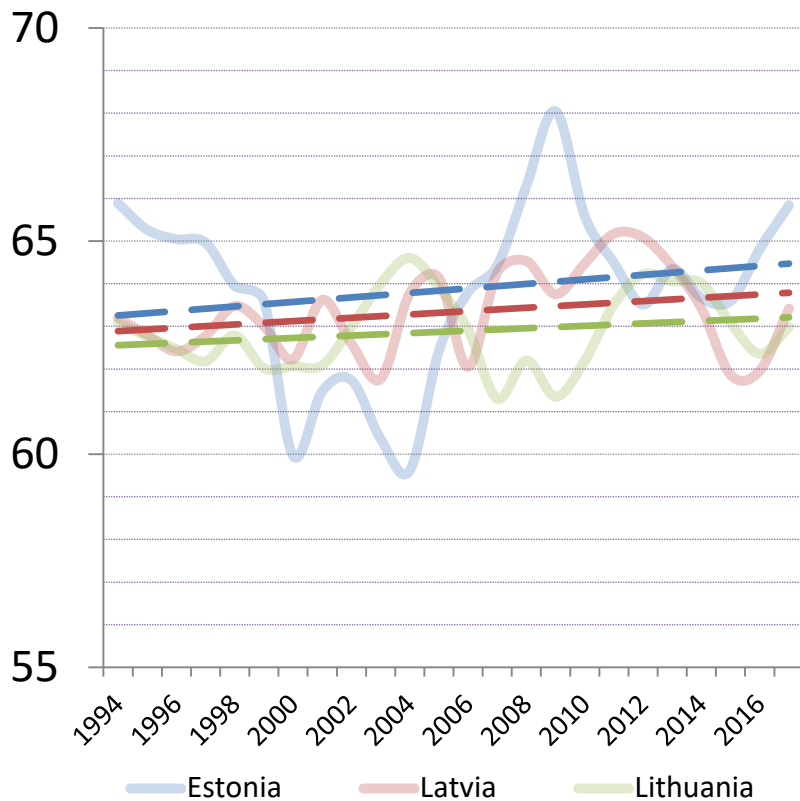
women



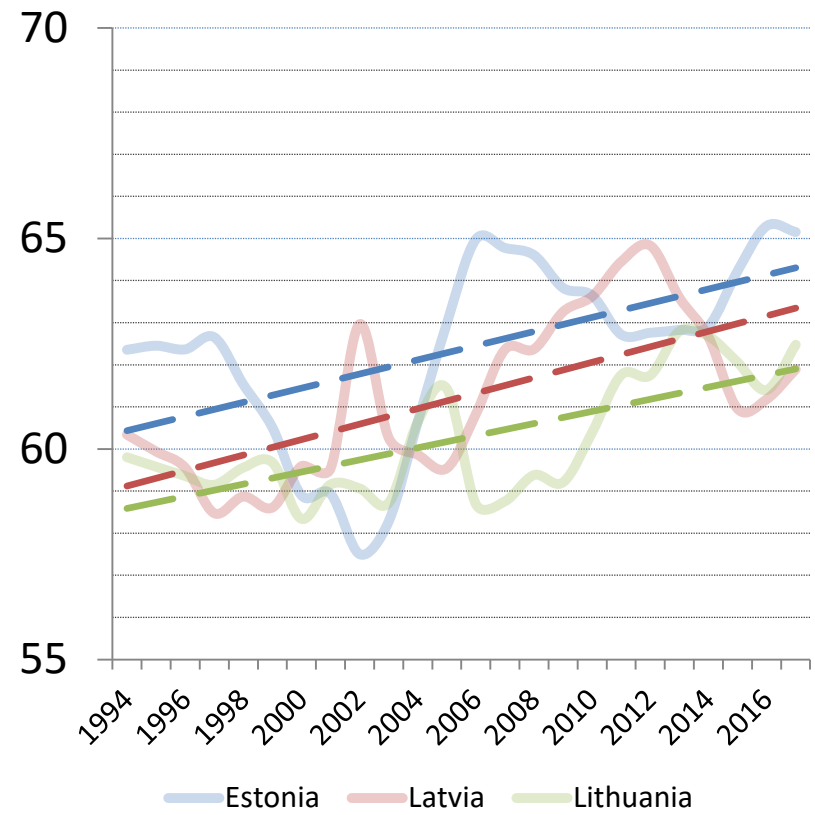
Source: OECD, Average effective age of retirement in 1970-2017 in OECD Countries, data acquired via website

