

# **EUROMOD**

## **COUNTRY REPORT**



# **LITHUANIA (LT)**

## **2016-2019**

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**EUROMOD version I2.0**



EUROMOD is a tax-benefit microsimulation model for the European Union (EU) that enables researchers and policy analysts to calculate, in a comparable manner, the effects of taxes and benefits on household incomes and work incentives for the population of each country and for the EU as a whole.

EUROMOD covers the 28 Member States and is updated to recent policy systems using data from the European Union Statistics on Income and Living Conditions (EU-SILC) as the input database, supported by DG-EMPL of the European Commission.

This report documents the work done in one annual update for Lithuania. This work was carried out by the EUROMOD core developer team, based in ISER at the University of Essex, in collaboration with a national team.

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The results presented in this report are derived using EUROMOD version I2.0. EUROMOD is continually being improved and the results presented here may not match those that would be obtained with later versions of EUROMOD. For more information, see:

<https://www.euromod.ac.uk>

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## 1. BASIC INFORMATION

### 1.1. Basic information about the tax-benefit system

- The Lithuanian benefit system is organized mainly on the state level. Municipalities provide a few local benefits based on local rules. These include municipal support which is given to families in need (e.g. asocial or dysfunctional families). In other cases, municipal authorities set parameters which indicate local living standards, but are used by state defined benefits or tax programs<sup>1</sup>.
- Tax-benefit system is a unified national system in Lithuania. The one exception is business certificate (see more details on this type of taxation in chapter 1.6), which acquisition price varies across municipalities.
- The “fiscal year” runs from 1<sup>st</sup> January to 31<sup>st</sup> December.
- Main benefit and tax changes often happen at different times of the fiscal year, i.e. such as 1st July. For example, basic pension amount and minimum monthly salary are usually changed as of 1<sup>st</sup> July.
- Retirement age: The statutory retirement age in Lithuania is increased gradually to reach 65 years for both men and women by 2026. The state pension age on 30<sup>th</sup> June, 2005 was 59.5 for women and 62.5 for men. As of 2006: 62.5 and 60 respectively. It did not change during the course of 2006-2011. Since 1<sup>st</sup> January, 2012 the state pension age gradually increases by 4 months yearly from 60 to 65 years for women and by 2 months yearly from 62.5 to 65 years for men. Effectively, the state pension age on 30<sup>th</sup> June, 2012 was 60 years and 4 months for women and 62 years and 8 months for men. For all the changes in pension age for women and for men from 2012 until 2026 see Table 1.

Table 1 Pension age for women and men effective on June 30, 2012-2026

Year	Women	Men
2012	60 years 4 months.	62 years 8 months
2013	60 years 8 months	62 years 10 months
2014	61 years	63 years
2015	61 years 4 months	63 years 2 months
2016	61 years 8 months	63 years 4 months
2017	62 years	63 years 6 months
2018	62 years 4 months	63 years 8 months
2019	62 years 8 months	63 years 10 months
2020	63 years	64 years
2021	63 years 4 months	64 years 2 months
2022	63 years 8 months	64 years 4 months
2023	64 years	64 years 6 months
2024	64 years 4 months	64 years 8 months
2025	64 years 8 months	64 years 10 months
2026	65 years	65 years

- The minimum school leaving age is 16 years old. Compulsory education is from age 7 to 16. The age of majority is 18<sup>2</sup>.

<sup>1</sup> For example, provision of cash social assistance is administered by municipalities with some discretion on defining eligibility and exceptions from the general rules. The general rules, nevertheless, are set at the country level.

<sup>2</sup> Majority is an age threshold, recognized by the law, as a moment when a child assumes control over his/her actions, thereby terminating the legal control and legal responsibilities of parents or guardians.

- *Dependent child* definition:
  - a. By default, the “*dependent child*” status is lost (unless recognized by the court otherwise) if a person has a partner (married or legally cohabitating) or becomes a parent herself.
  - b. Generally, *for tax and benefit purposes*, dependent children are own or adopted children (except fostered children) under 18 years of age.
  - c. *For benefit purposes*, persons between ages 18 (hereinafter referred to as inclusive) up to 21 years (hereinafter referred to as exclusive) old are *often* considered to be dependent children, if they are (a) unmarried and not living together with another person, (b) not parents themselves, and (c) full-time pupils and students of general education schools or other institutions of formal education, as well as persons from the day of finishing general education schools which they attended as full-time pupils until 1<sup>st</sup> September of the same year. The precise “dependent child” definition is usually a benefit specific definition, and could cover different conditions, as in the two examples below:
    - For social assistance, persons up to the age of 24, (unless married, living together with another person or parents themselves) if unemployed or studying full-time, can only be treated as dependent children, therefore, restricting their rights to claim the benefit as a “single person”.
    - For child benefit purposes, enrolment in full-time secondary education is required for children at the age of 18 or older, who are raised in families with up to two children. Children up to the age of 24 are eligible, if raised in families with three or more children and enrolled in secondary, vocational, post-secondary or higher education.
  - d. *For tax purposes*, dependent children are defined as children under the age of 18 or older, if in full-time secondary education.
- Lone parent is defined as a parent of a dependent child, not legally married or officially cohabiting (cohabitation is approved by the official contract) to anyone.
- The income tax system is an individual system, with the spouses being assessed independently.
- Taxpayers can fill a tax return form in order to make deductions from income tax or to return unused annual tax allowance at the end of the financial year, although it is not obligatory, unless in cases of gaining non-work related income.
- Generally, no statutory indexing regimes are applied for Lithuanian benefits or taxes. Indexation of benefits is agreed on annually on an ad-hoc basis, conventionally on an annual base.
- The means-tested benefit system assesses entitlement according to the average per capita monthly income of benefit unit according to the last three or twelve months’ income history. The benefit unit is the nuclear family - the married couple or single adult plus any dependent children.
- Currency: Lithuanian currency was Litas (LTL) with a fixed exchange rate to Euro (EUR) of 1 EUR = 3.45280 LTL since 2002 to 1<sup>st</sup> January 2015. Lithuania joined the Eurozone in 2015. The national currency is EUR since 1<sup>st</sup> January 2015.
- *Commonly used parameters and definitions*

Social benefits, pensions and compensations are often calculated in relation to reference amounts, as indicated below.

**Basic Social Allowance** (*bazinė socialinė išmoka*), hereinafter referred to as “**BSA**”, is the Government approved social indicator mainly used for defining and calculating of different social protection benefits and other statutory values. Table 1.1 shows BSA levels which were effective on 30<sup>th</sup> June 2011-2019.

**The State Supported Income** (*valstybės remiamos pajamos*) level (hereinafter referred to as “**SSI**”) is the Government approved personal income level after taxes and contributions, but before transfers of cash social assistance. Table 1.1 shows SSI levels which were effective on 30<sup>th</sup> June 2011-2019.

Table 1.1. Monthly BSA and SSI levels effective on 30<sup>th</sup> June 2011-2019, LTL and EUR

	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Currency: LTL</b>									
<b>BSA</b>	130	130	130	130					
<b>SSI</b>	350	350	350	350					
<b>Currency: EUR</b>									
<b>BSA</b>					38	38	38	38	38
<b>SSI</b>					102	102	102	122	122

Source: Based on the relevant version of Government of Lithuanian Republic Resolution „Dėl bazinės socialinės išmokos dydžio patvirtinimo“ and „Dėl valstybės remiamų pajamų dydžio patvirtinimo“

A number of other commonly used definitions for benefit calculations, such as income lists, are presented here:

**Insured Income** (*draudžiamosios pajamos*), hereinafter referred to as “**II**”, defines the *list* of the person’s *insured income* on the basis of which a number of contributory benefits, such as maternity leave and paternity leave benefits, sickness benefit or unemployment benefit, are paid. *Insured income* includes all income of a person on which state social insurance contributions were (or had to be) paid:

- earnings;
- income from sports, incomes paid under authorship agreements, income of self-employed persons and with some extent incomes received by some groups of people that were previously not covered by social insurance (solicitors, bailiffs, individual business owners, farmers and partners, etc.);
- sickness benefit (including the first two days of sickness for which the employer pays), vocational rehabilitation, maternity leave, paternity leave, childcare benefits set by the *Law on Sickness and Maternity Social Insurance*;
- sickness benefits due to occupational accidents or occupational disease allowances payable in accordance with the *Law on Social Insurance of Occupational Accidents and Occupational Diseases*;
- unemployment and partial employment social insurance benefits payable in accordance with the *Law on Unemployment Social Insurance*.<sup>3</sup> Partial employment benefits are introduced since July 2017.

There were no major changes made to the insured income list during the period of 2011-2019.

The **average monthly insured income (AMII)** is the sum of the insured incomes (**II**) averaged over the last several months before the right to the relevant benefit has been granted. For

<sup>3</sup> Insured income is defined by the “Lietuvos Respublikos Valstybinio socialinio draudimo įstatymas”.

example, the right to maternity leave, paternity leave and childcare benefits rely on AMII which is based on the averaged income calculated over the last 12 months period (excluding the month the benefit is claimed).<sup>4</sup> Other benefits, such as vocational rehabilitation allowance and occupational disease allowance are based on insured income averaged over 3 months' period. No major changes were made in 2011-2019.

**Current year's insured income (*einamųjų metų draudžiamosios pajamos*)**, is the state approved income threshold mainly used for the purpose of state social insurance benefit calculations and defined by the *Law on State Social Insurance Pensions*. Table 1.2 shows *current year's insured income* (hereinafter referred to as "CYI") levels which were effective on 30<sup>th</sup> June 2011-2017. As of 2018, the Current year's insured income was replaced with the indexation coefficient (*indeksavimo koeficientas*), which is to be used for indexation of social insurance pensions together with a reference point amount for pensions (*apskaitos vienetą*) (see below). For other benefits where CYI was used (e.g. for setting ceilings of the maternity/paternity benefits), other amounts are used instead of CYI.

**Pension indexation coefficient (*indeksavimo koeficientas*) and reference points (*apskaitos vienetą*)**. As of 2018 the formulae for estimating social insurance pension amounts was modified. All pension entitlements were recalculated into reference points (RP), which are to be automatically indexed each year using an indexation coefficient (IC). The RP is equal to 12 average monthly salaries earned during before retirement and is capped at 5 RP (60 average monthly wages) per year. The IC is calculated based on the average change of the total wage fund during the three previous, current and three forthcoming years. The IC is also used for indexing the basic pension part. No major changes were made in 2019.

Table 1.2. CYI, RP and IC amounts (monthly), 30<sup>th</sup> June 2011-2019, LTL and EUR

	2011	2012	2013	2014	2015	2016	2017	2018	2019
CYI	Currency: 1,170*	1,488	1,488	1,488					
	LTL								
RP	Currency: EUR				431	445	476	n/a	
IC								3.27	3.52
								1.0694	1.0763

Source: Based on the *Government of Lithuanian Republic Resolution "Dėl Valstybinės Socialinio Draudimo Bazinės Pensijos Padidinimo ir Einamųjų 2005 Metų Draudžiamųjų Pajamų Naujo Dydžio Patvirtinimo"* [25.05.2005] and relevant changes. Note: \* In 2011 the CYI of LTL 1,170 was applied for calculation of all applicable benefits, except of the state social insurance pensions, in which case the 2009 level of CYI (1,488 LTL) should be taken into account<sup>5</sup>. RP and IC amounts based on SoDRA website: <http://www.sodra.lt/lt/situacijos/statistika/pagrindiniai-socialiniai-rodikliai>

**State social insurance basic pension (*valstybinio socialinio draudimo bazinė pensija*)** is the state approved amount, mainly used for the calculation of social insurance benefits, such as old-age pension or vocational rehabilitation allowance.

**Assistance pension base (*šalpos pensijos bazė*)** is the state approved amount, introduced on January 1<sup>st</sup> 2017. The pension base is a standard amount, used for the calculation of social

<sup>4</sup> Based on the following law "Lietuvos Respublikos Ligos ir motinystės socialinio draudimo įstatymo 3, 4, 5, 6, 8, 9, 16, 18, 19 straipsnių pakeitimo ir papildymo įstatymas". 2008.12.18 Nr. XI-71. [http://www3.lrs.lt/pls/inter2/dokpaieska.showdoc\\_l?p\\_id=334539](http://www3.lrs.lt/pls/inter2/dokpaieska.showdoc_l?p_id=334539).

<sup>5</sup> Based on the following Government resolution: 2011 m. vasario 23 d. Nr. 210 "Dėl einamųjų 2011 metų draudžiamųjų pajamų, ribinio motinystės (tėvystės) socialinio draudimo pašalpos ir ribinio valstybinės pensijos dydžių patvirtinimo". Žin., 2011, Nr. 24-1160. [http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc\\_l?p\\_id=393060&p\\_tr2=2](http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc_l?p_id=393060&p_tr2=2)



assistance benefits such as: social assistance disability pensions, social assistance old-age pensions, social assistance orphans pensions<sup>6</sup>.

Table 1.3. Basic monthly pension, social assistance pension base 30<sup>th</sup> June 2011-2019, LTL and EUR

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Basic monthly pension									
Currency: LTL	360	360	360	360					
Currency: EUR					105	112	120	152.92	164.59
Assistance pension base							112	130	132

Source: Based on the Law “Dėl valstybinės socialinio draudimo bazinės pensijos dydžio, valstybinės socialinio draudimo našlių pensijos bazinio dydžio, maksimalios neperskaičiuotos pensijos dydžio ir valstybinių pensijų bazės dydžio patvirtinimo“, (2016-12-28 Nr. 1275, TAR, 2016-12-29, kodas 2016-29886) and its relevant amendments and changes.

Most of the state pensions in Lithuania are calculated in relation to the **state pension base (valstybinių pensijų bazė)**, the amounts of which during the period of 2011-2019 are indicated below:

Table 1.4. State pension base minimum and average monthly salary, 30<sup>th</sup> June 2011-2019, LTL and EUR

	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Currency: LTL</b>									
State pension base	200	200	200	200					
Minimum monthly salary (MMS)	800	800	1000	1000					
<b>Currency: EUR</b>									
State pension base					58	58	58	58	58
Minimum monthly salary (MMS)					325*	350	380	400	555
Average monthly salary (AMS)							741.2	808.7	1136.2
Average monthly salary of the previous quarter (AMSp)							812.8	876.43	961.70

Source: Based on the Government of Lithuania Republic Resolution “Dėl valstybinių pensijų bazės dydžio patvirtinimo” [27.12.2007] and “Dėl minimaliojo darbo užmokesčio dydžio didinimo” [17.12.2008] and their relevant changes. \* 325 EUR starting 17.06.2015, 300 EUR since 01.01.2015. AMS used for calculations of minimum and maximum amounts of maternity/paternity benefits and unemployment benefits since 2017. AMS is indicated as used for estimating the base for personal income tax payments, i.e. as set in the following Law: Lietuvos respublikos gyventojų pajamų mokesčio įstatymas. AMSp is indicated as used for estimating the base for social insurance payments, i.e. as set in the following Law: Lietuvos Respublikos valstybinio socialinio draudimo fondo biudžeto rodiklių patvirtinimo įstatymas

**Minimum monthly salary (minimali mėnesinė alga)**, hereinafter referred to as “MMS” which is listed in Table 1.4, This reference amount is also used for defining (credited) social contributions (see more details in section 2.5.3).

<sup>6</sup> Based on the following law “ Lietuvos Respublikos valstybinių šalpos išmokų įstatymo Nr. I-675 pakeitimo įstatymas“. 2016-06-29, Nr. XII-2506. <https://www.e-tar.lt/portal/lt/legalAct/f5ee93504a6e11e6b5d09300a16a686c>

## 1.2. Social Benefits

- *Non-contributory benefits*

*All non-contributory benefits are non-taxable.*

**Birth grant (*vienkartinė išmoka gimus vaikui*):** a lump-sum cash benefit paid upon the birth (an adoption) of a child. Since 2011 the birth amounts to 11 BSA per child.<sup>7</sup> No changes were made afterwards except of conversion to EUR in 2015.

**Child benefit (*išmoka vaikui*):** since January 1<sup>st</sup> 2018, universal child benefit of 0.79 BSA (30.02 EUR) per child introduced to all families raising children aged less than 18 years old or until the age of 21 if in full-time education<sup>8</sup>. Since January 1<sup>st</sup> 2019, universal child benefit is 1.32 BSA (50.16 EUR), for disabled child 1.84 BSA (69.92 EUR).

**Additional child benefit (*papildoma išmoka vaikui*):** a monthly cash benefit paid to a family raising one or more dependent children. The benefit level is calculated in relation to BSA and varies based on household income, the number of children in the family and their age. Since the 1<sup>st</sup> March, 2009 entitlement to the benefit became means tested for families that raise one or two children aged 3-18 or 21 if in full-time education.<sup>9</sup> Starting from January 1, 2010 both eligibility criteria and the income test were tightened according to *the Temporary Law on Recalculation and Payment of Social Benefits*. Since the 1<sup>st</sup> January, 2012 entitlement to the benefit became means tested also for families that raise one or two children aged less than 3 years as well. Since the 1<sup>st</sup> January, 2017 all families, raising three and more children are entitled to child benefit<sup>10</sup>. The amount of the child benefit for families raising more than three children depends on children's age. Since January 1<sup>st</sup> 2018, means-tested child benefit renamed as additional child benefit. Since January 1<sup>st</sup> 2019, the amount of additional child benefit is 0.53 BSA (20.14 EUR) and no longer depends on children's age.

**Student's childcare benefit (*išmoka besimokančio ar studijuojančio asmens vaiko priežiūrai*):** a monthly childcare benefit paid for one of the parent (lone parent, guardian, forster) during study period or 12 months after finishing school of graduation<sup>11</sup>. The benefit is paid to one of the parent who studies (studied) in full time formal vocational training or higher education programme until reaches the age of 26, or studies (studied) in doctoral studies or medical residency until reaches the age of 30 and according to *the Law on Sickness and*

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<sup>7</sup> Based on the following law "Lietuvos Respublikos Išmokų vaikams įstatymo 1, 2, 3, 5, 6, 7, 8, 9, 10, 12, 13, 14, 18, 20, 22 straipsnių ir antrojo, trečiojo skirsnių pavadinimų pakeitimo įstatymas". 2008.07.01. Nr. X-1664: [http://www3.lrs.lt/pls/inter2/dokpaieska.showdoc\\_l?p\\_id=324329](http://www3.lrs.lt/pls/inter2/dokpaieska.showdoc_l?p_id=324329)

<sup>8</sup> Based on the following law "Lietuvos Respublikos išmokų vaikams įstatymo Nr. I-621 pakeitimo įstatymas". 2017-12-05. Nr. XIII-822: <https://www.e-tar.lt/portal/legalAct.html?documentId=83931f10e3f111e7b3f0a470b0373cb2>.

<sup>9</sup> Based on the following law "Lietuvos Respublikos Išmokų vaikams įstatymo 6, 8, 12, 13, 20 straipsnių pakeitimo ir papildymo ir 22 straipsnio pripažinimo netekusiu galios įstatymas". 2008.12.19 Nr. Xi-90: [http://www3.lrs.lt/pls/inter2/dokpaieska.showdoc\\_l?p\\_id=334470](http://www3.lrs.lt/pls/inter2/dokpaieska.showdoc_l?p_id=334470)

<sup>10</sup> Based on the following law "Lietuvos Respublikos išmokų vaikams įstatymo Nr. I-621 1, 2, 5, 6, 8, 12, 20 straipsnių ir priedo pakeitimo įstatymas". 2016-09-21. Nr. XII-2627: <https://www.e-tar.lt/portal/legalAct.html?documentId=05780a80858011e6b969d7ae07280e89>

<sup>11</sup> Based on the following law "Lietuvos Respublikos išmokų vaikams įstatymo Nr. I-621 1, 3, 10, 12, 13 straipsnių, ketvirtojo skirsnio pavadinimo pakeitimo ir įstatymo papildymo 10-1 ir 10-2 straipsniais įstatymo Nr. XII-2500 5 straipsnio pakeitimo įstatymas". 2016-06-28. Nr. XII-2500: <https://www.e-tar.lt/portal/legalAct.html?documentId=250ebe404a6e11e6b5d09300a16a686c>

*Maternity Social Insurance* is not entitled to childcare benefit (a person before the first day of childcare leave had less than 12 months over the last 24 months of maternity (paternity) social insurance record). The fixed benefit amount is 4 BSA and is paid until the child reaches the age 1. If two or more children are born (adopted) the benefits size to a student’s childcare does not increase. Since January 1<sup>st</sup> 2018, the benefit amount is 6 BSA<sup>12</sup>. No major changes were made in 2019.

**Benefit for multiple-birth families (*išmoka gimus vienu metu daugiau kaip vienam vaikui*):** a monthly benefit paid for one of the parent (lone parent) due to the birth of two or more children<sup>13</sup>. The benefit level is calculated in relation to BSA and varies based on the number of children born at the same time. The benefit is paid from the birth of the children until the children reach the age of 2 years. The benefit for parent paid in the amount of 4 BSA per month. If more than two children are born at the same time, the benefit amount increases respectively by 4 BSA. No changes in 2019.

**Benefit to a conscript’s child (*išmoka privalomosios tarnybos kario vaikui*):** a monthly benefit paid for each child in the amount of 1.5 BSA during the military service of the father. The level of the benefit did not change during the course of 2005-2019 except of conversion to EUR in 2015. According to *Law on the Benefits to Children*, the benefit is paid to the mother of the child of a conscript, unless she is not a permanent resident of the Republic of Lithuania. In that case, the benefit is paid to the child’s father. The recipient of this benefit is also entitled to a child benefit as described above.

**Guardianship benefit and targeted guardianship subsidy (*globos (rūpybos) išmoka ir globos (rūpybos) išmokos tikslinis priedas*):** a monthly benefit to a child placed under guardianship in a family or non-governmental guardianship institution during the period of the guardianship (curatorship). Since the 1<sup>st</sup> January 2009 the amount of the guardianship benefit for a child who is under guardianship in a family-type guardianship institution (with more than 6 children) was set to 8 BSA, or the difference between 8 BSA and cumulative amount of an orphan’s pension and (or) a child maintenance obligation.<sup>14</sup> If the child under guardianship is on free boarding at a secondary or vocational school the amount of the guardianship benefit decreases to 2 BSA. Since 1<sup>st</sup> January 2016, the amount of the guardianship (curatorship) benefit for a child who is under guardianship in a family, a family-type guardianship institution or non-governmental guardianship institution, was set to 4 BSA<sup>15</sup>. The benefit shall be extended until the age of 24 for those studying in full-time studies. Since 1<sup>st</sup> January 2017, a targeted guardianship subsidy of 4 BSA is paid for a child’s guardian (curatorship) per child whom guardianship is established for a family or a family-type institution.<sup>16</sup> No changes were made afterwards.

<sup>12</sup> Based on the following law “Lietuvos Respublikos išmokų vaikams įstatymo Nr. I-621 pakeitimo įstatymas”. 2017-12-05. Nr. XIII-822: <https://www.e-tar.lt/portal/legalAct.html?documentId=83931f10e3f111e7b3f0a470b0373cb2>.

<sup>13</sup> Based on the following law „Lietuvos Respublikos išmokų vaikams įstatymo Nr. I-621 1, 3, 10, 12, 13 straipsnių, ketvirtojo skirsnio pavadinimo pakeitimo ir Įstatymo papildymo 10-1 ir 10-2 straipsniais įstatymas“. 2016-06-28. Nr. XII-2500: <https://www.e-tar.lt/portal/legalAct.html?documentId=250ebe404a6e11e6b5d09300a16a686c>

<sup>14</sup> Based on the following law “Lietuvos Respublikos Išmokų vaikams įstatymo 6, 8, 12, 13, 20 straipsnių pakeitimo ir papildymo ir 22 straipsnio pripažinimo netekusiu galios įstatymas”. 2008.12.19 Nr. Xi-90. [http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc\\_1?p\\_id=334470](http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc_1?p_id=334470).

<sup>15</sup> Based on the following law „Lietuvos Respublikos išmokų vaikams įstatymas“. Nr. 89-1706: <https://www.e-tar.lt/portal/lt/legalAct/TAR.1DEDD43B92AE/gGPofhfmoS>

<sup>16</sup> Based on the following law „ Lietuvos Respublikos išmokų vaikams įstatymo Nr. I-621 8 straipsnio pakeitimo įstatymas“. 2015-12-15. Nr. XII-2191: <https://www.e-tar.lt/portal/legalAct.html?documentId=8e886460a8ad11e5be7f919a1e6b>

**Grant for housing (settlement) (*vienkartinė išmoka įsikurti*):** a lump sum of 75 BSA is given to a child upon the expiration of a guardianship due attaining the legal age of 18, emancipation, or contracting a marriage. The benefit is given to purchase a dwelling or to cover accommodation related expenses. The benefit cannot be paid in cash unless the unused part of the grant is less than 1 BSA. No changes were made in 2011-2018 except of conversion to EUR in 2015. Since January 1<sup>st</sup>, 2019 the benefit is also given to purchase a vehicle if the person holds a valid driving license confirming the person's right to drive a motor vehicle of category B.

**Pregnancy grant (*vienkartinė išmoka nėščiai moteriai*):** a lump-sum benefit to a pregnant woman who is not eligible to receive a maternity leave benefit. The grant amounts to 2 BSA and is paid 70 days before the term of child birth. The benefit remained unchanged during the course of 2011-2019 except of conversion to EUR in 2015.

**Social benefit (*socialinė pašalpa*):** granted to families or single persons if they pass established eligibility, assets and income tests. In 2011 monthly per capita benefit was equal to 90% of the difference between 1\*SSI and per capita family income. Social assistance benefit was granted for three months. The application needed to be re-submitted upon benefit expiration, unless local authorities had granted the benefit for the period exceeding three months. Since 1<sup>st</sup> January 2012 several changes were introduced: equivalence scales for benefit amount, reduction of benefit amount for long term dependants on Social benefit and payment of Social benefit for former long-term unemployed during the first 6 months of employment, etc.<sup>17</sup>

All municipalities pay social assistance benefits to residents from targeted subsidies allocated to them from the national budget. However, since 1st January 2012 in 5 municipalities (Municipality of Akmenė, Panevėžys, Radviliškis, Raseiniai, Šilalė) Social benefit providing function was transferred to municipalities' discretion and this benefit is paid from their budgets. Thus, after the assessment of specific local conditions and circumstances these municipalities had more power in granting social assistance benefit (for example, to pay additional social assistance benefit, to reduce the amount of social assistance benefit, etc.). Since 1st January 2014 not only those in those five, but in all municipalities social benefit providing function was transferred to municipalities' discretion<sup>18</sup>. No major changes were made afterwards except of conversion to EUR in 2015. Since January 1st 2018, income disregards are introduced into social assistance, i.e. part of income is not taken into account when testing income.<sup>19</sup> Regular non-contributory child benefits are excluded from the SA income test. Since January 1<sup>st</sup> 2019 the partial payment of the social benefit for those beneficiaries who get employed was extended from 6 to 12 months. Since January 1<sup>st</sup> 2019, children (adoptees) older than 18 years old are also included in the household composition.

**State social assistance benefits/pensions (*valstybinės šalpos išmokos*):** there are five types of social assistance pensions: social assistance pensions; orphan's social assistance pension; targeted compensations for nursing expenses; nursing allowances; relief compensations. Social assistance pensions are calculated in relation to a *basic monthly pension* (see Table 1.3).

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<sup>17</sup> Based on the following law 2011-12-01, No. XI-1772 „Lietuvos Respublikos Piniginės socialinės paramos nepasiturintiems šeimoms ir vieniems gyvenantiems asmenims įstatymo pakeitimo įstatymas“. 2011-12-20, No. 155-7353.

<sup>18</sup> Based on the following law, 2013-11-26, No. XII-621 „Lietuvos Respublikos piniginės socialinės paramos nepasiturintiems gyventojams įstatymo 4, 23 straipsnių pakeitimo ir papildymo įstatymas“. 2013-12-10, No. 126-6414.

<sup>19</sup> Based on the following law: 2017-12-05, No. XIII-821 “Lietuvos Respublikos piniginės socialinės paramos nepasiturintiems gyventojams įstatymo Nr. IX-1675 1, 4, 8, 10, 17, 20, 23 ir 25 straipsnių pakeitimo įstatymas”. 2017, No. 20024.

**Compensations for special working conditions (*kompensacijos už ypatingas darbo sąlygas*)** are paid to people who have worked in hazardous jobs. The monthly compensation is equal to 150% of the basic monthly pension (see Table 1.3). It was affected by the Provisional Law on Recalculation and Payment of Social Benefits of the Republic of Lithuania which came into effect on January 1, 2010 and was hold on until 31 12 2011. Since 1<sup>st</sup> January 2012 beneficiaries of compensation for special working conditions receive the same amount of benefit which they had been receiving until benefits were temporary reduced. No major changes were made in 2013-2017. Since January 1<sup>st</sup> 2018, the monthly compensation is equal to 136.4 % of the basic monthly pension<sup>20</sup>. No major changes in 2019.

