COST ACTION IS1409:

GENDER AND HEALTH IMPACTS OF POLICIES
EXTENDING WORKING LIFE IN WESTERN COUNTRIES

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EUROPEAN COOPERATION
IN SCIENCE & TECHNOLOGY

COUNTRY FRAMING REPORT

Lithuania

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Introduction

Lithuania as most of European countries underwent radical changes in economic and social systems at the end of XX – the beginning of XXI century. In demographic terms, the country suffers from a declining and ageing population. The absolute number of Lithuanians will drop to 2.9 million in 2050. In addition to low fertility rates, negative net migration will have a serious impact. In 2004, Lithuania saw the highest rate of emigration among the EU member states that joined the same year. The dependency ratio will climb from 22.5% to 44.9% in 2050, which is seven percentage points lower than the EU-25 average. Public pension expenditure in Lithuania will increase from 6.7% of GDP to 8.6% in 2050. These values are roughly four percentage points lower than the corresponding values for the EU-25 average (http://www.pensionfundsonline.co.uk/content/country-profiles/lithuania/87). In order to face such challenges the country took measures and in 2018 the new Social model came into force. This Report discusses changes in social policy system, variations in statistics and scientists' point of view toward challenges.

The aim of this country framing report is to describe pension system reforms, to provide statistical data on retirement and pensions, to present overview of the gerontological research in Lithuania.

Pension system reforms

Lithuania's first steps towards pension reform were taken in 1995, following a major economic crisis in the early 1990s. The first reform focused on making parametric changes to the first pillar and increasing the system's sustainability (Law on State Pensions, 1994). Another two pillars were added to the system in 2004, comprising funded schemes and supplementary pension provision. Contrary to most other CEE countries, Lithuania's second pillar is not mandatory. It is made up of individual defined contribution accounts, but employees are free to choose whether to join or not. Acceptance of second pillar pensions has been strong and participation has increased rapidly. The third pillar is fairly underdeveloped and consists of voluntary pension funds or life insurance products (http://www.pensionfundsonline.co.uk/content/country-profiles/lithuania/87) (see Table 1).

Table 1. Structure of pension system in Lithuania

Zero Pillar	First Pillar	Second Pillar	Third Pillar
Social insurance pensions for work incapacity; widows, widowers and orphans; persons who nursed disabled person at home for more than 15 years.	Implemented since 1995, obligatory, depends on the number of years worked, amount of social contributions paid, period of their payment, the amount of insured income for the current year. Since 2018 pension will consist of the general and the individual parts.	Implemented since 2004, is not mandatory, made up of individual defined contribution accounts.	Implemented since 2004, is underdeveloped, consists of voluntary pension funds or life insurance products, voluntary.

The First Pillar - Public Pensions

The first reform implemented a two-tier system in the first pillar. There was a basic flat- rate pension that depended on years of service. The second part of the public system was supplemental and earnings related. It was based on a formula comprising years of service, individual wages and average income. Adjustments for the earnings-related component were made in line with average economy-wide earnings, while the basic pension was determined by the government in an ad-hoc manner.

In principle, all employees were covered by the system, but the actual coverage rate was 83% of the workforce. Some categories of the self-employed were free to join. In order to receive a full pension, 30 contributory years were required and the minimum qualifying period was 15 years. Those who did not reach the minimum qualifying period were entitled to a social assistance pension, which amounted to 90% of the basic pension.

Social contributions in Lithuania were high, amounting to 30.7% of gross wages. 23.7% of these contributions were allocated to pensions. Employers payed 21.2% of gross wages for pensions, and employees contributed 2.5%. Possibilities for early retirement were re-introduced in 2004 after having been abolished in 1995, but they only applied to people who have been unemployed for a long time. If people retired early, their pension benefits were reduced. Staying in the workforce longer than the minimum retirement age was rewarded with 8% benefit increases per extra year.

A new version of the Law on Social Insurance Pensions (2016) has reformed the pension scheme and came into force since 2018. Key provisions of the new legal regulation – new pension structure, introduction of pension points and indexing. The new edition of the Law provides that the pension will consist of the general and the individual pension parts. The general part of the pension will replace the basic part of the pension and a bonus for the length of the record, while the individual pension will replace the additional part of the pension and reflect person's contributions paid to the social insurance scheme. The new edition of the Law also provides for gradual increasing of the obligatory insurance record for which the old-age pension is paid from the current 30 years to 35 years. At present, the average insurance record for which the old-age pension is paid is already 37 years.

The Second Pillar – Voluntary Individual Accounts

Second pillar pension funds were introduced in 2004. In 2002, the decision was made to make the second pillar voluntary. Once the decision to join the voluntary system has been made, it is irreversible. The only conditions for joining are that members are insured by the state social insurance scheme and are below the retirement age. Pension funds are established as companies. They have a supervisory board, a management board and a shareholder assembly. Similar to mandatory second pillar systems in other Eastern European states, contributions to the second pillar are diverted from social security contributions to pension funds.