Effective retirement age

men



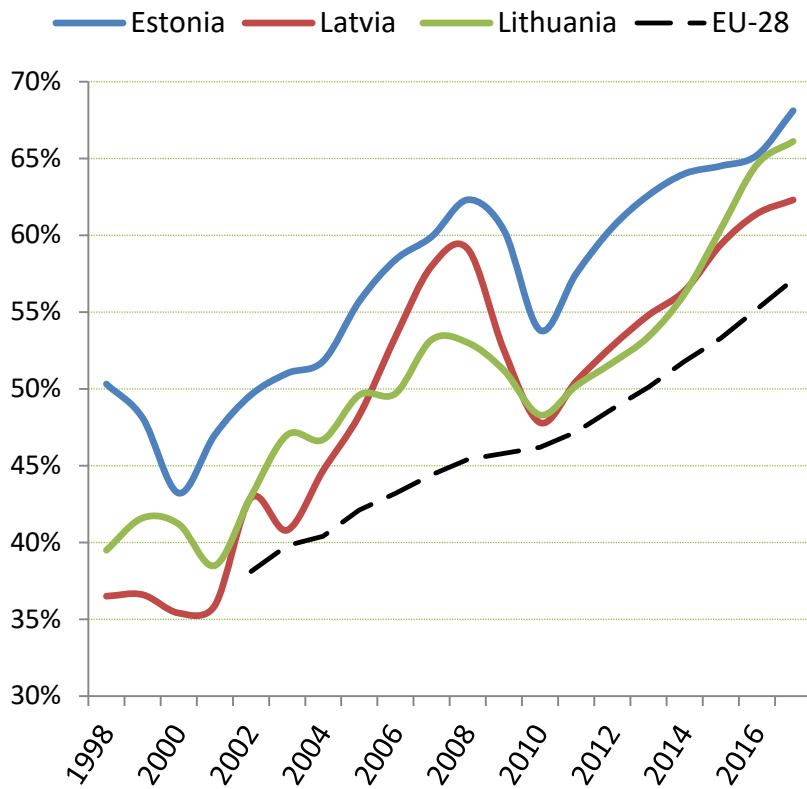
women



Source: OECD, Average effective age of retirement in 1970-2017 in OECD Countries, data acquired via website

