LIPFA | Lietuvos investicinių ir pensijų fondų asociacija

Lithuanian case: How to increase Coverage – Is Auto-Enrolment a good Solution?

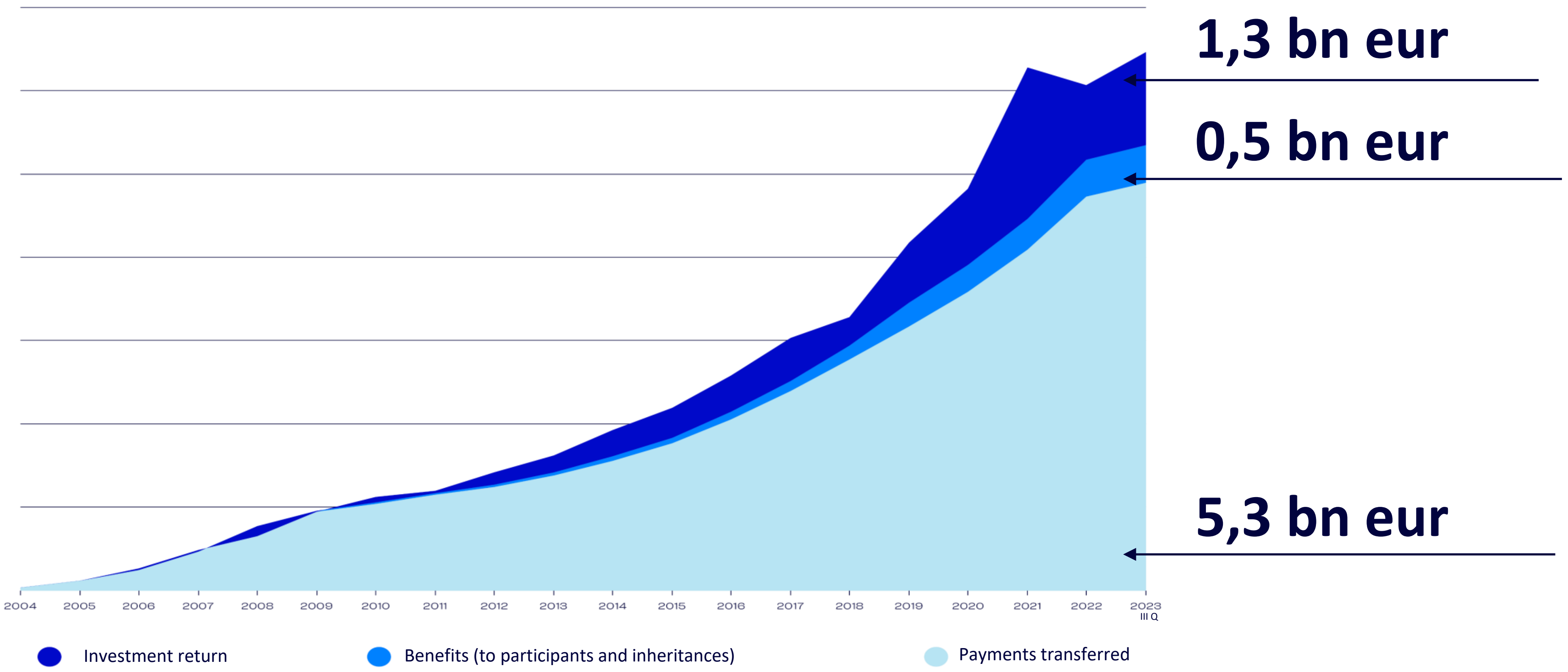
dr. Tadas Gudaitis

Head of Lithuanian investment and pension funds association

CEO at Swedbank Asset Management Lithuania

1.8 billion EUR Value Created

Over the entire pension accumulation period (till 2023 Q3)



Source: LIPFA

Lithuanian 2019 Pension Reform
Key Risks Mitigated

LIPFA

NO IMPACT TO 1ST PILLAR

2nd pillar funded by personal contributions:

