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November 2025

Distributional Justice of Lithuania's Pension System



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Introduction

The aim of this report is to assess Lithuania's old-age pension system in terms of consumption smoothing after retirement, as well as the reduction of poverty and intergenerational income inequality.

Pensions are a major component of any country's social security system. They account for the bulk of expenditure and cover a significant part of the population. Pensions are important from a life-course perspective as a tool for consumption smoothing after retirement, as well as protection against poverty in old age.

After independence, Lithuania adopted the main legal instruments related to social security in 1990. The Social Security Act was passed on 21 May 1991 and the Social Insurance Pension Act was adopted on 18 July 1994. In 2002, a Pension Reform Act was passed and a new pension system was introduced. In 2003 the Pre-Retirement Pensions Act was adopted.

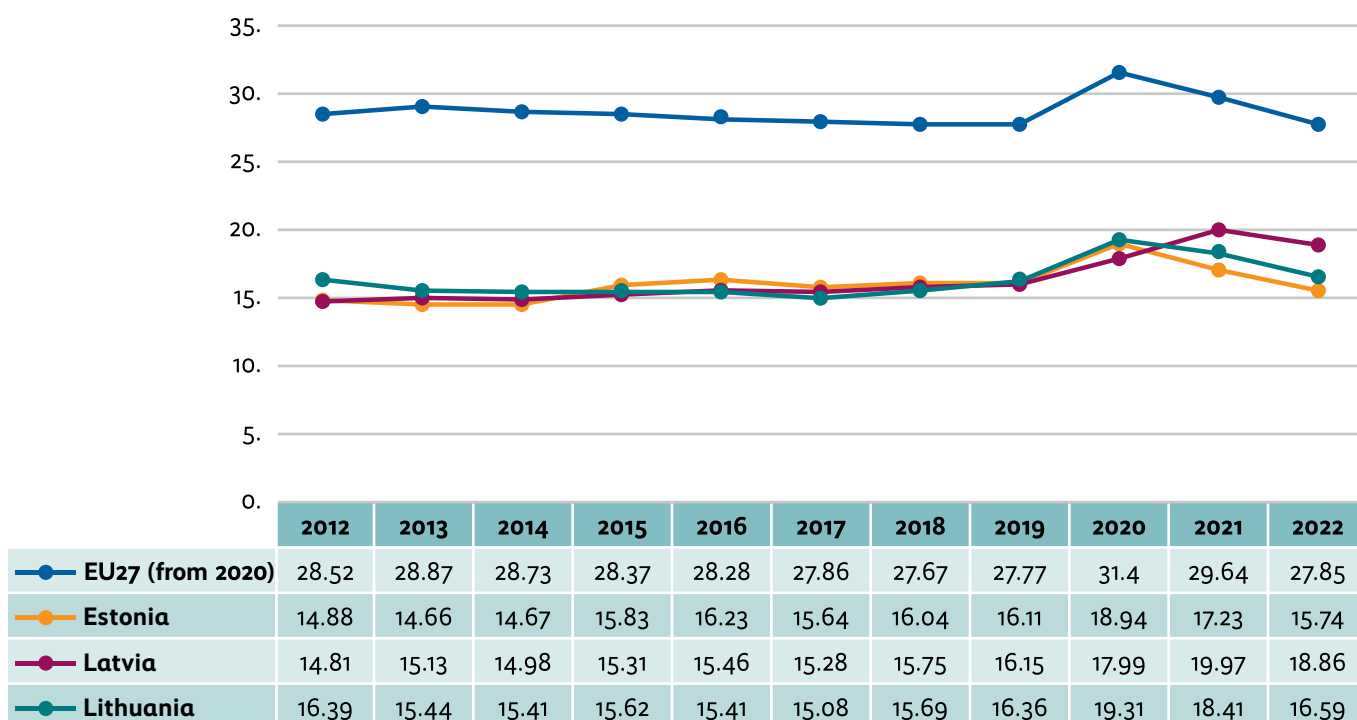
This important legislation has been amended in the meantime, in accordance with particular challenges as they arose and Lithuanian membership of the EU, not to mention pension policy imperfections that have been revealed over time. However, welfare state development in Lithuania has always faced problems with financing. According to Bohle and Greskovits (2007) macroeconomic stability became a priority for the Baltic states. These neoliberal states have relied on market radicalism, as well as macroeconomic stability, but have lagged behind other states in terms of industrial transformation and social inclusion (Bohle and Greskovits (2007).

The spending on social security remains low compared with the EU country average (see Figure 1).

Social protection expenditure has remained at a similar level in all three Baltic countries during the decade. Only in 2021-2022 was there a slight fall in Estonia and Lithuania (see Figure 2).

Expenditures on social protection in the EU and Baltic countries (% of GDP)

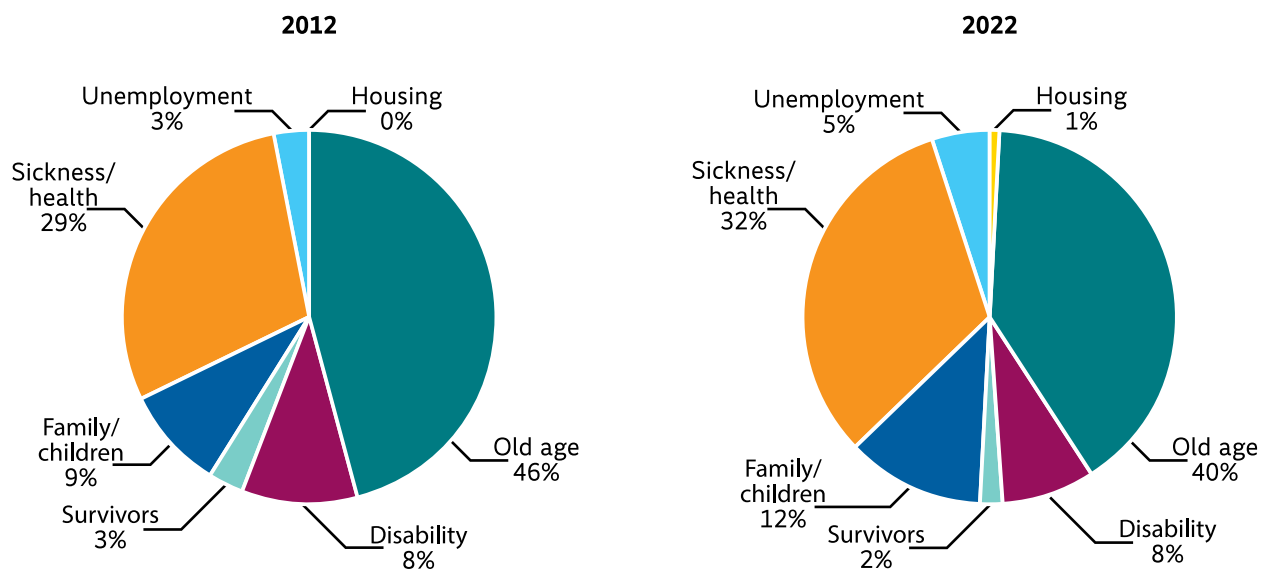
Figure 1



Source: Eurostat.

Social benefits by function (% of total benefits)

Figure 2



Source: Eurostat.

Spending on old age pensions made up the largest part of total benefits in Lithuania during 2012-2022.

1.

Literature review

Old-age risk is based on the assumption that after a certain age it is no longer possible or suitable for a person to work. Social security provides income replacement for individuals who reach a certain age limit (Pieters 2006). This form of income replacement is called a pension, which starts when someone retires and continues in payment until they die (Blake 2006). A pension provides people with an income in retirement when they are no longer working. First, it smooths consumption over an individual's lifecycle; second, a pension functions as insurance, especially with regard to the longevity risk, the uncertainty concerning how long a given person will remain alive (Blake 2006; Barr and Diamond 2008). At the public policy level, redistribution is based on the notion of social justice. In his *A Theory of Justice*, Rawls explained this to mean the management of social and economic inequalities in such a way that they benefit the least advantaged the most (Kaufman 2012). Pension schemes aim to alleviate poverty by providing a minimum standard of living for retirees (Blake 2006; Barr and Diamond 2008). Poverty relief pension systems target resources towards people who are poor on a lifetime basis and thus have been unable to save enough to support themselves in old age. Pension systems can redistribute income on a lifetime basis and across generations (Barr and Diamond 2008). Poverty prevention is mainly the result of intervention through generous basic pensions and income-tested supplements (Ebbinghaus and Möhring 2022). A society might wish to distribute additional resources above the poverty level to certain members of society, such as women bringing up children and others with caring responsibilities (Blake 2006; Barr and Diamond, 2010).

