

Ministry of Welfare  
Republic of Latvia

# The potential impact of pension system challenges on the budget

September 2023



Ministry of Welfare  
Republic of Latvia

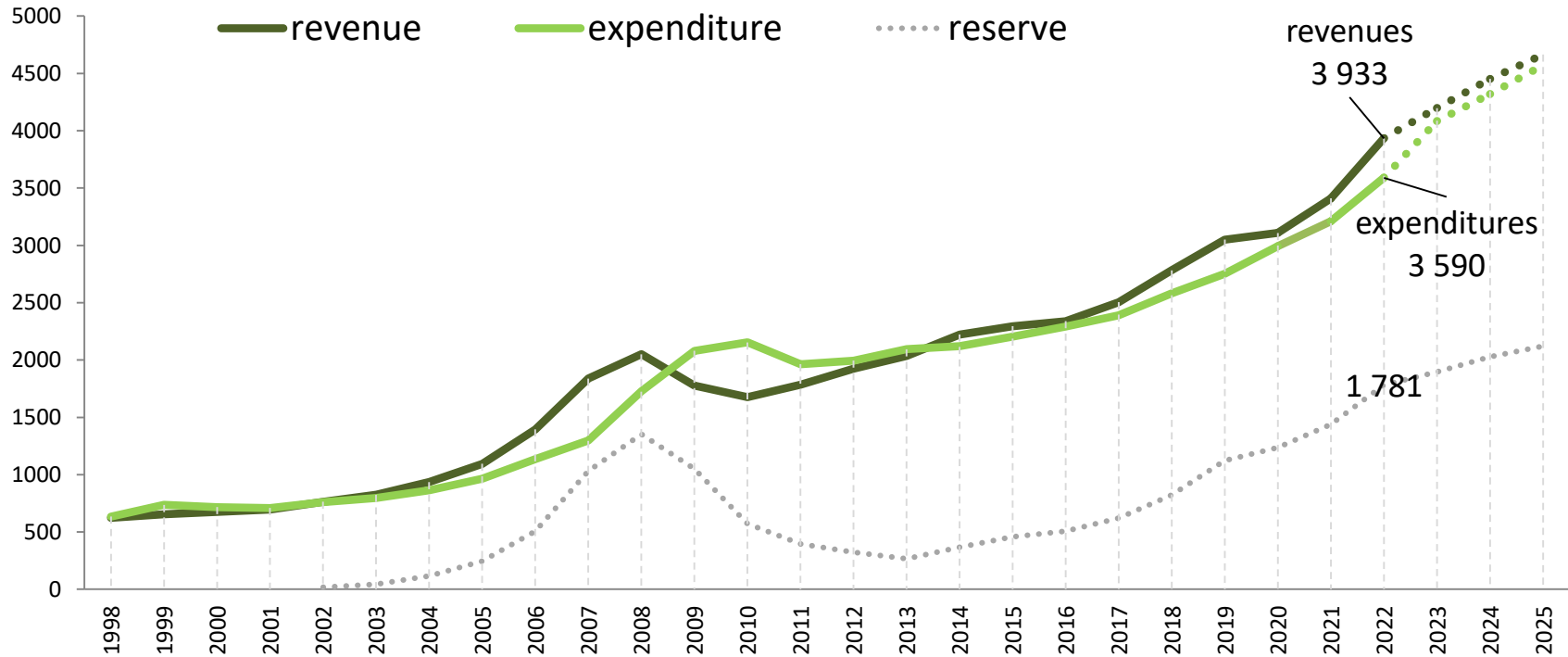
# State social insurance system

- Self - financing
- Social insurance budget is used in the interests of system participants
- Social insurance contributions are used for the benefit of system participants in case a social risk
- The amount of old-age pension is linked to real contributions made, the amounts of other pensions and benefits - declared individuals average wage from which contributions should be made
- **Principle of solidarity** – current contributors provide pensions and benefits for current pensioners and other beneficiaries