- 3% from gross salary
- State contribution (1.5% from average country salary from state budget)

NEW LABOUT MARKET ENTRANTS' AUTOENROLMENT

Auto-enrolled if not selected pension fund voluntary. Has 6 months to withdraw. Repeated every 3 years till 40th birthday

ANNUITIES

Provided by State Social Agency

LIFE CYCLE FUNDS

Balancing investment performance and risks

MANAGEMENT FEE DECREASED

Gradual annual asset management fee decrease from 1.0% to 0.5-0.2% range

Autoenrollment with High Flexibility Level

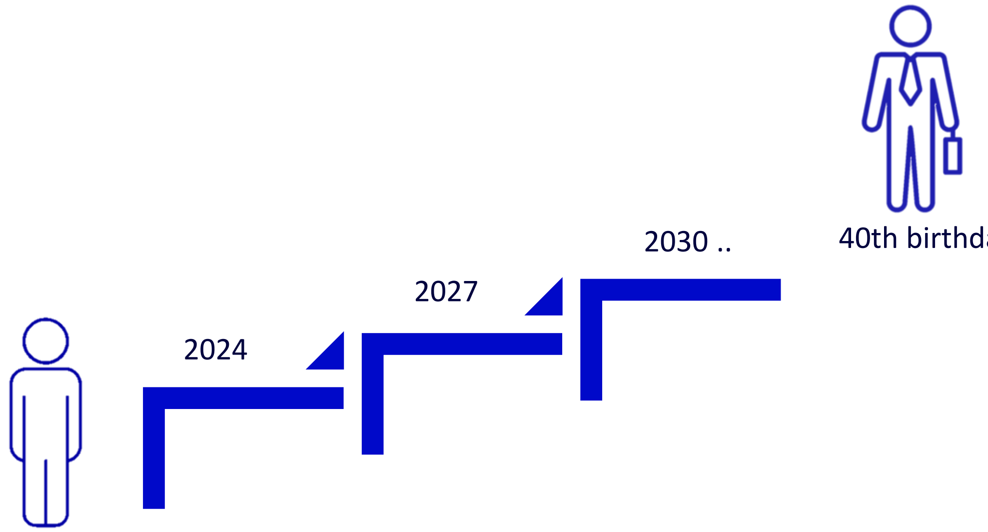
LIPFA

A Flexibility has pros and cons

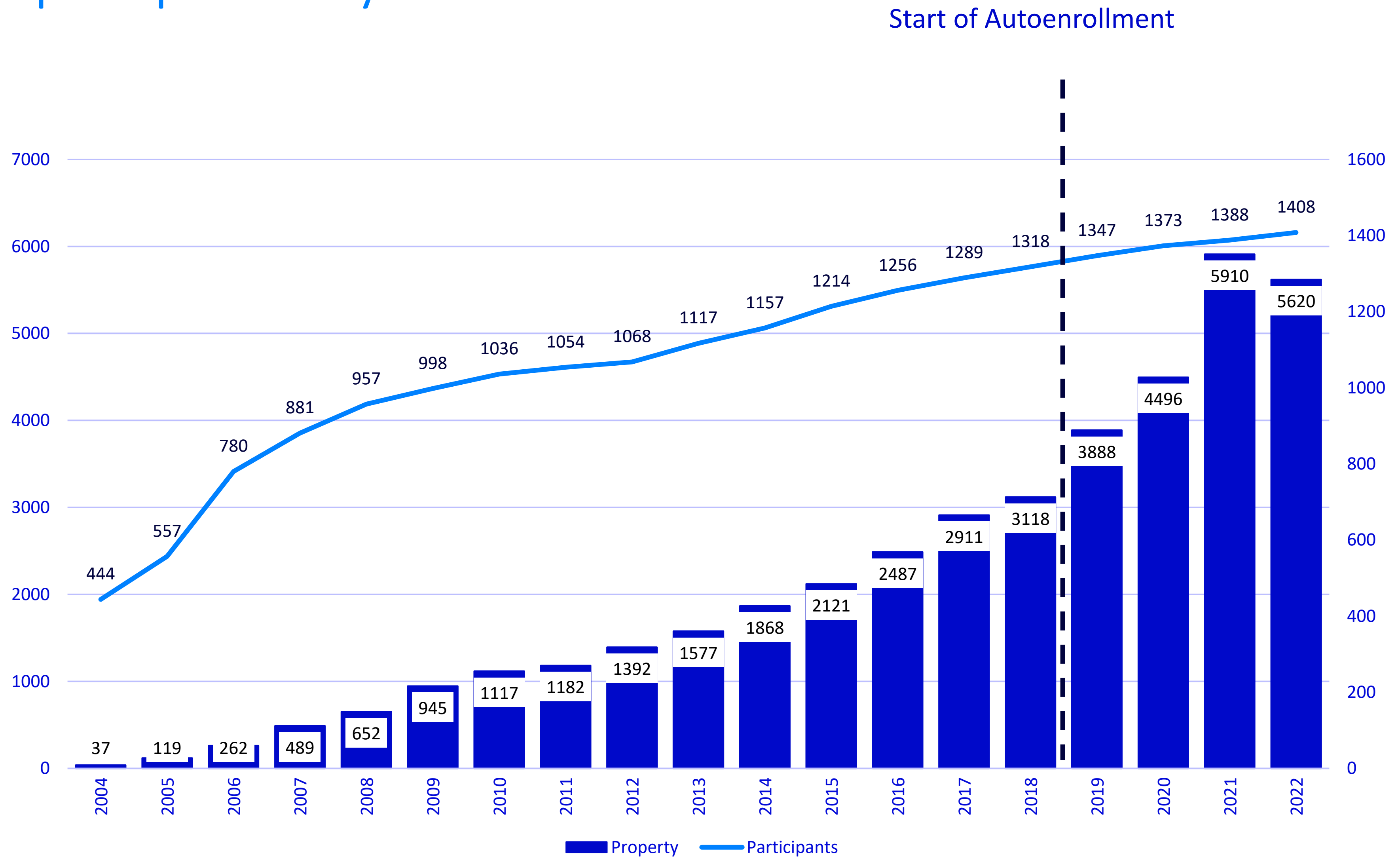
B Aprox. 60 percent stays in accumulation. After repeated autoenrollment usually say no again

C 2nd pillar contract can be concluded voluntary at any age

If pension accumulation is opt-out during the 1st half of the auto-enrolment year, the person is repeatedly auto-enrolled in the system until their 40th birthday every three years



Lithuanian:
Strong 2nd pillar pension system



Source: LIPFA

Positively assessed 2019 reform

LIPFA

2017

The main recommendation is to establish life cycle funds

2018

Pension reform is the right step: diversifying risk

2020

Supports **cumulative pension systems** strengthening in the country

For the first time in history Lithuanian pension funds were recognized as the best in the world according to the annual real investment return (OECD) in 2019

Source: OECD, IMF, EU Commission

Insights

LIPFA

For the people of Lithuania, 2nd pension pillar became a really simple and clear saving tool, which is promoted by the state.

Rapid consumption is a very strong temptation, but the burden of social problems on the state in the long run needs to be evaluated.

To destroy is easier than to create.

The examples of Poland, Hungary and Estonia show, long-term funds cannot be spent here and now.

No matter how different the standpoint are, without good mutual discussion with key stakeholders (e.g. politicians, employers, employees unions) it is impossible to expect a good result.

RECOMMENDATIONS
For policy makers

LIPFA

1 Ensuring that residents **continue to save for their retirement** by avoiding the use of accumulated wealth, especially when markets are turbulent.

2 Ensure that the **level of accumulation** of old-age pensions is **sufficient** (we accumulate too little, employers contribute minimally).

3 To communicate clearly, not to mislead the public about the **results** of the accumulation system and the **benefits** created.

Thank You