Pensions are provided on a pay-as-you-go basis. In effect, younger workers pay the pensions of retired people in return for the promise that the next generation of workers will pay for their pensions (Meijdam and Verbon 1996; Blake 2006; Greve 2022). There are also funded pension schemes, in which each generation of workers pays for its own pension (Blake 2006; Greve 2022). Funded pensions are based on savings. Contributions are invested in financial assets. The accumulated contributions and returns on investment ensure consumption in old age either in the form of annuities or by drawing down the accumulated funds in some other way (Barr and Diamond 2008).

According to Greve (2022), pension systems may be universal based on citizenship and, typically, on legal residence in a country for shorter or longer periods. But they can also be combined in different ways.

Conventionally, there are three support pillars during old age (Pieters 2006; Blake 2006; Greve 2022). The first pillar is provided by the state as part of its social security system. The public pension system may be characterised as Bismarckian, in which pensions are based on social security contributions, or Beveridgian, in which pensions are financed out of general taxes and contributions (Greve 2022). The Central and eastern European countries are very different from mature welfare states because they provide welfare through social contributions rather than taxation. This distinction makes them more Bismarckian (Kuitto 2016). The amount of an old-age pension can either be established as a fixed amount or be tied to previous income (Pieters 2006). The level of income-related and fixed pensions can be made dependent upon a person's age at the moment of retirement, the duration of their participation in the scheme, their occupational sector, and on whether or not they have a spouse and children (Pieters 2006). No attention is paid to the number of years of participation for persons who have carried out particularly heavy, dangerous or age-limited work, such as miners, ballet dancers, pilots, police officers, prison warders and professional sportsmen (Pieters 2006). Most schemes set minimum and maximum amounts for a full old-age pension (Pieters, 2006).

Companies represent the second pillar in the form of occupational pension schemes or plans. Companies sponsor such schemes. Greve (2022) called this approach labour market-based. Typically, occupational pension schemes are funded, meaning that a pension fund is created from the contributions of the employer and worker and from investment returns (Blake 2006). This second pillar is based on defined benefits, points, notionally defined contributions and funded/defined contributions (Herrera and Sosvilla-Rivero 2025).

The third pillar comprises any additional retirement savings at the individual's discretion (Blake 2006). This represents a voluntary private framework (Herrera and Sosvilla-Rivero 2025). Fund-based pensions typically require individual savings, but the government can support it through tax concessions (Greve 2022). Private pension systems incentivise individuals to take charge of their own retirement (Asenova and McKinnon 2007). From the perspective of pension provider accountability, Europe can be divided roughly into two worlds of public-private pension provision with distinct rationales and accountability challenges (Sorsa 2016).

The primary objective of pension design is to optimise old-age security, including the cost of providing it (Barr and Diamond 2008). The main challenge here is the trade-off between public– private pension provision commitments and costs. While governments aim to keep administrative costs as low as possible, financial sector businesses do not necessarily have sufficient incentives to develop pension services (especially in smaller pension markets) (Sorsa 2016). According to Hagelund and Grødem (2017) pension reforms within the framework of privatisation aim to cut future pension costs and boost older citizens' labour market participation. Common trends in this regard include a move toward occupational and private pensions rather than public pensions, as well as increased financialisation of pensions; for example, prefunded schemes grow at the expense of pay-as-you-go arrangements (Ebbinghaus 2015).

Barr and Diamond (2010) showed that the composition of the public/private proportions of pensions needs to take account of the full range of objectives alongside other policy goals, such as economic efficiency and output growth. In their view, the reason why there is no single best system is simple: policymakers at different times and in different places attach different relative weights to various objectives. Policy has to seek the best balance between consumption smoothing, poverty relief and insurance, and this balance will depend on the particular circumstances prevailing in each society.

Pure defined-contribution individual accounts provide consumption smoothing, but they do not offer adequate poverty relief for workers with limited lifetime contributions (Barr and Diamond 2010). There are no efficiency gains from designing one part of the system (such as individual accounts) without distortions if distortions then appear elsewhere in pursuit of other objectives (Barr and Diamond 2010).

Pensions are the largest part of horizontal social security benefit redistribution (Alcock 2016). The essential function of pensions is to redistribute income intertemporally over the life cycle (Barr and Diamond 2010; Been et al. 2017). Pension systems redistribute intrapersonally over the life course, but multi-pillar systems, in particular, also redistribute interpersonally (Kuitto et al. 2021).

It is important nowadays that old-age income be adequate, particularly in order to reduce old-age poverty. This remains an essential role of public pensions. However, multi-pillarisation obscures the distinction between poverty alleviation and consumption (Kuitto et al. 2021). Inequality among pensioners arises from both the reproduction of market inequality during their working lives and their unequal access to, incomplete savings in and the high risks associated with supplementary funded pensions (Ebbinghaus and Möhring 2025). It has been observed that a higher level of income replacement in the earnings-related standard pension scheme is related to a lower old-age poverty rate (Kuitto et al. 2021). A lower overall old-age poverty rate is

also associated with the generosity of minimum pension benefits (Kuitto et al. 2021). However, Kuitto et al. (2021) also found that the generosity of income replacement by pension benefits does not impact the depth of old-age poverty. Even if pension calculation rules grant low-income workers relatively higher pension accumulation compared with average- or high-income workers, this advantage is not enough to even out income inequalities that developed during working careers and their impact on old-age income (Kuitto et al. 2021). The lower generosity of central and eastern European minimum pension schemes compared with those of Western European countries is also apparent in terms of average minimum pension generosity scores (Kuitto 2016). Inequalities in working-age incomes throughout the life course are probably the most important factor causing old-age poverty and inequality in retirees' incomes, and pension systems can replace such disparities only to a certain extent (Kuitto et al. 2021). Despite the generous transfers for old people, including minimum pensions, in OECD countries, the elderly remain at risk of poverty. There are three main reasons for this: family composition, take-up issues, and the fact that some elderly people have unprofitable assets (Dethier et al. 2011). Two things matter above all for an effective pension system: effective government and output growth (Barr and Diamond 2010). An effective government will manage a PAYG system responsibly, and create the macroeconomic and regulatory stability within which funded schemes can flourish (Barr and Diamond 2010).

In most economies, social insurance is the largest source of income for the elderly. Social assistance operates on a non-contributory basis. Most economies combine their social retirement system with some form of social assistance (Herrera and Sosvilla-Rivero 2025). People who reach a certain age and lack the means for a decent existence will, in general, have access to an assistance scheme that may provide them with subsistence-level benefits (Pieters 2006).

The macroeconomic situation is the main driver of reductions in the old-age poverty rate, followed by public pension expenditure (Herrera and Sosvilla-Rivero 2025). Pension expenditures play a crucial role in reducing poverty rates among the elderly (Herrera and Sosvilla-Rivero 2025). Sarasa (2008) discovered that the stratum of pensioners with better access to private incomes has been most impacted by relative deviations from the income replacement principle. Higher public pension expenditures are associated with lower levels of income inequality and poverty in old age, whereas a greater relative importance of private pensions is associated with higher levels of income inequality and poverty among the elderly (Been et al. 2017).

Pensions can also affect national economic performance through their potential effects on labour supply and savings (Barr and Diamond 2010). Pension design affects the labour market, economic growth, risk distribution and income distribution, including gender and generational (Barr and Diamond 2010).