*State pensions:*

**State pensions of degree one or two of the Republic of Lithuania (*Lietuvos Respublikos pirmojo ir antrojo laipsnių valstybinės pensijos*)** are awarded to citizens for distinguished achievements or for individual or respective status (i.e. top-level state officials, prizemen of Olympic Games, etc.), if these persons have attained an old-age retirement age or have partially or fully lost their capacity to work. The limit for assigning new state pensions is not more than 15 new degree one pensions and not more than 45 new degree two pensions per year. A state pension of the first degree is equal to 4 *state pension bases*. A state pension of the second degree amounts to 2 *state pension bases* (see Table 1.4). It was affected by the Provisional Law on Recalculation and Payment of Social Benefits of the Republic of Lithuania which came into effect on January 1, 2010 and it is hold on until 31 12 2012. According to the decision made at the end of 2012, provisions of this law remain in force until 31 12 2013. Thus, during the period of 2010-2013 state pensions of degree one or two of the Republic of Lithuania were recalculated applying appropriate coefficient<sup>21</sup>. Since 1<sup>st</sup> January 2014 this coefficient is not applied and no major changes were made afterwards. Since January 1<sup>st</sup> 2018, foster mothers and foster fathers, who raised 5 or more children, are also entitled to state pensions of degree two<sup>22</sup>. No major changes afterwards.

**State pensions for victims (*nukentėjusiųjų asmenų valstybinės pensijos*)** are given to the persons recognised as incapable or partially capable of work due to a number of state recognized aggressions (i.e. 11-13 January 1991 events), political imprisonment, deportations, participation in the resistance to the occupation, for participants in elimination of the consequences of the accident at the Chernobyl Nuclear Power Plant, or persons who became disabled due to military service in the Soviet Army. These pensions are paid if persons have attained an old-age retirement age or have partially or fully lost their capacity to work. The pension amount is calculated in relation to the *state pension base* (see Table 1.4) and varies for different victim groups.

**State pensions for officers and soldiers (*pareigūnų ir karių valstybinės pensijos*)** are awarded to officers and soldiers or their family members. There are three types of these pensions: for the service; for lost capacity for work; for widows and orphans. The assigned pension amount is calculated based on the service record and former wage. It was affected by the *Provisional Law on Recalculation and Payment of Social Benefits of the Republic of Lithuania* which came into

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<sup>20</sup> Based on the following law: 2017-12-12, No. XIII-881 “Lietuvos Respublikos valstybinių socialinio draudimo pensijų įstatymo Nr. I-549 pakeitimo įstatymo Nr. XII-2512 1 ir 3 straipsnių pakeitimo įstatymas”. 2017, No. 20433.

<sup>21</sup> Based on the following law: 2009-12-09, No. XI-537 „Lietuvos Respublikos socialinių išmokų perskaičiavimo ir mokėjimo laikinasis įstatymas“. 2009, No. 152-6820.

<sup>22</sup> Based on the following law: 2007-03-14, No. 255 „Dėl Lietuvos Respublikos pirmojo ir antrojo laipsnių valstybinių pensijų skyrimo ir mokėjimo nuostatų patvirtinimo“. 2017, No. 33-1198.

effect on January 1, 2010 and it is hold on until 31 12 2012. According to the decision made at the end of 2012, provisions of this law remain in force until 31 12 2013. Thus, during the period of 2010-2013 state pensions for officers and soldiers were recalculated applying appropriate coefficient. Since 1<sup>st</sup> of January 2014 this coefficient is not applied and no major changes were made afterwards.

**State pensions for scientists (*mokslininkų valstybinės pensijos*)** are awarded to scientists on the basis of *the temporary Law on State Pensions for Scientists*. These pensions are given to individuals with an academic degree or title and at least a 10 year career of a doctor or habilitated doctor at the age of old-age pension or having lost 60–100% of their capacity for work. The size of the pension depends on the insurance record and is calculated in relation to the *state pension base* (see Table 1.4). It was affected by *the Provisional Law on Recalculation and Payment of Social Benefits of the Republic of Lithuania* which came into effect on January 1, 2010 and it is hold on until 31 12 2012. According to the decision made at the end of 2012, provisions of this law remain in force until 31 12 2013. Thus, during the period of 2010-2013 state pensions for officers and soldiers were recalculated applying appropriate coefficient. Since 1<sup>st</sup> of January 2014 this coefficient is not applied. Since 1<sup>st</sup> of January 2017, pension for scientists cannot be combined with insured income, including other non-pension social insurance benefits<sup>23</sup>. No changes in 2018-2019.

**State pensions for judges (*teisėjų valstybinės pensijos*)** are awarded to the retiring persons, who worked as judges of the Constitutional Court, the Supreme Court of Lithuania, the Court of Appeal of Lithuania, the Supreme Administrative Court of Lithuania and other Lithuanian general jurisdiction and specialized courts as well as judges of any international court elected or delegated by Lithuania, if they have at least five years of judicial service. The pension amount depends on the service record and is calculated as a percentage of the average salary over the last five years of the judicial work. It was affected by *the Provisional Law on Recalculation and Payment of Social Benefits of the Republic of Lithuania* which came into effect on January 1, 2010 and it is hold on until 31 12 2012. According to the decision made at the end of 2012, provisions of this law remain in force until 31 12 2013. Thus, during the period of 2010-2013 state pensions for officers and soldiers were recalculated applying appropriate coefficient. Since 1<sup>st</sup> of January 2014 this coefficient is not applied and no major changes were made afterwards. Persons entitled to receive state pension also have a right to receive state social insurance pension, unless otherwise provided by the law.

**President of the Republic of Lithuania spouse state pension (*Lietuvos Respublikos sutuoktinio valstybinė pensija*)** Since 27<sup>th</sup> September 2017 President's spouse state pension is given to the spouses entitled to the state pension or President's authorized representative or guardian<sup>24</sup>. The spouses are entitled to the pension if they do not receive insured income and carries out the public and (or) the diplomatic protocol of matrimonial functions in the last 3 years. The amount of the pension is equal to 15 % of the President's monthly salary. No major changes were made afterwards. No changes afterwards.

- ***Contributory benefits***

*Taxable contributory benefits:*

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<sup>23</sup> Based on the following law: 2016-06-29, No. XII-2517 „Lietuvos Respublikos mokslininkų valstybinių pensijų laikinojo įstatymo Nr. I-732 3 straipsnio pakeitimo įstatymas“. 2016, No. 20652

<sup>24</sup> Based on the following law, 2016-09-21, No. 24035 „Dėl Lietuvos Respublikos Prezidento sutuoktinio valstybinės pensijos skyrimo ir mokėjimo nuostatų patvirtinimo“.

**Maternity leave benefit (*motinystės išmoka*):** a lump sum benefit paid to a pregnant woman who has a right to the *Sickness and Maternity Social Insurance*. The benefit is paid for a total of 126 calendar days, covering the period before and after the child birth. Maternity benefit is equal to 100% of the recipient's average monthly insured income (AMII) (see section 2.4.4 for more details) with minimum and maximum amounts specified. Since January 1<sup>st</sup>, 2017 the maximum compensatory wage amount (the ceiling) calculating maternity leave benefit is not applicable<sup>25</sup>. Since January 1<sup>st</sup>, 2018 the minimum maternity leave benefit amount (floors) could not be lower than 6 BSA<sup>26</sup>. Since January 1<sup>st</sup> 2019, due to tax reform, the maternity benefit is equal to 77.58 % of the recipient's compensatory income.

**Paternity leave benefit (*tėvystės išmoka*):** a lump sum benefit, which is effective since 1<sup>st</sup> July 2006 and is granted on the basis of the *Law on Sickness and Maternity Social Insurance*. This benefit could be claimed by a father for the first month of child care (from the child birth until the child reaches the age of one month). The benefit is granted on the basis of the *Law on Sickness and Maternity Social Insurance* if a person before the first day of paternity leave had no less than 12 months over the last 24 months of sickness and maternity social insurance record. The amount of paternity benefit is 100% of the benefit recipient's AMII (see chapter 2.4.5 for more details) with minimum and maximum thresholds specified. Since 2011 amount of the benefit is reduced if additional income (eligible for sickness and maternity social insurance contributions) is received. Since January 1<sup>st</sup>, 2018 the minimum paternity leave benefit amount (floors) could not be lower than 6 BSA<sup>27</sup>. Since January 1<sup>st</sup> 2019, due to tax reform, the paternity benefit is equal to 77.58 % of the recipient's compensatory income.

**Childcare benefit (*vaiko priežiūros išmoka*):** a monthly payment granted on the basis of the *Law on Sickness and Maternity Social Insurance* if a person before the first day of childcare leave had no less than 12 months over the last 24 months of sickness and maternity social insurance record. The benefit is paid to one of the parents (adoptive parents) or a guardian until the child reaches the age of 1 year (or 2 years). The benefit is calculated in relation to AMII (see more details in section 2.4.4) with minimum and maximum levels specified. Since 1<sup>st</sup> January 2012 beneficiaries may choose the duration of leave (1 or 2 years) and this is tied to the different replacement rates of childcare benefit (100% if the option of 1 year leave is chosen or 70 % and 40% for first and second years).. Since 1<sup>st</sup> January 2017, in case of child adoption, childcare benefit is paid for to one parent for 3 months<sup>28</sup>. Since 1<sup>st</sup> January 2017, the benefit minimum and maximum levels were set according to national average monthly income<sup>29</sup>. Since

<sup>25</sup> Based on the following law: Dėl Lietuvos Respublikos ligos ir motinystės socialinio draudimo įstatymo 6 straipsnio 5 dalies (2011 m. gruodžio 15 d. redakcija), Lietuvos Respublikos Vyriausybės 2001 m. sausio 25 d. nutarimu Nr. 86 patvirtintų Ligos ir motinystės socialinio draudimo pašalpų nuostatų 7 punkto (2012 m. rugpjūčio 21 d. redakcija), 10 punkto (2011 m. gruodžio 28 d. redakcija) nuostatų atitikties Lietuvos Respublikos Konstitucijai. 2016-03-15. Nr. KT8-N5/2016. <https://www.e-tar.lt/portal/legalAct.html?documentId=16657740eaa511e58deaaf0783ebf65b>

<sup>26</sup> Based on the following law: 2017-12-05, Nr. XIII-831 “Lietuvos Respublikos ligos ir motinystės socialinio draudimo įstatymo Nr. IX-110 4, 5, 6, 8, 9, 10, 11, 12, 13, 14, 16, 18, 19, 21, 23, 24, 25, 27 ir 33 straipsnių pakeitimo įstatymas“

<sup>27</sup> Based on the following law: 2017-12-05, Nr. XIII-831 “Lietuvos Respublikos ligos ir motinystės socialinio draudimo įstatymo Nr. IX-110 4, 5, 6, 8, 9, 10, 11, 12, 13, 14, 16, 18, 19, 21, 23, 24, 25, 27 ir 33 straipsnių pakeitimo įstatymas“

<sup>28</sup> Based on the following law: 2016-12-20, No. XIII-138 “Lietuvos Respublikos ligos ir motinystės socialinio draudimo įstatymo Nr. IX-110 pakeitimo įstatymo Nr. XII-2501 1 ir 2 straipsnių pakeitimo įstatymas”. 2016, No. 29842.

<sup>29</sup> Based on the following law: 2016-12-20, No. XIII-138 “Lietuvos Respublikos ligos ir motinystės socialinio draudimo įstatymo Nr. IX-110 pakeitimo įstatymo Nr. XII-2501 1 ir 2 straipsnių pakeitimo įstatymas“. 2016, No. 29842.

January 1<sup>st</sup>, 2018 the minimum childcare benefit amount (floors) could not be lower than 6 BSA<sup>30</sup>. Since January 1<sup>st</sup> 2019, in case of adoption, child's grandparents are also eligible to receive childcare benefit. Since January 1<sup>st</sup>, 2019 due to the tax reform the compensation rate for 1 year benefit is equal to 77.58 %, and for two years period compensation rate is 54.31 % during the first year and 31.03 % during the second year.

*Non-taxable contributory benefits:*

**Old-age pension (*senatvės pensija*):** monthly pension paid for persons who attain the old-age retirement age as specified by *the Pensions' law* and have the minimum or obligatory insurance period specified for the old-age pension. A state social insurance pension consists of three parts: the basic part which is lump-sum, the supplementary part depending on person's previous insured income and the extra supplement for each additional working year exceeding obligatory 30 years insured period. The basic pension cannot be less than 110% of BSA. Since 2004 every person insured for full pension insurance (basic and supplementary parts of pension) may voluntarily choose either to stay only in the social insurance system or switch to the 2<sup>nd</sup> pension pillar by directing a part of social insurance contributions to a personal account in a chosen privately managed pension fund. This cumulative part of the pension adds to the supplementary part of the old-age pension. At the same time because of lower contributions to the state's social insurance fund, the old-age pension will be respectively lower. Since January 1<sup>st</sup> 2018, the calculation of old-age pension is changed: all pension were recalculated based on the reference points and their annual indexation was introduced.<sup>31</sup> Since January 1<sup>st</sup> 2019, binuses on low pensions were introduced for the recipients of low old-age or disability pensions, calculated as a difference between 95 % MVPD and a sum of pensions, also taking into account contribution record relative to full required<sup>32</sup>.

**Early retirement old-age pension (*išankstinė senatvės pensija*)** can be claimed up to five years before the regular retirement age with 30 years of insurance. Until 1<sup>st</sup> of January 2012 the requirement of one year of unemployment was applied for persons wanting to receive early old-age pension<sup>33</sup>. The early old-age pension was affected by the Provisional Law on Recalculation and Payment of Social Benefits of the Republic of Lithuania which came into effect on January 1, 2010 and was hold on until 31 12 2011. Amendments to the Law on State Social Insurance Pensions, which envisage a gradual increase in the retirement age, became effective as of 1 January 2012. The retirement age is increased by 4 months per calendar year for women and 2 months per calendar year for men, until it reaches 65 years in 2026. Since January 1<sup>st</sup> 2018, the calculation of early retirement old-age pension is changed with indexation principle.

**Work incapacity pension (*netekto darbingumo pensija*)<sup>34</sup>:** assigned to a person for whom a certain level of incapacity for work is established. The pension varies according to the assessed degree of disability, as well as a person's attained period of insurance. The *minimum* and *obligatory* insurance periods are defined based on a person's age. The work incapacity pension is calculated in analogy to the old age pension, its basic part is calculated in relation to the basic pension amount (see Table 1.3). It was affected by *the Provisional Law on Recalculation and*

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<sup>30</sup> Based on the following law: 2016-12-20, No. XIII-138 “ Lietuvos Respublikos ligos ir motinystės socialinio draudimo įstatymo Nr. IX-110 pakeitimo įstatymo Nr. XII-2501 1 ir 2 straipsnių pakeitimo įstatymas“. 2016, No. 29842.

<sup>31</sup> Based on the following law: 2016-07-15, No. XII-2512 „Lietuvos Respublikos valstybinių socialinio draudimo pensijų įstatymo Nr. I-549 pakeitimo įstatymas“. 2016, No. 20649.

<sup>32</sup> Based on the following law: 2019-04-19, „ Lietuvos Respublikos šalpos pensijų įstatymas“. 2019, No. 96-1873

<sup>33</sup> Based on the following law: 2003-11-18, No. IX-1828 „Lietuvos Respublikos valstybinių socialinio draudimo senatvės pensijų išankstinio mokėjimo įstatymas“. 2003, No. 114-5116.

<sup>34</sup> Until 1<sup>st</sup> July 1, 2005 defined as invalidity (*invalidumo*) pension.



*Payment of Social Benefits of the Republic of Lithuania* which came into effect on January 1, 2010 and was hold on until 31 12 2011. No major changes were made in 2012-2017. Since January 1<sup>st</sup> 2018, work incapacity pensions will start to be indexed and recalculated based the value of the previous pension, which will be established by pension reference points.

**Survivor's or orphan's pension (*našlių ir našlaičių pensija*):** pension paid monthly to the spouse and children of a deceased person if the deceased person had been entitled or received the state disability (work incapacity) pension or old-age pension (see above). Survivor pension is a lump-sum monthly amount, equal to 70 LTL (since January 1<sup>st</sup> 2010 until 31 12 2011 a coefficient of 0.95 was applied according to a *Temporary Law on Recalculation and Payment of Social Benefits*). This level is set to 21 EUR after currency conversion to EUR in 2015. Orphan's pension is linked to the deceased person's pension. No major changes were made in 2012-2017. Since January 1<sup>st</sup> 2018, survivor's and orphan's pensions will start to be indexed and recalculated based the value of pension reference points.

**Unemployment social insurance benefit (*nedarbo draudimo išmoka*)** is a monthly benefit paid to the unemployed people if they have a sufficient unemployment social insurance record. The required service record is at least 18 months during the last three years and a person must be actively looking for a job. The duration of benefit payment depends on the unemployment insurance history. The benefit amount is comprised of fixed and variable components, which relate to the SSI, CYI and the averaged *insured income* levels. With the adoption of the *Temporary Law on Recalculation and Payment of Social Benefits* starting from the 1<sup>st</sup> January 2010 the monthly benefit was capped at LTL 650 for the entire period of the benefit payment. No changes in 2011-2014. Since January 1<sup>st</sup> 2015 the cap on benefit was removed and the maximum monthly benefit restored to 70% of current year's insured income (CYI). Since January 1<sup>st</sup> 2017, the unemployed people, receiving sickness, occupational rehabilitation, maternity, paternity or childcare benefits, which were allocated to them before registration with the local Labour Exchange Authority, are entitled to get the unemployment benefit after the end of payment period of previous benefits<sup>35</sup>. Further changes to unemployment insurance benefits are implemented since July 1, 2017. These changes include changes in duration and amounts of social insurance unemployment benefit and introduction of a partial employment benefit. Since January 1<sup>st</sup>, 2018, the amount of unemployment insurance benefit cannot exceed 75 % of the average monthly gross earnings (including salaries of individuals enterprises), published by the Lithuanian Statistics Department<sup>36</sup>. Since January 1<sup>st</sup> 2019, due to tax reform, the constant part of benefit is equal to 23.12 %, while the variable parts for 3, 4-6 and 7-9 months are 38.79 %, 31.03 % and 23.27 % accordingly.

**Long-term work benefit (*ilgalaikio darbo išmoka*).** Since July 1, 2017, the long-term work benefit fund has been introduced and administered by Sodra. Employees, who have been employed for more than 5 years or more, in case of redundancy, are eligible to receive the long-term work benefits. The benefits are paid to all employees who have worked under employment contracts, except for those fired from budgetary institutions and the Central Bank. Benefits will be paid to those employees who have been fired not earlier than July 1 in particular year. If an employee worked between 5 to 10 years, he/she gets benefit equal to 1 previous salary payment; 10-20 years – 2 previous salary payment; 20 years or more - 3 previous salary payment. The benefit is paid for those who were made redundant no earlier than July 1<sup>st</sup>, 2017. Since January 1<sup>st</sup> 2019, due to tax reform, the benefit equals to 77.58 %

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<sup>35</sup> Based on the following law: 2016-12-20, No. XIII-149 “Lietuvos Respublikos nedarbo socialinio draudimo įstatymo Nr. IX-1904 3, 4, 6, 14, 15 ir 18 straipsnių pakeitimo įstatymas”. 2016, No. 29782

<sup>36</sup> Based on the following law: 2017-12-21, No. XIII-945 “Lietuvos Respublikos nedarbo socialinio draudimo įstatymo Nr. IX-1904 5, 6, 8, 10 ir 11 straipsnių pakeitimo įstatymas”. 2017, No. 21633

**Sickness benefit (*ligos išmoka*):** granted on the basis of the *Law on Sickness and Maternity Social Insurance* and is given to people who have required social insurance coverage. The benefit is calculated on the basis of insured income (II) with maximum and minimum thresholds applied. The benefit is paid partly by the employer (for initial days) and partly by the State Social Insurance Fund. No changes in 2011-2014. Since January 1<sup>st</sup> 2015 sickness benefit which is paid from the State Social Insurance Fund was increased (to 80% of beneficiary's reimbursed remuneration).. Since January 1<sup>st</sup>, 2018, working grandparents, who have required social insurance coverage, are able to get sickness benefits to take care for their sick grandchildren<sup>37</sup>. Since January 1<sup>st</sup>, 2019, the maximum compensatory earnings for the calculation of sickness benefit cannot exceed 2 times the national average monthly wage<sup>38</sup>. Since January 1<sup>st</sup> 2019, sickness benefit, paid by the employer (for two days), cannot be lower than 62.06 % and higher than 100 % of receiver's average wage. The amount of sickness benefit, paid by the State Social Insurance Fund is equal to 62.06 % of compensatory income, for donors for transplantation purposes - 77.58 %, for parents taking care of sick child – 65.94 %<sup>39</sup>. The amount of sickness benefit cannot be lower than 11.64 % of the national average income. farmers, family-type guardianship institution, owner of individual enterprises and members of small communities, eligible for sickness benefits, benefit is paid regardless of previous income.

**Vocational rehabilitation allowance (*profesinės reabilitacijos išmoka*):** granted on the basis of the *Law on Sickness and Maternity Social Insurance*. The allowance is paid monthly for the entire period of the rehabilitation programme, but not for longer than 180 calendar days. The allowance is equal to 85% of AMII, and it cannot be lower than 2 times *basic monthly pensions* (see Table 1.3), valid before the start of rehabilitation. The benefit has been introduced since 1<sup>st</sup> July 2005. The upper limit for this type of allowance was set since January 1, 2010 until December, 2011 with the introduction of the *Temporary Law on Recalculation and Payment of Social Benefits*. During 2010-2011 the maximum reimbursed remuneration for calculation of vocational rehabilitation allowance could not exceed the sum of the 4 times the amount of the insured income approved by the Government for the current year<sup>40</sup>. Since 1<sup>st</sup> of January 2012 the upper limit for this type of allowance is 3,2 times CYI<sup>41</sup>. No changes were made in 2013-2016. Since 1<sup>st</sup> January 2017, the benefit maximum level set according to national average monthly earnings<sup>42</sup>. Since 1<sup>st</sup> January 1<sup>st</sup> 2017, the minimum benefit amount set according to the state social insurance basic pension. Since January 1<sup>st</sup> 2019, due to tax reform, the benefit amount is equal to 65.94 % of compensatory income<sup>43</sup>.

<sup>37</sup> Based on the following law: 2017-04-20, No. XIII-300 “Lietuvos Respublikos ligos ir motinystės socialinio draudimo įstatymo Nr. IX-110 10 straipsnio pakeitimo įstatymas”. 2017, No. 6977.

<sup>38</sup> Based on the following law: 2018-12-20, No. XIII-1827 “Lietuvos Respublikos ligos ir motinystės socialinio draudimo įstatymo Nr. IX-110 6 straipsnio pakeitimo įstatymas”. 2018, Nr. 21847.

<sup>39</sup> Based on the following law: 2018-06-28, No. XIII-1338 “Lietuvos Respublikos ligos ir motinystės socialinio draudimo įstatymo Nr. IX-110 6, 14, 18, 21, 22, 24 ir 27 straipsnių pakeitimo įstatymas”. 2018, No. Nr. 11433.

<sup>40</sup> Based on the following law: 2009-12-09, No. XI-537 „Lietuvos Respublikos socialinių išmokų perskaičiavimo ir mokėjimo laikinasis įstatymas“. 2009, No, 152-6820.

<sup>41</sup> Based on the following law: 2000-12-21, No. IX-110 „Lietuvos Respublikos Ligos ir motinystės socialinio draudimo įstatymas“. 2000, No. 111-3574.

<sup>42</sup> Based on the following law: 2016-06-28, No. XII-2501 “Lietuvos Respublikos ligos ir motinystės socialinio draudimo įstatymo Nr. IX-110 pakeitimo įstatymas”. 2016, No. 20641.

<sup>43</sup> Based on the following law: 2018-06-28, No. XIII-1338 “Lietuvos Respublikos ligos ir motinystės socialinio draudimo įstatymo Nr. IX-110 6, 14, 18, 21, 22, 24 ir 27 straipsnių pakeitimo įstatymas”. 2018, No. 11433.

**Occupational disease allowance (*profesinės ligos pašalpa*):** monthly allowance paid to people, covered by social insurance, at the moment when the right to this benefit has occurred. The benefit is paid until the person's return to work or until the assignment of other benefit, i.e. work incapacity pension. The benefit is calculated on the basis of insured income (II) and is equal to 100% of the AMII. Since January 1<sup>st</sup> 2018, the minimum and maximum amounts were set according to national average monthly income<sup>44</sup>. Since January 1<sup>st</sup> 2019, due to tax reform, the benefit is equal to 77.58 % of AMII<sup>45</sup>.

**Work incapacity grant (*netekto darbingumo vienkartinė kompensacija*):** a lump-sum amount paid in the amount of 10% of the sum of reimbursable income, averaged over the last 12 salary months, times 24 (months) if up to 20% of work capacity is (temporarily) lost; or 20% of the sum of II, averaged over the last 12 salary months, times 24 (months) if less than 30%, but more than 20% of work incapacity is (temporarily) lost. If the lost work incapacity is permanent, then the grant is 3 times higher than the relevant grant amount, indicated under different degrees of lost (temporary) work incapacity. Since January 1<sup>st</sup> 2018, the minimum and maximum amounts were set according to national average monthly income<sup>46</sup>. Since January 1<sup>st</sup> 2019, if up to 20 % of work capacity is (temporarily) lost, the work incapacity grant is equal to 7.76 %; or less than 30%, but more than 20% of work incapacity is (temporarily) lost, the grant is equal to 15.52 % of persons' 24 month compensatory earnings, used to calculate a lump-sum amount<sup>47</sup>.

**Work incapacity periodical compensation (*netekto darbingumo periodinė kompensacija*)** is a monthly compensation for insured persons who lost 30% or more of his/her work capacity because of an accident at work or professional disease. Since January 1<sup>st</sup> 2018, the benefit calculation formula was changed and is now calculated based on the work capacity coefficient, compensation coefficient and the national average monthly income<sup>48</sup>. Although the benefit amount is calculated based on CYI, the minimum and maximum benefit amounts are based on current year's national average monthly income. Since January 1<sup>st</sup> 2019, if insured person lost 30-45 % of work capacity, monthly compensation is paid; if insured person lost 45 % or more work capacity, compensation is paid if: the beneficiary is not entitled to the same amount or higher lost incapacity social insurance pension; if the insured person receives lost incapacity social insurance pension, which is lower than work incapacity periodic compensation (compensation paid as difference)<sup>49</sup>.

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<sup>44</sup> Based on the following law: 2017-12-05, No. XIII-827 „Lietuvos Respublikos nelaimingų atsitikimų darbe ir profesinių ligų socialinio draudimo įstatymo Nr. VIII-1509 3, 13, 15, 19, 20, 27 ir 28 straipsnių pakeitimo įstatymas“. 2017, No. 20025.

<sup>45</sup> Based on the following law: 2018-06-28, No. XIII-1339 “Lietuvos Respublikos nelaimingų atsitikimų darbe ir profesinių ligų socialinio draudimo įstatymo Nr. VIII-1509 3, 15, 19, 26 ir 27 straipsnių pakeitimo įstatymas”. 2018, No. 11434.

<sup>46</sup> Based on the following law: 2017-12-05, No. XIII-827 „Lietuvos Respublikos nelaimingų atsitikimų darbe ir profesinių ligų socialinio draudimo įstatymo Nr. VIII-1509 3, 13, 15, 19, 20, 27 ir 28 straipsnių pakeitimo įstatymas“. 2017, No. 20025.

<sup>47</sup> Based on the following law: 2018-06-28, No. XIII-1339 “Lietuvos Respublikos nelaimingų atsitikimų darbe ir profesinių ligų socialinio draudimo įstatymo Nr. VIII-1509 3, 15, 19, 26 ir 27 straipsnių pakeitimo įstatymas”. 2018, No. 11434.

<sup>48</sup> Based on the following law: 2017-12-05, No. XIII-827 „Lietuvos Respublikos nelaimingų atsitikimų darbe ir profesinių ligų socialinio draudimo įstatymo Nr. VIII-1509 3, 13, 15, 19, 20, 27 ir 28 straipsnių pakeitimo įstatymas“. 2017, No. 20025.

<sup>49</sup> Based on the following law: 2018-12-11, No. XIII-1722 “Lietuvos Respublikos nelaimingų atsitikimų darbe ir profesinių ligų socialinio draudimo įstatymo Nr. VIII-1509 20 straipsnio pakeitimo įstatymas”. 2018, No. 20976.

- *Abolished benefits*

**State and state social insurance loss of breadwinner's pensions (*valstybinės maitintojo netekimo pensijos ar valstybinės socialinio draudimo maitintojo netekimo pensijos*)** are awarded for the persons deceased before January 1, 1995. The persons who are entitled to receive or who receive these pensions also have a right to simultaneously receive one of the following (if entitled) pensions: the state social insurance old-age, work incapacity, invalidity, retirement, survivor's or orphan's pension. The exception is the orphan's pension which should be paid together with the loss of breadwinner's pension if the other parent was deceased before 1<sup>st</sup> January 1995. For those still in receipt, it was affected by *the Provisional Law on Recalculation and Payment of Social Benefits of the Republic of Lithuania* which came into effect on January 1, 2010 and was hold on until 31 12 2011.