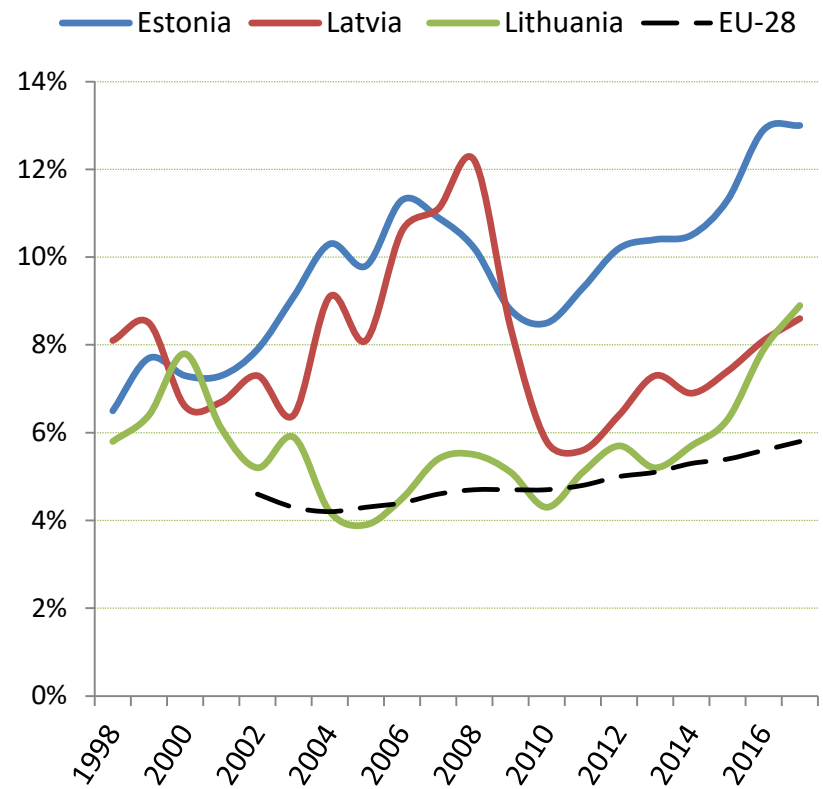
Employment rates

55 – 64 years

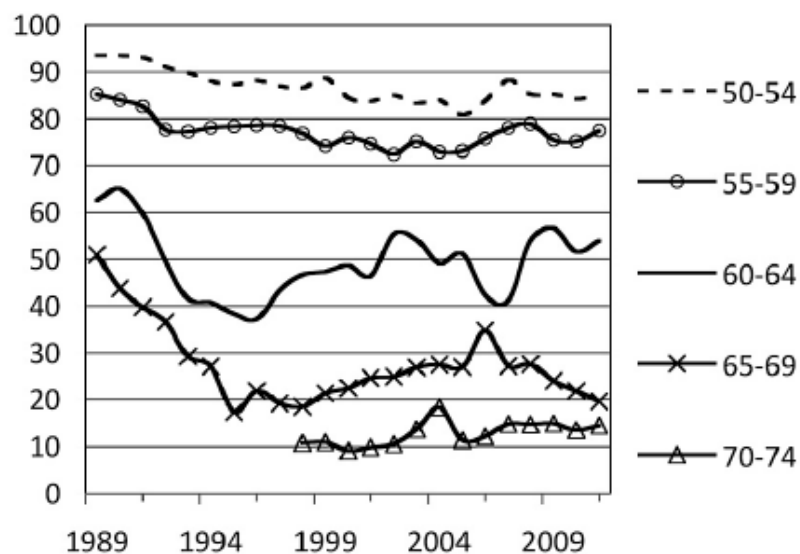


Source: Eurostat

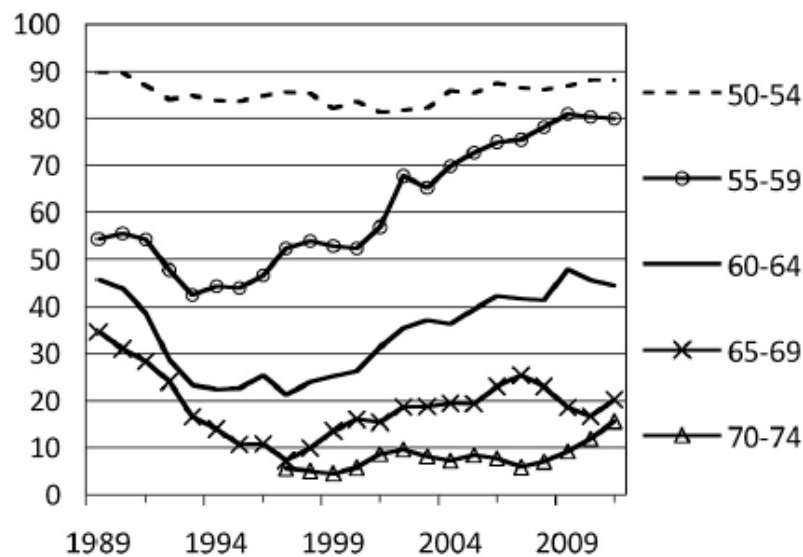
65+



Estonia: labour force participation



(a) Men



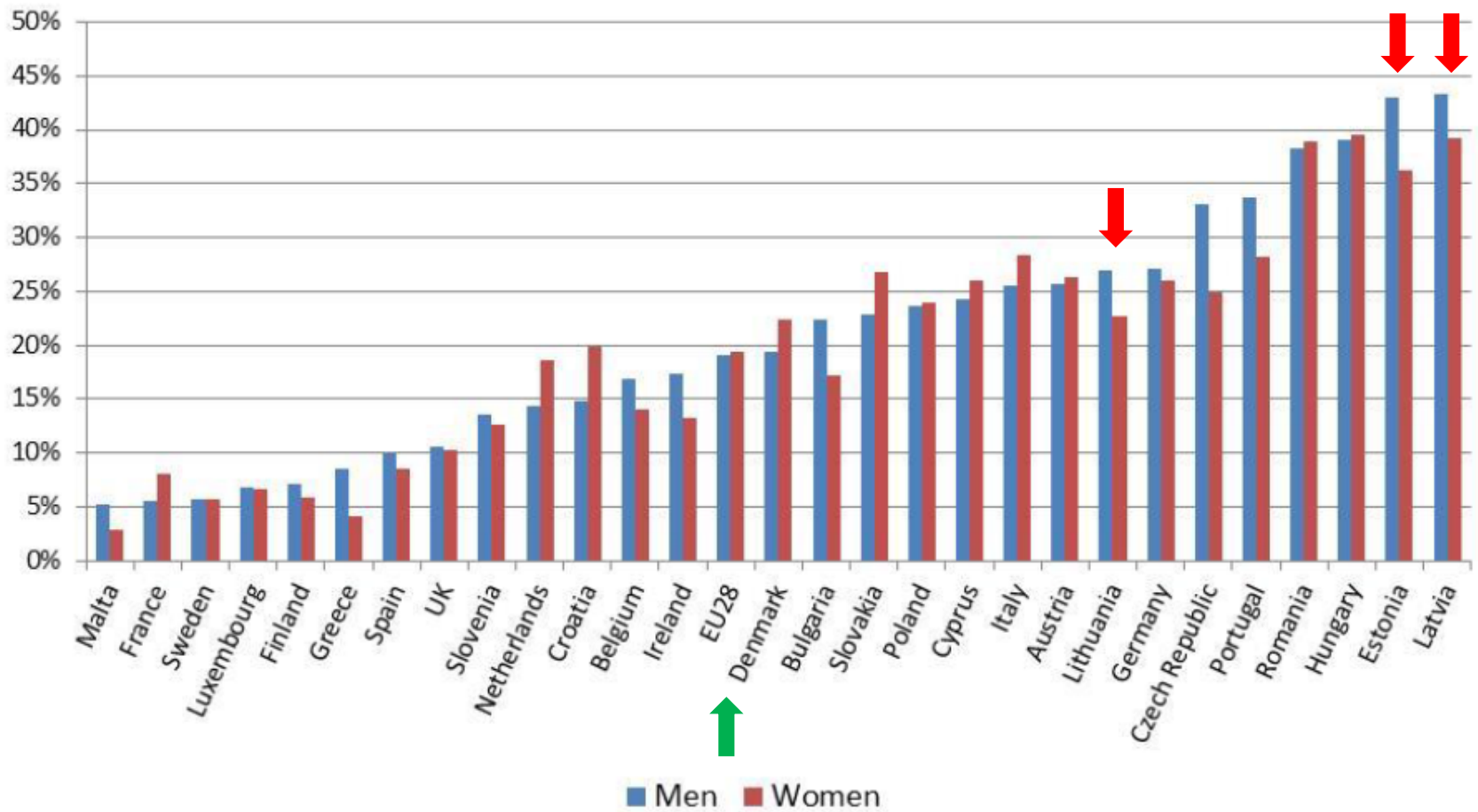
(b) Women

Source: Statistics Estonia.

Figure 1: Labour force participation rate 1989–2011 by age group

Source: M. KLESMENT & L. LEPIK (2012). *Transition to Retirement in Estonia: Individual Effects in a Changing Institutional Context*, Estonian Institute for Population Studies, Tallinn University

Figure 1: Share of workers wanting to work until 'as late as possible', 2015



Note: The question was 'Until what age do you want to work?' The figures presented in the chart correspond to the spontaneous answer 'as late as possible'.

Source: EWCS 2015

Where older workers are employed?

- Education
 - Administrative services
 - Health care
 - Agriculture
-
- Part time work – of their own free will

The World Bank research

- 2012-2013 “Latvia: Who is Unemployed, Inactive or Needy? Assessing Post-Crisis Policy Options”
- 2014-2015 “The Active Aging Challenge for Longer Working Lives in Latvia”