Among pension plans based on income-related funding and flat-rate benefits, there are benefits that are based on years of work, but not on past earnings. These pension schemes provide significant advantages to lower-income groups (Been et al. 2017). Earnings-related public pension schemes also lead to more equitable results because they include tax-funded benefits. Therefore, public pensions are expected to generate more equal income distribution and less poverty among the elderly (Been et al. 2017).

In all countries, pensions account for the largest part of welfare spending, usually cover a significant part of the population, and are paid out over the long term. But welfare states are characterised by a certain 'stickiness' with regard to institutionalised practices, routines and policies (Pierson 2000). Large-scale organisations and redistributive institutional arrangements are difficult and costly to reform, but there are also ideational components that create path-dependent pressures (Kiess et al. 2017). Path dependency in welfare states explains why they tend not to undergo radical changes and rely on incremental transformation. Pierson (2001), who studied the obstacles to systemic reform and the path-dependent, gradual change of welfare states, identified the main reason as the fact that pensions are popular and the so-called 'grey vote' has clout. Thus, politicians focus on current problems and feasible immediate solutions. According to Grünewald (2021), attention must be paid to socioeconomic changes, as well as temporal and regional effects when analysing the historical emergence of welfare programmes around the world. Instead, democratic and nondemocratic regimes tend to prioritise various aspects of pensions when implementing their first pension programmes (Grünewald 2021).

2. Institutional features of Lithuania's pension system

Usually, pension systems are based on three pillars. The Lithuanian pension system follows this model (see Table 1).

As of 2025 the retirement age is 64 years and 10 months for men and 64 years and 8 months for women in Lithuania. The retirement age was only 55 years in 1995. However, it was supposed to be gradually increased to 65 years of age for both women and men in 2026.

In Lithuania, the duration of contributions required to qualify for a full pension is also increasing. The contribution payment requirement for a full pension in Lithuania is 34 years in 2025, to be gradually increased to 35 in 2027. There is a minimal requirement of 15 years' payment of contributions to obtain a minimal pension in Lithuania. The qualification requirements for the old-age pension are the same for women and men. Since 2022, all pensioners receive full pensions if they have at least a minimum contribution period.

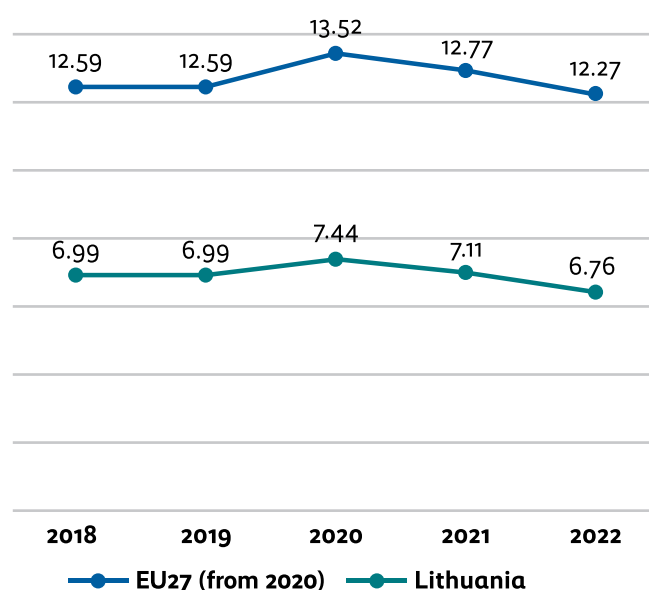
2.1 Administration and funding

The main administrative body for pensions in Lithuania is the State Social Insurance Fund Board (Sodra). The Sodra administers old-age, disability, and survivor pension provisions and short-term benefits.

The Sodra collects all contributions in Lithuania, and the state transfers resources from general revenue to the Fund to finance the general pension component.

Pension expenditure in Lithuania is significantly lower than the EU27 average (see Figure 3).

Figure 3
Expenditures on pensions as a percentage of GDP in the EU and Lithuania



Source: Eurostat.

2.2 Contribution rate

Employees in Lithuania pay 19.5 per cent of their wages as social insurance contributions; 8.72 per cent goes

The three pillars of the Lithuanian pension system

Table 1

First pillar	Compulsory pension scheme, administered by the Board of the Social Insurance Fund (SIF), with an earnings-related component financed from social security contributions paid only by insured people, and a basic component from general taxation. This is a pay-as-you-go (PAYG) scheme.
Second pillar	Statutory funded pension scheme. This is a funded pension scheme financed by scheme participants and subsidy from the state budget. It is administered by authorised private fund managers.
Third pillar	Supplementary personal pension schemes. These schemes are set up and administered directly by a private financial institution acting as a pension provider. Individuals independently purchase and select material aspects of the arrangements.

Lithuania

Old-age pension comprises two parts: general and individual. The *general part* of the pension is calculated according to the formula $\beta \times B$, where

β is the ratio of the recipient's insurance period to compulsory insurance effective in the year of pension entitlement. If the ratio is less than 1, it is rounded up to 1;

B is the basic pension (in euros).

The *individual part* of the pension is calculated according to the formula $V \times p$, where

V is the number of pension points accumulated by the person;

p is the pension point value (in euros).

to their pension. Employers do not pay employee pension contributions in Lithuania. Lithuania adopted different contribution proportions for employers and employees in 2019. Previously in Lithuania the employer bore the primary responsibility for paying contributions, paying 22.3 per cent of wages as a pension contribution out of a total of 31.18 per cent.

There are limits on the wages on which contributions must be paid: no contributions are liable on wages below the minimum wage set by the government for that year, or on wages higher than five times the average wage for employees in Lithuania.

2.3 Pension calculation and indexation

Lithuanian pension benefits consist of two components. The state budget from 2019 pays the first (general) part, which is the same for everyone. The second (individual) part of the pension depends proportionally on the contributions paid during the entire working life. Since 2019, that amount has been calculated according to so-called pension points. One pension point is granted for one year of the insurance period if the average wage is earned. If a person earns less or more, more or fewer pension points are calculated proportionally.

Both general and individual pension components in Lithuania are subject to annual indexing. The individual part is indexed according to the change in the number of those individuals and their average wage over a seven-year period, calculated as the arithmetic mean of the annual growth rates of the wage fund over seven consecutive years: the three years preceding the calculation year, the calculation year, and the three forecast years. Thus, the indexation of pensions also depends on economic forecasts and the number of insured people. The general pension component is increased in accordance with inflation.

2.4 Other old-age pensions

A long-service pension is granted to certain categories of citizens employed in jobs that may cause a loss of occupational capability or health in Lithuania. These are pensions for military and police officers, judges, scientists, artists and some other, smaller occupational groups.

The social assistance pension is designed as a minimum income pension for those not protected by statutory pension schemes in Lithuania. Social assistance pensions are paid to older or disabled people in Lithuania who were unable to acquire social insurance rights because they made insufficient contributions.

For parents or carers who cared over a period of 15 years for children with disabilities the old-age social assistance pension is equal to one and a half times the welfare basic pension, which is equal to 248 euros in 2025. The social assistance old-age pension is the same amount for mothers who have raised five or more children and for others who reach retirement age.

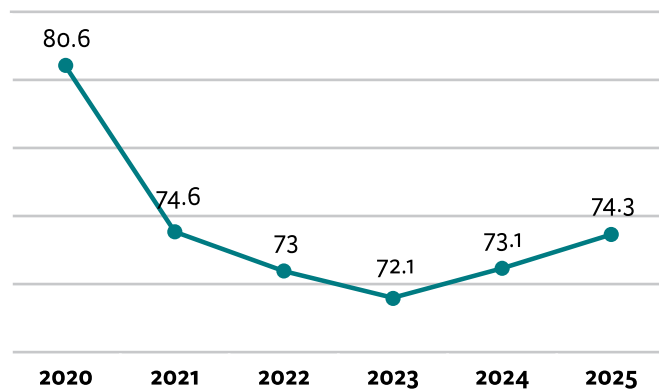
Additionally, Lithuania provides state pensions for post-war anti-Soviet resistance fighters and people who suffered under the former Soviet regime.

