

Lithuania

1. Session one: Informing on change

1.1 What do individuals know about main aspects of the pension systems that are changing? (parameters, financing, retirement age, indexation)

Traditionally, population is informed about all changes in pension's field:

- 1) changes of legislation on pensions. Information about these changes is provided in several stages:
 - General information on proposed projects, stressing what is changing and what impact proposed amendments will have on the pensions (e.g. changes of calculation, qualifying conditions, etc.)
 - Information about Government's decisions concerning proposed amendments;
 - Information about Parliament's decisions and adopted legislative acts.
- 2) Information on indexation of pensions. As pensions in Lithuania are indexed by decision of the Government approving new basic amounts (basic pension and insured income of the year) used in pension formula, population is informed about the planned date of indexation and approximate planned increase of pensions.

1.2 What do individuals know of the different types of financial risks to which individuals are exposed and on which they can make choices (longevity, rates of returns guarantees...)?

In general, people are informed on above mentioned financial risks. On the situation of State social insurance fund budget, current situation and prognosis for future population is informed constantly.

Concerning financial risks in funded pillar, individuals are provided a tool helping evaluate possible risks and profits of participating in pension accumulating – there is a pension calculator on the internet site www.pensijusistema.lt. Using the calculator individuals may choose parameters (age, wage, gender, investment return, etc) and compare predicted value of future pension participating in pension accumulation and staying in state social insurance system.

As participation in pension reform in Lithuania is voluntary, making personal decision implies that person is informed about the consequences of his/her personal choice (decrease of state social insurance pension, financial risks etc.).

Nonetheless the main problem Lithuania faces is not the lack of information but a very low financial literacy of population. Although the major part of active population is participants of pension accumulation in practice only inconsiderable part of participants is actively interested in

the activities of pension funds and their managers, results of investment, possibilities of changing fund, etc.

1.3 How are people informed about these questions and how can the efficiency of this information be assessed? What are the main tools to provide information to individuals?

All major changes in the field of pension system (unfunded pillar as well as funded) is widely discussed in society. Media is the main source of information on these issues. Informing population on pension issues these tools are used:

- providing information for main news agencies (ELTA, BNS);
- articles, interviews and comments in national papers;
- articles in regional and local papers;
- radio editions (national and regional radio stations);
- TV reports and TV discussions (national and local TV);
- Internet;
- General information's telephone of State social insurance fund board;
- Personal information from local offices of State Social Insurance Fund Board on changes in individual pension's calculating with clear explanation of the procedure and terms of appellation.
- Annual personal report for every participant of pension accumulation. This report provides information on the amount of contributions transferred to the account, charges, amount of the means accumulated on the account, changes of the value of the unit, comparison of all the funds by the manager etc. Persons who are left 7 years to the pensionable age are informed personally about the risks and possibilities of accumulation of their pension in the conservative funds. Informing participants on all this issues is obligatory for all pension funds managers;
- Official monthly reports of the pension funds published in the internet.

In practice different target groups are reached by different tools. For the inhabitants of major cities the main sources of information are national media and internet. But the inhabitants of regions are better reached through the regional and local media. The efficient way to increase interest of audience to pension issues is personal informing and consultations with specialists of local offices of state social insurance fund's board and the representatives of pension fund managers.

Funds managers' role in informing population about risks of financial markets is crucial as national legislation impose obligation for them to provide all possible information on managed pension funds, possible profits and risks.

All public information on pension funds is under strict supervision of the Securities Commission of the Republic of Lithuania and Insurance Supervisory Commission of the Republic of Lithuania.

Before starting of pension reform (2004) and in the beginning of it two wide public information campaigns were implemented (2003 and 2004). During these campaigns were used all possibilities of reaching the target groups of pension system reform with the final purpose to give them full information about the reform, based on which they would be able to take final decision about the participation in new pension system, what means that all levels of society would have enough information to and would be able to calculate weather it is favourable for them to participate in the new pension system or it is better to stay in the old one. The information on new pension system was widely spread in national, regional and local media (advertisements, articles, interviews etc. in papers, radio, TV; internet; flyers). These campaigns were very successful as they have formed common quite positive public opinion and society became more aware of the issue.

2. Session two: Informing on choices

2.1 What are the actual main choices available to individuals (including portfolio profiles, etc...)? What are the choices of financial products individuals have: in the mandatory system (i.e. opt-out to the employers' scheme), in the second and third pillars?

The participation in the pension accumulation is freely chosen. After concluding agreement with the pension fund's manager the person can terminate this agreement within 30 days. At the expiration of this period there is no possibility to reverse decision.