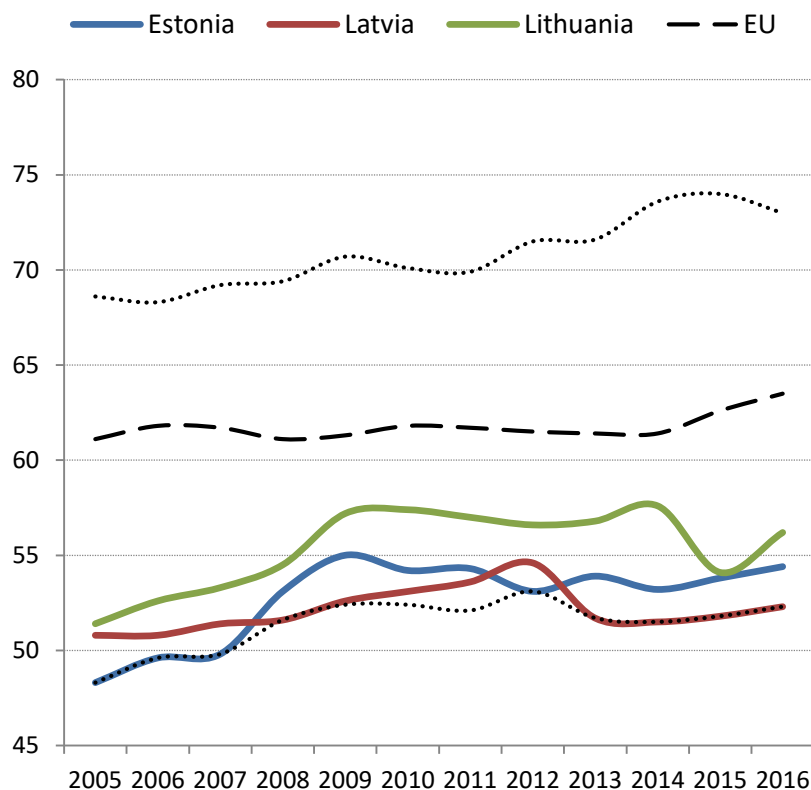
Programme «Growth and Employment» (Latvia)

aim 7.3.2 «improving the working capacity of older workers (50+)»

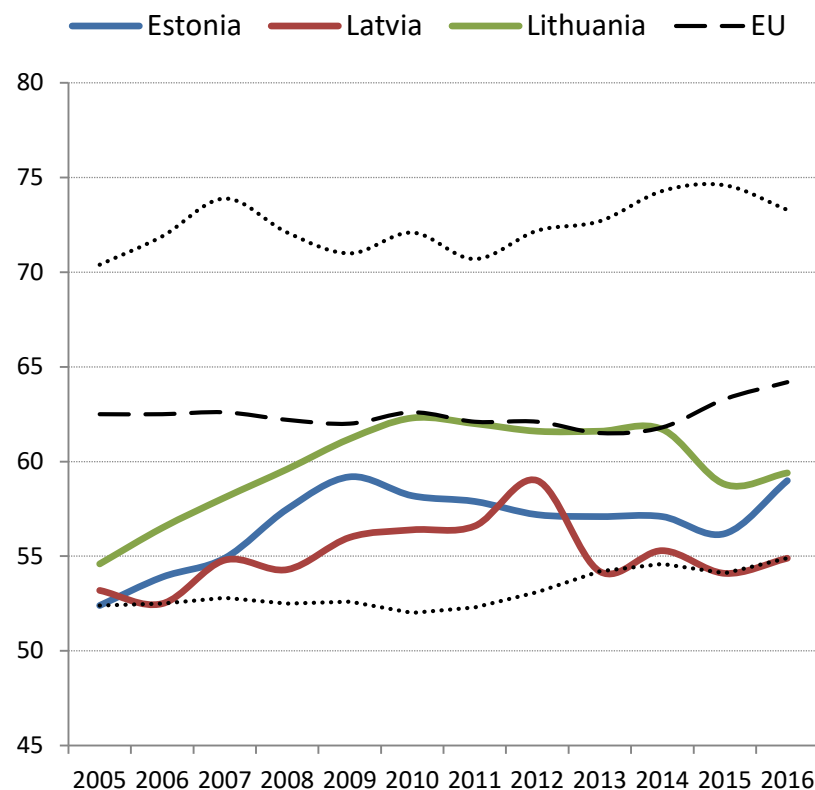
- 09/2016 – 12/2022 (6 years)
- €10,596,211 (85% - from European Social Fund)
- by 31/03/2019 assimilated only 5%, support measures for the target group have not started yet
- Target group: employees 1) with poor health; 2) without higher education; 3) providing care for family members; 4) part-time with salary below 80% of the statutory minimum занятые ; and 5) employers