2.5 The second and third pillars of the old-age pension

The statutorily funded pension scheme in Lithuania is a defined-contribution scheme. It is administered by private fund managers. Contributions to the statutory pension fund are set at 3 per cent of a participant's wages and a supplementary 1.5 per cent of the national average wage is paid out of the state budget. Employers and employees can voluntarily contribute above the 3 per cent threshold, qualifying for further tax relief. Auto-enrolment applies

Figure 4

Average annuity in Lithuania, 2020-2025 (euros)



Source: Atvira Sodra.

to workers under 40 years of age, with the right to opt out, delay or temporarily suspend contributions. Older employees can join the scheme voluntarily, but there is no way to leave it until they reach retirement age.

The statutorily funded pension scheme was launched in 2004. Its main aim was to supplement the state social insurance pension with a private pension. The plan was to pay gradually increasing social insurance contributions to pension funds managed by subsidiaries established by banks and insurance companies.

Pension fund management firms offer investments according to the participant's age and the most suitable investment.

A lump sum and annuity are provided when a person retires. The annuities are provided when the personal accumulated sum is 10,807 euros. If the accumulated sum is less than this amount, it can be provided as a lump sum. If a person accumulates more than 64,841 euros during their lifetime, they can obtain a larger amount as a lump-sum payment.

Annuities come in three types. The first is a standard, non-inheritable annuity paid until the receiver dies; the second is a lower, inheritable annuity; and the last is a postponed annuity that starts at 85 years of age.

As the scheme will mature only after two or three decades, it does not play a significant role in the income protection of the current old-age population. Only a few percent of retirees receive periodic payments; the rest are content with lump sum payments because, due to their small number, it makes no sense to convert them into periodic payments. The amount of the annuity (see Figure 4) is not significant compared with the average old-age pension in Lithuania (668.8 euros in 2025 May).

3. Gender differences

The gender pay gap still remains an issue in Lithuania even though it is the smallest among the Baltic countries and lower than the EU27 average (see Table 3). According to Lithuania's State Data Agency, women's wages were 6 per cent lower than men's in the last quarter of 2023.¹

Pensions in Lithuania depend on the previous wage. Thus, the pay gap during a lifetime is reflected in the old age pension. The absolute difference between males and females in the relative income of elderly people (65 and older) for single-person households was the largest among the Baltic countries and in comparison with the EU27 average since 2021 (see Table 4).

Gender differences in relation to the at-risk-of-poverty rate were the largest in Lithuania compared with the EU27 average and among the Baltic countries (see Figure 5).

Women live longer after retirement than men, so the higher at-risk-of-poverty rate among them reflects their higher economic insecurity. The annuities from the funded pension system are higher for men than for women, on average. For example, the amount of the annuity was about 27.5 per cent higher for men in 2025 January, and 28 per cent higher in June 2025.²

¹ <https://vda.lrv.lt/lt/naujienos/pristatyti-pagrindiniai-darbo-uzmokescio-rodikliai>

² <https://atvira.sodra.lt/lt-eur>

Gender overall earnings gap

Table 3

	2010	2014	2018
EU27 (2020)	39.3	38.4	36.2
Estonia	30.9	37.3	31.1
Latvia	15.5	22.6	25.7
Lithuania	12.2	18.8	20.4

Source: Eurostat.

Gender differences in the relative income of elderly people (65+) – EU-SILC survey*

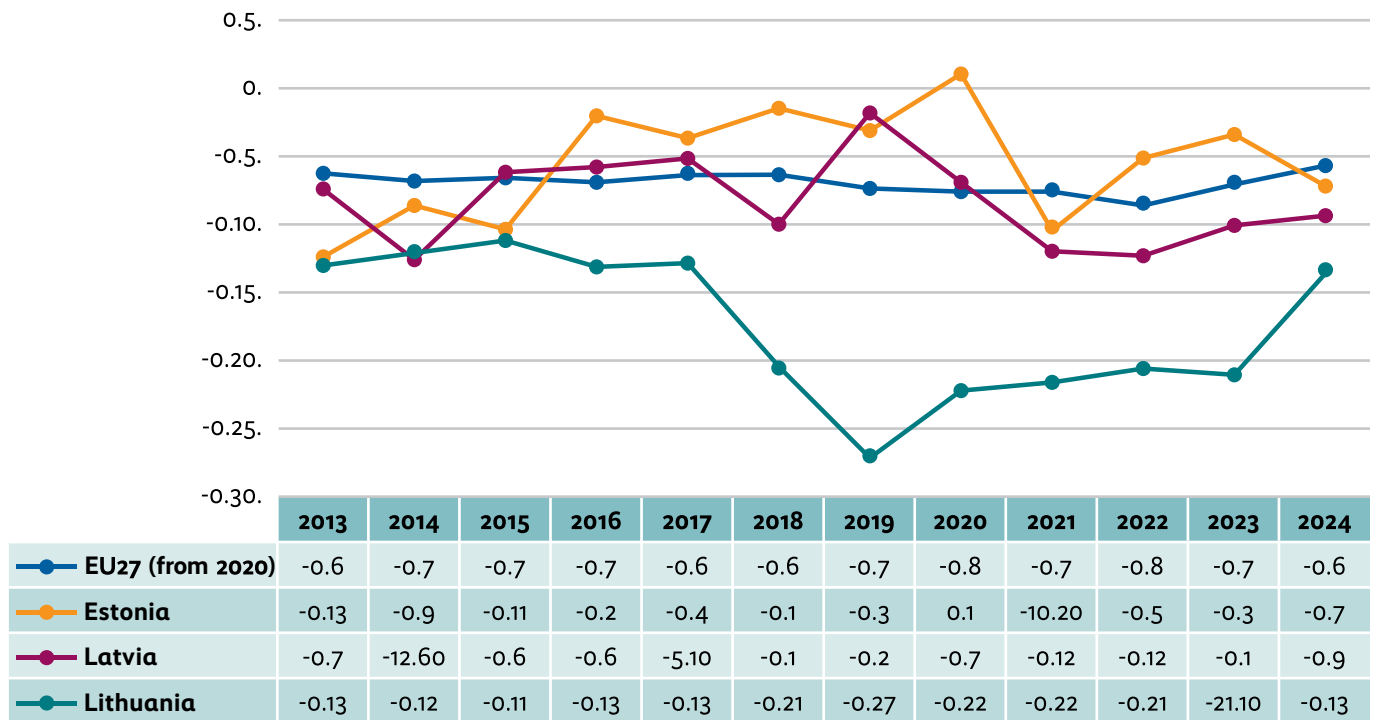
Table 4

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
EU27 (from 2020)	0.12	0.11	0.09	0.08	0.07	0.07	0.06	0.06	0.07	0.05	0.04	0.03
Estonia	-0.04	0.07	0.19	0.02	0.01	0.07	0.08	0.06	0.01	0.08	0.04	0.03
Latvia	0.21	0.11	-0.02	-0.06	0.04	0.04	0.08	0.07	-0.05	-0.02	0.03	-0.01
Lithuania	0.11	0.16	0.17	0.11	0.11	0.16	0.22	0.03	0.08	0.06	0.10	0.08

Note: * The indicator is defined as the absolute difference between males and females in the relative income of elderly people (65 and more) for single-person households.
Source: Eurostat.

Gender differences in the at-risk-of-poverty rate by age – EU-SILC survey*

Figure 5



Note: * The indicator is defined as the absolute difference between males and females with regard to the at-risk-of-poverty rate for single-person households.

Source: Eurostat.

4. Demographic challenges and old-age pensions

Demographic trends depend on fertility rates and life expectancy. Lithuania, like other European countries, is an ageing society. The fertility rate is low in all Baltic countries, but it has been extremely low in Lithuania since 2022.

The fertility rate over the past ten years has been persistently lower in Lithuania than in the EU27 since 2019 (see Table 5).

When it comes to the labour market and pension system, the future number of employees is important with regard to efforts to ensure financing for the pay-as-you-go system.

Nowadays, the old-age dependency ratio is about 30 in the Baltic countries. This means that, in theory, there were 100 active people funding the pensions of 31.2 persons in 2024 in Lithuania (see Figure 6).