Ministry of Welfare  
Republic of Latvia

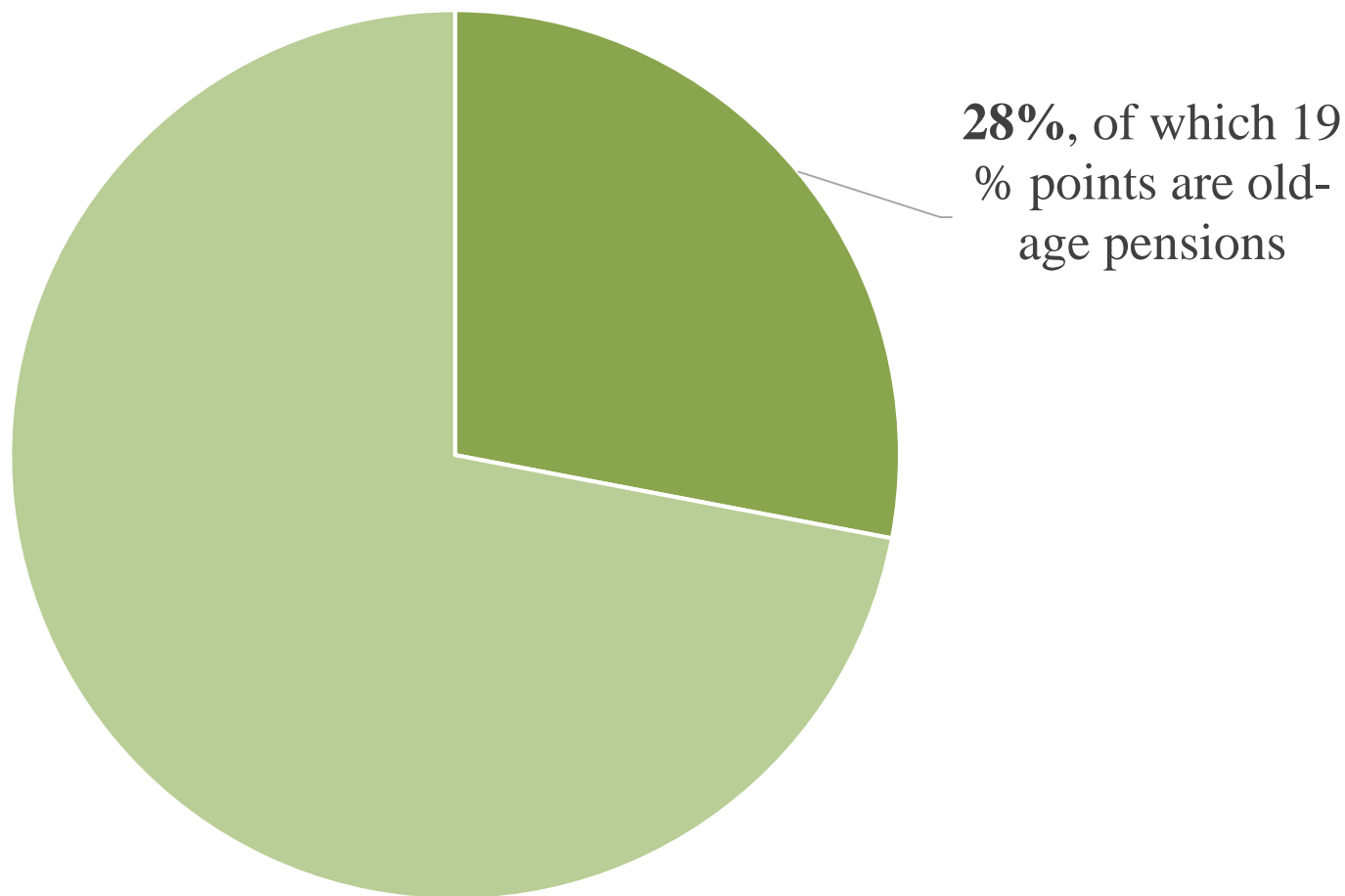
# State social insurance special budget, million euro; fact: 1998-2022, plan: 2023-2025