In the case of second pillar, individuals may make their choice between those options:

- free choice of pension fund (choice of investment policy);
- free choice of fund's manager;
- possibility of changing fund to another fund of the same manager;
- possibility to move to another fund's manager;
- possibility to choose the time for beginning of the pay-out phase;
- possibility to choose type of annuity and the insurance company of payment.

It should be mentioned that pension funds in Lithuania are formed by the fund manager. Every person has a possibility to choose the manager and the pension fund managed by this manager. Choosing the pension fund, individual chooses the policy of investment, as different pension funds propose different possibilities of investment – from conservative (investment possible only in debt securities issued or guaranteed by the governments of the Republic of Lithuania, the European Union or the Organisation of Economic Cooperation and Development, central banks and the European Central Bank or in investment funds) to rational risk. There are 9 funds managers and 29 pension funds. According to the legislation, every pension funds manager has an obligation to have the fund of conservative investment.

As the participation in the third pillar is entirely voluntary, individuals may choose fund, manager, possibility to reverse decision of accumulation and terminate agreement (under conditions provided in the rules of the specific fund).

2.2 What are the actual choices people take regarding their pensions (deferred pension, partial pension, different types of annuities, share of lump-sum...)?

In the field of state social insurance pensions, possibility of deferred pension is provided. Pension can be deferred up to 5 years and increased 8 percent monthly per every full year of deferment. In practise deferment of pensions it is very rarely chosen as there is no restriction in payment of pensions along with insured income.

National legislation also provides possibility of partial pension. Individuals can be awarded early old age pensions under strict conditions established by law, namely – 5 years or less to the pensionable age, 30 years of insurance, 12 months of being registered as a jobless person, having no other source of income. Pension is reduced (life-long) by 0.4 percent of the calculated pension for every full month of receipt.

If individuals continue working after awarding pensions, they choose recalculation of pensions after every full year of contributions as it is a way to increase pensions. This practice is very common and often used.

Legislation on the accumulation of pensions does not provide requirement for the time of the beginning of the pay-out phase. It is up to the personal choice of the individual when he/she will start receiving benefits from the fund. As the pension reform in Lithuania started in 2004, there are very small number of participants of pensions accumulation (on January 1, 2008 – 475) who have reached the pensionable age and applied to the managers of the funds for the benefits.

According Lithuanian legislation, lump-sum is paid only under certain conditions (one of possibilities for lump sum - insufficient amount of means on the account). As the period from the beginning of accumulation till the first benefits from the pension funds is very short, the question on choice of the types of annuities presently is not topical. As the Law on the Accumulation of Pensions provides only common requirements for the pay-out phase, there is the working group of the experts representing different institutions and life insurance companies which works on the development of pay-out phase.

2.3 What is the population's ability to understand financial notions related to pensions?

On the subject of first pillar pensions, population is informed and is capable to understand main messages on that issue. The current method of calculation of social insurance pension is used for 12 years, so people understand the main principles of calculation, however they can't make their own calculation of future pension, etc.

Understanding of financial notions related to second or third pillar pensions is quite low because of the lack of financial consciousness and literacy. But it must be mentioned that before the pension reform in 2004 in Lithuania there were no investment funds. Only after starting the accumulation of pension in pension funds (voluntary accumulation of pension in third pillar funds was introduced in the same year) investment funds were also introduced.

2.4 What are the main tools to provide information to individuals?

- Media (papers, radio and TV, Internet);
- personal consultations with specialist of local offices of the State Social insurance fund board and funds managers.

3. Session three: Informing on rights

3.1 What do individuals know of their already accrued pensions including statutory pensions (unfunded and funded tiers)?

In the case of first pillar pensions, individuals are informed on the main principles of calculation of pensions, but practically they cannot make their own calculations.

As it was mentioned in 1.3, funds' managers are obliged to provide personal annual report on the amount accrued on the personal pension account. In this report information on contributions transferred, fees, changes of value of unit etc. is provided. General information on transfer of contributions to pension funds is also provided in national media. But the information on predicted value of future benefits etc. is not provided.

3.2 What do people know of the impact of different decisions on retirement age and transition from work to retirement on their potential future benefits?

Those who choose awarding of early old age pension are informed that their pension is reduced life-long.

As there is no restrictions of pension's payment for working pensioners, people are informed that every year of work will increase their pension (possibility of recalculating, bonus for years of contributions above 30 is paid).

3.3 What are the main tools to provide information to individuals?

National, regional and local media, Internet.