Eurostat projections show that the population in Lithuania will decrease by about 37 per cent by 2100 compared with 2022. The fertility rate will increase by 0.26 percentage points by 2100 compared with 2022, according to the Eurostat baseline projection. It is not a sufficient fertility rate to ensure a larger younger generation. Expected life expectancy will increase 17.1 years in the same time period.

Fertility rates in the EU27 and the Baltic states

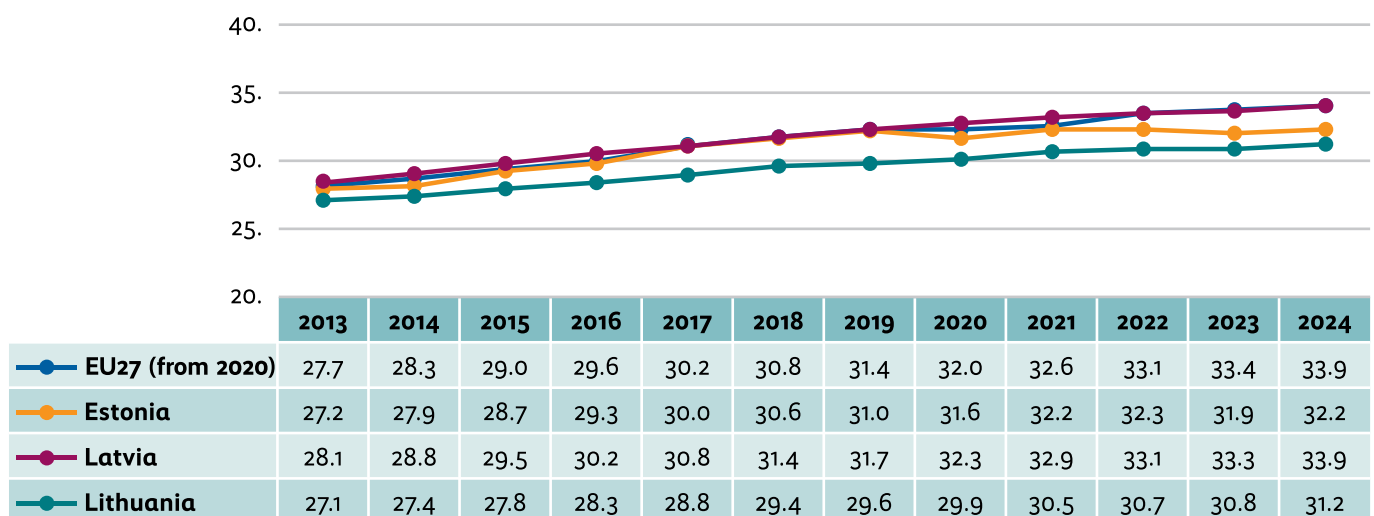
Table 5

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
EU27 countries (from 2020)	1.54	1.54	1.57	1.56	1.54	1.53	1.51	1.53	1.46	1.38
Estonia	1.54	1.58	1.60	1.59	1.67	1.66	1.58	1.61	1.41	1.31
Latvia	1.65	1.70	1.74	1.69	1.60	1.61	1.55	1.57	1.47	1.36
Lithuania	1.57	1.63	1.63	1.57	1.53	1.43	1.36	1.36	1.27	1.18

Source: Eurostat.

Old-age-dependency ratio*

Figure 6



Note: * Ratio between the number of persons aged 65 and over (generally economically inactive) and the number of persons aged between 15 and 64. The values are expressed per 100 persons of working age (15-64).

Source: Eurostat.

5. Pensions replacement rate, income inequality and poverty

The pension replacement rate in the Baltic states is lower than the EU27 average (see Figure 7). During the past five years, a decrease in Lithuania's aggregate replacement rate has been observed compared with Latvia and Estonia (see Figure 7).

The female aggregate replacement rate is lower in the EU27 on average. In Lithuania, the female aggregate replacement rate in 2023 was lower than in the other Baltic countries and lower than the domestic male rate (see Figure 8).

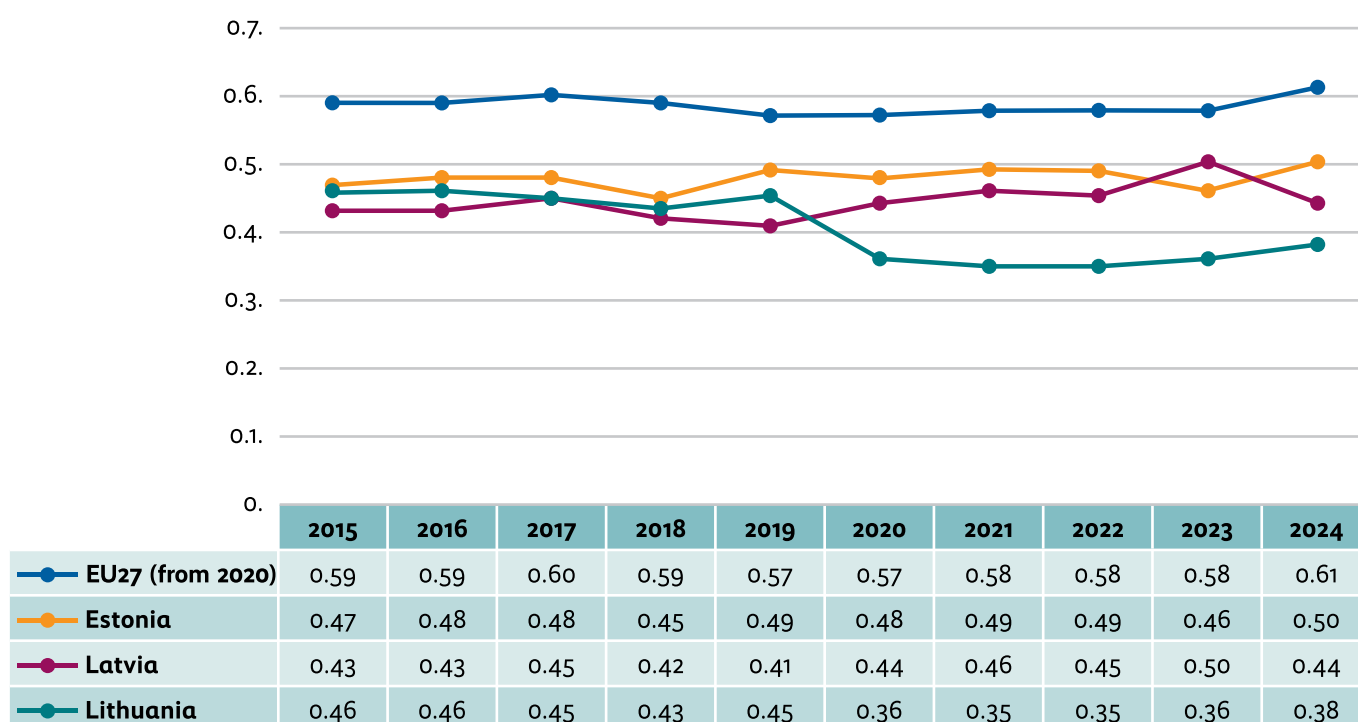
Gini inequality was 35 per cent in 2014 and 35.3 per cent in 2024 in Lithuania. The income quintile ratio in Lithuania was 6.1 in 2014 and 6.54 in 2024, according to Eurostat data. Income inequality among retirees, measured by the income quintile ratio, is lower than it is for the rest of society because of the old-age pen-

sion, which includes a flat rate payment (see Figure 9). Income inequality among retirees was slightly higher in Lithuania than the EU27 average; it was also higher than in Estonia, but lower than in Latvia (see Figure 9).

Pensions are indexed differently according to the general and individual parts of the pension. The individual part is indexed according to average wage growth over the past seven years. If the at-risk-of-poverty rate among the elderly is higher than 25 per cent and the predicted old-age pension coefficient with the projected net wage is lower than 50 per cent, the individual part is indexed additionally. The general part of the pension cannot be lower than 110 per cent of the subsistence minimum (MGL). The at-risk-of-poverty rate of retirees in Lithuania is high and significantly higher than the EU27 average (see Figure 10).