According to the Bank of Lithuania, there were 21 second pillar pension funds in 2017 in the country. According to the data as of early 2017, about 1.25 million Lithuanian residents accumulate their funds at pension accumulation companies (The review…, 2016). Contributions to pension funds have increased and since 2016 consist of 2% contribution of state social pension insurance, 2 % additional contribution by the participant and 2% pension benefit from the state budget. In 2014-2015, the contribution consisted of 1% contribution of state social pension insurance, 2% additional contribution by the participant and 1% pension benefit from

the state budget (The Social Report 2016–2017, 2017).

The Third Pillar – Voluntary Pension Savings

Third pillar pensions are fairly underdeveloped in Lithuania. Private individual pensions were introduced in 2004. Individuals and their employers can contribute to voluntary pension funds. Contributions are tax-free up to 25% of annual income, and any amount above that level is taxed at a reduced rate of 15% (rather than the regular rate of 27%).

In 2006, the Lithuanian parliament passed a law that enables the creation of occupational pension schemes and group life contracts. This could become something of a fourth pillar in the future, but a scheme has yet to be created.

In sum, in Lithuania three-pillar pension system is operating. Contrary to all other CEE states with a funded second pillar, Lithuania chose not to make its second pillar mandatory. The fast take-up of second pillar pensions, which was supported by a massive advertising campaign, shows that voluntary solutions can also work. To achieve a balanced structure, the third pillar needs to be developed further. Its development might be a question of time and rising income, but tax incentives are currently too weak to get it off the ground. Nevertheless, pension reforms in Lithuania have resulted in a much more sustainable system with a widely accepted funded element (http://www.pensionfundsonline.co.uk/content/country-profiles/lithuania/87).

Statistical data on retirement and pension

In 2014, the share of the population who reached the age at which it is entitled to old-age pensions accounted for 22% of all people living in the country, i.e. 210,900 men aged 63 and above and 440,100 women aged 61 and above. During the same year, the average number of beneficiaries of state social insurance old-age pensions (hereinafter referred to as old-age pensions) was 598,500 people and the average old-age pension having the necessary record of social insurance amounted to EUR 249.42. In 2014, beneficiaries of old-age pensions accounted for 55% of all beneficiaries of state social insurance pensions. The calculated amount of old-age pensions made up 75% of all expenditure of state social insurance pensions. Disability, loss of breadwinner and retirement pensions are no longer provided (those pensions that have been awarded previously continue until the end of the established period). As a result, the number of beneficiaries of these types of pensions has been decreasing every year (The Social Report 2014–2015, 2015).

The old-age retirement population amounted to 23% as of the end of 2016. Each year, the number of people who have attained the old-age retirement age decreases slightly due to the raising of the old-age retirement age, which will reach the 65-year mark for both men and women in 2026. As of 2017, the old-age retirement age is 62 years for women and 63 years and 6 months for men. According to the data of the State Social Insurance Fund Board (hereinafter – the SSIFB) as of December 2016, about 90% of people in retirement age receive a state social insurance old-age pension, while the rest have chosen to receive a disability pension (The Social Report 2016–2017, 2017). As for comparison, in 2014, beneficiaries of old-age pensions accounted for 55% of all beneficiaries of state social insurance pensions. The old-age pensions made up 75% of all expenditure of state social insurance pensions (The Social Report 2014–2015, 2015).

In 2016 the Government approved the new amount of the basic state social insurance pension and the insured income. As a result, the amount of the basic state social insurance pension

increased from Euro 112 to Euro 120, while the insured income of the current year - from Euro 445 to Euro 476 as of 1st January 2017. This increase has affected about 802 thousand recipients of state social insurance pensions. Due to the higher amounts of the basic pension and the insured income, the average old-age pension awarded to people having the obligatory insurance record increased on average by about Euro 20 and amounted to about Euro 287.07 as of January 2017. During 2016, the average annual state social insurance old-age pension of persons having the mandatory social insurance record was Euro 266.18. The ratio between the average annual old-age pension of persons with the mandatory social insurance record and the average annual gross salary of persons insured with all types of social insurance is 40.2 per cent (The Social Report 2016–2017, 2017).

The changes of introduced parametric reform are presented in Table 2.