**Retirement pensions (*ištarnauto laiko pensijos*)** are paid if the entitlement to these pensions has been granted before January 1, 1995. A person could choose to opt for old-age or work incapacity pensions instead of the retirement pension. For those still in receipt, it was affected by *the Provisional Law on Recalculation and Payment of Social Benefits of the Republic of Lithuania* which came into effect on January 1, 2010 and was hold on until 31 12 2011.

**Invalidity pensions (*invalidumo pensijos*)** are pensions for the disability reasons and awarded before July 1, 2005. Invalidity pensions are paid until the expiration of their entitlement or until other pensions types, such as old-age or work-incapacity pensions have been assigned. Paid invalidity pensions are updates with major parameter changes (i.e. change in social pension base). If people at the same time are entitled to receive the old-age pension, they are entitled to choose a larger pension or one of these pensions at their own choice. For those still in receipt, it was affected by *the Provisional Law on Recalculation and Payment of Social Benefits of the Republic of Lithuania* which came into effect on January 1, 2010 and was hold on until 31 12 2011.

- *Not strictly benefits*

**Promotional education stipends (*skatinamosios stipendijos*):** educational stipends given to students from all type of higher public educational institutions. The stipends are paid from the institutional scholarship funds based on specific institutional educational performance criteria, while the government defines overarching maximum stipend levels. Maximum levels also depend on the educational institution type. The rate and criteria for receiving promotional education stipends are determined by the schools themselves according to the regulations on the provisions of stipends. No major changes applied in 2011-2019.

**Social stipends (*socialinės stipendijos*):** is a type of educational stipend given to students from low income families if they study at public educational institutions. Social stipends are assigned to educational establishment, as part of their institutional scholarship fund. Social stipends are paid only for the students in higher education, students have a right to get social stipends and promotional stipends at the same time; students from vocational training institutions can get lump sum payments from the school budget on decision of appropriate administrative body. Since the July 1, 2011 the State Studies Foundation is responsible for Social stipends payment.<sup>50</sup>

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<sup>50</sup> Based on the following resolution “Socialinių stipendijų aukštųjų mokyklų studentams skyrimo ir administravimo tvarkos aprašas”. Patvirtinta Lietuvos Respublikos Vyriausybės 2009 m. gruodžio 23 d. nutarimu Nr. 1801. [http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc\\_l?p\\_id=390234](http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc_l?p_id=390234).

Since the 7<sup>th</sup> of April, 2016 the amount of the Social stipend is 3.25 BSA<sup>51</sup>. No changes were made afterwards.

**Compensations for heating of a dwelling, cold and hot water expenses, and sewage (*kompensacijos už būsto komunalines paslaugas*)** (hereinafter referred to as “compensations”): granted to families and single persons if the value of family’s or person’s assets does not exceed the established ratio of property value and if all family members (single persons) meet the same eligibility criteria as described for the receipt of the social benefit. Compensations are only paid for the specified ratios of expenses, based on the notional defined sizes of useful space and ratios for certain types of utilities. Since 1<sup>st</sup> January 2012 Compensations are paid also for those, who rent apartments (only owners of apartments were eligible before). The notional defined size of useful space applied for compensations calculation was increased since 1<sup>st</sup> January 2012. No major changes were made afterwards.

**Municipal support (*vienartinės pašalpos iš savivaldybių biudžetų*)**: municipalities have a right to grant a one-time social support benefit for the families or single persons if they do not pass the income test or the eligibility criteria imposed on the family members. The rules of granting a one-time municipal social support are set at the local authorities’ level.

**Social assistance to pupils (*socialinė parama mokiniams*)**: means-tested non-cash benefit that consists of free meals to pupils and free school’s supplies prior to the beginning of a new school year.

**Compensation for drugs and medical devices (*vaistų ir medicinos pagalbos priemonių įsigijimo išlaidų kompensavimas*)**: awarded to insured people based on *the Law of Health Insurance*. Children until age of 18 and 1<sup>st</sup> degree disabled people have a right to 100% compensation for approved drugs and medical devices. Pensioners, other disabled people, or people ill with certain disease have a right to partial compensation of approved drugs and medical devices. People get immediate discounts at pharmacies for particular approved drugs or medical devices.

**Medical rehabilitation and compensation for sanatorium expenses (*medicininės reabilitacijos ir sanatorinio gydymo išlaidų kompensavimas*)**: awarded to insured people based on *the Law of Health Insurance*. 100% of medical rehabilitation expenses are compensated for children until the age of 18, 1<sup>st</sup> degree disabled people and people ill with certain diseases. 90% of basic sanatorium expenses are compensated for children until age 7 and disabled people until age 18. Basic sanatorium prices are defined by the Ministry of Health.

**Funeral Benefit (*laidojimo pašalpa*)**: non-contributory lump-sum benefit (equal 8 BSA in 2011-2018) for the family member of the deceased or for another individual who arranges a burial.

**Periodical compensation in case of death of insured (*Periodinė draudimo išmoka apdraustajam mirus*)**: is paid monthly to family members and the amount is equal to work incapacity periodical compensation divided by the number of persons qualifying for the compensation. This compensation is paid as an entitlement due to occupational accidents or occupational disease insurance social insurance. The benefit calculation rules did not change

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<sup>51</sup>Based on the following resolution “Dėl Lietuvos Respublikos Vyriausybės 2009 m. gruodžio 23 d. nutarimo Nr. 1801 „Dėl Socialinių stipendijų aukštųjų mokyklų studentams skyrimo ir administravimo tvarkos aprašo patvirtinimo“ pakeitimo”. 2016-03-30. Nr. 7910. <https://www.e-tar.lt/portal/legalAct.html?documentId=82c90ff0fbb711e5a52397090a2fa158>

over the period of 2011-2018. Since July 6<sup>st</sup> 2018, for the spouse of the dead insured person, who has reached the retirement age, the periodical compensation is paid until the end of spouse's life<sup>52</sup>.

**Grant in case of death of insured (*Vienkartinė draudimo išmoka apdraustajam mirus*):** a lump-sum amount paid for the family members of the deceased in the amount of 100\* applicable CYI (see Table 1.2). The grant is equally divided for each family member. This grant is paid as an entitlement due to occupational accidents or occupational disease insurance social insurance. The benefit calculation rules did not change over the period of 2011-2017. Since January 1<sup>st</sup> 2018, the amount was changed and the grant is equal to lump-sum amount of 60 times the national average monthly income<sup>53</sup>. Since January 1<sup>st</sup> 2019, due to tax reform, the grant is equal to lump sum amount of 46.55 times the national average monthly wage<sup>54</sup>.

**Severance pay/compensation (*Išėitinė kompensacija*):** paid if the labour contract is terminated at the employer's initiative and no fault of employee is identified. The severance pay/compensation is paid by the employer in relation to the employment duration at the company. This benefit is subject to personal income tax.

### 1.3. Social contributions

**Social insurance contributions (*socialinio draudimo įmokos*)** to the State Social Insurance Fund (*Socialinio draudimo fondas, SoDra*) are compulsorily paid by all employers and employees of private and public sectors as well as main categories of self-employed people. Contributions are flat-rate without ceilings, but they differ for employees and self-employed. Furthermore, contribution rates vary considerably among different categories of self-employed people. Social insurance contributions are paid for pension, health care, sickness and maternity, employment injuries, occupational diseases and unemployment insurances.

*Employee's contributions:* All employees of private and public sector pay 3% of gross wages and salaries as social insurance contributions to pension social insurance and 6% to health social insurance<sup>55</sup>. Due to tax reform, insured person now pays contributions to pension, sickness, maternity and health social insurance tariff of 19.5 %<sup>56</sup>. Since January 1<sup>st</sup> 2019, employed and self-employed persons can voluntary choose whether to participate in 2<sup>nd</sup> pension pillar with either 1.8% or 3 %, which is also supported by the state with 0.3% and 1.5% accordingly.

*Employer's contributions:* All employers of private and public sector pay on behalf of their employees 31% of gross wages and salaries to pension social insurance, sickness and maternity

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<sup>52</sup> Based on the following law: 2018-06-28, No. XIII-1339 "Lietuvos Respublikos nelaimingų atsitikimų darbe ir profesinių ligų socialinio draudimo įstatymo Nr. VIII-1509 3, 15, 19, 26 ir 27 straipsnių pakeitimo įstatymas". 2018, No. 11434.

<sup>53</sup> Based on the following law: 2017-12-05, No. XIII-827 "Lietuvos Respublikos nelaimingų atsitikimų darbe ir profesinių ligų socialinio draudimo įstatymo Nr. VIII-1509 3, 13, 15, 19, 20, 27 ir 28 straipsnių pakeitimo įstatymas". 2017, No. 20025.

<sup>54</sup> Based on the following law: 2018-06-28, No. XIII-1339 "Lietuvos Respublikos nelaimingų atsitikimų darbe ir profesinių ligų socialinio draudimo įstatymo Nr. VIII-1509 3, 15, 19, 26 ir 27 straipsnių pakeitimo įstatymas". 2018, No. 11434.

<sup>55</sup> Based on the following laws "Lietuvos Respublikos Valstybinio socialinio draudimo fondo biudžeto 2009 metų rodiklių patvirtinimo įstatymas". Žin., 2008, Nr.149-5998. and „Lietuvos Respublikos sveikatos draudimo įstatymas“. Žin., 1996, Nr. 55-1287.

<sup>56</sup> Based on the following law: 2018-12-11, No. XIII-1719 "Lietuvos Respublikos valstybinio socialinio draudimo fondo biudžeto 2019 metų rodiklių patvirtinimo įstatymas". 2018, No. 20701.

social insurance, unemployment social insurance, health insurance, employment injuries and occupational diseases social insurance. Since January 1<sup>st</sup> 2018, social insurance contribution floors have been introduced, meaning that employers have to pay social insurance contributions not lower than from MMS for those employees whose monthly salaries are below the MMS<sup>57</sup>. Since January 1<sup>st</sup> 2019, in scope of the tax reform, employer's and employee's social contribution rates were combined. Employer now pays unemployment social insurance (1.31%), payments to the long-term work benefit fund (0.16%) and the guarantee fund (0.16%) and a variable rate for employment injuries and occupational diseases social insurance (0.14-1.4%)<sup>58</sup>.

*Contributions for self-employed:* Since 2009 self-employed persons, with the exception of the persons engaged in individual activities under business certificates, pay social insurance contributions for the basic and additional pension part as well as sickness and maternity social insurance (insured only to receive maternity leave benefit, paternity leave benefit and childcare benefit).<sup>59</sup> Social insurance contributions had to be paid on income from sports, performing or authorship/copyright agreements (until 2009 were only taxed by PIT). In 2011 the owners of the individual enterprises and 'real members' of agricultural communities were not subject to sickness and maternity social insurance contributions. On behalf of certain individual groups government pays contributions (so called *credited contributions*) for all kinds of social insurance (see section 2.5.3). Since 1<sup>st</sup> January, 2017 the owners of individual enterprises, 'real members' of agricultural communities, a family-type guardianship institution, persons engaged in individual agricultural activities, members of small communities pay social insurance contributions for the basic and additional pension part as well as sickness and maternity social insurance (insured only to receive maternity leave benefit, paternity leave benefit and childcare) benefit<sup>60</sup>. Since 1<sup>st</sup> January 2017 the owners of individual enterprises, 'real members' of agricultural communities and members of small communities also pay social insurance contributions for unemployment benefits.

Self-employed persons engaged in individual activities under business certificates compulsory pay social insurance contributions for the basic pension part. The contribution is equal to 50% of the state basic pension. Since 1<sup>st</sup> January, self-employed persons engaged in individual activities under business certificates pay social insurance contributions based on MMS<sup>61</sup>.

Since January 1<sup>st</sup> 2018, social insurance contribution holidays were introduced for owners of individual enterprises, members of small communities, real members of the partnerships, farmers and their partners and individuals pursuing their individual activities. Those self-employed persons will be able to pay no social security contributions for one year from the start of their

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<sup>57</sup> Based on the following law: 2017-12-05, No. XIII-823 "Lietuvos Respublikos valstybinio socialinio draudimo įstatymo Nr. I-1336 2, 3, 8, 10, 11, 12, 13, 19, 25, 35 ir 40 straipsnių pakeitimo įstatymas". 2017, No. 20047.

<sup>58</sup> Based on the following law: 2018-12-11, No. XIII-1719 "Lietuvos Respublikos valstybinio socialinio draudimo fondo biudžeto 2019 metų rodiklių patvirtinimo įstatymas". 2018, No. 20701.

<sup>59</sup> Based on the following law "Lietuvos Respublikos Valstybinio socialinio draudimo įstatymo 2, 4, 6, 7, 8, 9 straipsnių pakeitimo ir papildymo įstatymas". Žin., 2009, Nr. 25-972.

<sup>60</sup> Based on the following law: "Lietuvos Respublikos valstybinio socialinio draudimo įstatymo Nr. I-1336 pakeitimo įstatymas. 2016-06-29. Nr. 20645 ". <https://www.e-tar.lt/portal/lt/legalAct/89ccbb604a6f11e6b5d09300a16a686c>.

<sup>61</sup> Based on Atvira SoDra. <http://www.sodra.lt/lt/situacijos/imoku-tarifai-savarankiskai-dirbantiems>

first activity<sup>62</sup>. Since January 1<sup>st</sup> 2019, due to tax reform, social contributions for employees were recalculated.

**Compulsory health insurance contributions (*privalomojo sveikatos draudimo įmokos*):** Compulsory health insurance contributions are set to 9% rate of the taxable income, gross wage or the MMS corresponding to the group the insured person belongs to. The annual compulsory contribution cannot be less than 9% of the 12 MMS valid on the last day of each month of the year. On behalf of certain individual groups government pays contributions (see Section 2.5.3 for details). Since January 1<sup>st</sup> 2019, due to tax reform, health insurance contributions are now set to 6.98 % and 2.3 % for persons whose economic size of holding is equal 2 or less<sup>63</sup>.

**Payments to the Guarantee Fund (*įmokos į garantinį fondą*):** Enterprises pay contributions to the Guarantee Fund. The rate was 0.1% of the employees' gross salary (which is the basis for calculating social insurance contributions) in 2011.<sup>64</sup> Since 1<sup>st</sup> January 2012 the rate of payments to the Guarantee Fund was increased up to 0.2%<sup>65</sup>. Resources from the Guarantee Fund are allocated to current and past employees of bankrupted enterprises, which are indebted to employees. Since 1<sup>st</sup> March 2013 payments to the Guarantee Fund must pay not only employers – juridical persons, but also employers – natural persons, farmers and others natural persons engaged in individual activity<sup>66</sup>. Since January 1<sup>st</sup> 2017 the Guarantee Fund is administrated by the State Social Insurance Fund (Socialinio draudimo fondas, SoDra)<sup>67</sup>. No changes afterwards.

### 1.4. Taxes

**Personal Income Tax (*asmens pajamų mokeskis*)** is a flat rate tax applied on an individual basis. This tax is paid according to the *Law on Income Tax*. Since 2011 all income, except income from distributed profit and income which is subject to a tax rate of 5%, were subject to a uniform tax rate of 15%. During the period of 2011-2013 income from distributed profit was taxed by 20% rate. Since the 1<sup>st</sup> January 2014 income from distributed profit is subject to a tax rate of 15%. Since 2011 a tax rate of 5% is applied to income from individual activities, except of income from “free occupations” and from securities. Also a tax rate of 5% is applied to income from agriculture activity (for persons who are engaged in agriculture and who must register or are registered as payers of VAT). Since the beginning of 2014 the 5% rate is also applied to income from not individual activities when this income is received from the sale or other transfer of ownership of base metal scrap. The income tax of a fixed amount is paid to acquire a business certificate. According to the *Law on Income Tax*, the list of tax-exempt incomes includes more than 50 categories, most importantly, all state social assistance or social

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<sup>62</sup> Based on the following law: 2017-12-05, No. XIII-823 „Lietuvos Respublikos valstybinio socialinio draudimo įstatymo Nr. I-1336 2, 3, 8, 10, 11, 12, 13, 19, 25, 35 ir 40 straipsnių pakeitimo įstatymas“. 2017, No. 20047.

<sup>63</sup> Based on Sodra: <https://www.sodra.lt/lt/situacijos/imoku-tarifai/imoku-tarifai-taikomi-uz-samdomus-darbuotojus>

<sup>64</sup> Based on the following law “LR Garantinio fondo įstatymo 1, 2, 4, 5, 6, 8, 9, 10, 11, 12, 13 straipsnių pakeitimo ir papildymo įstatymas“. Žin., 2008, Nr.79-3100

<sup>65</sup> Valstybinė mokesčių inspekcija:

[http://mic.vmi.lt/documentpublicone.do?&id=1000122600&tree\\_id=1000007371](http://mic.vmi.lt/documentpublicone.do?&id=1000122600&tree_id=1000007371)

<sup>66</sup> Based on the following law „Lietuvos Respublikos Garantinio fondo įstatymas“. Žin., 2000, Nr. 82-2478. [http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc\\_l?p\\_id=450163](http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc_l?p_id=450163).

<sup>67</sup> Based on the following law “Lietuvos Respublikos garantijų darbuotojams jų darbdaviui tapus nemokiam ir ilgalaikio darbo išmokų įstatymas“. 2016-09-14. Nr. 23708. <https://www.e-tar.lt/portal/lt/legalAct/613244607e7011e6b969d7ae07280e89/SNwLVvKYkr>



insurance benefits, paid from state and municipal budgets or *Social Insurance Fund* (except sickness, maternity leave, paternity leave and childcare benefits). Since 2018 additional tax allowance for parents with children was abolished and replaced by the universal child benefit (see above). No further major changes in 2015-2018. Since January 1<sup>st</sup> 2019, the general rate of PIT is set to 20% if the annual income amount does not exceed 120 AMS, and 27% if the annual income amount exceeds 120 AMS. These rates are applied on all employment-related income and also on some forms of non-employment income<sup>68</sup>. Taxable benefits, dividends and income from individual activities (minus tax credit) and some other types of income are taxed by 15 %.

**Corporate Income Tax (*pelno mokestis*)** is paid by Lithuanian and foreign entities. For the purpose of calculating taxable profits of Lithuanian entity non-taxable income and allowable deductions can be deducted. In the 2011-2016 period the tax rate on the taxable profits of Lithuanian entities and permanent establishments was 15%. A tax rate of 15% is also applied to income from distributed profits. Received financial support, used not in accordance to *The Law on Charity and Financial Support*, and financial support exceeding a total amount of 250 BSA is taxed without any deductions by 15%. Moreover, 15% tax rate applies to fixed corporate income tax base of shipping entities (without any deduction). In 2011-2017 the tax rate of 10% without any deduction was applied to the income of a foreign entity, sourced in the Republic of Lithuania, received otherwise than through its permanent establishments situated in Lithuania. Under the *Law on Corporate Income Tax*<sup>69</sup>, different rates (0%, 5%, 15%) may apply according to the size (number and status of employees) and type of the entity and the profit amount. Since January 1<sup>st</sup> 2018, additional tax relief of 5 % applied for researchers and experimental developers was added<sup>70</sup>. Additionally, units, carrying our investment project as well as investing in technological renewal may reduce taxable income up to 100 %. The tax relief of 0 % was abolished for social enterprises and standard corporate income tax base is applied, etc. Since January 1<sup>st</sup> 2019, for entities with less than 10 employees and the annual revenue does not exceed 300 thousand EUR, the 0 % tax rate on taxable profits is applied in the first year, in later years – 5 % tax rate on taxable profits is applied with some exceptions<sup>71</sup>.

**Inheritance tax (*paveldimo turto mokestis*)** is charged using a progressive tax schedule. 5% rate applies if a value of inherited property is up to 0.5 mln. LTL (150 thous. EUR since 2015), if the value is higher, 10%. No tax is applied to property that is inherited by spouses, close kin and for property with value is up to 10,000 LTL (3,000 EUR since 2015). Some allowances or deductions may be made by municipalities.

**Land taxes (*žemės mokestis*)** are based on the assessed value of the land and paid by the land owner. The rate of land tax is 1.5% of the assessed value of land. The land tax calculation is based on land value, which is estimated according to land assessment methodology proven by the Government.<sup>72</sup> Generally, a land tax value is based on immovable property register data and it is calculated by the local State Tax Inspectorate. Some people are exempt from land tax

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<sup>68</sup> Gyventojų pajamų mokesčio (GPM) tarifai, taikomi 2019 m. ir vėlesniais metais: <https://www.vmi.lt/cms/documents/10174/8274962/KD8860+tarifai+nuo+2019+met%C5%B3/f4d12f92-cb8c-4c5a-bd59-f9317c9507d9>

<sup>69</sup> Based on the following law: 2001-12-20 No. IX-675 “Lietuvos Respublikos pelno mokesčio įstatymas“. 2001, No. 110-3992.

<sup>70</sup> Based on the following law: 2017-12-07, Nr. XIII-842 “Lietuvos Respublikos pelno mokesčio įstatymo Nr. IX-675 2, 4, 5, 12, 22, 30, 33, 46-1 ir 58 straipsnių pakeitimo įstatymas“. 2017, Nr. 2068.

<sup>71</sup> Based on the following law: „Lietuvos Respublikos pelno mokesčio įstatymo Nr. IX-675 5 straipsnio pakeitimo ir Įstatymo papildymo 46-3 straipsniu įstatymas“, 2018-06-30, No. 10976

<sup>72</sup> Based on the following resolution “LR Vyriausybės 1993 m. rugpjūčio 3 d. nutarimas [Nr. 603](#) „Dėl žemės mokesčio“.

liability, e.g. disabled, pensioners, and children. Some allowances or deductions may be made by municipalities. Since 1st January 2013 the rate of land tax ranges from 0.01% to 4% of the assessed value of land and is defined individually by each council of municipality<sup>73</sup>. No changes were applied afterwards.

**Value Added Tax (*pridėtinės vertės mokestis*):** In 2011-2016, the standard VAT rate is 21%. Reduced 9% VAT rate applied to heating energy used for heating of the living dwellings, hot water and cold water used for preparing hot water, including heating energy used for the heating of water, for the living dwellings. Before 1<sup>st</sup> January 2015 9% VAT rate also applied to printings (books and non-periodical publications). In 2013-2014 reduced 9% VAT rate is also applied to newspapers, magazines and other periodical publications with the exception of publications of erotic and/or violent content or publications which were recognized as violating professional ethics by a competent authority or printed materials in which payable advertisements take more than 4/5 of the whole space. 5% VAT rate applied to state-compensated medicine and medical assistance tools. 0% rate applied to export and transit of goods and related services. From the 1<sup>st</sup> January 2011 till the end of 2011 and since 1<sup>st</sup> January 2015 the 9% VAT rate was applied to hotel-type and other accommodation services foreseen by laws on tourism activities. Since 2013 reduced 9% VAT rate is applied to passenger transport by regular routes as determined by the Ministry of Transport and Communications or an institution authorized by it or by municipalities, as well as to transportation of passenger luggage in the aforementioned transport passenger transport was reintroduced again (it was effective until 2011). Since 2013 reduced 5% rate also applies to technical aids for disabled and its' maintenance. Since 1<sup>st</sup> January, 2017, the standard VAT 21% rate for prescription unrecoverable drugs, which taxable value is more than 300 EUR, VAT rate of 5% applied<sup>74</sup>. Duty-free shops can only operate in international airports and seaports. Since January 1<sup>st</sup>, 2018, a reduced VAT rate of 5 % is applied on all prescription medicines that are not compensated<sup>75</sup>.

**Excise Duties (*akcizai*)** are charged on alcohol and alcoholic beverages, beer, tobacco, fuel and electric power and electrical production.

**Social Tax (*socialinis mokestis*)** was a temporary tax, effective from 1<sup>st</sup> January 2006 and applied only for the years 2006 and 2007. This social tax was paid by the legal entities which were obliged to pay corporate income tax. The tax base was the same as for corporate income tax. The social tax rate for 2006 was 4%, while for 2007 it was 3%.

**Immovable Property Tax (*nekilnojamo turto mokestis*):** This tax is paid by natural and legal persons. 'Immovable property' means the premises, engineering and other structures registered in the Real Property Register. This tax is imposed on 1) the immovable property (or part) belonging to natural persons by the right of ownership and located in Lithuania, with the exception of the structures (premises) intended for dwelling purposes, gardens, garages, homesteads, greenhouses, farms, subsidiary farms, science, religion, and recreation, fish-farming structures as well as engineering structures, where they are not the immovable property used for economic or individual activities or have not been transferred, for an indefinite period

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<sup>73</sup> Based on the following law "Lietuvos Respublikos Žemės mokesčio įstatymo pakeitimo įstatymas". Žin., 2011, Nr. 163-7743.

[http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc\\_l?p\\_id=415667&p\\_query=&p\\_tr2=2](http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc_l?p_id=415667&p_query=&p_tr2=2)

<sup>74</sup>Based on Valstybinė mokesčių inspekcija: [https://www.vmi.lt/cms/en/web/kmdb/1.13.0/-/asset\\_publisher/40zcR9f71yoY/content/pridetines-vertes-mokescio-istatymo-pakeitimai-2017-metais/10174;jsessionid=96EF6228F4528FA55301B07E08BC7A13](https://www.vmi.lt/cms/en/web/kmdb/1.13.0/-/asset_publisher/40zcR9f71yoY/content/pridetines-vertes-mokescio-istatymo-pakeitimai-2017-metais/10174;jsessionid=96EF6228F4528FA55301B07E08BC7A13)

<sup>75</sup> Based on the following law: 2017-12-05, No. XIII-817 „Lietuvos Respublikos pridėtinės vertės mokesčio įstatymo Nr. IX-751 19 ir 96 straipsnių pakeitimo įstatymas“. 2017, No. 20011.

or for a period exceeding one month, for use to legal persons; 2) the immovable property belonging to legal persons by the right of ownership and located in Lithuania. In 2011, the tax rate was 0.3-1% of average market value of the immovable property, depending on the municipality. Since 1st January 2013 the tax rate is 0.3-3% of the taxable value of immovable property<sup>76</sup>. The exact tax rate is determined by municipalities. New Immovable Property Tax on real estate was introduced since January 1, 2012. The tax base is market value of immovable property above 1 000 000 LTL (290 thous. EUR). The tax rate is 1%<sup>77</sup>. No major changes were made in 2014. Since 1<sup>st</sup> January 2015 the tax rate is 0.5% and the tax base is market value of immovable property above 220,000 EUR (non-taxable value of real estate is increased by 30% for families with 3 or more children (adopted children) under 18 years old, and for families with disabled children (adopted children) under 18 years old and older children which has established a special need for permanent care. No major changes were made in 2017.

Since January 1<sup>st</sup> 2018, the progressivity of immovable property tax was introduced, where the 0.5 % tax rate is applied for immovable property value of 220,000-300,000 EUR, 1% to 300,000-500,000 EUR and 2% to property values of more than 0,5 mln. EUR<sup>78</sup>. Additionally, since 1<sup>st</sup> January 2018 the tax rate is 0.5% and the tax base is market value of immovable property above 286,000 EUR (non-taxable value of real estate is increased by 30% for families with 3 or more children (adopted children) under 18 years old, and for families with disabled children (adopted children) under 18 years old and older children which has established a special need for permanent care. No major changes in 2019.

### Other taxes

Other indirect taxes include Income Deductions according to Forest Law, Sugar Sector Taxes, Lottery and Gambling Tax, Vehicle Tax, Environment Pollution Taxes, Tolls and International Trade and Transaction Taxes.

## 2. SIMULATION OF TAXES AND BENEFITS IN EUROMOD

### 2.1. Scope of simulation

Not all the taxes and benefits mentioned in the previous section are simulated in EUROMOD. Some of the taxes or benefits are beyond the scope of EUROMOD (i.e. indirect or business taxation) and are therefore excluded from further simulations or imputations into the EUROMOD underlying database. Their descriptions serve primarily as a tool for a better understanding of the overall tax-benefit structure in Lithuania. Some of the direct taxes and benefits are also not possible to simulate based on the available data. If feasible, though, they are included (as observed in the original data source) in the EUROMOD database either as individual or/and aggregate income sources.

Table 2.1 and Table 2.2 list the main Lithuanian tax-benefit instruments, as discussed in Section 1, and provide a brief explanation as to why the instrument is not (fully) simulated or in which

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<sup>76</sup> Based on the following law “Lietuvos Respublikos Nekilnojamojo turto mokesčio įstatymo 6 straipsnio pakeitimo įstatymas“. Žin., 2012, Nr. 82-4265. [http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc\\_l?p\\_id=429549](http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc_l?p_id=429549)

<sup>77</sup> Based on following law: “Lietuvos Respublikos Nekilnojamojo turto mokesčio įstatymo 2, 4, 6, 7, 11, 12, 14 straipsnių pakeitimo ir papildymo Įstatymas“, 2011 m. gruodžio 21 d. Nr.XI-1828. [http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc\\_l?p\\_id=415666](http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc_l?p_id=415666)

<sup>78</sup> Based on the following law: 2017-12-05, No. XIII-815 “Lietuvos Respublikos nekilnojamojo turto mokesčio įstatymo Nr. X-233 6, 7, 11, 12 ir 14 straipsnių pakeitimo įstatymas“. 2017, No. 20009.

format it is included in the EUROMOD database. Most of the benefits that are simulated in EUROMOD are family benefits that depend on the number of children and their age. Furthermore, simulations are possible for a number of contributory (social insurance based) benefits, such as maternity leave or benefits assigned to low income households. A number of benefits with entitlement rights dependent on contribution history (i.e. pensions, sickness benefit, disability benefits, etc.) are not simulated due to the lack of data on previous employment history and salaries received, some event occurrence (i.e. disability or accident at work), or lack of information on previous partner entitlements (i.e. survival pensions).