Ministry of Welfare  
Republic of Latvia

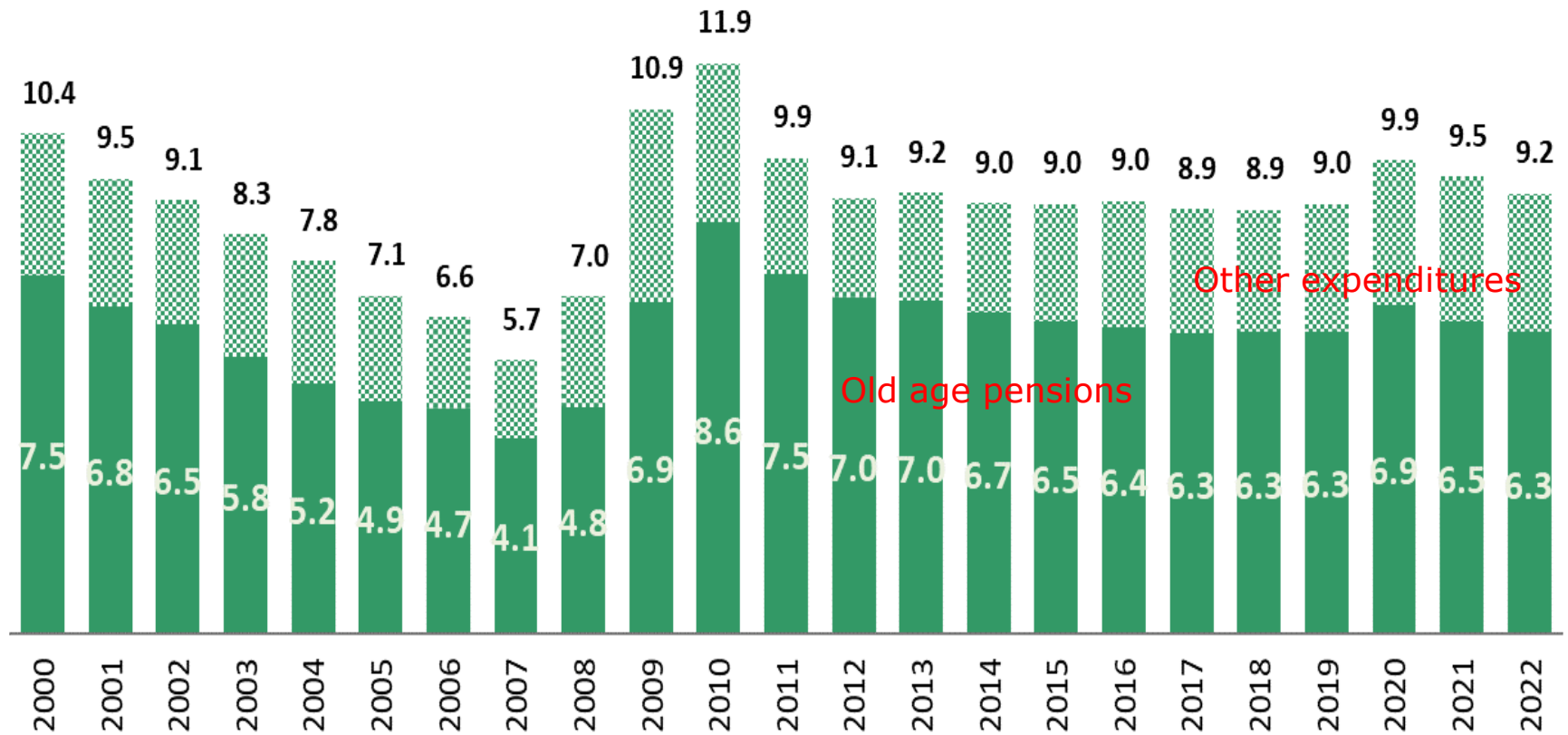
# Share of state social insurance budget expenditure in state consolidated budget expenditures - 2023





Ministry of Welfare  
Republic of Latvia

# Expenditure of state social insurance budget as % of GDP





Ministry of Welfare  
Republic of Latvia

# Latvian pension system

State pension system is designed to perform in the long run.