Aggregate pension replacement rate in EU27 and Baltic countries

Figure 7

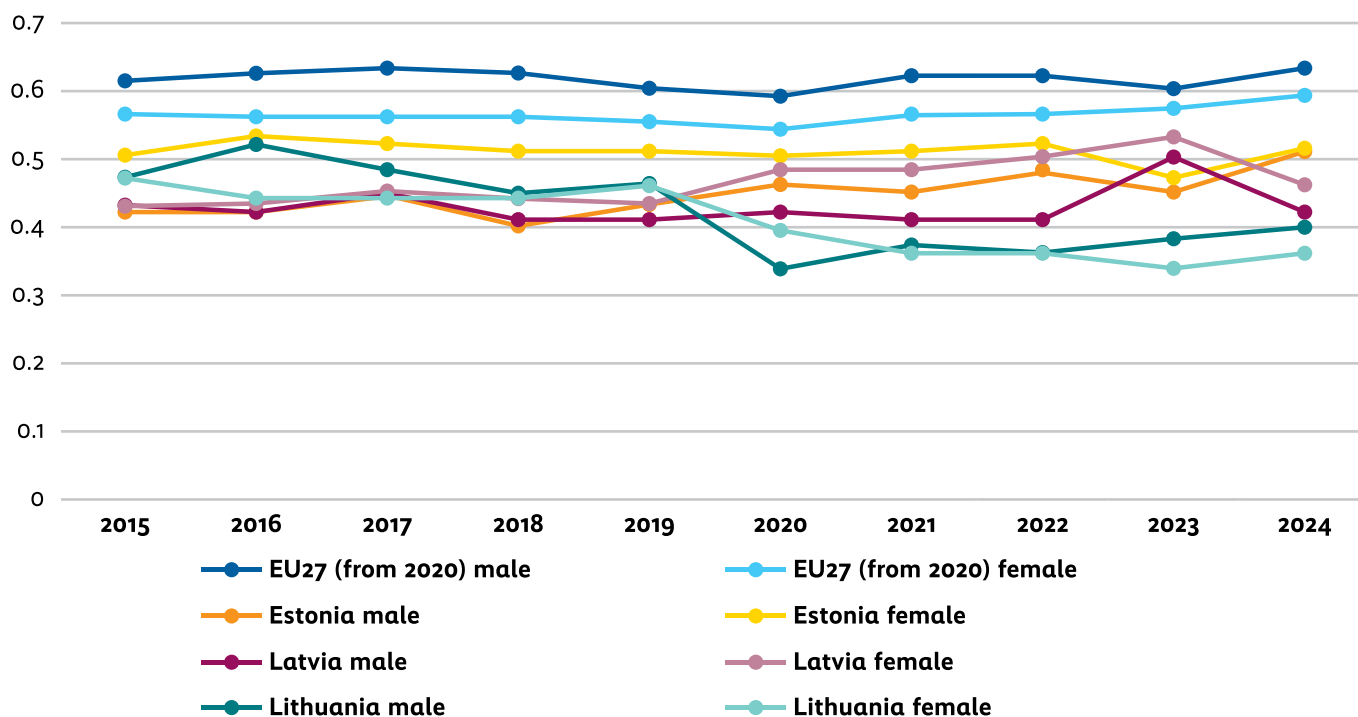


Note: * The aggregate replacement ratio is the gross median individual pension income of the population aged 65–74 relative to the gross median individual earnings from work of the population aged 50–59, excluding other social benefits (Eurostat glossary).

Source: Eurostat.

Aggregate pension replacement rate by gender in EU(27) and Baltic countries

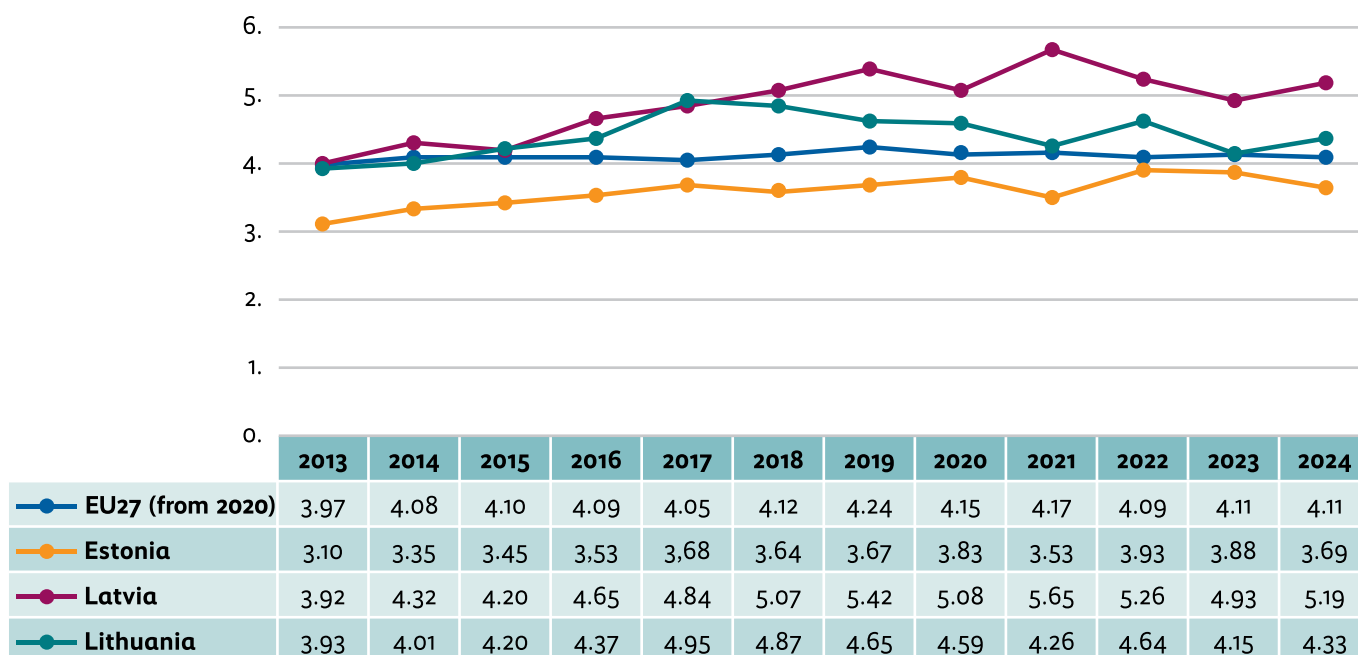
Figure 8



Source: Eurostat.

Income inequality for older people – EU-SILC survey*

Figure 9



Note: * The ratio of total income received by the 20 % of the population with the highest income (top quintile) to that received by the 20% of the population with the lowest income (lowest quintile). Income must be understood as equivalised disposable income.

Source: Eurostat.

The at-risk-of-poverty gap for elderly people was highest in Latvia and relatively lowest in Estonia. The gap has been almost 20 per cent since 2016 in Lithuania (see Figure 11).

