Estonia

Estonia: Pension system in 2014

The system combines an earnings-related public scheme with mandatory contributions to funded pensions. There is also a flat rate, basic element and a safety net, national pension.

Key indicators: Estonia

		Estonia	OECD
Average worker earnings (AW)	EUR	12 436	33 036
	USD	15 060	40 007
Public pension spending	% of GDP	6.9	7.9
Life expectancy	At birth	74.3	80.0
	At age 65	16.8	19.3
Population over age 65	% of population	18.4	16.2

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Qualifying conditions

The pension eligibility age is 63 year for men and will reach 63 years for women from 2016. After that, retirement age will increase gradually to 65 in 2026 for both men and women. The qualification period is at least 15 years of pensionable service.

Benefit calculation

Basic

The flat-rate base amount was EUR 134.91 per month in April 2014 and EUR 126.82 in 2013 and is only payable along with an earnings-related pension.

Earnings-related

Pension benefits are calculated on the amount of contributions paid on an individual's behalf relative to the average contribution paid. This is the annual pension-insurance coefficient of the person. The accumulation of those coefficients at retirement is multiplied by the value of a year of pensionable service to calculate pension entitlements. The value of a year of pensionable service was EUR 4.72 in July 2013 and EUR 4.96 in April 2014.

There is no ceiling to earnings for contribution or benefit purposes.

Pensions in payment are indexed to 20% consumer prices and 80% contribution revenues annually each April. This applies to the base amount, the value of a year of pensionable service in the earnings-related scheme and the value of the benefit under the targeted scheme.

Targeted

A minimum retirement-income guarantee is provided by the national pension. This was EUR 148.98 in April 2014.

National pension is granted to the following persons: Persons who have attained 63 years of age and who have not earned a pension qualifying period required for the grant of old-age pension and who have been permanent residents of Estonia or have resided in Estonia on the basis of a temporary residence permit or temporary right of residence for at least five years immediately before making a pension claim.

It is possible to also apply for a social assistance benefit, if the income is less than certain level. Benefit size depends on number of people in household, their income, housing costs, etc. It is granted by local governments.

Defined contribution

Individuals choosing the funded option must make an additional contribution of 2% of earnings into their pension fund. Full contributions resumed from 2012 after paying only half in 2011 and nothing between June 2009 and 2011. Four per cent of the total social security contribution is then also diverted to this fund. New labour-market entrants (that is, those born in 1983 or after) are required to take the funded option. From 2011 only new entrants into the labour force can join the second pillar. Over 660 000 people have taken out individual accounts.

Due to temporary suspension of second pillar contributions in 2009-11, about 280 000 people will get higher contributions to second pillar (applications were voluntary) in 2014-17. Their state part of contributions will be increased from 4% to 6%. In addition about 106 000 people chose to increase individual contribution from 2% to 3%.

Variant careers

Early retirement

The public pension can be claimed up to three years before the standard age (i.e. from age 62 in the long term) provided that the individual retires and if the condition of a 15-year qualification period is met. The pension is reduced by 4.8% for each year that an individual retires early.

Late retirement

The public pension can be deferred after the normal pension age. Deferring pension earns an increment of 10.8% per year. During the deferral period, the worker continues to contribute and earn extra entitlement. It is also possible to combine work and pension receipt. In this case, contributions are again paid and the pension is recalculated annually.