Table 2. The parametric reforms of pension systems in Lithuania

Year	1993	2016
Formal age of retirement	55 for women, 60 for men	62 for women, 63 for men, will be increased till 65 years in 2026
Maximum insurance period for a full old age pension	20 years women/25 years men	35 years
Replacement rate (average pension/ average wage)	34. 0 percent	40.2 percent

The pension parametric reforms aimed increasing the retirement ages till 65 years old for both men and women in Lithuania. Reforms also increased the insurance period from 20 to 35 years. The average amount of pensions in Lithuania in 2016 was at the minimum standards, with a replacement rate of 40.2% of the average wage. So, since the maximum insurance period almost doubled and the amount of contributions increased in relative and absolute terms, on the contrary, the replacement rate in Lithuania remained at the level of minimum standards of ILO Convention no.102. Such standards are overtaken from most of the EU member states and in the EU Strategy 2020 was defined 60% of the average incomes as the minimum standard of living.

The labour market indicators shows difficulties for group age 55-65 to find a job in the labour market, although their unemployment rates are lower compared to the youngest. Skills need assessment of the labour market addressed to such categories and a better orientation of the curricula of the vocational and higher education to the market needs have to be associated with a better career orientation during the life course. Research data shows that not adjusted working places, not flexible working time, few opportunities for alternative employment, low possibilities for training and retraining are mentioned as the most restraining factors for elderly staying in labour market (Pocius, 2016).

Overview of Social gerontology research in Lithuania

S. Mikulioniene in her textbook Social Gerontology (2011) makes an overview of research made in the field of gerontology in Lithuania. She states that even if there were incidental research in Lithuania in the second half of XX century, social gerontology issues became field of interest of social researchers only after Independence reconstitution in Lithuania. S. Mikulioniene groups main investigations in several topics which are presented below:
- older workers in labour market. L.Okunaviciute-Neverauskiene (2008), J. Moskvina

(2007, 2009), A. Pocius (2005) investigated older workers motivation to work, their need for professional training and consultation, their situation in labor market, possible political measures. T.Medaiskis, B. Gruzevskis, S. Mikulioniene (2007) discussed challenges to labor market caused by aging population;

- social welfare of elderly. The emphasis in this field is on pension system and its reforms (R. Lazutka, 2004, 2007; D. Skuciene 2004a, 2004b, 2006, 2007, 2008; A. Bartkus, 2010; V. Poskute, 2000; A. Bitinas, 2008, etc.), needs, provision, quality of social services for elderly people (L. Zalimiene, 2005, 2007; R. Bikmaniene, 2005; R. Bikmaniene, A.Sileika, 2004; R. Naujaniene, 2008, etc.), social policy issues related to elderly (L. Dromantiene, V. Kanopiene, 2004; J. Aidukaite, 2005; S. Mikulioniene, V. Kanopiene, 2006a, 2006b, etc.), gerontological social work and nonformal support (R. Naujaniene, 2002, 2007; N. Veckiene, 2002; M. Rubazeviciene, 2007; V. Uzaite, R. Naujaniene, 2006; R. Bandzeviciene, V. Dauderys, 2008; J Pivoriene, 2002, 2007, etc.);
- image and identity. S. Mikulioniene (2002, 2003, 2006, 2008a, 2008b) investigated images of elderly and attitudes toward these images. Identity of elderly and social construction of aging body was researched by G. Rapoliene (2007, 2008, 2009, 2010), G. Rapoliene, A. Juozulynas (2010);
- discrimination on the base of age was researched by S. Mikulioniene (2003, 2006, 2008a, 2008b), G. Navaitis (2008);
- demography of aging was a topic of S. Mikulioniene (1995, 2002, 2003, 2006, 2008a, 2008b);
- solidarity between generations was investigated by M. Gedvilaite-Kordusiene (2009a, 2009b, 2011);
- lifelong learning. M. Tereseviciene et al (2006), I. Zemaitaityte (2007) in their textbooks analyze adult education; including elderly motivation for learning, L. Dromantiene et al (2009) did the research about adults' participation in formal education system. There are methodological books about adult education methods and programs (A. Beksta, 2010; T. Tomilinas, M. Narbutas, 2010; D. Luksyte et at. 2010);
- psychological development of adults, including elderly, is described by R. Zukauskiene (2007), J. Kairys (2002);
- life quality related with health issues. F. Stepukonis (2006, 2008, 2009) analyzed relations between age, health and illness. Life quality of elderly research were done by J. A. Juozulynas et al (2009), T. Svensson, F. Stepukonis (2007), V. Alekna et al (1999, 2001). Needs of elderly in poor health were investigated by V. Lesauskaite (2009), L. Spirgiene, J. Macijauskiene (2008), A. Jurgelenas at al. (2007). Care of persons with dimension and Alzheimer issues were analyzed by J. Macijauskiene (2006), V. Zydziunaite (2007).

In sum, social gerontology research is developing in Lithuania and is recognized among other research fields. Participation in COST action strengthens this scientific field of investigation and provides evidence based argumentation for influencing social policy for elderly population.

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