Most of the direct income taxes and social insurance contributions are simulated (except some minor ones), as they are calculated as percentages of gross labour earnings, which are available in the EU-SILC database. Nevertheless, application of some income tax allowances (or estimation of some income taxation is not possible) or not accurate enough due to the lack of more detailed information on a person's disability degree, economic activity type or other specific socio-economic information that is not collected in the EU-SILC database. In such cases, basic tax allowance levels or other general income taxation rules are applied.

Table 2.1. Simulation of benefits in EUROMOD

Benefit	Variable name(s)	Treatment in EUROMOD					Main limitations/other remarks
		2015	2016	2017	2018	2019	
Birth grant	bchba_s	S	S	S	S	S	
Universal child benefit		-	-	-	S	S	Introduced in 2018
Additional child benefit	bch00_s	S	S	S	S	S	
Benefit to a conscript's child	-	E	E	E	E	E	No recipients could be observed due to the very limited scope of the benefit.
Guardianship benefit	bchor	I	I	I	I	I	No data on guardianship (curatorship); also included in the variable bfa.
Grant for housing (settlement)	-	E	E	E	E	E	Not identified in the UDB
Benefit for multiple birth families	bchmp_s	-	-	S	S	S	Introduced in 2017
Student's childcare benefit	bmaed_s	-	-	S	S	S	Introduced in 2017
Pregnancy grant	bmaprnc_s	S	S	S	S	S	No data on contribution history
Maternity leave benefit	bmaprct_s	S	S	S	S	S	No data on contribution history
Paternity leave benefit	bplct_s	S	S	S	S	S	No data on contribution history
Maternity (paternity) leave benefit	bmact_s	S	S	S	S	S	No data on contribution history
Social benefit	bsa00_s	PS	PS	PS	PS	PS	No data on assets

Compensations for heating of a dwelling, cold and hot water expenses, and sewage	bho	I	I	I	I	I	No data on expenditures available
Unemployment social insurance benefit	bunct_s	PS	PS	PS	PS	PS	No data on contribution history
Long-term work benefit	bunct01_s	-	-	-	I	I	Modelled with assumptions
Old-age pension	boa	IA	IA	IA	IA	IA	No data on contribution & wage history;
Early retirement (old-age) pension	byr	I	I	I	I	I	No data on contribution & wage history or application for early-retirement; also included within aggregate variable bun
Work incapacity pension	bdi/boa	IA	IA	IA	IA	IA	No data on disability occurrence; information included in variables bdi or boa (hereinafter referred to as bdi/boa), splitting by retirement age
Invalidity pension	bdi/boa	-	-	-	-	-	No data on disability occurrence;
Survivor's or orphan's pension	boa/bsu	IA	IA	IA	IA	IA	No data on the loss of family members; included variables boa or bsu, based on recipient's retirement age.
Sickness benefit	bhl	IA	IA	IA	IA	IA	No data on sickness duration
Vocational rehabilitation allowance	bdi	IA	IA	IA	IA	IA	No data on event occurrence
Occupational disease allowance	bdi	IA	IA	IA	IA	IA	No data on event occurrence
Work incapacity grant	bdi/boa	IA	IA	IA	IA	IA	No data on incapacity occurrence
Work incapacity periodical compensation	bdi/boa	IA	IA	IA	IA	IA	No data on incapacity occurrence
State pensions of degree one or two	boa	IA	IA	IA	IA	IA	No data on occupational achievements
State pensions for victims	bdi	IA	IA	IA	IA	IA	No data on participation in recognized aggression political imprisonment, deportations, etc.
State pensions for officers and soldiers	boa	IA	IA	IA	IA	IA	No data on occupation history

State pensions for scientists	boa	IA	IA	IA	IA	IA	No data on academic career length
State pensions for judges	boa	IA	IA	IA	IA	IA	No data on detailed occupational segregation and history
Compensations for special working conditions	boa	IA	IA	IA	IA	IA	No data on hazardous jobs worked
State social assistance benefits/pensions	boa/bdi	IA	IA	IA	IA	IA	No information on relevant conditions, as disability occurrence, nursing at home, etc.
Loss of breadwinner's pension	bsu	IA	IA	IA	IA	IA	No data on previous rights to the benefit;
Retirement pension	boa	IA	IA	IA	IA	IA	No data on previous rights to the benefit
Educational stipends and other financial support for unemployed	bed	IA	IA	IA	IA	IA	No data on participation in non-formal education programmes;
Social stipends	bed	IA	IA	IA	IA	IA	No data on affiliation to different type of educational establishments
Promotional education stipends	bed	IA	IA	IA	IA	IA	No information on grades
Municipal support	bsals	I	I	I	I	I	No information on different benefit rules by municipalities; inclusive of NGO support.
Free meals to pupils	-	E	E	E	E	E	Value of the meal could only be based on the maximum subsidy amounts to food providers.
Free school's supplies prior to the beginning of a new school year	-	E	E	E	E	E	No rules for benefit distribution in 2005-2006. No information on families being at "social-risk or special conditions set by education institutions.
Compensation for drugs and medical devices	-	E	E	E	E	E	No information on consumption of drugs
Funeral Benefit	bsu	IA	IA	IA	IA	IA	No information on the loss of family members or benefit split among the relatives
Severance pay	yunsv	I	I	I	I	I	No information on circumstances upon termination of the job contract.

[a] Variable extension “\_s” indicates variable that has been simulated. Other variables are taken/ imputed from the used micro-data.

Notes: “-”: policy did not exist in that year; “E”: *excluded* from the model as it is (neither included in the micro-data nor simulated); “I”: *included* in the micro-data but not simulated; “IA”: included in the micro-data in an aggregated variable but not simulated; “PS”: *partially simulated* as some of its relevant rules are not simulated; “S”: *simulated* although some minor or very specific rules may not be simulated.

Table 2.2. Simulation of taxes and social contributions in EUROMOD

Taxes and social contributions	Variable name(s)	Treatment in Euromod					Main limitations
		2015	2016	2017	2018	2019	
Personal Income Tax on wages	tin_s	S	S	S	S	S	Comment for 2009: main tax rate applied to more categories of income
Personal Income Tax (from authorship contracts, royalties)	tin_s	S	S	S	S	S	
Personal Income Tax on rent	tin_s	S	S	S	S	S	Rent is a component of the other property related income. Comment for 2009: main tax rate apply on rent
Personal Income Tax on income from individual activity	tin_s	S	S	S	S	S	Comment: for 2009 main tax rate apply on income from individual activity
Personal Income Tax (acquisition of business certificate)	-	E	E	E	E	E	No information on income gained from activities with business certificate
Corporate Income Tax	-	n.a.	n.a.	n.a.	n.a.	n.a.	Outside the scope of the model
Social Tax	-	n.a.	n.a.	n.a.	n.a.	n.a.	Outside the scope of the model
Land Tax	-	E	E	E	E	E	Outside the scope of the model
Inheritance tax	-	E	E	E	E	E	No information available
Immovable property tax	-	E	E	E	E	E	Outside the scope of the model
VAT	-	n.a.	n.a.	n.a.	n.a.	n.a.	Outside the scope of the model
Income Deductions according to Forest Law	-	E	E	E	E	E	Outside the scope of the model
Income Deductions according to Law on Road Maintenance and Development Programme Financing	-	-	-	-	-	-	Outside the scope of the model
Excise	-	n.a.	n.a.	n.a.	n.a.	n.a.	Outside the scope of the model

Sugar Sector taxes	-	E	E	E	E	E	Outside the scope of the model
Lottery and Gambling tax	-	E	E	E	E	E	Outside the scope of the model
Vehicle Tax	-	E	E	E	E	E	Outside the scope of the model
Environment Pollution Taxes	-	E	E	E	E	E	Outside the scope of the model
Tolls	-	n.a.	n.a.	n.a.	n.a.	n.a.	Outside the scope of the model
International trade and transaction taxes	-	n.a.	n.a.	n.a.	n.a.	n.a.	Outside the scope of the model
Credited social contributions	ils_sicct	PS	PS	PS	PS	PS	Only some of the eligible groups identified.
Credited contributions for health insurance	-	S	S	S	S	S	Simulated since 2009. Before 2009 no information available on amounts to be credited
Employers social insurance contributions:	ils_sicer	S	S	S	S	S	
- pension social insurance	tscerpi_s	S	S	S	S	S	
- sickness and maternity social insurance	tscersi_s	S	S	S	S	S	
- unemployment social insurance	tscerui_s	S	S	S	S	S	
- health insurance	tscerhl_s	S	S	S	S	S	
- employment injuries and occupational diseases social insurance	tscerac_s	S	S	S	S	S	
-payments to the guarantee fund	tscersf_s	S	S	S	S	S	
-payment to the long-term unemployment fund		-	-	-	S	S	
Employees social insurance contribution:	ils_sicee	S	S	S	S	S	
- pension social insurance	tsceepi_s	S	S	S	S	S	
- sickness and maternity social insurance	tsceesi_s	-	-	-	-	-	
- health insurance	tsceehl_s	S	S	S	S	S	
Self-employed social insurance contributions:	ils_sicse	S	S	S	S	S	
- for pensions	tscepi_s	S	S	S	S	S	



- for compulsory health insurance	tscehl_s	S	S	S	S	S	No data on income received from authorship contracts. No data on land size.
- sickness and maternity social insurance	tscsesi_s	S	S	S	S	S	

Notes: “-” policy did not exist in that year; “E” policy is *excluded* from the model’s scope as it is neither included in the microdata nor simulated by EUROMOD; “PS” policy is *partially simulated* as some of its relevant rules are not simulated; “S” policy is *simulated* although some minor or very specific rules may not be simulated.

In addition to changes in the level of taxes and benefits, as well as their related calculation parameters or income lists, the following are the main structural changes in the LT system (simulated policies) since 2015:

- ***Structural changes between 2015 and 2016***

None.

- ***Structural changes between 2016 and 2017***

Introduction of new child benefits (Benefit for multiple-birth families, Student’s childcare benefit). In case of the standard child benefit no means-test applied for families with three or more children. More structural changes were introduced since July 1<sup>st</sup>, 2017, i.e. changes to unemployment benefits and introduction of the long-term unemployment fund and long-term work payments in case of redundancy. These are outside of the scope of the standard EUROMOD simulation as of 30<sup>th</sup> June, 2017. However, unemployment benefits are included as an optional policy, which can be switched on by the users. Long-term work payments are modelled starting 2018.

- ***Structural changes between 2017 and 2018***

1. Introduction of new universal child benefit for all parents raising children.
2. Abolishment of the child tax allowance for the income tax.
3. Introduction of the income tax holidays for the self-employed.
4. Introduction of the income tax credit for the self-employed.
5. Introduction of income disregards in social assistance.
6. Introduction of contribution floors for social insurance contributions.
7. *New system of indexation of social insurance pensions based on the pension reference points and indexing coefficient.*
8. *Introduction of progressive rates of immovable property tax.*

- ***Structural changes between 2018 and 2019***

There was a tax reform, which included changes to the PIT, introduction of a second band of PIT for income exceeding 120 average wages per year, and importantly, recalculation of the social insurance contributions as well as the base on which social insurance contributions and PIT are paid, i.e. gross wage. The gross wage was recalculated using a coefficient of 1.289. Net wage effectively remained the same, except for a change in the tax allowances. The recalculation of gross wage resulted in recalculated of coefficients used for calculation of all social insurance benefits, which depend on the gross wage as a base. Secondly, there was a pension reform, where working person had to choose whether to stay in Pay as you go (PAYG)

systems only, or to join 2<sup>nd</sup> pension pillar, while also being supported by the state with monthly subsidies from the state budget. Moreover, there was a change to child benefit, which was increased and extended to cover children with disability. Lastly, the additional child benefit, which amount was extended and equalized irrespectively to children age.

### 2.1.1. Part-simulated tax-benefit components

There is one part-simulated component in the Lithuanian policy spine: unemployment insurance benefit (bunct\_lt). The policy is marked in the model as 'PART SIMULATED'. Elements that are part-simulated are also marked as taken 'FROM THE DATA'. In this case we take the benefit duration limits from the data. I.e. for the observed unemployed {bunct > 0} we limit the benefit duration by actual receipt in the data (lunmy<max>bunmy). This is done to reduce over-simulation of unemployment benefit duration, as not all recipients use the maximum possible duration. A considerable part of unemployment benefit recipients discontinue its receipt earlier than their eligibility would suggest due to finding a new job.

## 2.2. Order of simulation and interdependencies

- *Order of simulation in 2016-2019*

In 2016-2019 the order of simulation remains the same as before besides the following changes (see Table 2.3):

- Compensations in 2014-2016 due to the cuts in old age, early retirement, disability pensions made in 2010 and 2011 are simulated in EUROMOD (boa\_lt policy) (see Annex II for details). In 2017 and 2018 no cuts and compensations applied. The policy boa\_lt was modified accordingly to account for any cuts or compensations recorded in the input data.
- *A switch for full-year adjustment of the unemployment insurance benefit (bunct\_FYA\_lt) is introduced for 2017. The rules of the benefit changed as of July 1<sup>st</sup>, 2017 so not modelled for 2017 by default. The switch enables to account for the mid-year change in the policy rules. However, administrative statistics does not show any substantial increase between 2016 and 2017.*
- *Newly introduced long-term work payment (bunct01\_lt) is modelled starting 2018 after the unemployment social insurance benefit.*
- Newly introduced universal child benefits modelled: *bchm\_lt* is modelled after the benefit for multiple birth families (bchmp\_lt). *Child allowance (bch00\_s) is renamed into additional child allowance.* The new universal child benefit is included into all appropriate income lists.
- Recalculation of gross wage (wage\_adj\_lt) was included in the model since year 2019. Due to tax and social insurance contribution reform since January 1<sup>st</sup> 2019, all the wages were increased by factor 1.289. The recalculation of gross wage is applied on all incomes by default.
- *A switch for old-age pension indexation (boa00\_lt) is introduced for year 2016-2019, which is calculated according to the pension formula, conversion coefficient applied when recalculating former pension records into the point system. The switch allows to*

*calculate disaggregated pension components. Even though pension indexation is included into the input data, the rules are turned OFF by default in the policy rules.*

- *A switch for tax compliance adjustments (TCA\_lt) are introduced for data tax evasion corrections since 2017. Full tax compliance are assumed to be OFF by default and is not modelled in the model for 2019 by default.*

Table 2.3. EUROMOD Spine: order of simulation, 2016-2019

	Policy	Grp/No	LT_2016	LT_2017	LT_2018	LT_2019	Comment
1	▶ ● SetDefault_It		on	on	on	on	DEF: DEFAULT VALUES FOR VARIABLES
2	▶ ● uprate_It		on	on	on	on	DEF: UPDATING FACTORS
3	▶ ● ConstDef_It		on	on	on	on	DEF: CONSTANTS
4	▶ ● ILsDef_It		on	on	on	on	DEF: STANDARD INCOME CONCEPTS
5	▶ ● ILsUDBDef_It		on	on	on	on	DEF: UBD INCOME CONCEPTS
6	▶ ● ILDef_It		on	on	on	on	DEF: NON-STANDARD INCOME CONCEPTS
7	▶ ● TUDef_It		on	on	on	on	DEF: ASSESSMENT UNITS
8	▶ ● random_It		on	on	on	on	DEF: generate random number
9	▶ ● TCA_It		on	on	on	on	SWITCH: Tax compliance adjustment (full tax compliance assumed by default; since 2017 data tax evasion corrections can be switched on)
10	▶ ● wage_adj_It		n/a	n/a	n/a	on	DEF: recalculation of gross wage (by a factor: 1.289)
11	▶ ● yem_It		off	off	off	off	DEF: Minimum wage
12	▶ ● neg_It		on	on	on	on	DEF: Recode negative income to zero
13	▶ ● boa00_It		switch	switch	switch	switch	SWITCH: old-age pension indexation
14	▶ ● boa_It		on	on	on	on	BEN: recalculation of public pensions in 2010-2011, compensations in 2014-2016, since 2017 - rolling back any compensations or cuts in the data; since 2019 - bonuses on low pensions
15	▶ ● bmaprct_It		on	on	on	on	BEN: maternity leave benefit (motinystės išmoka, iki 2017 m. motinystės pašalpa)
16	▶ ● bmaprnc_It		on	on	on	on	BEN: pregnancy grant (vienkartinė išmoka nesciai moteriai)
17	▶ ● bmact_It		on	on	on	on	BEN: childcare benefit (vaiko priežiūros išmoka), before 2017: maternity (paternity) leave benefit (motinystės (tevystės) pašalpa)
18	▶ ● bplct_It		on	on	on	on	BEN: paternity leave benefit (tevystės pašalpa) - since 2007
19	▶ ● bmaed_It		n/a	on	on	on	BEN: student's childcare benefit (išmoka besimokancio ar studijuojancio asmens vaiko priežiurai) since 2017.06
20	▶ ● bunct_It		on	on	on	on	BEN: unemployment insurance benefit (nedarbo draudimo ismoka): PART SIMULATED
21	▶ ● bunct_FYA_It		n/a	switch	n/a	n/a	BEN: unemployment insurance benefit (nedarbo draudimo ismoka): FULL YEAR ADJUSTMENT FOR 2017
22	▶ ● bunct01_It		n/a	n/a	on	on	BEN: long-term work payment (ilgalaikio darbo išmoka) since 2017.07
23	▶ ● tscepi_It		n/a	n/a	n/a	n/a	SIC: self-employed social insurance contributions - pension (socialinio draudimo imokos)
24	▶ ● tin_It		on	on	on	on	TAX: personal income tax (asmens pajamu mokestis)

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	Policy	Grp/No	LT_2016	LT_2017	LT_2018	LT_2019	Comment
25	▶ ● tscsehl_lt		n/a	n/a	n/a	n/a	SIC: self-employed social insurance contributions - health (privalomojo sveikatos draudimo imokos)
26	▶ ● tscer_lt		on	on	on	on	SIC: employer social insurance contributions (socialinio draudimo imokos)
27	▶ ● tscee_lt		on	on	on	on	SIC: employee social insurance contributions (socialinio draudimo imokos)
28	▶ ● tpceepi_lt		n/a	n/a	n/a	on	SIC: 2nd pillar pension contributions (II pakopos pensiju imokos)
29	▶ ● bchmp_lt		n/a	on	on	on	BEN: benefit for multiple birth families (išmoka gimus dviem ir daugiau vaikų)
30	▶ ● bchnm_lt		n/a	n/a	on	on	BEN: child benefit (universaliai vaiko ismoka) since 2018
31	▶ ● bch00_lt		on	on	on	on	BEN: additional child allowance (papildoma ismoka vaikui) "additional" since 2018
32	▶ ● bchba_lt		on	on	on	on	BEN: birth grant (vienkartine ismoka gimus vaikui)
33	▶ ● bsa00_lt		on	on	on	on	BEN: social benefit (socialine pasalpa)
34	▶ ● tscct_lt		on	on	on	on	SIC: credited social insurance contributions
35	▶ ● tscse_lt		on	on	on	on	SIC: self-employed social insurance contributions (socialinio draudimo imokos) & Mandatory health contribution (PSD)
36	▶ ● output_std_lt		on	on	on	on	DEF: STANDARD OUTPUT INDIVIDUAL LEVEL
37	▶ ● output_minwag...		off	off	off	off	DEF: MINWAGE OUTPUT INDIVIDUAL LEVEL
38	▶ ● output_std_hh_lt		off	off	off	off	DEF: STANDARD OUTPUT HOUSEHOLD LEVEL

### Policy switches

There are two standard switches included into the spine (see above):

- **neg\_lt**: switched ON by default
  - recodes negative income to zero; currently this policy only recodes negative self-employment income to zero, initial value stored in `i_yse0`
- **yem\_lt**: switched OFF by default
  - if hourly wage is lower than hourly minimum wage recalculate in accordance to the minimum wage, leaving hours of work as recorded in the data; if ON overwrites `yem`.
- **FYA\_lt**: switched OFF by default
  - full year simulations that can be used instead of the default policy simulations as of 30<sup>th</sup> June. However, administrative statistics does not show any substantial increase between 2016 and 2017.
- **boa00\_lt**: switched OFF by default
  - old-age pension indexation of `boa bdi` and `boact`, where they can be calculated according to the pension formula. Since 2018 conversion coefficient (0.78) is applied when recalculating former pension records into the point system.
- **TCA\_lt**: switched OFF by default
  - Tax compliance adjustment can be turned on since year 2017, where data tax evasion corrections can be switched on.

## 2.3. Social benefits

### 2.4. Birth grant (*bchba\_s*)

- **Brief description**

This benefit is a lump-sum cash benefit paid upon the birth of a child to one of the parents (adoptive parents) or a guardian.

- **Definitions**

The primary unit of analysis is family, which consists of partners and their own dependent children. Dependent children are persons aged under 18 or under 24 if in full-time education; they cannot be married, cohabiting with a partner nor parents themselves.

- **Eligibility conditions**

Based on the benefit rules, the benefit is paid to one of the parents or a guardian of a child born that year.

- *Income test*
- *No income test applied. As it is a one-off lump-sum benefit, it is not used for income testing for social assistance and child benefits. Benefit amount*

The benefit amounted to 11 BSA per eligible dependent child during the entire 2011-2014 (applicable on 30<sup>th</sup> June) period.

No changes to the rules since 2014.

## 2.5. Child benefit (bchm\_s)

- *Brief description*

It is a monthly cash benefit paid to a family raising one or more dependent (guarded) children up to the age of 18 or older if in full-time educational system. The benefit is also paid for all children under guardianship, irrespective of their care form (non-governmental guardianship institution, family-type guardianship institution or child care institution).

- *Definitions*

The primary unit of analysis is children, aged under 18 or under 21 if in full-time education, who is raised in families or under guardianship irrespective of the care form.

- *Eligibility conditions*

The benefit is paid to all families and care institutions having one or more dependent (guarded) children up to the age of 18 or up to the age of 21 if in full-time education system.

- *Income test*

No income test applied.

- *Benefit amount*

The benefit level is calculated in relation to BSA and is equal to 0.79\*BSA as of 2018. Since 2019, the benefit amount is equal to 1.32\*BSA and for disabled children the benefit amount is equal to 1.84\*BSA<sup>79</sup>.

Table 2.4. Child benefit entitlements on January 1<sup>st</sup>, 2018-2019

	2018	2019
For each child	0.79*BSA	1.32*BSA
For disabled child	-	1.84*BSA

<sup>79</sup> Based on the following law: 2018-12-06, No. XIII-1699. "Lietuvos Respublikos išmokų vaikams įstatymo Nr. I-621 1, 6, 7, 9, 11, 13, 14, 15, 17, 18, 21 ir 24 straipsnių pakeitimo įstatymas", 2018, No. 20940

## 2.6. Additional child benefit (*bch00\_s*)

- **Brief description**

It is a monthly cash benefit paid to a family raising one or more children up to the age of 18 or older if in full-time educational system, but not longer than up to the age of 21.

- **Definitions**

The unit of analysis is the family as defined in section 2.3.1.

- **Eligibility conditions**

Since 2016 child benefit is only paid for children up to the age of 18. Previously children from large families (i.e. Type II) were eligible if aged up to 18 or until the age of 24 if enrolled in secondary, vocational, post-secondary or higher education (which is the same condition as used to define dependent children in the assessment unit). Since January 1<sup>st</sup> 2018, additional child benefit could be paid only until the age of 21 for those children, enrolled in secondary, post-secondary or vocational education<sup>80</sup>. Since January 1<sup>st</sup> 2019, guardians (caregivers) are also eligible to apply for an additional child benefit.

Starting from the 1<sup>st</sup> January 2010 children living in the Type I families who are over 7 years are not eligible for child benefits.<sup>81</sup>

- **Income test**

In order to receive a child benefit an income test is applied based on the same income definition as for social assistance. Starting from the 1<sup>st</sup> January 2010 till 31<sup>st</sup> December 2011 children below 2 years were eligible only if their parents or foster parents didn't receive childcare benefit or this benefit is below 1.5 SSI. In 2011-2012 for both Type I and Type II families with children aged 2 to 7 years and for Type II families with children aged 7 and over, monthly income per family member can't exceed threshold of 1.5 SSI. Since January 1<sup>st</sup>, 2012 income test was introduced for all groups irrespective of age of child: monthly income per family member can't exceed threshold of 1.5 SSI. Since January 1<sup>st</sup> 2017 income test is not applied for Type II families.

- **Benefit amount**

The benefit level is calculated in relation to BSA and varies based on the number of children in the family and their age as presented in Table 2.5.

Table 2.5. Additional child benefit entitlements on January 1, 2010 – 2019

Year/Family type	2012-2016		2017		2018		2019	
	Type I*	Type II*	Type I *	Type II	Type I *	Type II	Type I *	Type II
Child until age 2	0.75	0.75	0.75	0.75	0.75	0.75	0.53	0.53
Child aged 3 to 6	0.4	0.4	0.4	0.4	0.4	0.4	0.53	0.53
Child aged 7 to 8	-	0.4	0.4	0.4	0.4	0.4	0.53	0.53
Child aged 9 to 17	-	0.4	0.4	0.4	0.4	0.4	0.53	0.53
Child aged 18 to 21	-	0.4			0.4	0.4	0.53	0.53

<sup>80</sup> Based on the following law: 2017-12-05, No. XIII-822 "Lietuvos Respublikos išmokų vaikams įstatymo Nr. I-621 pakeitimo įstatymas". 2017, No. 20326.

<sup>81</sup> According to "Lietuvos Respublikos socialinių išmokų perskaičiavimo ir mokėjimo laikinasis įstatymas". Žin., 2009, Nr. [152-6820](#).



Notes: (a) Type I refers to children, raised in families with one or two children, Type II refers to children raised in families with three or more children; (b) Age boundaries are inclusive. \* income test applied  
Source: Based on *Law of Benefits to Children* and its relevant amendments & *Temporary Law on Recalculation and Payment of Social Benefits*.

No changes to the rules until 30<sup>th</sup> June, 2016. Since January 1<sup>st</sup> 2017 Type I families with child (children) aged 2 to 18 years, whose monthly income per family member can't exceed threshold of 1.5 SSI, are also entitled to the child benefit. On the other hand, child benefit is now only paid for children up to the age of 18. Since January 1<sup>st</sup> 2018, additional child benefit is paid for families raising one or two children aged 18 to 21 and in full-time secondary, post-secondary and vocational education. Since 2019, the additional benefit amount for Type I and Type II families was equalized irrespectively to children age and is now equal to 0.53 BSA per one child.<sup>82</sup>

### EUROMOD notes

Due to data limitations it is not possible to distinguish guardians (caregivers) from the data, thus cannot be simulated for an additional child benefit.

#### **2.7. Pregnancy grant (*bmaprnc\_s*)**

- ***Brief description***

This benefit is a lump-sum cash benefit paid to a pregnant woman upon the 28<sup>th</sup> week of the pregnancy.

- ***Definitions***

In principle, the primary unit of analysis would be family as defined in section 2.3.1. However, for technical reasons we define a separate family unit, which consists of partners and their own dependent children who are less than 3 years old.

- ***Eligibility conditions***

The benefit is paid to pregnant women who are not eligible to receive the maternity leave benefit. See more benefit details in Section 2.3.4.

- ***Income test***

No income test applied.

- ***Benefit amount***

The benefit is equal to 2 BSA.

No changes to the rules between 2013-2019.

### EUROMOD notes

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<sup>82</sup> Based on the following law: 2018-12-06, No. XIII-1699. "Lietuvos Respublikos išmokų vaikams įstatymo Nr. I-621 1, 6, 7, 9, 11, 13, 14, 15, 17, 18, 21 ir 24 straipsnių pakeitimo įstatymas", 2018, No. 20940

Instead of pregnant women, mothers with an own child aged 0 are considered.

### 2.8. Maternity leave benefit (bmaprct\_s)

- **Brief description**

This benefit is a cash benefit paid to a pregnant woman on the basis of the *Law on Sickness and Maternity Social Insurance*. The maternity leave benefit is paid as a lump sum amount for the number of working days in the *applicable period* (see below). If the applicable period stretches into a different calendar year, the benefit could be paid in two lump-sum amounts.

Applicable period:

The benefit is paid to women for a total of 126 calendar days, which covers the period before the child birth (70 days) and after delivery (56 days). In the case of complicated confinement or if more than one child was born, an additional 14 days are added to the total period.

- **Definitions**

The unit of analysis is the family as defined in section 2.3.1.

- **Eligibility conditions**

The benefit is paid if women before the first day of maternity leave, had sickness and maternity social insurance record for no less than 12 months over the last 24 months, except of those who previously were in full-time secondary, professional or higher education (up to the age of 26) or in civil or military service and the start of the gap between the change of the status and the beginning of the insurance record was not more than 3 months

- **Income test**

No income test applied.