Childcare

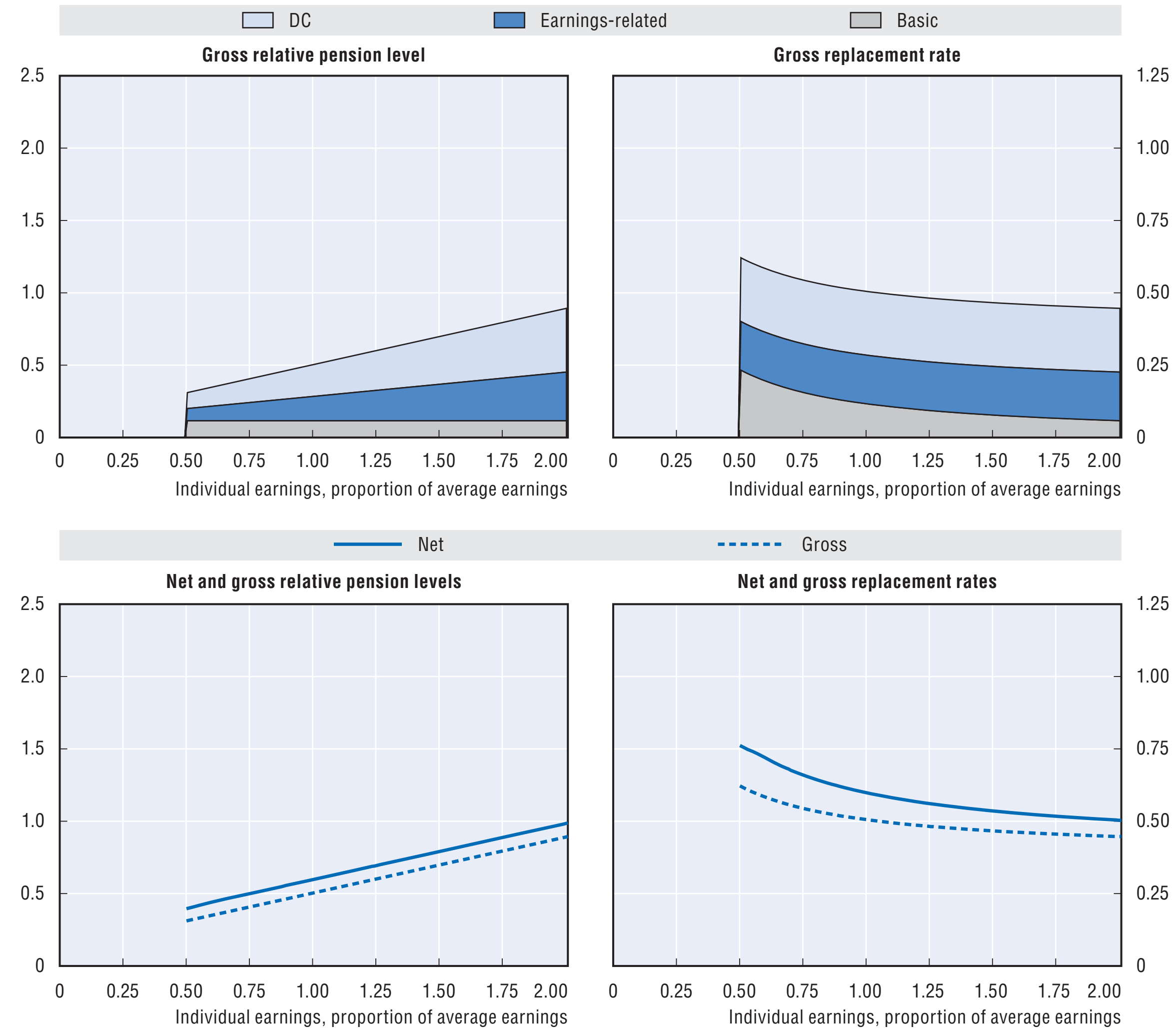
The state pays the employer contribution on behalf of recipients of childcare allowance up to three years per child. This is 20% on assumed earnings of minimum wage (EUR 355 in 2014).

From 2013 the system was improved. One parent will get monthly contributions equal to 4% of national average wage into the earnings related pension scheme for a maximum duration of three years per child for children born after 2013. In addition parents will get up to three pensionable service years per child for children born before 2013. This rule depends on the exact date of birth, since some parents already have extra pensionable service year per child due to old rules.

Unemployment

There are no credits for periods of unemployment.

Pension modelling results: Estonia in 2059, retirement at age 65



Baseline scenario: Legislation scenario (mixed-indexation of targeted schemes)

Men	*Individual earnings, multiple of average*					
Women (where different)	*0.5*	*0.75*	*1*	*1.5*	*2*	*3*
Gross relative pension level	31.1	40.8	50.5	69.9	89.3	128.2
(% average gross earnings)						
Net relative pension level	39.4	50.0	59.8	79.2	98.7	137.7
(% net average earnings)						
Gross replacement rate	62.1	54.4	50.5	46.6	44.7	42.7
(% individual gross earnings)						
Net replacement rate	76.1	65.9	59.8	53.5	50.3	47.1
(% individual net earnings)						
Gross pension wealth	8.9	7.8	7.2	6.7	6.4	6.1
(multiple of individual gross earnings)	*11.0*	*9.6*	*8.9*	*8.3*	*7.9*	*7.6*
Net pension wealth	8.9	7.5	6.7	6.0	5.6	5.2
(multiple of individual gross earnings)	*11.0*	*9.3*	*8.3*	*7.4*	*6.9*	*6.4*

Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equal 85%. Labour market entry occurs at age 20 in 2014. Tax system latest available: 2013.

Pension modelling results: Estonia in 2059, retirement at age 65 *(cont.)*

Alternative scenario: Full-wage indexation of targeted schemes

Men	Individual earnings, multiple of average					
Women (where different)	*0.5*	*0.75*	*1*	*1.5*	*2*	*3*
Gross relative pension level	32.5	42.2	51.9	71.4	90.8	129.7
(% average gross earnings)						
Net relative pension level	41.2	51.7	61.4	80.9	100.4	139.4
(% net average earnings)						
Gross replacement rate	65.0	56.3	51.9	47.6	45.4	43.3
(% individual gross earnings)						
Net replacement rate	79.4	68.1	61.4	54.6	51.2	47.7
(% individual net earnings)						
Gross pension wealth	9.3	8.1	7.4	6.8	6.5	6.2
(multiple of individual gross earnings)	*11.5*	*10.0*	*9.2*	*8.4*	*8.0*	*7.7*
Net pension wealth	9.3	7.8	6.9	6.1	5.7	5.2
(multiple of individual gross earnings)	*11.5*	*9.6*	*8.6*	*7.5*	*7.0*	*6.5*

Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated except for the safety nets which follow real-wages. Transitional rules apply where relevant. DC conversion rate equal 85%. Labour market entry occurs at age 20 in 2014. Tax system latest available: 2013.

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