State-funded pension scheme, or Tier 2 (3/43/17)

This article explores how to become a Tier 2 participant, how pension capital contributions are distributed between Tiers 1 and 2, and how you can leave your accrued Tier 2 capital to your relatives, as well as other questions in this respect.

The state-funded pension scheme

Latvia adopted its state-funded pension scheme, or Tier 2, on 1 July 2001. Any socially insured person that was up to 50 years old when the scheme was launched (on 1 July 2001) can become a Tier 2 participant.

Tier 2 participation is mandatory for persons that had not reached the age of 30 by 1 July 2001 (i.e. those born after 1 July 1971). Persons that were 30–49 years old when the scheme was launched (i.e. those born between 2 July 1951 and 1 July 1971) were and still are able to join voluntarily. However, this service is not available to persons born before 2 July 1951.

How pension capital accrues

The total amount of social insurance contributions for pension capital represents 20% of income and is distributed between Tiers 1 and 2. No additional social insurance contributions are payable by Tier 2 participants.

Tier 1 ensures that old-age pensions and benefits are paid to existing pensioners, currently using the contributions paid by social insurance contributors. The pension system operates under the following main principle: the higher your social contributions today, the higher your pension tomorrow.

According to the National Social Insurance Agency (NSIA), total pension capital contributions are distributed between Tiers 1 and 2 as follows:

Years	Tier 1	Tier 2
2001–2006	18%	2%
2007	16%	4%
2008	12%	8%
2009–2012	18%	2%
2013–2014	16%	4%
2015	15%	5%
from 2016 onwards	14%	6%

Contributions to Tier 2 are registered in the fourth month following the reporting month. So contributions appearing on your statement invested in January 2017 were calculated on the income you earned in September 2016, and contributions invested in May 2017 were calculated on your income of January 2017.

Contributions to the state-funded pension scheme are calculated by multiplying your income and the rate of contributions for the same year.

How to join Tier 2

A person deciding to join Tier 2 should study the pension plans currently on offer in Latvia. The website manapensija.lv (*Tier 2 / Current Data*) summarises information about the profitability of all pension plans over a ten-year period (more information can be found in *Tier 2 / Information for Investment Plan Participants*).

You should choose a plan that fits your age. Persons at pre-retirement age are advised to choose one of the conservative plans, which are lower risk as they invest the participant's money in fixed-income financial assets, such as government notes, corporate notes, bonds, bond funds, or term deposits at banks. Persons with more than ten years left until the official retirement age are advised to choose one of the balanced or active plans, which potentially have higher profitability as most of their assets are invested in shares. When money is invested in an active plan, the contributed capital carries a much higher risk, but the plan can also bring higher profits due to volatility. Participants should consider both short-term and long-term profitability figures because those may differ.

Once you have chosen a plan you want to join, you can file an application for selection or change of your state-funded pension capital asset manager and investment plan:

- through the single central and local government portal www.latvija.lv using e-applications for NSIA services (e-application for selection or change of state-funded pension capital asset manager and investment plan);
- at any NSIA office (proof of identity required);
- at banks and their branches – Swedbank AS, SEB Bank AS, Citadele Bank AS, Luminor Bank AS, Norvik Bank AS, Meridian Trade Bank AS, and PrivatBank AS (proof of identity required); or
- at an online bank where the person is a customer (Swedbank AS, SEB Bank AS, Citadele Bank AS, Norvik Bank AS, and Luminor Bank AS).

Tier 2 participants may change their asset manager or investment plan, but the number of such changes in a calendar year is limited. Participants may change their asset manager only once a year and their investment plan with their manager twice a year.

State-funded pension scheme assets may be managed by asset management companies entered on the register of state-funded pension scheme asset managers, which is maintained and updated by the Financial and Capital Market Commission.

(to be completed)