The risks for stability are divided among the 3 pillars of the pension system, i.e.- risks for economy, demographics and financial and capital markets

The money transferred to the I pension pillar is being used to pay out pensions for current pensioners and simultaneously it is registered in individual pension account

The money transferred to the II and III pension pillar is used to only for accumulating, increasing and paying out the individual's pension capital



Ministry of Welfare  
Republic of Latvia

# Indicators impacting the sustainability of I pillar of the pension system

## Demographic indicators

- Birth, death, migration
- Life expectancy
- Age structure of population

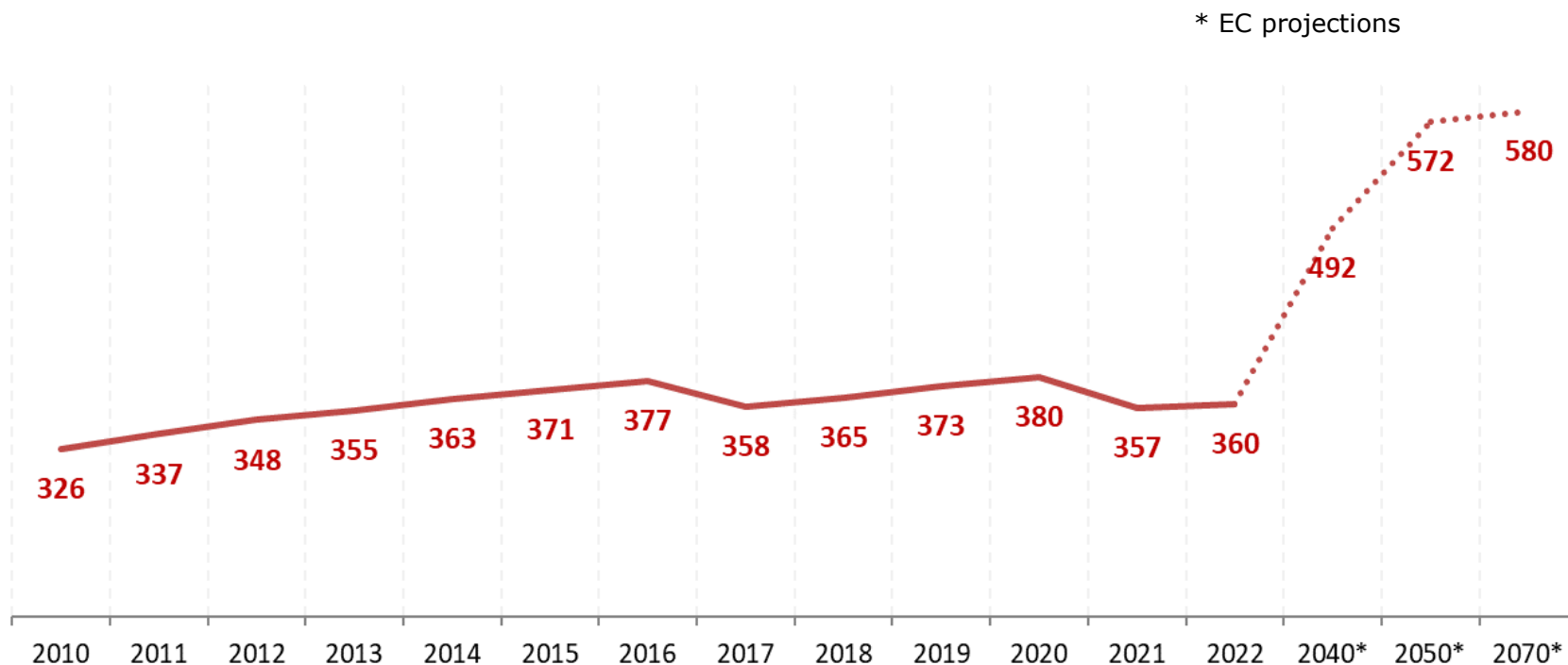
## Economic indicators

- Number of persons in employment
- Average wages
- Inflation



Ministry of Welfare  
Republic of Latvia

# Demographic burden (persons over working age per 1000 persons in working age)



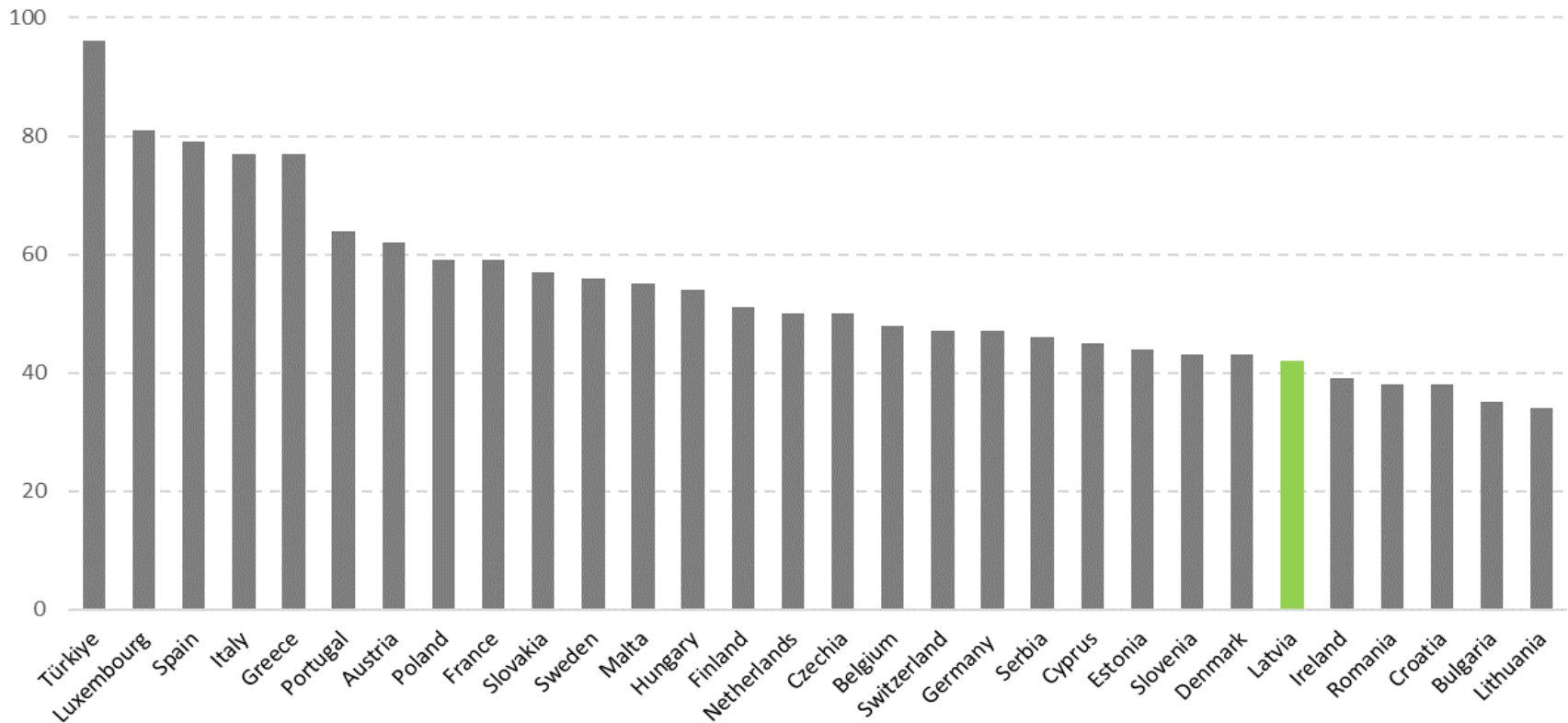
1 person over working age per	2022	2040	2070
	2,8 in working age	2,0 in working age	1,7 in working age