Healthy life expectancy at birth

men



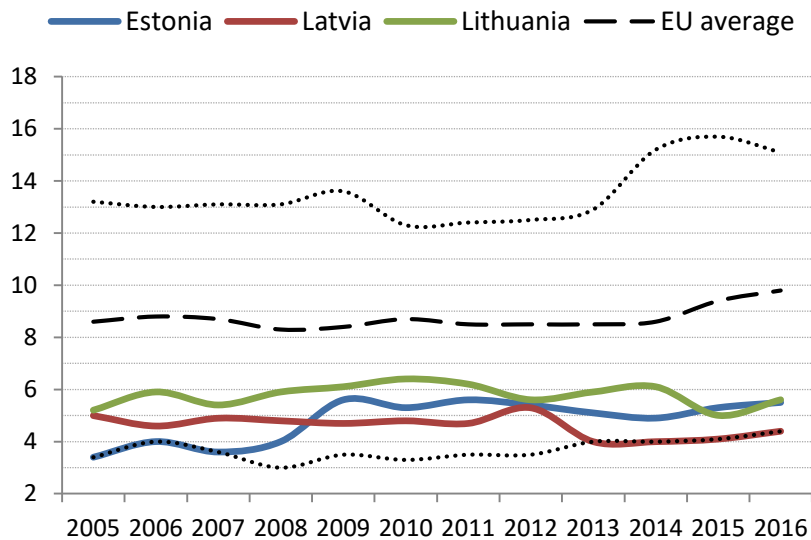
women



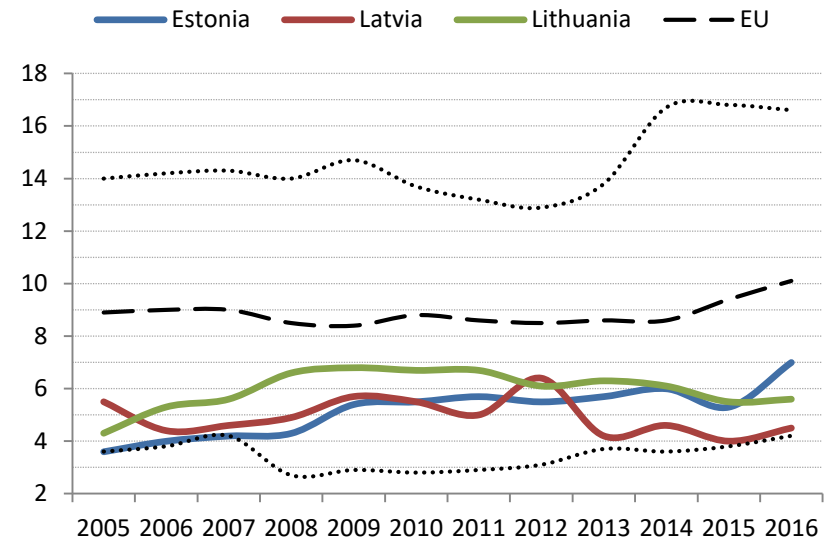
Source: Eurostat

Healthy life expectancy at 65

men



women



Healthy life years at 65 in percentage of total life expectancy

EE – 35.2%
LV – 31.2%
LT – 39.6%
EU – 54.0%

EE – 33.4%
LV – 23.6%
LT – 29.0%
EU – 46.8%

Flexible pension will replace early/deterred retirement in Estonia from 2021

- ✓ in 2021-2025 early and deferred retirement also available
- ✓ possible to retire 5 years before the statutory retirement age
- ✓ actuarially neutral (will be linked to bond prices)
- ✓ can be taken partially: from 50% to 100% of the calculated amount
- ✓ those taking 50% may combine pension and work income
- ✓ pension can be suspended for a while

Pensionable age in Estonia from 2027

✓ Pensionable age = 65 + increase in life expectancy at 65 years

✓ Increase =

= average for a 5-year period ending 4 years before – average for 2018 – 2022

✓ Rounded towards the full month

✓ Increase cannot exceed 3 months in a year

Summary I

- All three Baltic States commenced reforming the retirement age in the middle of 1990s: Estonia – 1994, Lithuania – 1995, Latvia – 1996
- Raising the retirement age took place in two waves. The second wave launched in the middle of 2010s
- As in 2019: statutory retirement age is 63½ years for both men and women in Estonia and Latvia; in Lithuania - 63 years and 10 months for men, and 62 years and 8 months for women
- By 2025-2026 the statutory retirement age shall reach 65 years for both men and women in all three countries
- Early retirement regulations significantly vary among the countries
- The decision-making process combined radical and incremental approaches

Summary II

- Employment levels in age groups 55+ and 65+ are higher than the EU average, while the health status is worse than the EU average
- Willingness to remain employed as long as possible is the highest in Latvia and Estonia than anywhere in the EU
- Possibility to combine full or partial employment with receiving the full pension benefit
- Life-long learning – underdeveloped
- Further raising the retirement age is ahead

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- Respective laws and cabinet regulations, web-pages of responsible institutions
 - Online databases

Thank you!

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