- **Benefit amount**

The maternity benefit is equal to 100% of the recipient's average monthly insured income AMII (see chapter 1.4.1 for more details), and is calculated as:

$B = S * 100\% * D$ , where:

B is maternity benefit; and  $B \geq \text{min B}$  (minimum level)

S is a daily compensatory salary;  $S \leq$  (levels are not specified)

D is the number of working days in the applicable period;

The daily compensatory salary ("S") is calculated by dividing the beneficiary's monthly income (using the month, when the beneficiary has been granted a right to this entitlement) by the number of working days in that month.

"S" has maximum compensatory amounts specified, which are calculated in relation to the CYI. On 30 of June 2011 the upper limit was set to 4 times CYI for newly awarded benefits. Since 1<sup>st</sup> January 2012 the upper limit was set to 3.2 times CYI for newly awarded benefits and CYI was increased (Table 1.6). Since 1<sup>st</sup> January 2017 the maximum compensatory amount is not applied and the benefit amount is equal to 100% of the recipient's average monthly insured income.

The minimum benefit level was calculated based on corresponding CYI level (see Table 1.2). Since 2008 the minimum threshold for the benefit was set as equal to 1/3 of the corresponding year's insured income (CYI). Until end of 2011 AMII used for calculations could not be higher than 4 times of CYI. Since 1<sup>st</sup> January 2012 the upper limit was set to 3.2 times CYI for newly

awarded benefits. Since 1<sup>st</sup> January 2017, the amount of maternity leave benefit cannot be lower than 20% of country's average monthly wage for the pre-previous quarter before the right for benefit receipt.<sup>83</sup> This amount for the first quarter of 2017 was 156.66 EUR per month. Since 1<sup>st</sup> January 2017 the upper limit is not applied. Since January 1<sup>st</sup>, 2018 the minimum maternity leave benefit amount (floors) could not be lower than 6 BSA, i.e. 228 EUR. Since January 1<sup>st</sup>, 2019, due to combination of social insurance contributions, the maternity benefit is equal to 77.58 % of the recipient's compensatory income<sup>84</sup>.

Until 30<sup>th</sup> of June, 2011 benefit B was multiplied by the number of born children. Since July 1, 2011 this rule was abolished and the maternity benefit was no longer multiplied by the number of born children.

### EUROMOD notes

The payment for additional 14 days is currently not simulated (due to data constraints).

As social insurance contribution information is not available, all mothers with an own child aged 0 in EUROMOD are considered eligible if they have been in work for more than six months in the current year<sup>85</sup> (as suggested by observed patterns in the underlying data).

The AMII is approximated in EUROMOD (thereby, also for other relevant family benefits) using either estimated hourly wage rate multiplied by work hours per month (i.e. 168 hours on average) or observed monthly earnings.

### **2.9. Paternity leave benefit (*bplct\_s*)**

- ***Brief description***

The benefit was introduced from 1<sup>st</sup> July 2006, and is granted on the basis of *the Law on Sickness and Maternity Social Insurance*. It could be claimed by a father (adoptive father) who has a newborn child. The benefit is paid up to one month (from the child birth until the child reaches the age of one month).

- ***Definitions***

The unit of analysis is the family as defined in section 2.3.1. Insured income definition is presented in section 1.1.

- ***Eligibility conditions***

Before the first day of paternity leave, a father (adoptive father) must have no less than 12 months over the last 24 months, except of those who previously were in full-time secondary, professional or higher education (up to the age of 26) or in civil or military service and the start of the gap between the change of the status and the beginning of the insurance record was not more than 3 months.

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<sup>83</sup> Based on the following law: 2016-06-28, No. XII-2501 „Lietuvos Respublikos ligos ir motinystės socialinio draudimo įstatymo Nr. IX-110 pakeitimo įstatymas“. 2016, No. 20641.

<sup>84</sup> Based on the following law: 2018-06-28, No. XIII-1338 „Lietuvos Respublikos ligos ir motinystės socialinio draudimo įstatymo Nr. IX-110 6, 14, 18, 21, 22, 24 ir 27 straipsnių pakeitimo įstatymas“, 2018, No. 11433

<sup>85</sup> Note that being on maternity leave is considered as in work in the underlying data source, i.e. EU-SILC.

There is a statutory requirement to have a legal acknowledgement of the fatherhood of the child in case child was born outside marriage.<sup>86</sup>

- ***Income test***

No income test applied.

- ***Benefit amount***

The amount of paternity benefit is 100% of the benefit recipient's AMII (see chapter 1.1 for more details). Until end of 2011 AMII used for calculations could not be higher than 4 times of CYI. Since 1<sup>st</sup> January 2012 the upper limit was set to 3.2 times CYI for newly awarded benefits and CYI was increased (Table 1.2). The benefit could not be lower than 1/3 of CYI per month.

Starting from the 1<sup>st</sup> January 2011, the paternity benefit is reduced proportionally to the amount of the income eligible for sickness and maternity social insurance contributions received during the paternity leave, except of the payments for copyright agreements if the job was performed before the start of the paternity leave.

No other changes to the rules between 2013-2016.

Since 1<sup>st</sup> January 2017, the amount of paternity leave benefit cannot be lower than 20% of country's average monthly wage for the pre-previous quarter before the right for benefit receipt.<sup>87</sup> This amount for the first quarter of 2017 was 156.66 EUR per month. It also cannot be higher than the amount of two country's average monthly wages, i.e. 2\*AMS

Since January 1<sup>st</sup>, 2018 the minimum paternity leave benefit amount (floors) could not be lower than 6 BSA, i.e. 228 EUR. Since January 1<sup>st</sup>, the maximum paternity benefit amount (ceilings) could not be higher than 2 times the national average monthly income, i.e. 1752,8 EUR. Since January 1<sup>st</sup>, 2019, due to changes in social insurance contributions, the paternity benefit is equal to 77.58 % of the recipient's compensatory income<sup>88</sup>.

### EUROMOD notes

As information on social insurance record is not available in EUROMOD, all fathers with an own child aged 0 are considered eligible. The requirement of having a legal acknowledgement of fatherhood (since 2008), cannot be simulated in the model.

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<sup>86</sup> According to the following law: Lietuvos Respublikos Ligos ir motinystės socialinio draudimo įstatymo 3, 5, 6, 8, 10, 15, 16, 17, 18, 181, 183, 19, 20, 21 straipsnių pakeitimo ir papildymo įstatymas. 2007 m. Gruodžio 4 d. Nr. X-1338: [http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc\\_l?p\\_id=310952](http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc_l?p_id=310952)

<sup>87</sup> Based on the following law 2016-06-28, No. XII-2501 „Lietuvos Respublikos ligos ir motinystės socialinio draudimo įstatymo Nr. IX-110 pakeitimo įstatymas“. 2016, No. 20641.

<sup>88</sup> Based on the following law: 2018-06-28, No. XIII-1338 „Lietuvos Respublikos ligos ir motinystės socialinio draudimo įstatymo Nr. IX-110 6, 14, 18, 21, 22, 24 ir 27 straipsnių pakeitimo įstatymas“, 2018, No. 11433

### 2.10. Childcare benefit (*bmact\_s*)

- **Brief description**

This benefit is a monthly benefit granted on the basis of *the Law on Sickness and Maternity Social Insurance* in order to support early child care at home. The benefit is paid to one of the parents (adoptive parents) or a guardian on the childcare leave after the end of maternity leave or paternity leave payment until the child reaches the age of 1 year (or 2 years). If the mother did not receive maternity leave benefit, this benefit would be calculated as of the child birth day.

- **Definitions**

The unit of analysis is the family as defined in section 2.3.1. Insured income definition is presented in section 1.1.

- **Eligibility conditions**

The benefit is granted if a person, before the first day of childcare leave, have no less than 12 months over the last 24 months, except of those in civil or military service and the gap between the change of the status and the beginning of the insurance record was not more than 3 months. Before 2017 an exception to the minimum social insurance record was also applied for those who previously were in full-time secondary, professional or higher education (up to the age of 26) and the gap between the change of the status and the beginning of the insurance record was not more than 3 months. The latter does not apply since 2017. These exceptions are not modelled in EUROMOD. Since January 1<sup>st</sup> 2019, in case of adoption, child's grandparents are also eligible to receive childcare benefit.

No income test applied.

- **Benefit amount**

Since 1<sup>st</sup> January 2012 maximum childcare benefit duration and its amount can be chosen between two available options. It may be paid 1 or 2 years by decision of beneficiaries. Mother or father can choose to take benefit only during the 1<sup>st</sup> year with compensation rate is being equal to 100%, or to take benefit during the two years period: compensation rate is 70% during the first year and 40% during the second year. It is allowed to work (have insured income) and to receive full amount of eligible benefit during the second year. Since January 1<sup>st</sup>, 2019 the compensation rate for 1 year benefit is equal to 77.58 %, and for two years period compensation rate is 54.31 % during the first year and 31.03 % during the second year.

The amount of the child care benefit is paid as a percentage of the recipient's AMII (see more details in chapter 1.1). During the entire receipt period, this benefit also has a minimum amount specified: it cannot be less than 1/3 of CYI per month. The used AMII cannot be higher than 3.2 times CYI for newly awarded benefits since the 1<sup>st</sup> January 2012. Since 1<sup>st</sup> January 2017 the amount of childcare benefit cannot be lower than 20% of country's average monthly wage for the pre-previous quarter before the right for benefit receipt. This amount for the first quarter of 2017 was 156.66 EUR per month. It also cannot be higher than the amount of two country's average monthly wages, i.e. 2\*AMS.<sup>89</sup> Since January 1<sup>st</sup> 2018, the minimum childcare benefit amount (floors) could not be lower than 6 BSA, i.e. 228 EUR.

Since the 1<sup>st</sup> July 2011 benefit size multiplied with number of births but cannot exceed 100% of compensation rate.

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<sup>89</sup> Based on: SoDra. <http://www.sodra.lt/lt/situacijos/noriu-priziureti-kudiki-motinystes-tevystes-ismoka>

If a person has any type of *insured income*, the originally calculated childcare benefit is reduced by the amount of this income during the first year of receipt. It is not reduced during the second year of receipt.

The level and duration of benefit entitlement has not changed during the period of 2013-2019 (see Table 2.5).

Table 2.6. The rate of childcare benefit, 2013-2019 (as of 1<sup>st</sup> January)

	2013-2018	2019
Duration	Optional, 1 or 2 years in total	Optional, 1 or 2 years in total
Compensation rate 1 <sup>st</sup> year, %	100/70	77.58/54.31
Max. benefit duration the 1 <sup>st</sup> year, months*	12	12
Compensation rate 2 <sup>nd</sup> year, %	0/40	0/31.03
Max. benefit duration the 2 <sup>nd</sup> year, months	0/12	0/12
Benefit size multiplied with # of births	Yes, but cannot exceed 100%	Yes, but cannot exceed 77.58 %

Notes:\* If a mother/father has received a maternity leave or paternity leave benefit, the payment duration is reduced by the time (56 days and 1 month respectively) for which the relevant benefit has been paid.

Source: Based on the *Law on Sickness and Maternity Social Insurance*

#### EUROMOD notes

- As social insurance contribution information is not available, all mothers with an own child aged 2 or below are considered eligible if they have been in work for more than six months in the current year<sup>90</sup> (as suggested by observed patterns in the underlying data).
- Simulations of opting for different options of childcare benefit are built in accordance with administrative statistics: in 2012 14% of eligible mothers had chosen to receive their childcare benefit for one year and 86% for two years. Mothers opting for either choice are selected randomly. Mothers with several children are randomly assigned to a single choice for all children. In 2013 only 9.6% chose to receive childcare benefit for one year, while the rest 90.4% for two years. In 2014 the majority of benefit recipients opted for the two year benefit (93.1%) and only 6,9% (1817 out of 26256) chose to receive the benefit for 1 year. In 2015 8.2% chose to receive childcare benefit for one year and 91.8% - for two years<sup>91</sup>. No information available on 2016 at the time of writing, hence same split between the two options is assumed.
- In 2013, among those who chose to receive benefit for one year more than 1/3 are men, however it constitutes only around 3.5 percent of all beneficiaries. Among those who had chosen to receive benefit for two years, only 4% of fathers took child care leave during the first year, meanwhile the share of men taking child care leave during the second year grew up to almost 20 percent. In 2014 among those who receive one year benefit men constituted around 41 percent, however it accounts for only 2,9% of all recipients). Among those who had chosen to receive benefit for two years, about 25.5% are men. Benefit take-up decisions are not modelled. The recipient is always assumed to be the mother; father if there is no female partner in the household or mother not eligible.

<sup>90</sup> Note that being on maternity leave is considered as in work in the underlying data source, i.e. EU-SILC.

<sup>91</sup> Based on information from Atvira Sodra: <http://atvira.sodra.lt/lt-eur/>

- It is not possible to distinguish adoptive children from the data, thus childcare benefit for adoptive child's grandparents cannot be simulated.

## **2.11. Benefit for multiple-birth families (bchmp\_s)**

- ***Brief description***

The benefit was introduced from 1<sup>st</sup> January 2017, and is granted on the basis of *the Law of Child Benefits*. The benefit is a monthly benefit paid for one of the parent (lone parent) due to the birth of two or more children. The benefit is paid from the birth of the children until the children reach the age of 2 years.

- ***Definitions***

The unit of analysis is the family as defined in section 2.3.1. Basic social allowance definition is presented in section 1.1.

- ***Eligibility conditions***

The benefit is granted due to the birth of two or more children at the same time and is paid for one of the parents (lone parent). No income test is applied. As this is a regular payment for children it is used when testing income for social assistance and child benefits.

- ***Benefit amount***

The benefit level is calculated in relation to BSA and varies based on the number of children born at the same time in the family. The benefit amount is 4 BSA if two children are born at the same time. If more than two children are born at the same time, the benefit amount increases respectively by 4 BSA. So if three children are born at the same time, the benefit amount is 8 BSA. No changes between 2018-2019.

## **2.12. Student's childcare benefit (bmaed\_s)**

- ***Brief description***

The benefit was introduced from 1<sup>st</sup> January 2017, and is granted on the basis of *the Law of Child Benefits*. The benefit is a monthly benefit granted in order to support student's early child care at home for those parents who are not entitled to childcare benefit. The benefit is paid to one of the parents (adoptive parents) or a guardian during study period and 12 months later after graduation until the child reaches the age of 1 year.

- ***Definitions***

The unit of analysis is the family as defined in section 2.3.1. Basic social allowance definition is presented in section 1.1.

- ***Eligibility conditions***

The benefit is granted if a person studies (studied) ) in full time formal vocational training or higher education programme until reaches the age of 26, or studies (studied) in doctoral studies or medical residency until reaches the age of 30 and according to *the Law on Sickness and Maternity Social Insurance* is not entitled to childcare benefit. The benefit is not paid, if one of the parents is entitled to the childcare benefit for the same child according to *the Law on Sickness and Maternity Social Insurance*.

- ***Benefit amount***

The fixed benefit amount is 4 BSA and is paid until the child reaches the age 1. If two or more children are born (adopted) the benefits size to a student's childcare does not increase.

Since January 1<sup>st</sup>, 2018, the benefit amount was increased up to 6 BSA. The benefit amount in 2018 was 228 EUR. No changes in 2019.

### **2.13. Social benefit (bsa00\_s)**

- ***Brief description***

This monthly benefit is granted to families or single persons in case of income maintenance need. Social assistance benefit is granted for three months. The application must be re-submitted upon benefit expiration, unless local authorities have granted the benefit for the period exceeding three months (i.e. if the composition and income of the family has not changed).

- ***Definitions***

The unit of analysis is family, which consists of partners and their own dependent children. Dependent children are persons aged under 18 or under 24 if in full-time education or unemployed; they cannot be married, cohabiting with a partner nor parents themselves.

*Single persons* are persons aged 18 and above:

- who are not married and reside alone;
- who are married childless persons, but residing alone by the court's judgement;
- who are married persons residing alone, as their children are staying with their spouse by the court's judgement.

*Family* definition for the purpose of granting social assistance includes the following persons:

- spouses or cohabitating couples;
- their children and adopted children under 18 years of age;
- single persons (children) between the ages of 18 and 24 who are unemployed, unmarried and not cohabitating: if they are full-time pupils and students of general education schools and other institutions of formal education.

- ***Eligibility conditions***

All family members or single persons during the income calculation period must comply with at least one of the following major conditions (applicable during 2005-2012, unless specified otherwise).

During the income calculation period, persons over 18 years of age should (those in *italic* could not be simulated):



- be full-time pupils and students of general education schools and other institutions of formal education if under 24 years of age;
  - be employed *for at least two thirds of the duration of working time or working part-time*
  - be of the old-age retirement age (see section 1.4.4. on old-age pensions);
  - receive pensions (except the state social insurance disability pension granted to a person with Group III disability) or social assistance benefits;
  - be unemployed receiving unemployment social assistance benefit (effective until 01 01 2012);
  - be the persons who have registered with the state territorial labour exchange for at least six months (effective until 01 01 2012), be the persons who have registered with the state territorial labour exchange without term requirement (effective since 01 01 2012);
  - receive education grant during the period of studying or doing public works (effective until 01 01 2012);
  - *be a person nursing (assistance, care) another family member in the manner prescribed by legal acts;*
  - *be a person undergoing treatment in a in-patient health care institution for at least a month;*
  - *be a woman who is pregnant and less than 70 calendar days are left before a baby is due (28 or more weeks of pregnancy);*
  - be a mother or a father (a guardian or a curator) who raises at home a child under certain age and care conditions as prescribed in the same law:
    - if a family raises a child under three years old, who does not attend a pre-school educational establishment;
    - if a family raises three or more children under age of 14 and at least one of the children is under age 8 and does not attend a pre-school educational establishment or a school;
    - if a child under 8 years old does not attend a pre-school educational establishment due to medical recommendations or due to overcrowded schools;
- In 2007-2012 two more qualifying conditions for a mother or a father (a guardian or a curator) who raises at home a child under certain age and care conditions have been added:
- if a family raises three or more children under age of 14 and at least one of the children is under age 8 and does not attend a pre-school educational establishment due to the family's countryside residence, which is farther than 3 km away from the closest pre-educational establishment;
  - a mother or a father, if their spouse is not able to take care of the children due to disability or other acknowledged reasons, raises a child under 14 years old (8 years old since 1 January, 2012) and works on a land plot, which is not smaller than 2 hectares (either owned or rented). (Note: this condition is not simulated)
2. Persons from 16 and up to 18 years of age should attend institutions of formal education; be disabled, registered with the state territorial labour exchange (i.e. unemployed) or *pregnant women*.
  3. Persons under 16: included unconditionally.
  4. In 2012 extra benefit payment was introduced for former long term unemployed, i.e. person has registered with the state territorial labour exchange during at least last 12 months. The benefit is granted during the six months if person has started to work and earn monthly no more as two minimal wages.

The benefit is granted to families or single persons if they pass the following assets and income tests: 1) the value of *family's* or person's assets does not exceed the *ratio of state established property value* (RP) and if 2) the *average* family or person's *income* (IL) is lower than 1 SSI per each family member.

- **Means test**

Assets' and incomes' test is applied

**Assets' test:**

Family's or person's actual assets (AS) must be lower than the *ratio of state established property value* (RP), which is calculated in the following way:  $AS \leq RP = RE + RM$ , where

**AS** is the actual value of a family's or person's assets. AS is established by calculating the value of the following family's or person's assets (effective from 30<sup>th</sup> June 2005-2013, unless specified otherwise):

- construction works, including construction works under construction;
- vehicles subject to registration;
- agricultural machinery subject to registration;
- land (including that occupied with forests and water bodies);
- livestock, poultry, animals, hives, if their total value exceeds LTL 4,000;
- stocks, bonds, bills of exchange, and other securities, shares, if their total value exceeds LTL 2,000;
- works of art, gems, jewellery; precious metals, when the value of a unit exceeds LTL 2,000;
- cash resources if their total value exceeds LTL 2,000;
- received (unpaid) loans, if their total value exceeds LTL 2,000 – as of 2007 onwards exception condition added: except of state loans for the students studying at the higher education institutions.
- money lent to other individuals (and unpaid), if their total value exceeds LTL 2,000;
- any other property, which has been acquired into the ownership during the last 12 months preceding the month from which cash social assistance begins to be granted, provided that the value of a unit (set) of such property exceeds LTL 2,000: this condition was abolished from 2007 onwards.
- As of 2007 onwards one more asset was added to the list: *state compensations for real property purchased by the State, restored savings and other restored resources.*

In order to evaluate AS, applicants for social assistance must declare their assets. Then the declared number of property is checked with the registry data.<sup>92</sup> If the value of the declared property is extraordinarily low, officials have a right to establish property value using *average market value*, as approved by the Commission for the Assessment of Property Subject to Registration.

**RE** is the "ratio of real estate value" and is calculated as:

RE =

*Notional size of residence* (60m<sup>2</sup> for the 1<sup>st</sup> person + 15m<sup>2</sup> for each additional family member) x *average market price of the residence* (which is approved by the Commission for the Assessment of Property Subject to Registration on 1<sup>st</sup> February, 1<sup>st</sup> May, 1<sup>st</sup> August and 1<sup>st</sup> November of each year).

+

*Notional size of land plot per family or person* x *average market price of the land.*

The state requires application of the following notional sizes of land per family:

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<sup>92</sup> Based on Methodology of Asset Evaluation (*Turto vertinimo metodika*),

- residential purpose land: in cities – 6 Ares,<sup>93</sup> in towns and villages – 25 Ares;
- agricultural purpose land (if the plot does not exceed 1 hectare<sup>94</sup>): in cities – 6 Ares, in towns and villages – 25 Ares;
- agricultural purpose land (if the plot exceeds 1 hectare): in cities – 6 Ares, in towns and villages – 3.5 hectares;
- other non-industrial purpose land: in cities – 6 Ares, in towns and villages – 3.5 hectares.
- if a person does not have a land - the value of the notional size of the land plot is based on 1 hectare of agricultural purpose land.

RM is the “ratio of value of movables”, which is calculated per family member:

- 45 SSI for the first person aged 18 or above;
- 30 SSI for each additional person aged 18 or above;
- 15 SSI for each person (child) under 18 years old.

### ***Income test:***

For the purpose of means testing, the average family or person’s income (IL) is calculated as: the average income of all family members during the period of three months prior to the month when the family (single resident) acquired the right to social benefit. All income should be taken after the deduction of withholding income tax and employee social insurance contributions. Incomes defined by the same social assistance law, namely compensations for housing utilities and social benefit itself, are not taken into account for means testing.

The following incomes are included in the means-test<sup>95</sup> unless otherwise specified (**those in italic could not be simulated**):

- all types of pension benefits (*except of nursing allowances and compensations for pension cuts*); as of 2019 onwards, additional old-age or lost working capacity (invalidity) pension bonuses.
- dividends and interests;
- *income of an owner of an individual company, received from the taxable profit of such company*;
- alimony;
- education grants - excluded from the list as of 2007 onwards;
- all income of a social nature, i.e. state transfers, *with the exception of compensations of transport costs for the handicapped and the disabled and compensations to diabetics and donors. As of 2007 onwards, the exception condition is narrowed down to ‘the exception of compensations of transport costs for the handicapped and compensations for donors’*. As of 1<sup>st</sup> July 2008, child benefits, social stipends and assistance money are not included into IL; since 2012 regular social benefits for children (including child benefits and all kinds of stipends) are again included into the income test. Non-regular social benefits for children (e.g. birth grant) are not included into the income test.
- Both lump-sum and regular non-contributory child benefits are excluded from the income test as of 2018 onwards<sup>96</sup>.

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<sup>93</sup> 1 Are = 100 square meters

<sup>94</sup> 1 Hectare = 10000 sq. meters or 100 Ares

<sup>95</sup> Changes effective on the 30<sup>th</sup> June, 2009 indicated according to the following law: “Lietuvos Respublikos Piniginės socialinės paramos nepasiturinčioms šeimoms ir vieniems gyvenantiems asmenims įstatymo 15 ir 22 straipsnių pakeitimo įstatymas“. 2008.06.17 Nr. X-1611: [http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc\\_l?p\\_id=323463](http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc_l?p_id=323463)

- unemployment social insurance benefit, severance pay or compensation paid upon the termination of an employment contract or upon the dismissal of public servants;
- sickness, maternity, and maternity/paternity benefit and – from 2007 onwards – occupational rehabilitation.
- compensation for property and non-pecuniary damage (including one-time compensation for lost working capacity);
- *cash donations if their total amount exceeds the amount of 4\*SSI.*
- *cash resources received as a gift;*
- *inherited cash resources;*
- *cash resources received abroad or from a foreign state;*
- state compensation for the property appropriated for public needs – excluded from this list as of 2007 onwards.
- income from property rent and – from 2007 onwards – income from property sale (unless it is included into assets).
- *lottery and other cash winnings, prizes;*
- income from individual activities, including the income received from engaging in the activities with a business certificate; from 2019 onwards excluding income from individual activity of individuals under 18 years old<sup>97</sup>
- income from agricultural activities (*except of income from gardens of members of gardeners' societies, the area of land plots of which does not exceed 6 Ares*); as of 2007 onwards, the exception condition is granted for land plots which do not exceed 1 hectare:
  - a) *in the absence of accounting documents, average monthly income should be calculated by applying the ratios of income from agricultural activities evaluated according to the state approved notional costs;*
  - b) *if there is no possibility for determining income according to these ratios, average monthly agricultural income should be calculated by applying a state approved income rate per hectare of agricultural land (see Table 2.6 for rates).*

### ***Income disregard***

Since January 1<sup>st</sup> 2018, a tolerable income level has been set based on the household type. Part of family's (person's) average income from work included into income test is disregarded (see below). Since January 1<sup>st</sup> 2019, children (adoptees) older than 18 years shall be included in the household composition if they receive income (self-employment income) lower than of 1 SSI<sup>98</sup>.

Table 2.7. Levels of income disregard based on household type, 2018-2019 (as of 1st January)

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<sup>96</sup> Lietuvos Respublikos piniginės socialinės paramos nepasiturintiems gyventojams įstatymo Nr. IX-1675 1, 4, 8, 10, 17, 20, 23 ir 25 straipsnių pakeitimo įstatymas

<sup>97</sup> Based on the following law: 2018-12-11, No. XIII-1733 „Lietuvos Respublikos piniginės socialinės paramos nepasiturintiems gyventojams įstatymo Nr. IX-1675 17 straipsnio pakeitimo įstatymas”. 2018, No. 20995

<sup>98</sup> Based on the following law: 2018-12-11, No. XIII-1733 „Lietuvos Respublikos piniginės socialinės paramos nepasiturintiems gyventojams įstatymo Nr. IX-1675 17 straipsnio pakeitimo įstatymas” 2018, No. 20995.

Household type	2018-2019
For persons living together without children (adoptees) or for single person	15 %
For persons living together and raising one or two children (adoptees)	20 %
For persons living together and raising three or more children (adoptees)	25 %
For single parents, raising one or two children (adoptees)	30 %
For single parents, raising three or more children (adoptees)	35 %

- **Benefit amount**

From 1<sup>st</sup> January 2012 equivalent scales for Social benefit were introduced. So, benefit amount now depends on number of people in family:

- for single person or first person in family Social benefit is calculated as the difference between income and 100% x SSI;
- for second person in family - 80% x SSI;
- for third and following person in family- 70% x SSI.

Social benefit for former long term unemployed paid during the first six months of employment is calculated as 50% of social benefit paid before the employment (effective from 01 01 2012). Since January 1<sup>st</sup> 2019, the additional part as 50 % of social benefit is paid for those unemployed for at least six months for the first six months of employment, but not longer than 12 months<sup>99</sup>.

Since January 1<sup>st</sup> 2019, social benefit is not paid for 3 months or stop being paid for 3 months if a person participates in the employment programs prepared by the Municipal administration.

From 1<sup>st</sup> January 2012 benefit amount has to be reduced for single person able to work but not working or family of person able to work but not working and receiving benefit during the long period:

Benefit amount will be reduced (before 2013.06.01):

- by 20% after 36 months of payment;
- by 30% after 48 months of payment;
- by 40% after 60 months of payment for families having children;
- after 60 months benefit payment has to be abolished for single person or family without children.

Benefit amount will be reduced for single able-bodied working-age unemployed recipient or their family excluding children (since 2013.06.01):

- by 20% after 12 months of payment;
- by 30% after 24 months of payment;
- by 40% after 36 months of payment;
- by 50% after 48 months of payment;
- after 60 months benefit payment is cancelled for 24 months for single unemployed person or their family excluding children.

The calculated social benefit should be equal to at least 5 LTL in order to be paid.

<sup>99</sup> Based on the following law: 2018-10-01, No. XIII-1403 „Lietuvos Respublikos pinigines socialines paramos nepasiturintiems gyventojams įstatymo Nr. IX-1675 8, 10 ir 21 straipsnių pakeitimo įstatymo Nr. XIII-949 pakeitimo įstatymas“, 2018-07-05, No. 11464

- *Social experiment in 5 municipalities since 01/01/2012*

All municipalities pay social assistance benefits to residents from targeted subsidies allocated to them from the national budget. However, in 5 municipalities (Municipality of Akmenė, Panevėžys, Radviliškis, Raseiniai, Šilalė) Social benefit providing function is transferred to municipalities' discretion and this benefit is paid from their budgets. Thus, after the assessment of specific local conditions and circumstances these municipalities will have more power in granting social assistance benefit (for example, to pay additional social assistance benefit, to reduce the amount of social assistance benefit, etc.).