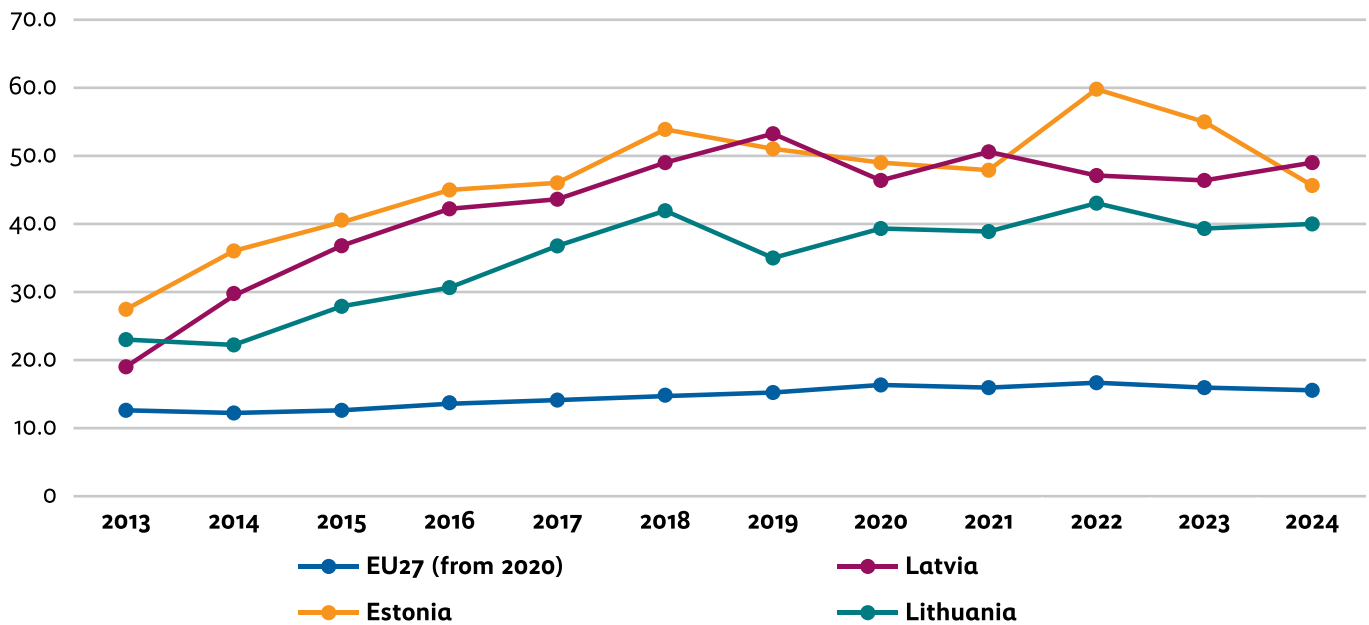
About 20–30 per cent of single older people (65 years and over) in Latvia and almost the same proportion in Lithuania report that they are unable to afford a meal with meat,

chicken or fish (or a vegetarian equivalent) every second day (see Figure 12).

Among Lithuanians 65 years or over, about one-third are unable to keep their home adequately warm, while in Estonia and Latvia the proportion is significantly lower (see Figure 13).

At-risk-of-poverty rate of retirees in the Baltic countries and the EU

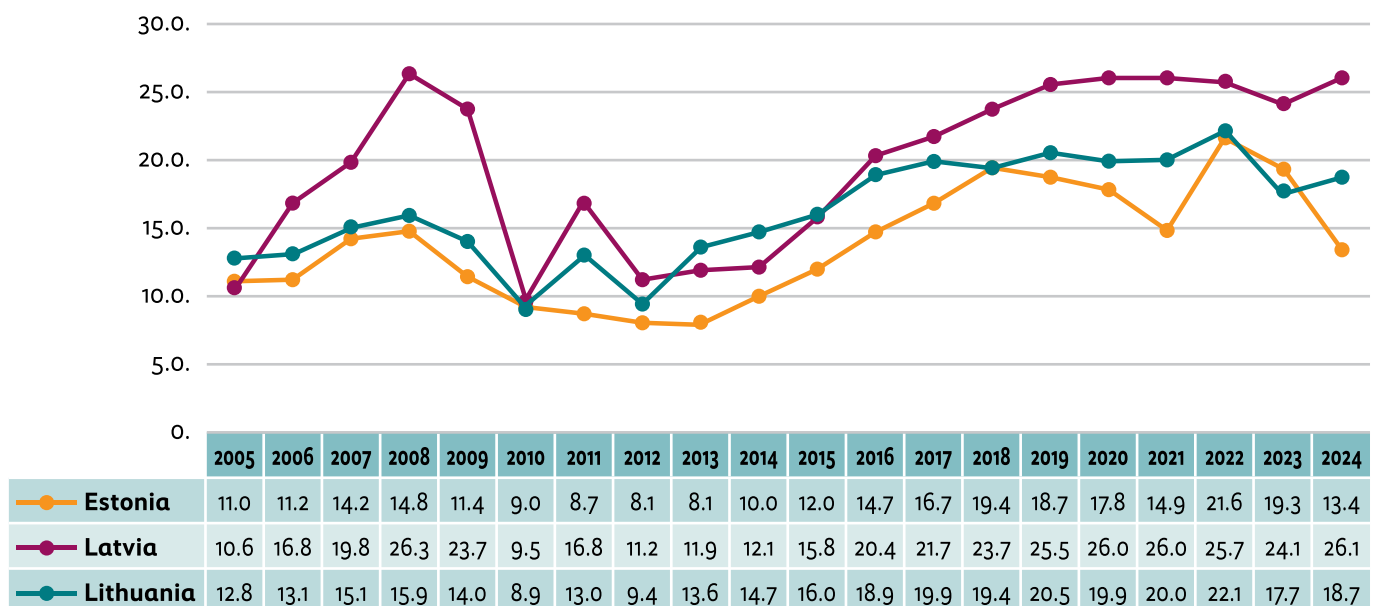
Figure 10



Source: Eurostat.

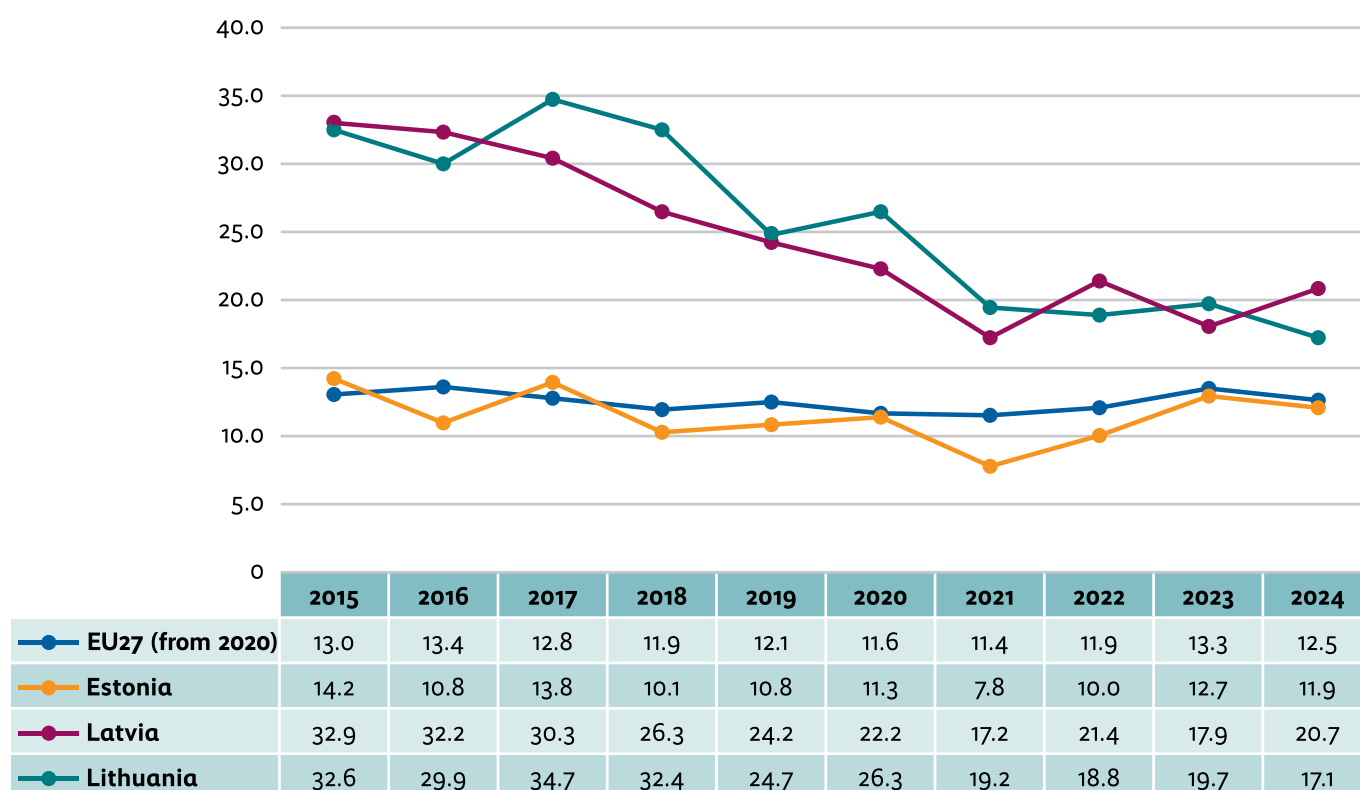
Relative median at-risk-of-poverty gap of elderly people