Ministry of Welfare  
Republic of Latvia

# Old-age pension replacement rate in 2021

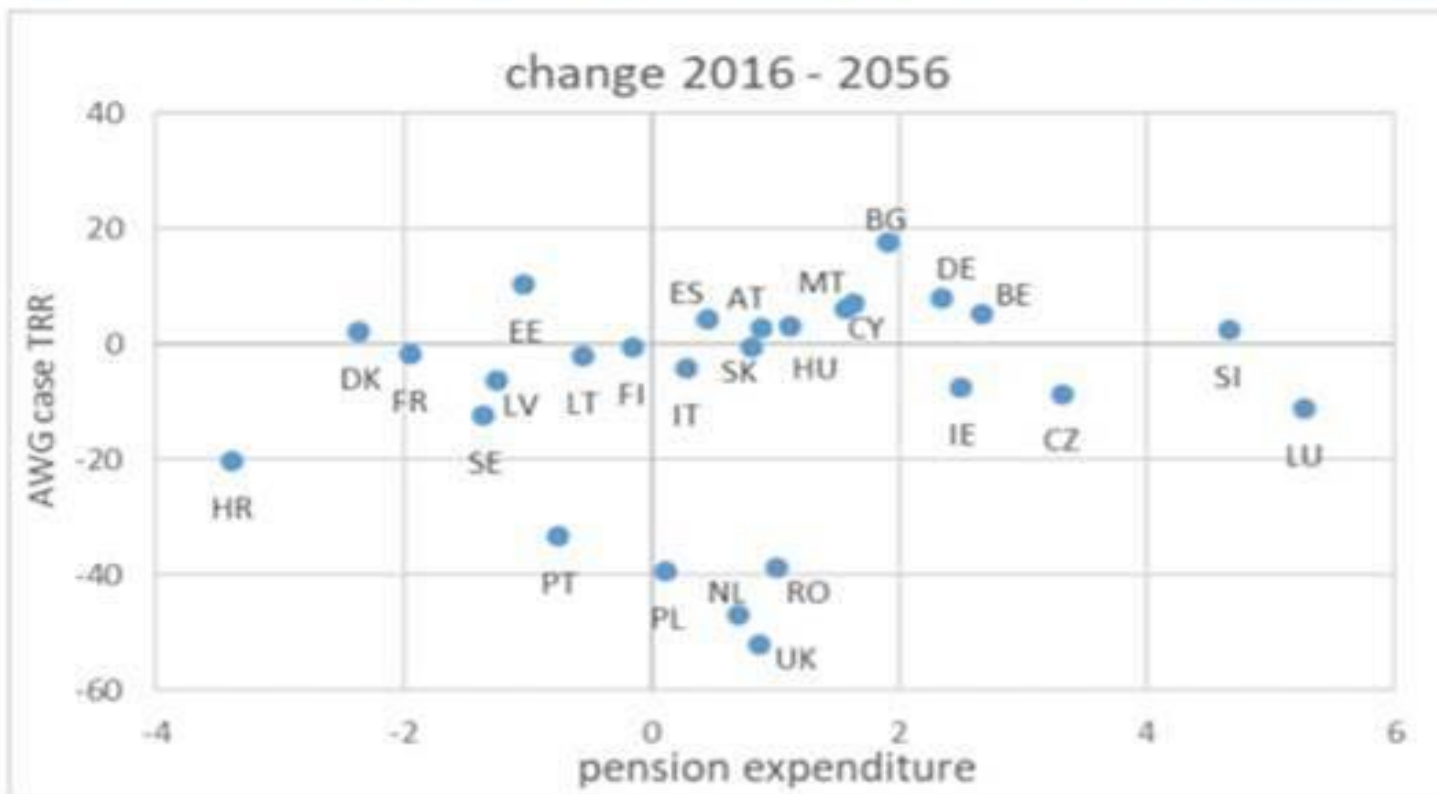


Data source: EUROSTAT; Replacement rate calculated: average gross pension in age 65-74 against average gross wage in age 50-59



Ministry of Welfare  
Republic of Latvia

*Public pension expenditure and theoretical replacement rates (pps change from 2016 to 2056)*

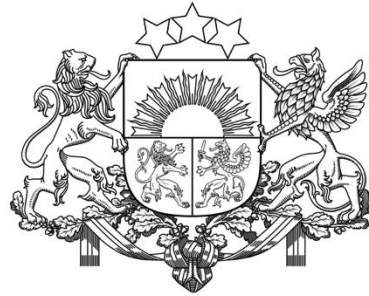




Ministry of Welfare  
Republic of Latvia

# Challenges

- ✓ **Adequacy (possible introduction of basic pension in addition to contributions based)**
- ✓ **Motivation to contribute (high minimum guarantees impact motivation to contribute, frequent changes in elements)**
- ✓ **Sustainability (reserve fund issue)**



Ministry of Welfare  
Republic of Latvia

**Thank you!**



[www.lm.gov.lv](http://www.lm.gov.lv)



@Lab\_min



Latvijas Republikas Labklājības ministrija



labklajibasministrija