Since 1<sup>st</sup> January 2014 in all municipalities social benefit providing function is transferred to municipalities and the benefit is provided at their discretion and covered from their budgets<sup>100</sup>.

### EUROMOD notes

The EU-SILC database does not contain information on assets' value. Therefore, most of the information on the assets listed above is not available in EUROMOD. Proxy for the assets' test is based on the notional size of dwelling and land compared to reported and/or imputed actual size of dwelling and land in the national SILC data. The following imputations have been made:

- Residential property: actual size based on the EU-SILC variables on housing characteristics (area in m<sup>2</sup>); notional size as described above (60m<sup>2</sup> for the 1<sup>st</sup> person + 15m<sup>2</sup> for each additional family member).
- Actual land property size: reported values of residential and agricultural land (for datasets before 2012) and imputed values thereafter. Imputations based on reports on owning land; 0 ha of residential land for those living in flats, values for others imputed based on information on the area of the house, etc. Agricultural land imputed based on a dummy of owning land and information on earning from own agricultural activities.
- Notional land property size: according to the notional size of residential and agricultural land per family reported above.
- Financial assets: based on the EU-SILC information on investment income and external information on the average yield of LT government bonds during the period of 2005.

Other imputations and assumptions:

- Social experiment in 5 municipalities since 01.01.2012 is not simulated in EUROMOD.
- Benefit reduction for those able to work but not working is not simulated due to data limitation and lag in time until this rule effectively will be implemented.
- Social benefit for the former long-time unemployed during the first six months and since 2019 for up to 12 months of employment is not simulated due to data constraints.
- Due to data limitations it is not possible to distinguish the persons who participate in employment programs, therefore social benefit suspension for 3 months cannot be simulated in EUROMOD.

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<sup>100</sup> Based on the following law, 2013-11-26, No. XII-621 „Lietuvos Respublikos pinigines socialinės paramos nepasiturintiems gyventojams įstatymo 4, 23 straipsnių pakeitimo ir papildymo įstatymas“. 2013-12-10, No. 126-6414.

## 2.14. Unemployment social insurance benefit (*bunct\_s*)

- **Brief description**

This monthly benefit is organized via compulsory insurance system and covers individuals receiving remuneration for work.

- **Definitions**

The unit of analysis is the individual. *Unemployed person* – unemployed or partially employed *working age* person:

- who does not study full-time,
- is registered with the local Labour Exchange Authority,
- does not receive an early retirement benefit and
- is ready to start working

- **Eligibility conditions**

Eligible people are the working age persons, who are defined as aged 16 up to the old age retirement limit. The required service record and a person must be actively looking for a job. The duration of benefit payment depends on the unemployment insurance history. The benefit is paid for:

- 6 months – if insurance record is less than 25 years;
- 7 months – if insurance record is 25-29 years;
- 8 months – if insurance record is 30-34 years;
- 9 months – if insurance record is 35 years or more.

The duration of the payment is extended:

- By two months - if on the last unemployment payment day, a person has no more than 5 years until the old-age retirement age, and if a person does not receive an early retirement pension.
- By actual number of sickness days (max one month) – if a person gets sick during the time of unemployment benefit payment.
- By the maternity leave period (based on the rules of maternity benefit) – if a woman gets entitlement right to maternity benefit when the unemployment benefit is paid.
- For municipalities, where the average ratio of the registered unemployed people and announced last working age population of the last quarter is at or above 1.5 times the national average ratio, the duration of unemployment benefit payment can be extended by two months. The decision is of discrete nature and is taken by the Tripartite Council and the Ministry.

- **Income test**

No income test applied.

- **Benefit amount**

The benefit amount comprises fixed and variable components:

$U=F+V$ , where

U – monthly unemployment benefit. As of 2008, the ceiling for the full unemployment benefit is introduced:  $U \leq 0.7 * CYI$ . The ceiling is applicable during the entire period of benefit payment. With the adoption of the Temporary Law on Recalculation and Payment of Social

Benefits starting from the 1<sup>st</sup> January 2010 the monthly benefits were capped at LTL 650 for the entire period of benefit payment. The monthly unemployment benefit could not be larger than LTL 650 for the period of 2011-2014. Since January 1<sup>st</sup> 2015, the cap was dropped and the maximum monthly benefit amount restored to 70% CYI.

F – a fixed benefit component, which is equal to 1 SSI (see Table 1.1);

V – a variable benefit component, which is equal to 40% of the former insured income. The insured income is calculated as the average CYI (see Table 1.2) indexed wage of the previous 36 months before registering as unemployed. The indexation is done in the following way:

$$\frac{36 \times CYI_u}{\sum_{i=1}^{36} CYI_i}$$

where: i - indicates the applicable CYI of each month during the 36 months period before registering as unemployed; u - indicates the CYI amount applicable in a month, when the unemployment benefit is to be paid.

The calculated unemployment benefit is paid proportionally to benefit payment duration:

- During the first three months – U is paid (full benefit);
- The remaining unemployment duration period – F+0.5\*V (fixed component plus 50% of the variable component) is paid.

The unemployment benefit cannot be paid together with the old-age pension (as well as an early retirement pension). The unemployment benefit is reduced by the amount of other pensions, in case a person has a right to receive a few other social insurance benefits at the same time: state social insurance pensions, state social assistance benefits/pensions or state pensions (except survivor and orphan pensions), also work incapacity periodical compensations due to occupational injuries and occupational diseases, also vocational rehabilitation, maternity, paternity or childcare social insurance benefits.

Since January 1<sup>st</sup> 2017, the unemployment benefit cannot be paid together with compensations for special working conditions and state social assistance pensions obtained for other persons. Since January 1<sup>st</sup> 2017, if unemployed person has a right to receive a social insurance benefits, such as: sickness benefit, vocational rehabilitation, maternity (paternity) or childcare social insurance benefits and was not registered with the local Labour Exchange Authority before, the unemployment benefit is started to be paid after the end of other social insurances payment time<sup>101</sup>.

Since July 1st, 2017 a reform of the unemployment benefits was implemented according to the rules described in the Social Model reform agenda. As by default EUROMOD models polices as of 30<sup>th</sup> June, these changes are out of scope of the standard simulations. Nevertheless, the new rules are modelled in a separate function and can be used instead or in combination with the rules applicable in the first half of 2017.

The main changes are: The objective of the reform is to strengthen the income protection of the unemployed by increasing the level, the duration and the coverage of benefits (Table 2.14.1). The reform aims also at strengthening the links with previous earnings to motivate participation in the formal economy and in the social insurance system in particular.

<sup>101</sup> Based on the following law: 2016-12-20, No. XIII-149 “Lietuvos Respublikos nedarbo socialinio draudimo įstatymo Nr. IX-1904 3, 4, 6, 14, 15 ir 18 straipsnių pakeitimo įstatymas”. 2016, No. 29782



Table 2.14.1. Characteristics of the current and proposed model

	<b>Current system</b>	<b>Planned reform</b>
<b>Benefit amount</b>	<i>Constant part:</i> state-supported income (set at 102 euros) <i>Variable part:</i> - 40% of former earnings during the first three months - 20% of the former earnings after three months.	<i>Constant part:</i> 30% of the minimum monthly wage <i>Variable part:</i> - 50% of former earnings during the first three months - 40% between the fourth and sixth month, - 30% between the seventh and ninth month
<b>Benefit ceiling</b>	70% of CYI (see Box 1)	75% of the gross average wage (see Table 2)
<b>Duration</b>	- 6 months – if the insurance record is less than 25 years; - 7 months (insurance record 25-29 years); - 8 months (insurance record 30-34 years); - 9 months (insurance record 35+ years). + extra 2 months for special groups	9 months + extra 2 months for special groups
<b>Required contribution history</b>	24 months during the previous 36 months	12 months during the last 30 months

Table 2.14.2. Characteristics of unemployment benefit model in 2019 (as of January 1<sup>st</sup>)

		<b>2019</b>
<b>Benefit amount</b>	Constant part: % of minimum monthly wage	23.27 %
	Variable part:	
	% of former earnings during the first three months	38.79 %
	% between the fourth and sixth month	31.03 %
	% between the seventh and ninth month	23.27 %
<b>Benefit ceiling</b>	% of the gross average wage	58.18 %
<b>Duration</b>		9 months + extra 2 months for special groups
<b>Required contribution history</b>		12 months during the last 30 months

Table 2.14.2. Characteristics of the unemployment benefit

	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017(I)</b>	<b>2017 (II) -2018</b>	<b>2019</b>
<b>Eligibility</b> Contribution period	18 months within last 36 months				12 months within last 30 months	12 months during last 30 months
Other conditions	Age 16-retirement age; actively looking for a job					
Eligibility of self-employed	Not eligible					

<b>Payment</b>	Contribution base	Gross earnings, no contribution ceiling		
	Basic amount	State-supported income	30% minimum wage	23.27 % minimum wage
	Additional amount	% of former earnings reducing with time		
	Floor	n/a		
	Ceiling	70% of CYI	75% of the gross average wage	58.18 % of the average wage
<b>Duration</b>	Standard (in months)	6-9 depending on insurance record	9	9
	Special cases (in month)	+2 months for special groups		
<b>Subject to</b>	Taxes	n/a		
	SIC	n/a		

Note: 2017(I) – before June 1<sup>st</sup>; 2017(II) – after June 1<sup>st</sup>.

EUROMOD notes

Effectively, this benefit is only partly simulated using the information about actual receipt. But rather than simply using the observed receipt as part of the eligibility criteria, all eligibility rules in full detail are covered. However, as not all required information (e.g. work history) is available several assumptions are made, among else considering some rules automatically fulfilled for those in receipt. This approach is chosen so that the benefit can be also modelled for those currently employed if needed (e.g. to simulate their entitlement if they become unemployed, for replacement rates calculations).

Unemployment duration (lunmy\_s) is set equal to the maximum of observed unemployment duration (lunmy) and observed benefit receipt (bunmy). If modelling unemployment benefit for those currently employed, unemployment duration is set equal to the reported number of months in employment in the current year (liwmy), once contribution history (see the next step) is modelled. It is effectively also assumed that unemployment spells start in the reference year.

Among eligibility conditions, the requirement of actively looking for a job is not applied in EUROMOD as it is enforced very loosely in practice.

Modelled contribution history is based on the reported number of months in employment (liwmy), controlling for the total number of months in work (liwwh).

- For those currently employed (ils\_earn != 0 & lunmy\_s = 0 & bunct = 0), this is used.
- For those currently unemployed (lunmy\_s > 0) and in receipt (bunct > 0), this is set at least equal to the minimum qualifying period.
- For those currently unemployed (lunmy\_s > 0) and not in receipt (bunct = 0), this is set to zero.

At this point, working age people who are unemployed (lunmy\_s > 0), have sufficient contribution history, are not in education and not in receipt of early retirement benefit are considered eligible. It is assumed that all of them are involuntary unemployed and capable and available for work (there is a variable in the SILC data identifying the latter but only filled in for those currently unemployed).

Benefit duration (bunmy\_s) is calculated according to the rules above, using modelled contribution history, while also controlling for the unemployment duration (lunmy\_s). Extended duration due to sickness or maternity leave is ignored. For currently employed, a further cap is

imposed corresponding roughly to the average duration observed in administrative sources (and national SILC data).

Benefit entitlement is calculated based on previous earnings and benefit duration, subject to the lower and upper thresholds. For those currently employed, current earnings are used. For those currently unemployed and in receipt, previous earnings are used which have been imputed by reversing unemployment insurance benefit rules. For those currently unemployed and not in receipt, imputed wage is used. Finally, benefit amount is adjusted with the number of months in receipt (bunmy\_s).

Extended payments for municipalities, where the average ratio of the registered unemployed people and announced last working age population of the last quarter is at or above 1.5 times the national average ratio, is not modelled due to discrete nature and data limitations.

Foreseen changes of the unemployment benefit since July 1<sup>st</sup>, 2017 is modelled in a private policy bunct01\_lt and can be combined or replace the simulations of bunct\_lt. Previous earnings by default are modelled based on the imputed wage yivwg, as the inverted wage yempv reflect the lower benefit amounts according to the old use. To switch from the calculations based on the imputed wage to those based on the inverted wage, the constant \$ImputedWage should be set to zero.

Due to data limitations, it is not possible to distinguish whether a person is partially employed as partial employment is mostly assigned by the local Municipalities.

### **2.15. Long-term work benefit (bunct01\_s)**

- ***Eligibility***

Since July 1, 2017, the long-term work benefit fund has been introduced and administered by Sodra. Employees, who have been employed by the same employer for more than 5 years or more, in case of redundancy, are eligible to receive the long-term work benefits. The benefits are paid to all employees who have worked under employment contracts, except for those fired from budgetary institutions and the Central Bank. Benefits will be paid to those employees who have been fired not earlier than July 1, 2017.

- ***Amount***

If an employee worked between 5 to 10 years, he/she gets benefit equal to 1 previous salary payment; 10-20 years – 2 previous salary payment; 20 years or more - 3 previous salary payment. The benefit is paid for those who were made redundant no earlier than July 1, 2017. Since January 1<sup>st</sup> 2019, due to combination of social insurance contributions, the benefit equal to 77.58 %

EUROMOD notes:

The policy is modeled starting policy year 2018. We cannot identify who became redundant no earlier than July 1 in the policy year 2017. The following assumptions are made: number of years worked is proxied by the total working history assuming 3 working positions on average of an equal working duration (i.e. liwwh / 3). We assume that those who were made redundant (but not quit the job) are not currently employed or self-employed in the data and eligible for unemployment benefit. Work in the budgetary institution is proxied in the following way: not working in defense /administration, education, health or social services, not a public servant.

### 2.16. Social contributions

**Social insurance contributions** (*socialinio draudimo įmokos*) to State Social Insurance Fund (*Socialinio draudimo fondas, SoDra*) are compulsorily paid by all employers and employees of private and public sectors as well as main categories of self-employed people.

Contributions are flat rates without ceilings, but they differ for employees and self-employed. Furthermore, contribution rates vary considerably among different categories of self-employed people (see below for more details). Social insurance contributions are paid for pension, health care, sickness and maternity, employment injuries, occupational diseases and unemployment insurances. Conditions regarding contributions made in the past determine eligibility and amount of contributory benefits.

All social contributions are calculated on the individual tax unit basis.

### 2.17. Employee social insurance contributions (*ils\_sicee*)

All *employees* of private and public sector paid a total of 9 % of gross wages and salaries as social insurance contributions (these rates remained unchanged for 2011-2018):

- 3% to pension social insurance
- 6% to compulsory health insurance.<sup>102</sup>

Since January 1<sup>st</sup> 2019, due to social insurance contribution reform, the majority of social insurance contributions were set to employees (see more details in Table 2.9). Furthermore, a reduced health social insurance tariff of 6.98 % was implemented.

Since January 1<sup>st</sup> 2019, every employed or self-employed person has become able to stay only in the social insurance system or to be also involved in the 2<sup>nd</sup> pension pillar. Working persons may choose whether to contribute 1.8 % or 3 % of their gross monthly income to privately managed pension funds. Furthermore, based on the new law, those who receive childcare benefit until child reaches the age of 3, or are covered by the state, do not have to pay to the 2nd pillar pension contribution while getting contributory benefits. However, the state still subsidizes them with 1.5% tariff each month.

#### EUROMOD notes:

Based on the external statistics from state social insurance fund Sodra have shown, that participation rate among working age persons is relatively high, however varies differently between the age groups. Therefore, based on external statistics, we assumed the participation to 2nd pillar to be this: 18-30 years old - 25% participating with 1.8% tariff, 75% - with 3% tariff; 31-50 years old – 50% participating with each tariff; 51 years old – until the retirement age – 37.5% participating with each (1.8% and 3%) tariff and 25% not participating at all. Different participation rates were randomly distributed to each working age employed or self-employed person. It is important to note that those, receiving childcare benefits or covered by the state, are not simulated in the model.

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<sup>102</sup> Employee 6% contributions to the compulsory health insurance is also mentioned in the section 2.4.6.

## 2.18. Employer social insurance contributions (*ils\_sicer*)

As of 1<sup>st</sup> January 2011-2017 all *employers* of private and public sector pay on behalf of their employees 31% of gross wages and salaries. 31% is split into six components, as indicated in Table 2.7. As of 1<sup>st</sup> January 2018, some employers' social insurance contribution rates were changed, but the total tariff remained the same (see below). Since January 1<sup>st</sup> 2019, the employer and employee social insurance contributions rates were combined.

Additionally, 0.1% of gross salary was paid by employers to the Guarantee Fund (*įmokos į garantinį fondą*) until the end of 2011.<sup>103</sup> Since 1<sup>st</sup> of January 2012 the rate of payments to the Guarantee Fund was increased up to 0.2 %<sup>104</sup>. Since January 1<sup>st</sup> 2019, due to social insurance contribution tax reform, the rate was set to 0.16 %.

Since January 1<sup>st</sup> 2018, social insurance contribution floors have been introduced, meaning employers have to pay social insurance contributions not lower than from MMS for those employees whose monthly salaries are below the MMS. However, the floors are not applicable for certain groups: if an employee works in more than one work position; if an employee gets old-age or work incapacity pension; if an employee is under 24; if an employee is insured by the government.

Since January 1<sup>st</sup> 2019, social insurance contribution reform was implemented, where the majority of social insurance contributions were set to employee, with fewer contributions left for the employer (see Table 8). Even though the contribution rates have been changed, employers are still responsible to pay all types of contributions of behalf of their employees.

*EM note: Social insurance contribution floors are modelled, but are OFF by default (\$floors = 0) due to data limitations. These can be switched on by setting the constant \$floors = 1. It is recommended to switch the SIC floors on only in combination with the minimum wage adjustments (yem\_lt). Otherwise this will severely over-estimate SIC receipt. The following data limitations apply to the modeling of SIC floors: we could not check if a person works in more than one working position; condition if an employee is insured by the government is proxied by an industry sector: those employed in defense, public administration, health, social work, education.*

Table 2.8 Employers' social insurance contributions (% of gross salary)

<sup>103</sup> Resources from the Guarantee Fund are allocated to current and past employees of bankrupted enterprises, which are indebted to employees.

<sup>104</sup> Valstybinė mokesčių inspekcija:

[http://mic.vmi.lt/documentpublicone.do?&id=1000122600&tree\\_id=1000007371](http://mic.vmi.lt/documentpublicone.do?&id=1000122600&tree_id=1000007371)

	2011	2012	2013	2014	2015	2016	2017	2018
1. Pension social insurance	23.3	23.3	23.3	23.3	23.3	23.3	23.3	22.3
2. Sickness and maternity social insurance	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.6
3. Unemployment social insurance	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.4**
4. Health insurance	3.0	3.0	3.0	3.0	3.0	3.0	3	3
5. Employment injuries and occupational diseases social insurance*	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
6. Long-term work benefit fund								0.5
<b>Total</b>	31.0	31.0	31.0	31.0	31.0	31.0	31.0	31.0
7. Contributions to the guarantee fund	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2

Notes: \* Main rate. Other rates may apply ranging from 0.18% to 1.8% according to the group to which the insurer belongs. \*\* For fixed-term work contract – 2.8 %.

Table 2.9. Employee's and employer's social contribution rates (% of gross salary)

<b>Employee's social insurance contributions</b>	<b>2019</b>
1. Pension social insurance	8.72*
2. Sickness social insurance	2.09
3. Maternity social insurance	1.71
4. Health insurance	6.98
<b>Total</b>	<b>19.5</b>
<b>Employer's social insurance contributions</b>	
5. Unemployment social insurance	1.31**
6. Employment injuries and occupational diseases social insurance	0.16***
7. Long-term work benefit fund	0.16
8. Contributions to the guarantee fund	0.16
<b>Total</b>	<b>3.03</b>

Note: \*if a person participates in pension accumulation, an additional contribution of 1.8% or 3% is applied; \*\*2.03 % for fixed-term contracts; \*\*\* Main rate. Other rates may apply ranging from 0.14% to 1.4% according to the group to which the insurer belongs.

## 2.19. Credited social contributions (*ils\_sicct*)

*Credited social contributions* – social insurance contributions paid by the government on behalf of certain individual groups (for all or particular types of insurance). Credited social insurance contributions include unemployment, pension and/or health social insurance contributions.

The contribution base for credited unemployment and pension social insurance contributions is 1 MMS. The government pays contribution at the same rates as they are set for employers. Most importantly, such contributions are paid monthly for the following persons:

- If a mother or father (stepmother, stepfather) or guardian (curator) taking care of a child under age 3 has no taxable income, he/she is insured for basic and supplementary parts of pension and for unemployment social insurance. Only one of the parents can be insured.
- Priests of accepted confessions and monks working in monasteries are compulsorily insured for basic social insurance pension.
- One of the pre-pension age parents (stepparents) or guardian (curator) taking care after disabled has no taxable income, he/she is insured for basic and supplementary pension parts and for the unemployment social insurance.
- Conscripts are insured for all types of social insurance.

- Vocational, tertiary school students and individuals who are directed by territorial job center for vocational training are insured for employment injuries and occupational diseases social insurance for training period.
- Individuals in social or psychological rehabilitation institutions who get a salary are insured for employment injuries and occupational diseases social insurance during labour hours.
- Prisoners who get salary are insured for employment injuries and occupational diseases social insurance during labour hours.
- Since 1<sup>st</sup> January 2011 authors of arts not receiving income are insured for basic and supplementary pension parts and for the sickness and maternity benefits.
- Since January 1<sup>st</sup> 2019 cadets, carrying out military service while studying at a military training institution.
- Since January 1<sup>st</sup> 2019 cursors, who are enrolled in professional vocational training institution or internal affairs professional training institution and have signed internal affairs recruitment contract.
- Since January 1<sup>st</sup> 2019 interns are insured during their professional practice period at the institution of enterprise.

Contribution rates for credited unemployment and pension social insurance contributions in 2011-2019 are indicated in the Table 10.

Table 2.10. Contributions for pension social insurance (employer's part) and unemployment insurance, 2011-2019 (%)

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Contributions for pension social insurance (employer's part)	23.3	23.3	23.3	23.3	23.3	23.3	23.3	22.3	8.72
Unemployment insurance	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.4	1.31

The contributions for credited health social insurance contributions are flat rate and approved annually. It is calculated as a percentage of the two-year previous average monthly wage for four quarters (34% in 2011, 35% in 2012, 36% in 2013, 37% in 2014-2016, 39% in 2017, 41 % in 2018, 44 % in 2019)<sup>105</sup>. Annual amounts of health social insurance contributions per person were as follows: LTL733,23 per annum (LTL 61,10 per month) in 2011; LTL 725,4 per annum (LTL 60.45 per month) in 2012; LTL 762,3 per annum (LTL 63.53 per month) in 2013; LTL 804,3 per annum (LTL 67.03 per month) in 2014; EUR 244.6 per annum (EUR 20.38 on average per month) in 2015, EUR 255,7 per annum (EUR 21,31 per month) in 2016, EUR 283,3 per annum (EUR 23,61 per month) in 2017, EUR 321,4 per annum (26,78 per month) in 2018 EUR 373,1 per annum (31,09 per month) in 2019<sup>106</sup>.

Groups of persons who are insured for compulsory health insurance by the state:

1. Persons who receive any kind of pensions or assistance benefits/ compensations;
2. Officially unemployed persons (those unemployed who are registered with the local Labour Exchange and are willing and able to work);
3. Unemployed persons of the working age who have compulsory contributions history for the state social old-age pension;

<sup>105</sup> Source: "Lietuvos Respublikos sveikatos draudimo įstatymo 16 straipsnio pakeitimo įstatymas. 2011 12 08" [http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc\\_l?p\\_id=413636](http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc_l?p_id=413636)

<sup>106</sup> Source: "Lietuvos respublikos 2012 metų valstybės biudžeto ir savivaldybių biudžetų finansinių rodiklių patvirtinimo įstatymas" 2011 m. gruodžio 20 d. Nr. XI-1823 and relevant ammendments. "Lietuvos Respublikos 2014 metų valstybės biudžeto ir savivaldybių biudžetų finansinių rodiklių patvirtinimo įstatymas" 2013 m. gruodžio 12 d. Nr. XII-659 and relevant ammendments.

4. Women on maternity leave and unemployed pregnant women 70 days before childbirth and 56 days after childbirth;
5. One of (foster) parents looking for a child up to 8 years old and one of (foster) parents looking for two or more children;
6. Persons up to 18 years old;
7. Full-time students and pupils of Lithuanian secondary, vocational schools, colleges, universities and those who permanently live in Lithuania and study full-time in the EU high schools;
8. Persons who receive social benefits;
9. One of (foster) parents or guardians who nurse at home a person with disability up to 24 years old (with some exceptions up to 26 years old) or a person who requires permanent nursing;
10. Persons who have disability of any level;
11. Persons infected with communicable diseases that are dangerous for society and included into a special list;
12. Participants of the resistance struggles;
13. Persons who helped to liquidate the outcomes of the Chernobyl accident;
14. Ex-prisoners of the ghetto and fascist's prisons;
15. Priests and monks of the traditional religious communities and students of the priests' academy;
16. Persons who participated in the Afghanistan war;
17. Unaccompanied underage foreign citizens;
18. Foreign citizens who are provided with additional and temporary shelter in Lithuania;
19. Unemployed spouse of an acting President of Lithuania who has no insured income.
20. Since 1<sup>st</sup> January 2012 authors of arts not receiving income.

Since January 1<sup>st</sup> 2019, those who choose to participate in the 2<sup>nd</sup> pension pillar, additional contributions are also made with state subsidies from the state budget: 0.3 % of the average wages of the previous year for those participating with 1.8 %, and 1.5 % for those participating with 3 %.

### EUROMOD notes:

Pension and unemployment social insurance contributions are simulated in EUROMOD only for mothers or fathers (stepmothers, stepfathers) or guardians (curators) with no taxable income taking care of a child under age 3 with the following assumptions:

- The recipient of this contribution is the parent, who does not have taxable income. If neither parent has, then the recipient is the mother.
- A person should have no taxable income and should live in a family tax unit with a child under age 3.

Credited health social insurance contributions are simulated in EUROMOD for groups 1, 2, 4-8 and 10, which make up the majority of eligible persons. Compulsory health insurance contributions are not simulated for other groups due to lack of information on their status.

### **2.20. Self-employed social contributions (*ils\_sicse*)**

From 2009 *self-employed* persons, with the exception of the persons engaged in individual activities under business certificates, have to pay social insurance contributions for the basic and



additional pension part (26.3%) as well as sickness and maternity social insurance (2.2% insured only to receive maternity leave benefit, paternity leave benefit and childcare benefit).<sup>107</sup> Since 2010 the owners of individual enterprises and the real members of agricultural communities were not subject to sickness and maternity social insurance contributions, contribution for pension insurance remained unchanged (26.3%). The contribution base for these groups of self-employed is taxable income of the self-employed persons after deduction of income taxes.

Table below shows total social insurance contributions tariffs for self-employed, which were effective on 1<sup>st</sup> January 2012-2019.

Table 2.11. Social insurance contributions for self-employed

	2012-2016	2017	2018	2019
Self-employed persons*	26.3	30.8	30.3	13.83
Self-employed persons engaged in individual activities**	28.5	29.7	28.9	12.52
Self-employed persons engaged in individual activities under business certificates	50 % of BP	26.3	25.3	8.72
Self-employed persons engaged in individual agricultural activity when the economic size of holding is equal to 4 or more	28.5	29.7	28.9	12.52
Family-type guardianship institution	28.5	29.7	28.9	12.52

Note: \*owners of individuals enterprises, 'real members' of agricultural communities, persons engaged in individual agricultural activities, members of small communities; \*\*lawyers, lawyers advisers and other persons, except persons under business certificates.

Since 2017 the owners of individuals enterprises, 'real members' of agricultural communities, persons engaged in individual agricultural activities, members of small communities and a family-type guardianship institution pay social insurance contributions for the basic and additional pension part as well as sickness and maternity social insurance (insured only to receive maternity leave benefit, paternity leave benefit and childcare benefit)<sup>108</sup>. Since 2017, the owners of individual enterprises, 'real members' of agricultural communities and members of small communities also have to pay unemployment social insurance contributions (1.1%). The total tariff is 30.8 %. Since January 1<sup>st</sup> 2018, the tariff for self-employed persons (the owners of individuals enterprises, 'real members' of agricultural communities, persons engaged in individual agricultural activities, members of small communities) is 30.3 %<sup>109</sup>. Since January 1<sup>st</sup> 2018, family-type guardianship institutions, persons engaged in individual activities and persons engaged in individual agricultural activity when the economic size of holding is equal to 4, pay total tariff of 28.9 %<sup>110</sup>. Since January 1<sup>st</sup> 2019, self-employed persons pay total tariff of 13.83 %, self-employed persons engaged in individual activities under business certificates pay 8.72 % and other types of self-employed persons pay total tariff of 12.52 % (see table above).