Figure 11



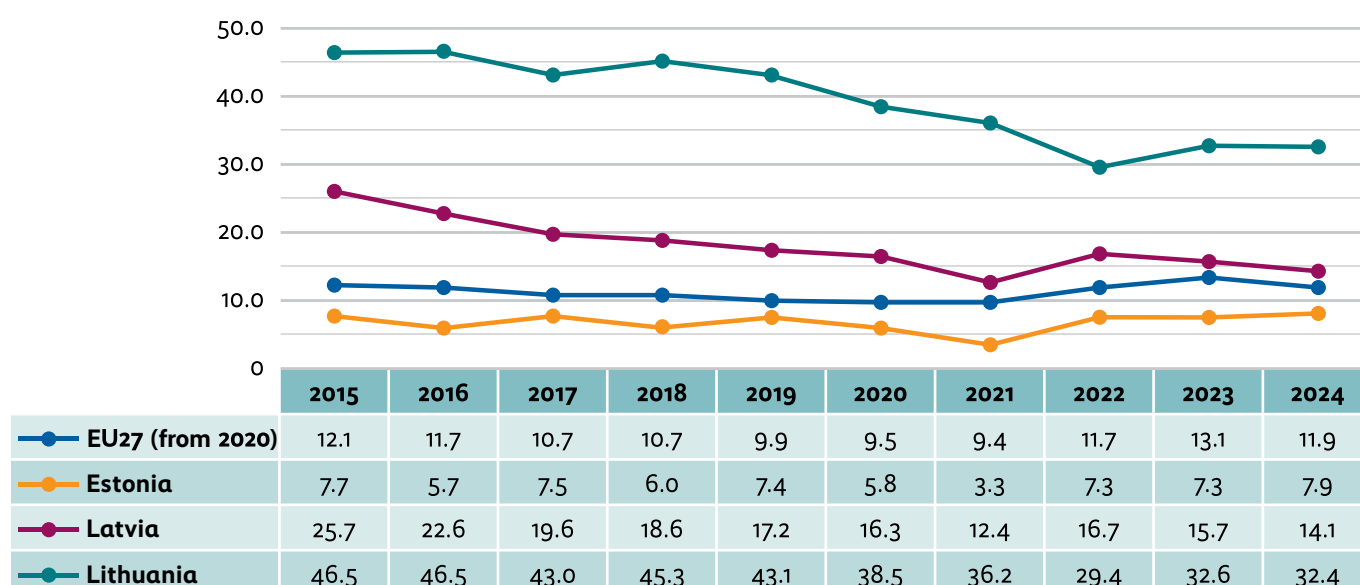
Source: Eurostat.

Inability to afford a meal with meat, chicken or fish (or vegetarian equivalent) every second day, adults 65 years or over



Source: Eurostat.

Inability to keep home adequately warm, adults 65 years of age or over



Source: Eurostat.

Conclusions and recommendations

Lithuania's old-age pension system provides benefits to the majority of social security beneficiaries. As these benefits are long-term and retirement is inevitable for most people, old-age pensions account for the largest share of social security expenditure in the country.

After independence in 1990, Lithuania adopted major legislation on social security and pensions. The legal basis for the Lithuanian welfare state has been amended in recent years to meet emerging challenges and the needs of the population.

Distributive justice leaves a lot to be desired in Lithuania, however. The funding of social security and pensions remains lower than the EU average. Social security benefits are inadequate. The replacement rate of the social security pension is less than half that of wages. The risk of poverty is high and above the EU average. Among single pensioners, almost one-fifth cannot afford meat or fish, and one-third cannot afford to heat their homes adequately.

The second statutorily funded pension pillar still cannot ensure a significant additional amount on top of the social insurance old-age pension for recipients.

Efforts to further index pensions in 2022 by law,³ with the aim of establishing additional indexation coefficients for the basic pension and pension points were not successful. Pensions remain low and pensioners' risk of poverty remains high.

The new (nineteenth) government plans to increase the social insurance pension replacement rate and to adopt changes to pension indexation, taking due account of economic realities. This government was tasked with reforming the mandatory funded pension system in Lithuania to make it voluntary. This reform was adopted earlier this year. Before reforming the funded pension system in Lithuania, there were extensive discussions about its shortcomings and the possible consequences of the reform. The high risk of poverty among Lithuanian pensioners is also on the agenda. Discussions are ongoing about the substantial social insurance reserves and the inadequacy of old-age pensions.

More redistribution via the state budget could ensure a more adequate level of social assistance pensions. The new government is obliged to implement recommendations for the improvement of the relevant formula and related pension indicators. In its programme the new government committed itself to improving the indexing framework for state pensions.

Further recommendations are aimed at enhancing intergenerational justice and guaranteeing the adequacy of pensions.

Enhancing the level of redistribution in the national budget will allow Lithuania to ensure its tax base so that it can fund a larger share of the general component of pensions and other non-contributory pensions.

The latest – statutory – pension indexation is automatic, but it cannot solve the problem of the existing pension gap.

Gradually raising pensions beyond what the indexation mechanism allows enables greater intergenerational justice, greater equality in society and less poverty among elder Lithuanians.

Measures to reduce poverty should also pay due attention to the material deprivation and low pensions of single pensioners.

As the Lithuanian National Audit Office stated in its 2022 report,⁴ the Lithuanian pension system is more focused on poverty reduction than on replacing higher wages in old age in order to ensure living conditions similar to those the pension recipient enjoyed before retirement.

Therefore, another recommendation would be to establish a closer link between contributions and the individual pension component.

In response to the trend towards an ageing society, investment should be made in lifelong learning and health care for older people, as well as in the development of better working conditions that may ensure longer participation in the labour market.

³ Lietuvos Respublikos papildomo socialinio draudimo pensijų ir valstybinių pensijų indeksavimo 2022 metais įstatymas 2022 m. balandžio 28 d. Nr. XIV-1057 Vilnius.

⁴ <https://www.valstybeskontrolė.lt/EN/Product/24099/assessment-of-changes-in-the-pension-system>

Further recommendations in relation to demographic ageing might include the following:

Discussion of various alternatives for ensuring the financing of the PAYG system, instead of relying on a funded pension system, which Barr and Diamond (2008) criticised as being just as sensitive to demographic problems as the PAYG system.

Provide more information on the various instruments and on how to ensure more sustainable consumption after retirement. Also try to improve people's financial literacy.

Public employment services should improve services for older unemployed people and workers to increase their employability or help them continue their careers.

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Distributional Justice of Lithuania's Pension System

The purposes of old-age pensions include smoothing consumption after retirement, providing protection against poverty in old age, and reducing intergenerational inequality.

Distributive justice in Lithuania is inadequate. The pension system still faces problems ensuring adequate consumption after retirement and protecting against the risk of poverty. Intergenerational inequality remains high: social insurance pensions are below 50 per cent of wages in the economy.

The following steps can help to solve Lithuania's pension policy shortcomings. Increasing the level of redistribution could enhance funding for both the general part and other noncontributory pensions. Gradually increasing pensions above the indexing mechanism would make possible greater intergenerational justice and more societal equality and reduce poverty among Lithuanian seniors.

A closer relationship between paid contributions and individual parts of the pension could ensure more sustainable consumption after retirement.

When it comes to demographic ageing, investing in lifelong learning and health care for older adults, as well as providing older unemployed people with more favourable working conditions and public employment services would be highly beneficial. A broader discussion of the various alternatives for financing a PAYG system, rather than depending solely on a funded pension system, could lead to new agreements capable of enhancing the sustainability of the pension system.

Further information on this topic can be found here:

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