Since January 1<sup>st</sup> 2018, the social insurance contribution holidays were introduced for owners of individual enterprises, members of small communities, real members of the partnerships, farmers and their partners and individuals pursuing their individual activities. Those self-

<sup>107</sup> Lietuvos Respublikos Valstybinio socialinio draudimo įstatymo 2, 4, 6, 7, 8, 9 straipsnių pakeitimo ir papildymo įstatymas. Žin., 2009, Nr. 25-972

<sup>108</sup> Based on the following law: " Lietuvos Respublikos valstybinio socialinio draudimo įstatymo Nr. I-1336 pakeitimo įstatymas. 2016-06-29. Nr. 20645 ". <https://www.e-tar.lt/portal/lt/legalAct/89ccbb604a6f11e6b5d09300a16a686c>.

<sup>109</sup> Based on the following law: 2017-12-12, No. XIII-869 "Lietuvos Respublikos valstybinio socialinio draudimo fondo biudžeto 2018 metų rodiklių patvirtinimo įstatymas". 2017, No. 20569.

<sup>110</sup> Based on SoDra: <http://www.sodra.lt/lt/situacijos/imoku-tarifai-savarankiskai-dirbantiems> .

employed persons will be able to pay no social security contributions for one year from the start of their first activity<sup>111</sup>.

EUROMOD note: SIC holidays are modelled for those with the total working history not exceeding 12 months in the data, i.e. only those with  $liwwh > 12$  are eligible for paying social insurance contributions.

A reduced contribution's rate of 10% in total applied for *self-employed* persons with exception of persons engaged in individual activities under business certificates during the transitional year 2009 (full rate applies in 2010 and 2011).<sup>112</sup> Rates for farmers and their partners were even lower, i.e. 8% in 2009 (16% rate applied in 2010, full rate from 2011).<sup>113</sup> No minimum liability applies (as of June 30, 2010 minimum liability for farmers and their partners applies – the minimum social contribution base being 12 MMS per year). Maximum annual base for contributions was capped at 4\*CYI per month or 48\*CYI per year in 2009-2016 (12\*CYI per year in 2010-2011 for some groups of farmers and their partners). The maximum annual base for contributions in 2017 and 2018 is set to 28 average monthly salaries per year. The maximum annual base for contributions for farmers and their partners was set to 14 average monthly salary per year in 2018<sup>114</sup>. As of January 1<sup>st</sup> 2019, persons engaged in individual activities, farmers and their partners and family-type guardianship institutions, the maximum annual base for contributions is set to 43 average monthly salaries per year<sup>115</sup>.

Since 2009 social insurance contributions also have to be paid on income from sports, performing or authorship/copyright agreements with lower social insurance contribution rates set for the transitional period (the year 2009).

As of June 30, 2010, social contribution base for self-employed persons engaged in individual activities and also for those who receive income from sports or authorship agreements is equal to 50% of the taxable income from individual activities (before personal income tax). No changes in 2011-2017. Since January 1<sup>st</sup> 2018, the social insurance contributions base comprises 50 per cent of the taxable income of individual activities (excluding compulsory health insurance, social insurance contributions). The basis for the social insurance contributions of farmers and their partners is the amount of taxable income of 50 per cent of the agricultural activity of each person (excluding compulsory health insurance, social insurance contributions)<sup>116</sup>. If income received by farmers and their partners, according to the law, is not taxable, and they do not declare the income from individual agricultural activities, the social

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<sup>111</sup> Based on the following law: 2017-12-05, No. XIII-823 „Lietuvos Respublikos valstybinio socialinio draudimo įstatymo Nr. I-1336 2, 3, 8, 10, 11, 12, 13, 19, 25, 35 ir 40 straipsnių pakeitimo įstatymas“. 2017, No. 20047.

<sup>112</sup> *Reduces rate of contributions is split proportionally between pensions and sickness and maternity social insurance, e.g. 10% of contributions for the self-employed are split to 9,23 % to pensions and 0,77 % to sickness and maternity social insurance.*

<sup>113</sup> *Lietuvos Respublikos Valstybinio socialinio draudimo fondo biudžeto 2009 metų rodiklių patvirtinimo įstatymas. Žin., 2008, Nr.149-5998*

<sup>114</sup> Based on the following law: 2017-12-05, Nr. XIII-823 “Lietuvos Respublikos valstybinio socialinio draudimo įstatymo Nr. I-1336 2, 3, 8, 10, 11, 12, 13, 19, 25, 35 ir 40 straipsnių pakeitimo įstatymas”. 2017, Nr. 20047.

<sup>115</sup> Based on the following law: 2018-12-11, No. XIII-1721 “Lietuvos Respublikos valstybinio socialinio draudimo įstatymo Nr. I-1336 2, 3, 8, 10, 11, 12, 13, 19, 25, 35 ir 40 straipsnių pakeitimo įstatymo Nr. XIII-823 5 straipsnio pakeitimo įstatymas” 2018. No. 20975.

<sup>116</sup> Based on the following law: 2017-12-05, Nr. XIII-823 “Lietuvos Respublikos valstybinio socialinio draudimo įstatymo Nr. I-1336 2, 3, 8, 10, 11, 12, 13, 19, 25, 35 ir 40 straipsnių pakeitimo įstatymas”. 2017, Nr. 20047.

insurance contribution base is equal to the sum of 12 times MMS approved by the Government. As of January 1<sup>st</sup> 2019, for persons, engaged in individual activity and for farmers and their partners is the amount of taxable income of 90 % of the agricultural activity of each person (not excluding compulsory health insurance, social insurance contributions)<sup>117</sup>.

*Self-employed persons engaged in individual activities under business certificates* compulsory pay social insurance contributions for the basic pension part. The contribution was equal to 50% of the state basic pension (BP equalled to 360 LTL in 2011-2014, 105 EUR in 2015 and 112 EUR in 2016). Since 1<sup>st</sup> January 2017 compulsory social insurance contributions for pensions have to be paid from the amount of MMS (380 EUR in 2017) with a tariff of 26.3%, i.e. 99.94 EUR. Since January 1<sup>st</sup> 2018, the tariff was set to 25.3 % for compulsory social insurance contributions for pensions, which have to be paid from the amount of MMS (400 EUR in 2018). Since January 1<sup>st</sup> 2019, the tariff was set to 8.72 %.

Table 2.12 shows MMS and BP levels and state defined annual amounts of contributions for social insurance applicable to self-employed people, which were effective on 1<sup>st</sup> January 2011-2019. State defined annual contribution amounts were often used in practice in order to reduce ambiguities due to accrued changes in applicable MMS or PB amounts. Due to the changes to the social insurance contributions for the self-employed, the tariff for both basic and additional pension part is 26.3% of the MMS, which is 99.94 EUR per month (i.e. 1199.28 EUR per annum), where 60 EUR per month (720 EUR per annum) is the contribution for the basic pension part.<sup>118</sup>

Table 2.12. Monthly MMS, MHW, PB levels and amounts of annual contributions effective on January 1, 2011-2014, LTL & 2015-2019 EUR

	2011	2012	2013	2014	2015	2016	2017	2018	2019
	LTL				EUR				
Minimum monthly salary (MMS)	800	800	1000	1000	325	350	380	400	555
Average MMS that year*	800	800	1000	1000	325	350	380	400	555
Minimum hourly wage (MHW)	4.85	4.85	6.06	6.06	1.97	2.12	2.32	2.45	3.39
Basic monthly pension (PB)	360	360	360	360	105	112	120	152.92	164.59
Average monthly PB that year*	360	360	360	360	105	112	120	152.92	164.59

Notes: \*Almost all changes in minimum monthly salary and basic monthly pension were taking place in the middle of the year, that is, 1st July (except of the latest two increases, which were made on 1<sup>st</sup> January). Sources: Based on the Law of State Social Insurance Pensions LRG Decision “Dėl Valstybinės Socialinio Draudimo Bazinės Pensijos Didinimo ir Einamųjų Metų Draudžiamųjų Pajamų Patvirtinimo“, 2004 March 24, No. 235, and its relevant amendments and changes; and „Lietuvos Respublikos Vyriausybės nutarimas “Dėl minimaliojo darbo užmokesčio didinimo”, 2005 April 4, No. 361, its relevant amendments and changes. Information available at: <http://www.sodra.lt/index.php?cid=284> and <http://www.socialiniszemelapis.lt/index.php?-1492246947> (“Baziniai socialiniai rodikliai”) and relevant amendments.

#### **Compulsory health insurance contributions for the self-employed:**

Since 2009 the compulsory health insurance contributions were set to 9% rate of the taxable income, gross wage or the MMS corresponding to the group the insured person belongs to. The annual compulsory contribution cannot be less than 9% of 12 times of MMS.

<sup>117</sup> Based on the following law: 2018-12-11, Nr. XIII-1720 “Lietuvos Respublikos valstybinio socialinio draudimo įstatymo Nr. I-1336 10, 15, 16, 32 ir 34 straipsnių pakeitimo ir Įstatymo papildymo 34-1 straipsniu įstatymas”. 2018, No. 20974.

<sup>118</sup> <http://www.sodra.lt/lt/situacijos/informacija-draudejams/dirbu-savarankiskai/turiu-verslo-liudijima>

Since 2009 self-employed persons and farmers have to pay compulsory health contributions 9% of their taxable income<sup>119</sup>. The members of the farmer’s cooperatives and individual business owners have to contribute 9% of the received taxable profit. As of June 30, 2010 contribution base for self-employed persons engaged in individual activities and also for those who receive income from sports or authorship agreements is equal to 50% of the taxable income from individual activities (before personal income tax). The maximum annual base for compulsory health insurance contribution paid by the self-employed working in the agricultural sphere is capped at 12 times of CYI, in other spheres – 48 CYI until 2017. Since 2017 the maximum annual base for compulsory health contributions for those in agricultural sector cannot exceed 7 average monthly salaries (i.e. 5 188.40 EUR), for other self-employed it is set to 28 average monthly salaries per year (i.e. 20 753,60 EUR). Those working with business certificates have to contribute at the rate of 9 % of the MMS per month. Since January 1<sup>st</sup> 2019, the compulsory health contribution rate of 6.98 % is applied for taxable income of 90 % for people engaged in individual activities.

Table 2.13. Minimum annual contributions for the compulsory health insurance paid by self-employed, effective on January 1<sup>st</sup>, 2011-2019, LTL and EUR

	2011-2018	2019
<b>Annual contributions</b>	9 %*12*MMS	6.98 %*12*MMS

Source: “LR 2005 (2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2015, 2016, 2017, 2018, 2019) metų valstybės biudžeto ir savivaldybių biudžetų finansinių rodiklių patvirtinimo įstatymas“ and Lietuvos Respublikos Sveikatos draudimo įstatymas. Žin., 1996, Nr. 55-1287.

#### EUROMOD notes

Self-employment in the model is determined by the person having self-employment income.

- Social insurance contributions paid on income from sports, performing or authorship/copyright agreements are too specific to be simulated in EUROMOD.

#### 2.21. Compulsory health insurance contributions for those not otherwise insured (*thl\_s*)

Since 2009 the compulsory health insurance contributions were set to 9% rate of the taxable income, gross wage or the MMS depending on the group the insured person belongs to. Persons who are not otherwise insured for health social insurance (see Section 2.5.3 for details on credited health insurance contributions), including those who do not receive any taxable income, pay a compulsory health insurance contribution of 9 % of the MMS per month since 2009. Since January 1<sup>st</sup> 2019 health insurance contributions were set to 6.98 % rate.

<sup>119</sup> According to the following law: „Lietuvos respublikos sveikatos draudimo įstatymo 6, 8, 17, 18 ir 19 straipsnių pakeitimo įstatymas“. 2009.02.19 Nr. Xi-183: [http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc\\_l?p\\_id=338330](http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc_l?p_id=338330)

### 2.22. Minimum wage

- *Brief description*

Minimum wage is usually changed as of 1<sup>st</sup> of July. However, the latest change was introduced from the 1<sup>st</sup> of January, 2013.

- *Definitions and eligibility conditions*

The unit of analysis is individual. If the actual wage is less than minimum wage, then wage is replaced with minimum hourly wage times actual working hours.

- *Amount*

It is either defined in monthly or hourly terms.

#### EUROMOD notes

Monthly income from employment (taking into account the number of months in work) is set equal to minimum wage (proportional to hours worked) if the income from employment is less than minimum wage, but positive, and if working hours are less than or equal to 40 hours per week. We do not apply the minimum wage correction when a person earns more than a monthly minimum wage, but its hourly wage is still less than a minimum wage.

By default, the simulation of minimum wage is set off, i.e. not part of the baseline.

### 2.23. Personal income tax (*tin\_s*)

The main tax simulated for Lithuanian tax-benefit system is personal income tax.

#### 2.23.1. Tax unit

**Personal Income Tax (*asmens pajamų mokestis*):** Personal income tax (PIT) system in Lithuania is an individual system. Generally, tax unit is an individual who has received income. Tax allowances for parents (see section 2.6.3) are divided equally into two parts. In case of a single mother or father, the applicable tax allowance is applied fully for the parent receiving income and living with children.

Some additional tax allowances are based on a family tax unit. This tax unit consists of parents and own dependent children, who are under age 18 or if older, in secondary education. The dependent child definition also covers marital status and parenthood conditions, as discussed for social benefits too.

#### 2.23.2. Exemptions

Following Verbist (2004), we define exemptions as “income components (that) are part of pre-tax income, but do not have to be declared to the tax authorities, and thus are not included in the concept of taxable income (e.g. child benefits in most countries)”.

The list of tax-exempt incomes includes more than 50 categories, most importantly, all state social assistance or social insurance benefits, paid from state and municipal budgets or *Social Insurance Fund*, except sickness, maternity leave, paternity leave and childcare benefits, are not subject to personal income taxation.

A number of other non-taxable income types exist. These include charity, scholarships, interest from deposits, loans, compensations, lottery winnings, prizes of sports competitions, pension annuities received from life insurance companies, inherited income, alimonies, proceeds from the sale of agricultural produce, which is produced, as well as produced and processed on the land owned and some other types of incomes.

### 2.23.3. Tax allowances

We define tax allowances as any amount subtracted from pre-tax income (including social insurance contributions). Differently from Verbist (2004) there is no distinction between those that are fixed amounts (tax allowances) and those whose level is a function of pre-tax income (deductions).

**Since the 1<sup>st</sup> January 2009** the basic and additional personal income tax allowances are applied only to the employment-related income or to income which conforms to the essence of employment relations (further referred as “employment-related income”, see below for explanations).<sup>120</sup>

When estimating the amount of the monthly general personal income tax allowance (applied at the source), only employment-related income is taken into account, which includes:

- salary, bonuses and premiums (monthly, quarterly, annual),
- sickness allowance for the first two days of the illness (paid by the employer),
- compensation for unused vacation,
- payments for overtime work, working on holidays and weekends, at night, or for the idle time,
- holiday payments,
- per diem if exceeds the statutory rate,
- other additional earnings paid directly by an employer to an employee for work performed.

Sickness, maternity, paternity, childcare benefits and long-term work benefits are also included into the employment-related income.

***The rules applied for calculation and declaration of the 2015 income (after conversion to EUR).***

The monthly general allowance is 166 EUR if the resident’s monthly income does not exceed 290 EUR per month. If the resident’s income is higher, the basic general allowance is calculated using the following formula:

**The monthly general allowance = 166 – 0.26 x (monthly employment-related income – 290)**

The annual basic general allowance is 1,992 EUR if the resident’s annual income does not exceed 3,480 EUR. If the resident’s income is higher, the basic general allowance is calculated using the following formula:

**The annual general allowance = 1,992 – 0.26 x (resident’s annual income – 3,480)**

If the estimated annual general allowance is negative it is not applicable.

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<sup>120</sup> For not permanent residents tax allowance can be applied, but only on the annual basis after the annual income is declared.

Since the 1<sup>st</sup> January 2015 the additional monthly personal income tax allowance has been increased to 60 EUR for each child (adoptee).

For the residents with 0-25% of working ability level, those who have reached retirement age and have a high level of special needs, or for the residents who have a heavy level of disability, the basic allowance of 235 EUR is applied.

For the residents with 30-55% of working ability level, for those who have reached retirement age and have a medium or small level of special needs, or for the residents, who have a medium or light level of disability, the basic allowance of 175 EUR is applied.

### ***The rules applied for calculation and declaration of the 2016***

The monthly general allowance is 200 EUR if the resident's monthly income does not exceed 350 EUR per month. If the resident's income is higher, the basic general allowance is calculated using the following formula:

$$\text{The monthly general allowance} = 200 - 0.34 \times (\text{monthly employment-related income} - 350)$$

The annual basic general allowance is 2400 EUR if the resident's annual income does not exceed 4200 EUR. If the resident's income is higher, the basic general allowance is calculated using the following formula:

$$\text{The annual general allowance} = 2400 - 0.34 \times (\text{resident's annual income} - 4200)$$

If the estimated annual general allowance is negative it is not applicable.

Since the 1<sup>st</sup> January 2016 the additional monthly personal income tax allowance has been increased to 120 EUR for each child (adoptee).

For the residents with 0-25% of working ability level, those who have reached retirement age and have a high level of special needs, or for the residents who have a heavy level of disability, the basic allowance of 270 EUR is applied.

For the residents with 30-55% of working ability level, for those who have reached retirement age and have a medium or small level of special needs, or for the residents, who have a medium or light level of disability, the basic allowance of 210 EUR is applied.

### ***The rules applied for calculation and declaration of the 2017***

The monthly general allowance is 310 EUR per month if the resident's monthly income does not exceed 380 EUR per month. If the resident's income is higher, the basic general allowance is calculated using the following formula:

$$\text{The monthly general allowance} = 310 - 0.5 \times (\text{monthly employment-related income} - 380)$$

The annual basic general allowance is 3720 EUR if the resident's annual income does not exceed 4560 EUR. If the resident's income is higher, the basic general allowance is calculated using the following formula:

$$\text{The annual general allowance} = 3720 - 0.5 \times (\text{resident's annual income} - 4560)$$

If the estimated annual general allowance is negative it is not applicable.

Since the 1<sup>st</sup> January 2017 the additional monthly personal income tax allowance has been increased to 200 EUR for each child (adoptee).

For the residents with 0-25% of working ability level, those who have reached retirement age and have a high level of special needs, or for the residents who have a heavy level of disability, the basic allowance of 380 EUR is applied.

For the residents with 30-55% of working ability level, for those who have reached retirement age and have a medium or small level of special needs, or for the residents, who have a medium or light level of disability, the basic allowance of 320 EUR is applied.

### ***The rules applied for calculation and declaration of the 2018***

The monthly general allowance is 380 EUR per month if the resident's monthly income does not exceed 400 EUR per month. If the resident's income is higher, the basic general allowance is calculated using the following formula:

$$\text{The monthly general allowance} = 380 - 0.5x (\text{monthly employment-related income} - 400)$$

The annual basic general allowance is 4800 EUR if the resident's annual income does not exceed 4560 EUR. If the resident's income is higher, the basic general allowance is calculated using the following formula:

$$\text{The annual general allowance} = 4560 - 0.5x (\text{resident's annual income} - 4800)$$

If the estimated annual general allowance is negative it is not applicable.

Since January 1<sup>st</sup> 2018, the additional monthly personal income tax allowance of 200 EUR for each child (adoptee) was abolished.

For the residents with 0-25% of working ability level, those who have reached retirement age and have a high level of special needs, or for the residents who have a heavy level of disability, the basic allowance of 450 EUR is applied.

For the residents with 30-55% of working ability level, for those who have reached retirement age and have a medium or small level of special needs, or for the residents, who have a medium or light level of disability, the basic allowance of 390 EUR is applied.

Child tax allowance is abolished.

### ***The rules applied for calculation and declaration of the 2019***

The monthly general allowance is 300 EUR per month if the resident's monthly income does not exceed 555 EUR per month. If the resident's income is higher, the basic general allowance is calculated using the following formula:

$$\text{The monthly general allowance} = 300 - 0.15x (\text{monthly employment-related income} - 555)$$

The annual basic general allowance is 6660 EUR if the resident's annual income does not exceed 3600 EUR. If the resident's income is higher, the basic general allowance is calculated using the following formula:

$$\text{The annual general allowance} = 3600 - 0.15x (\text{resident's annual income} - 6660)$$

If the estimated annual general allowance is negative it is not applicable.

For the residents with 0-25% of working ability level, those who have reached retirement age and have a high level of special needs, or for the residents who have a heavy level of disability, the basic allowance of 353 EUR is applied.



For the residents with 30-55% of working ability level, for those who have reached retirement age and have a medium or small level of special needs, or for the residents, who have a medium or light level of disability, the basic allowance of 308 EUR is applied.

Table 2.14. Personal income tax allowances (LTL (EUR) per month), as of June 30, 2011-2019

Allowances	2011-2013 (LTL)	2014 (LTL)	2015 (EUR)	2016 (EUR)	2017 (EUR)	2018 (EUR)	2019 (EUR)
Basic allowance (highest applicable)							
- General (maximum level)	470 LTL	570 LTL	166 EUR	200 EUR	310 EUR	380 EUR	300 EUR
- For the disabled of group I	800 LTL	800 LTL	235 EUR	270 EUR	380 EUR	450 EUR	353 EUR
- For the disabled of group II	600 LTL	600 LTL	175 EUR	210 EUR	320 EUR	390 EUR	308 EUR
Additional allowance: for parents (adoptive parents) raising children under age 18 or older if in full-time secondary education (can be shared among parents)*	100 LTL for the first child (adoptive), 200 LTL for the second and each subsequent child (adoptive)	200 LTL for each child (adoptive)	60 EUR for each child (adoptive)	120 EUR for each child (adoptive)	200 EUR for each child (adoptive)	-	-

Notes: \*Additional allowance is applied by dividing the amount equally between parents (adoptive parents) if both of them have taxable income. All allowances are defined on the individual level. If a person meets more than one of the criteria as indicated in the table, the highest amount is applied.

#### 2.23.4. Tax base

Tax base is derived from gross income by deducting the following components:

- non-taxable income (all state social assistance and some social insurance benefits (e.g., pensions, disability benefits), etc.),
- income received from activities conducted under a business certificate,
- allowable deductions related to income from individual activities,
- the acquisition price of property and expenses related to it,
- basic and additional tax allowances (for families with children, disabled, farmers, etc.)
- particular expenses incurred by a resident (when calculating taxable income of fiscal year).

Since 2009 no deductions can be made to the income from distributed profit (dividends). The expenses incurred by residents can be deducted only from the income that is taxed by 15% rate of PIT.

With respect to the income derived from activities conducted under a business certificate, a fixed amount set by municipal councils is paid.

### 2.23.5. Tax schedule

In 2011-2013 all income, except income from distributed profit and income which is subject to a tax rate of 5%, were subject to a uniform tax rate of 15%. During the period of 2011-2013 income from distributed profit was taxed by 20% rate. Since the 1st January 2014 income from distributed profit is subject to a tax rate of 15%. During the period of 2011-2014 a tax rate of 5% is applied to income from individual activities, except of income from “free occupations” and from securities. Also, a tax rate of 5% is applied to income from agriculture activity (for persons who are engaged in agriculture and who must register or are registered as payers of VAT). Same rate applies to farming income if farm is bigger than 14 ESU<sup>121</sup>. Since the beginning of 2014 the 5% rate is also applied to income from not individual activities when this income is received from the sale or other transfer of ownership of base metal scrap. The income tax of a fixed amount is paid to acquire a business certificate. No major changes in 2015-2017. Since January 1<sup>st</sup> 2018, “free occupations” were abolished and all types of individual activities are taxed with the 15 % personal income tax rate<sup>122</sup>. Instead, an income tax credit is introduced for the self-employed since January 1<sup>st</sup> 2018. For those, whose income from self-employment do not exceed 20 000 EUR per year the tax credit is equal to 10% of the tax base. For others, the tax credit is estimated based on the following formula:

$$\text{Income tax credit for income from individual activity} = \text{annual taxable income} \times (0,1 - 2/300\,000 \times (\text{annual taxable income} - 20\,000)).$$

Since January 1<sup>st</sup> 2019, the general rate of PIT is set to 20% if the annual income amount does not exceed 120 AMS, and 27% if the annual income amount exceeds 120 AMS. These rates are applied on all employment-related income and also on some forms of non-employment income<sup>123</sup>. Taxable benefits, dividends and income from individual activities (minus tax credit) and some other types of income are taxed by 15 %.

EUROMOD note: free / non-free occupations were not modelled due to lack of information.

### 2.23.6. Deductible expenses

The following expenses incurred by a resident of Lithuania during the tax period may be deducted from his/her income:

1. Life insurance contributions paid for his/her own benefit or for the benefit of his/her spouse or minor children (adopted children) or for disabled children (adopted children) under 18 and older who are rated as totally disabled under life insurance contracts which provide for an insurance benefit not only upon the occurrence of an insurance event, but also upon the expiry of the term of the insurance contract.
2. Voluntary pension contributions paid for own benefit or for the benefit of a spouse or disabled children (adopted children) under 18 and older who are rated as totally disabled to pension funds.

<sup>121</sup> European size unit (ESU) is a standard gross margin 1200 that is used to express the economic size of an agricultural holding or farm (Eurostat glossary:

[http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php/Glossary:European\\_size\\_unit\\_\(ESU\)](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Glossary:European_size_unit_(ESU))).

<sup>122</sup> Based on the following law: 2017-12-07, Nr. XIII-841 „Lietuvos Respublikos gyventojų pajamų mokesčio įstatymo Nr. IX-1007 2, 6, 16, 17, 18, 18-1, 19, 20, 22, 24, 27, 29, 33, 34 straipsnių pakeitimo ir įstatymo papildymo 18-2 straipsniu įstatymas“. 2017, Nr. 20568.

<sup>123</sup> Gyventojų pajamų mokesčio (GPM) tarifai, taikomi 2019 m. ir vėlesniais metais <https://www.vmi.lt/cms/documents/10174/8274962/KD-8860+tarifai+nuo+2019+met%C5%B3/f4d12f92-cb8c-4c5a-bd59-f9317c9507d9>

3. Interest paid on the loan taken out for the construction or acquisition of housing to banking and other credit institutions, or funds and state financial institutions of foreign countries entered into the list by the Minister of Finance, where over 50% of shares (interests, member shares) are held by governments of foreign countries, as well as interest paid to a financial institution on the financial lease (leasing) of housing. Since 2009 applicable only to interests paid on loans taken before 2009, not applicable to new loans.
4. Payments for vocational training<sup>124</sup> and all other studies (when higher education and/or qualification is obtained upon graduation, as well as doctoral studies and art post-graduate studies). If payments for studies are made with borrowed funds (a loan is taken out from a credit institution for that purpose), the repaid amount of the loan during the tax period may be deducted from income. If a student is not a payer of income tax or has no possibility to deduct payments for studies, those expenses may be deducted from the incomes of his/her parents (adoptive parents), guardians and (or) spouse.

The total amount of deducted expenses cannot exceed 25% of the total tax base after deducting tax allowances.

The amount of the tax refund is equal to deductible expenses (s.t. the upper limit) multiplied with the relevant tax rate (main vs reduced rate). The proportion of expenses on which the main (reduced) tax rate is applied is equal to the ratio of incomes, s.t. the main (reduced) tax rate, to total tax base before deducting tax allowances.

Expenses are deducted from income when calculating final income tax liability for the tax period and filing an annual income tax return.

### **2.23.7. Withholding tax and final tax liability**

Almost on all income sources (except self-employed, farmers' and income from property sale and so called "other" incomes) income tax is already withheld at the time of payment. Self-employment income and farmers' income are subject to final tax, which is calculated with the yearly tax declaration.

Generally, compared to withheld income tax, final income tax takes into account several additional aspects:

1. Income from self-employment;
2. Income received by farmers and their partners;
3. Income from property sale or other movable asset (worth more than 8,000 LTL, 2500 EUR since 2015);
4. Other received incomes (from agricultural production worth more than 10,000 LTL per year (3000 EUR since 2015); work incomes from other countries; profit from individual enterprise, dividends received from other countries; more than 2,000 LTL (600 EUR since 2015) of interest received from EEA countries, incomes from gambling, etc.)
5. Annual (basic and additional) allowances if a person used not all annual amount (i.e. if a person worked not 12, but less months; if individual receives only incomes from authorship contracts; if a person have not used additional allowance). Since 2009 annual basic allowance is recalculated, taking into account received taxable income (see part 2.6.3 for details) and deductible expenditures.

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<sup>124</sup> This part was added in 2008.

EUROMOD notes

It is not possible to distinguish between different disability groups and hence all (self-reported) disabled people are assumed to belong to Group I.

Among deductible expenses only voluntary pension contributions and mortgage interest payments could be simulated given the data availability.

The fee for business certificate is not simulated due to data constraints.

**3. DATA**

**3.1. General description**

An overview of the established combinations of EUROMOD LT datasets and policy years is given in Table 3.1. Our focus is on the EUROMOD LT- data 2017. The descriptions of the EUROMOD LT-data 2008 & 2010 & 2012 & 2014 & 2015 & 2016 could be found in the preceding EUROMOD Lithuania country reports.

Table 3.1. EUROMOD LT 2014-2019: data and policy years

	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
LT-data 2010	n/a	n/a	n/a	n/a
LT-data 2012	n/a	n/a	n/a	n/a
LT-data 2014	x	x	x	x
LT-data 2015	x	x	x	x
LT-data 2016	x	x	x	x
LT-data 2017	best	best	best	best

EUROMOD LT- data 2017 is mainly derived from the EU-SILC UDB (thereafter also referred to as UDB or EU-SILC data). In addition, the Lithuanian (or National) SILC survey (i.e. *Pajamų ir gyvenimo sąlygų tyrimas*) is used to include a few other variables and inform imputations. We describe both datasets, as well as EUROMOD LT-data 2017, in more detail.

The EU-SILC UDB survey has a 4-year rotational panel survey design. The data is collected using a face-to-face interviewing of all respondents aged 16 and over. In the Lithuanian part of the EU-SILC survey, additional information on income and taxes paid is obtained from a few administrative sources, such as the State Tax Inspectorate and the State Social Insurance Fund Board. The National SILC survey is the underlying micro-dataset on Lithuania for the EU-SILC. It contains additional information, which is otherwise excluded in the UDB version (e.g. on national benefits). This information is highly useful for enlarging the scope of EUROMOD Lithuanian policy simulations<sup>125</sup>. As a result, EUROMOD LT-data 2017 is constructed using both the EU-SILC UDB and the National Lithuanian SILC information. Table 3.2 provides a short description of the latter database.

<sup>125</sup> The list of variables which are merged into the EUROMOD LT-data from the National SILC is provided in Table 3.5.

Table 3.2. EUROMOD LT database 2017 short description

	Description
EUROMOD database	LT_2017_a2
Original name	<i>EU-SILC – Community Statistics on Income and Living Conditions (Anonymised User Database UDB) + merged variables from “Pajamų ir gyvenimo sąlygų tyrimas”</i>
Provider	EUROSTAT (EU-SILC); Statistics Lithuania ( <i>Pajamų ir gyvenimo sąlygų tyrimas</i> )
Year of collection	2017
Period of collection	May-June
Income reference period	2016
Sampling	Households are selected from the Residents’ Register using a random sampling method. The entire Lithuanian territory was divided into 7 non-overlapping groups – strata. From every stratum, a one-stage simple random sample is selected. The 5 largest cities of Lithuania, towns and rural areas are divided into separate strata. Sample size of households in every stratum is proportional to the number of population aged 16 and over in them
Unit of assessment	Household and individual
Coverage	Private households. Persons living in the institutional households (e.g. in care or imprisonment institutions, etc.) are excluded
Sample size	11127 individuals, 4 944 households
Response rate	Household response rate is 73.57 % (4 944 out of selected 6 720)

Source: Statistics Lithuania (2018): <https://osp.stat.gov.lt/services-portlet/pub-edition-file?id=30782>

### 3.2. Sample quality and design

The target population of the SILC data is private households (Statistics Lithuania, 2018). Persons living in the institutional households are excluded. Households are selected from the *Residents’ Register* using a stratified sampling design with a simple random sample in strata. For this, the entire Lithuanian territory is divided into 7 non-overlapping groups – strata (the 5 biggest cities of Lithuania Vilnius, Kaunas, Klaipėda, Šiauliai and Panevėžys; other towns; rural areas). The sample size of households in every stratum is proportional to the number of population aged 16 and over in them.

### 3.3. Non-response and item non-response

Based on Statistics Lithuania (2018) household response rate is 73.57 %. For the 2017 survey, 6720 households were selected, of which 4944 participated in the survey. No information is available on response rates by area. Highest item non-response rates were on interest, dividends, profit from capital investments in incorporated businesses and regular inter-household cash transfers received. Item non-response was lower for family/children related allowances, for social exclusion payments, cash or near-cash employee income, unemployment benefits, old age benefits, survivor benefits, disability benefits.

### 3.4. Weights

The EU-SILC UDB dataset uses a few types of cross-sectional survey weights, such as:

- the household cross-sectional weight (variable db090) – the weight calibrated with the target population of private households and corrected for household non-response.

- the personal cross-sectional weight for all household members of all ages (variable rb050) is used to draw inference on individual basic demographic variables for the population of all individuals living in private households. Because all the current members of any selected household are surveyed, the personal weights rb050 are equal to the corresponding household cross-sectional weight db090.
- the personal cross-sectional weights for all household members aged 16 and over (target variable pb040) is used to draw inference on the variables included in the personal questionnaire. These weights are corrected for individual non-response.

Table 3.3. Descriptive statistics of the grossing-up weight rb050 (dwt)

	EU-SILC UDB Lithuanian data
Number	11 127
Mean	523.85
Maximum	3 470.83
Minimum	4.10
Max/Min	847

Lithuanian EU-SILC sample statistics has been projected to a reference population of **2.840.308.90** individuals in 1.294.134.23households. The used weights are calibrated on the demographic data at the beginning of the survey year. In addition to the major age groups (around 17 sub-groups) and gender, the survey is calibrated by the residence area: the major 5 cities, other towns and rural areas.

### 3.5. Data adjustment

Adjustments to variables are kept to a minimum. Some minor data cleaning is done to ensure that the relationships of individuals within households are coherent. As we focus on the income reference year (2016), children who are born in the year of the survey (until the survey time, which is May-June in Lithuania) are dropped from the final micro dataset - 10 observations.

### 3.6. Imputations and assumptions

### 3.7. Time period

The EU-SILC information on demographic variables mainly refers to the time of data collection (May-June, 2017). Some included demographic information (e.g. age variables) also reflects the status quo at the end of the income reference period (2016). Similar situation is observed for socio-economic and labour variables. For example, variable rb210 (i.e. basic activity status) refers to the data collection time, while variable pl073 indicates a number of months in full time work during the income reference period (the calendar year of 2016). For the construction of EUROMOD LT data, the demographic, labour and socio-economic information is based – when possible - on the EU-SILC variables referring to the income reference period.

The EU-SILC UDB 2017 information on incomes refers to the calendar year of 2016. Some additional information on the number of income payments per year and monthly amounts has been obtained and imputed from the National SILC information. This has been done for selected income sources only. All monetary incomes in the EUROMOD database are converted into monthly terms, based on a 12-month receipt period. In the EUROMOD calculations, it is implicitly assumed that income is received at the same rate throughout the year.

The EU-SILC does not contain information on how many times per year a certain type of income is actually received. National SILC, on the other hand, collects this information for some income variables. This information is (partially) used to construct EUROMOD variables on how many times a particular income type was paid over the year (e.g. bunmy – number of month per year receiving an unemployment benefit). In cases, where the National SILC does not carry the relevant information on the frequency of income receipts, other types of imputations/assumptions have been applied. For example, if the concerned income variable is reported as an aggregate income type (e.g. old-age pensions), a corresponding EUROMOD variable on the “months of benefit receipt” is constructed by summing the number of different pensions’ receipts – to the extent that this information is available in National SILC. The maximum number of months is set to 12. Also, if the information on a number of months of receiving one or another benefit is missing in National SILC, the relevant EUROMOD variable is constructed based on the indication on how many months a person has spent in a certain socio-economic activity type (i.e. the EU-SILC UDB variables pl\*).

### **3.8. Gross incomes**

The EU-SILC UDB survey contains information on both gross and net monetary incomes, if applicable. The survey also contains flag variables, which indicate if the observation has been collected either in gross or net form, imputation method and imputation factor (collected/recorded).

### **3.9. Merged and imputed variables**

Table 3.4 provides information on the variables that have been merged from the National SILC into the EUROMOD LT-data 2017. No other major modifications have been done for these variables.

Table 3.4. EUROMOD LT database: variables merged from the National SILC

LT-data 2017 variables	Description
lbl	Business certificate activity
lseor	Owners of individual enterprise
lsepf	People engaged in individual activities (i.e. type of self-employment)
bchor	Guardianship benefit
bsa00	Social benefit
bma	Maternity and maternity (paternity) benefits
kfbmy	Fringe benefits – a number of months received
amrar	Useful floor space (m2) of the main residence
aldar	Area of own or rented land (hectares)
aldagar	Area of own or rented agricultural use land (hectares)
ltr	Change of job since last year

A number of EUROMOD LT-2017 variables are constructed using (merged) information both from the National SILC and EU-SILC UDB surveys, plus – when needed – a number of other imputations. The main reason for such a construction of the variables is related to incomplete or missing information in both surveys. The concerned variables are:

- Severance pay (yunsv variable);
- Early retirement benefit (byr variable);
- Unemployment insurance benefit (bunct variable);
- Employment earnings – a number of months received (yemmy variable);

- Unemployment benefits – a number of months received (*bunmy* variable);
- Disability pensions – a number of months received (*bdimy* variable);
- Work history – a length of time in months (*liwwh* variable);
- Disability benefits - imputed for kids based on parents status (*ddi* variable).

Information from the National SILC is also used in some other EUROMOD LT-2017 variables construction cases. For example, *les* variable on the economic status is mainly derived from the EU-SILC UDB reported income variables. However, information from the National SILC is used to form one of the *les* variable categories – a farmer status. The latter information is not available in the EU-SILC UDB survey. The National SILC, on the other hand, reports on the “income received from the agricultural activity”. This information - in comparison to the relative importance of the other income sources - is used to make an assumption on being engaged in the farmer economic activities. EUROMOD LT-2007 *lfs* variable on the firm size also utilises information from the National SILC to make a better informed assumptions. Here, we utilise the National SILC information on whether a self-employed person is working alone or has also some employees.

Information from the National SILC is also used in the disaggregation of the disability (*bdi*) and old age (*boa*) variables. The National SILC is used for the disaggregation of old-age (*boact*), state benefit (*boanc*), pensions for officials and soldiers (*boaml*), state pension for victims (*boawr*), social assistance (social) pension and compensation (*boamt*) and other pensions (*boaut*). The national SILC is also used for the disaggregation of disability pensions, such as: lost work capacity (*invalidity*) pension (*bdict*), compensation for disabled (*bdixp*) and other benefits for disabled (*bdiot*).

Some EUROMOD LT-2017 are constructed based on the external macro statistics and selected EU-SILC information. For example, a variable *afc* on the financial capital assets is constructed in relation to the EU-SILC variable on investment income and in relation to the external information of the arithmetic average between the central bank base interest rate (EURIBOR rate) and a harmonised indice of consumer prices provided by Eurostat (HICP) . A variable *amrmv* on the market value of the main residence is constructed in relation to the EU-SILC variable on the imputed rent value for owner-occupiers and the gross rental multiplier (GRM) value. The latter value is selected based on empirical data review and expert opinions. A number of other housing characteristics, as reported in the EU-SILC, are also taken into account to differentiate the final market value.

### 3.10. Updating

To account for time inconsistencies between the input dataset and the policy year, updating factors are used. Each monetary variable (i.e. each income component) is updated so as to account for changes in the non-simulated variables that have taken place between the year of the data and the year of the simulated tax-benefit system. Updating factors are generally based on changes in the average value of an income component between the year of the data and the policy year. For detailed information about the construction of each updating factor as well as the sources that have been used, see Annex 3.

As a rule, updating factors are provided both for simulated and nonsimulated income components present in the input dataset. Note however that in the case of simulated variables, the actual simulated amounts are used in the baseline rather than the updated original variables in the dataset. Updating factors for simulated variables are provided so as to facilitate the use of the model in cases when the user wishes to turn off the simulation of a particular variable. The list of updating factors as well as the sources used to derive them can be found in Annex 1.



No other updating adjustments are employed; therefore, the distribution of receipts of non-simulated incomes remains constant throughout the period, while the level of amounts received changes in line with the uprating factors. The variables included in EUROMOD on household and personal characteristics, such as housing type, employment status or demographic attributes, are constant in relation to the basis year (in the baseline scenario).

Structural cuts in pensions (boa, bdi, bsu, byr) were simulated in EUROMOD as a separate policy for 2009-2011 (see Annex II for details). Compensations for the cuts (boa, bdi, byr, except bsu) were simulated in EUROMOD as a separate policy for 2013-2016. Since 2017 – no cuts or compensations apply. We roll back any cuts/or compensations for pensions present in the data.

## 4. VALIDATION

### 4.1. Aggregate Validation

EUROMOD results are validated against external statistics. Detailed comparisons of the number of people receiving a given income component and total annual spending and revenues are shown in Annex I. Both market incomes and non-simulated taxes and benefits in the input dataset as well as simulated taxes and benefits are validated against external official data. The main discrepancies between EUROMOD results and external benchmarks are discussed in the following subsections. Factors that may explain the observed differences are also discussed.

### 4.2. Components of disposable income

Before commenting on how different income components in EUROMOD compare against their external aggregates, this subsection outlines the differences in the definition of disposable income in EUROMOD and EU-SILC 2017. The major components of disposable income are the same in both sources: original incomes (+); benefits (+), taxes (-), employee social insurance contributions (-); and self-employed social insurance contributions (-). However, at the level of individual components there are two differences as can be seen from Table 4.1:

- EU-SILC includes (imputed) annual value of (using) a company car, while EUROMOD definition of disposable income excludes this type of income;
- Pension from individual private plans is included in the disposable income concept in EUROMOD, while it is excluded in EU-SILC.

Apart from differences in the definition, the size of disposable income in EU-SILC and EUROMOD can differ for a given household as simulated income components in EUROMOD can differ for a number of reasons from their observed counterparts in EU-SILC dataset.

Table 4.1. Components of disposable income

	EUROMOD	EU-SILC 2016	Notes
	ils_dispy	hy020	
Employee cash or near cash income	yem	py010g	yem is derived from py010g
Company car	-	py021g	
Cash benefits or losses from self-employment	Yse	py050g	yse is derived from py050g
Pension from individual private plans	ypp	-	ypp is derived from py080g
Investment income	Yiy	hy090g	yiy is derived from hy090g
Income from rental of a property or land	Yprrt	hy040g	yprrt is derived from hy040g
Income received by people aged under 16	Yot	hy110g	yot is derived from hy110g
Regular inter-household cash transfer received	ypt	hy080g	ypt is derived from hy080g
Regular inter-household cash transfer paid (-)	Xmp	hy130g	xmp is derived from hy130g
Old-age benefits	boa	py100g	boa is derived from py100g

Survivor' benefits	Bsu	py110g	bsu is derived from py110g
Disability benefits	bdi	py130g	bdi is derived from py130g
Unemployment benefits	yunsv, byr, bunct_s	py090g	3 comp. in EUROMOD: byr (early retirement), yunsv (severance pay) & bunct_s (unempl. ben.); byr & yunsv are derived using EU-SILC (py090), Nat. SILC & external admin. info; bunct_s is EUROMOD simulated. Long-term work payment (bunct01_s) is not yet part of 2016 SILC data.
Housing allowances	Bho	hy070g	bho is derived from hy070g
Family/children related allowances	bchor , bch00_s, bchba_s, bplct_s bmaprnc_s, bmaprct_s, bmact_s bmaed_s bchmp_s	hy050g	all “_s” variables are EUROMOD simulated benefits; bchor is merged from Nat. SILC Universal child benefit (bchnm_s) not yet recorded in 2016 SILC.
Education related allowances	bed	py140g	bed is derived from py140g
Sickness benefits	bhl	py120g	bhl is derived from py120g
Social exclusion not elsewhere classified	bsa00_s, bsals	hy060g	bsa00_s is EUROMOD simulated benefit; bsals is derived using EU-SILC (hy060g), Nat. SILC & external admin. Info
Tax on income and social contributions (-)	tin_s, ils_sicee, ils_sicse	hy140g	EUROMOD data includes 3 simulated components; tin_s refers to final tax liability (for 2007 incomes). hy140g also refers to final tax liability; among other components it includes any tax reimbursement received in 2007 (also for income received in previous years);
Regular taxes on wealth (-)	tpr	hy120g	tpr is derived from hy120g

### 4.3. Validation of incomes inputted into the simulation

*Note: Please see Annex I for tables.*

Table 4.2 shows that the number of employed in EUROMOD data for 2016-2017 is well aligned with external statistics (with a ratio respectively of 0.95 between 0.96 the values ). It is slightly worse for 2018, i.e., 0.94. The number of unemployed is also well aligned in 2016 (with a ratio of 1.20 compared to external statistics). The number of unemployed people decreased from 2016 onwards in Lithuania. This causes higher overestimation of the number of the unemployed in EUROMOD, in both 2017 and 2018 (the ratios are 1.36 and 1.55) because the input dataset does not capture fully the positive impact of growing economy on the Lithuanian labour market over the past years. As no adjustments are made to the employment situation in the baseline

EUROMOD data, the number of employed and unemployed people remains stable throughout 2016-2018.

We further discuss the results for non-simulated income sources (market income, non-simulated benefits and taxes). It should be noted that weights for the Lithuanian EU-SILC are calibrated only towards demographical variables<sup>126</sup>. No calibration is done towards the external income aggregates. Hence, the discrepancies between the aggregate amounts and reciprocity of the major sources of income in the survey compared to those shown by external statistics might occur. The data on minor income sources, such as some small-scale benefits, collected in the survey might not be representative. The standard updating procedure applied in EUROMOD would not correct for this, but instead should move the estimates in the parallel way relative to the dynamics shown by external sources. We thus focus on validating the base year (i.e. 2016) and checking the dynamics of income in the following years.

There are numerous gaps in external statistics on the number of recipients of market income and aggregate amounts.

Table 4.3 shows that the number of people receiving employment income is overestimated by around 17-18 percent in 2016-2018 in EUROMOD compared to the LFS figures. This may be partially explained by the fact that EU-SILC based data would pick up income received for short periods of time and sum the recipients across the year, while in LFS the average annual number of those receiving employment or self-employment income is given. As in the period of 2016-2018 the situation in the labour market and the economy has improved, the ratio between EUROMOD and LFS has increased slightly over the years. Another important reason for overestimation of the receipt of this (and other) important income sources is the fact that the weights in EU-SILC are calibrated only towards demographic variables.

At the same time the number of recipients of self-employment income is highly overestimated in EUROMOD in 2016 (ratio is 1.64 – i.e. similar to both 2017 and 2018 data). Supposedly, people tend not to report the fact that they are engaged in self-employed activities to the authorities. Other factors for overestimation of the number of self-employed are similar to those for employment income recipients.

The total amounts of gross employment income in EUROMOD are underestimated compared to external statistics (see Table 4.4). We, however, are using information on aggregate wages and salaries from the national accounts that is not strictly comparable with the survey estimates available in EU-SILC. The total amount of employment income is underestimated in EUROMOD by around 14-15% in 2016-2018. External statistics for later years are not yet available. However, we see a rapid increase in the total gross income for 2019. This is a result of a combination of two factors: a rapid growth in earnings between 2018-2019 (at around 10 %) and a tax reform. The latter caused recalculation of gross earning applying a factor of 1.289 as social insurance contributions previously paid by the employer (and hence not reflected in the gross earnings) are now to a major extent transferred to the employees (and hence are now part of the gross wage). The values of average employment income are similarly underestimated in EUROMOD by around 13% between 2016-2018. The respective statistics for other types of market income are not available. The EUROMOD predicts a rapid increase in the amounts of employment income in 2019, by around 39 % compared with 2018. This increase is expected with regard to the most recent tax reform and increased all employment incomes by factor of 1.289. Additionally, an increase is also expected to be influenced by annual growth in earnings and lowered tax burden.

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<sup>126</sup> See EU-SILC quality reports available at:

[http://epp.eurostat.ec.europa.eu/portal/page/portal/income\\_social\\_inclusion\\_living\\_conditions/quality/national\\_quality\\_reports](http://epp.eurostat.ec.europa.eu/portal/page/portal/income_social_inclusion_living_conditions/quality/national_quality_reports)

It should be noted, that while EUROMOD captures the average and aggregate growth in employment income during the period relatively well, updating by average growth in employment income hides potentially progressive growth in income. The latter is due to ad-hoc increases of the minimum wage from around 350 EUR in 2016 to 555 EUR in 2019. The latter figure, however, also includes an effect of recalculation of gross wages by applying a factor of 1.289 as of 2019.

Table 4.5 shows the number of recipients of pensions and other not simulated benefits. The number of recipients of old-age and disability benefits in EUROMOD is computed by summing up non-overlapping types of benefits before and after retirement age (and as such the numbers may not be completely comparable). Indeed, the data show that the number of recipients of old-age benefits is underestimated just by 1 % in EUROMOD in 2016-2018. When it comes to the number of recipients of disability pensions there is an overestimation, with the ratio 1.11-1.13 in 2016-2018. Survivor's pension incidence is overestimated by 7-11 %. As for the number of early retirement pension recipients, fewer cases are recorded in EUROMOD while the external statistics report the numbers that are around 43 percent higher in the baseline year of 2016 and converge with the EUROMOD number by 2018 with a ratio of 0.68. Discrepancies between the number of pension recipients in EUROMOD and in the external statistics may also be due to the benefit aggregation-related issues in the UDB-SILC and under-representation of the different groups of pensioners in the survey.

The number of recipients of non-simulated guardianship benefit and compensation for utilities are underestimated in EUROMOD, which is especially true for the latter. While the ratios for guardianship benefits are at 0.69-0.75, it is even lower (around 23-29%) for the recipients of compensation for utilities. These discrepancies can be the result of the small sample size and data weighting issues in the survey. Sickness social insurance benefits are widespread, yet there are no suitable administrative data on the number of recipients, apart from the number of cases of illness. If we use this information, the number of recipients in EUROMOD appears to be underestimated. This is expected as one person may be ill for more than one time within a year.

Aggregate amounts of non-simulated taxes and benefits are provided in the Table 4.6. Old-age benefits are underestimated just by a 5% in 2016 and 6% in 2017. This is in part due to a slightly underestimated number of old-age benefit recipients. Another reason for an increase in old-age benefits which is not fully captured by the EUROMOD are compensations for cuts in pensions, which were paid still in 2016, but not anymore in 2017. We model those, however, the sample of pensioners eligible for compensations may not be representative, as well as there are limitations to accuracy of our simulations.

The aggregate amount of disability benefits before the retirement age is under-estimated by 7-10% in EUROMOD in 2016-2017 which is in line with the lower number of the recipients we observe. The aggregate variable for survival benefits consists of a few major components: survivor and orphan pensions (before retirement age), funeral benefit and grant in case of death of an insured person. This benefit is under-reported in the EU-SILC based EUROMOD data by 30-33%. Finally, only around 50% of early retirement pensions is reflected in the data for 2016, which is similar to the ratio of recipients of these pensions reported in Table 4.5. Both the ratio of the number of recipients and the total amounts improves for 2017 and 2018.

As far as other not simulated benefits are concerned, the ratio of aggregate amounts of the guardianship benefits with external statistics is at 0.94-96 in 2016-2017 and 1.02 in 2018. Sickness benefits are relatively well reflected in the baseline with the ratio of 0.92 to external statistics, which goes down in 2018 with the ratio of 0.89 as the incidence increases. For education allowances, which are allocated on a local level, there are no proper statistics on the number of recipients and total spending.

According to administrative statistics, expenditure on compensations for utilities has been on the decrease up to 2017 and increased in 2018. The expenditure on compensations is highly underestimated in EUROMOD data (ratios are about 0.23-0.31). However, this is in line with the underestimation of recipients of this benefit and similar to the previous datasets. Finally, the opposite is true for municipal and NGO support which appears to be over-estimated in EUROMOD, although precise administrative statistics are not available both what concerns aggregate amounts and the number of recipients.

As far as non-simulated taxes are concerned, the external number of property tax payers is not available and the validation can only be carried out for the total tax revenues. The latter appears to be relatively well captured in EUROMOD, even though the ratio has slightly declined from 0.80 in 2016 to even lower decline of 0.66 in 2018. Again, this under-estimation is similar to that we observed in the previous EU-SILC data.

#### 4.4. Validation of outputted (simulated) incomes

*Note: Please see Annex I for tables.*

Table 4.7 shows EUROMOD and external data on the number of simulated benefit recipients and tax/contribution payers. The number of families with children eligible for additional child allowances is overestimated in EUROMOD (ratio of 1.20-1.35% in 2016-2018). This discrepancy might be due to several reasons. One of them can be attributed to the fact that there are more families with children in the survey. The second reason could be 100% benefit take-up in EUROMOD. In addition, it can be because our simulation of the means-test is not perfect. It should be noted that eligibility for child allowances in Lithuania is based on income threshold and the number and age of children in the family. Hence, we simulate an increase of those eligible for child allowances between 2017-2018. The same is true in the administrative records, but to a smaller extent. In 2017 and 2018 there were changes to eligibility criteria making them more generous, which is reflected in an anticipated increase in the number of recipients. We capture the increase between 2016-2017, albeit to a larger extent. There is no external statistics to validate the change between 2017-2019. We predict the number of recipients to stabilize between 2018 and 2019.

The EUROMOD overestimated number of families receiving universal child benefit by 9 % in 2018. This can be reasoned with the fact that EUROMOD estimated full benefit take up, while in reality not all families applied to get universal child allowance. The sample of families with children may also be somewhat biased.

The number of recipients of a birth grant is underestimated, with ratio between 0.67-0.76 in 2016-2018. As the receipt of birth grant is only dependant on the fact of the childbirth the accuracy of the results strongly depends on the representativeness of the survey sample and different reference periods for demographic and income variables. Same is true for pregnancy grant, albeit there is higher discrepancy in the number of recipients of the pregnancy grant (non-contributory maternity benefit), which is quite uncommon in Lithuania and even more so in the data. More widely spread contributory benefits are slightly better captured, i.e. ratios of childcare allowances are 1.20-1.25. The coverage of maternity benefit is underestimated with the ratio between 0.62-0.65. The coverage of paternity benefit, received by the father during one month after the birth of the child, is slightly under-estimated by 3-6 % between the period of 2016-2018. It shows that contributory benefits, such as childcare allowance and paternity benefits are better captured.

The number of social assistance recipients is underestimated in EUROMOD compared to administrative data, with a ratio of around 0.72 in 2016, 0.75 in 2017 and overestimation of 113 % in 2018 as the number of benefit recipients in administrative data goes down. As it was

already mentioned, there are no corrections made in our simulation for the improving labour market conditions during the analysed period. Hence we capture decrease in the number of social assistance recipients between 2016-2017, but model an increase in recipiency following an increase of the state supported income from 102 EUR to 122 EUR between 2017 and 2018. We model a decrease in recipiency between 2018 and 2019, which is plausible, as the state supported income amount remained unchanged, while wages and other income increased. However, we probably underestimate the extent of the decrease in the number of social assistance recipients, since improving labour market situation is not reflected in EUROMOD.

The number of recipients of unemployment benefits is similarly underestimated in the baseline (0.75 in 2016). For 2017 recipiency is rather stable in EUROMOD, while for 2018 we see a slight increase in the number of recipients of the unemployment benefit in EUROMOD. The latter can be expected as rules for unemployment benefit payments were changed in the middle of 2017, making their duration longer and eligibility less strict. Hence a predicted increase in unemployment benefit incidence is in line with the latest reform of unemployment benefits. Albeit, as reform went into force since July 2017, we only capture an increase in the number of recipients since 2018 with a ratio of 0.70 compared with external statistics.. Half-year adjustment may be optionally switched on in the model.

We also have the estimated numbers of recipients for students' childcare benefit and the multiple childcare benefit which were introduced in 2017. The number of student's childcare benefit receivers is overestimated compared to external statistics with a ration of 2.03 in 2017 and 1.71 in 2018. The overestimation in EUROMOD might be reasoned with the fact that all student mothers, eligible to receive student's childcare benefit, while in reality the potential recipients did not apply to get this benefit or were not well informed about the eligibility to get this type of benefit. Benefit for multiple birth families is highly underestimated in both years of 2017-2018 (with a ratio of 0.10 and 0.09 respectively). Such small number of eligible recipients in EUROMOD statistics can be reasoned with the limited EU-SILC database sample, which does not represent less common household types.

The number of payers of the personal income tax is underestimated compared to external administrative statistics in the baseline of 2016 (ratio at 0.91) and even more between 2017-2018 respectively by 16 and 14 %. The underestimation could be argued with the number of employed and self-employed representation in EUROMOD data. However, the number of payers of social insurance contributions is over-simulated by 7 % for the same year and decreased up to 6-5 % in 2017-2018. The latter is consistent with overestimation of the number of recipients of employment income in EUROMOD. The gap between the numbers of taxpayers recorded in external statistics and simulated in EUROMOD also points at the fact that the problem might be related to the high number of observations with short employment spells in EU-SILC (whose taxable income is lower than the tax allowance). For years after the baseline year of 2016, decreasing number of taxpayers simulated by the model and stable number of the employed in 2017 reflects increasing tax allowances in Lithuania, which make a number of employed individuals not liable to pay personal income tax. A rapid increase in the number of employees liable to pay personal income tax was registered 2018 as child tax allowance was abandoned.

There are no proper administrative data on the number of self-employed persons who do not have business certificates, thus the number will be validated against statistics on aggregated amounts only. Same is true for the credited contributions. Employer social insurance contributions can be assumed to be simulated with the same precision as employee contributions.

The validation of aggregate amounts of the simulated benefits is shown in Table 4.8. It should be noted that spending on additional child allowances is over-simulated in EUROMOD for

2016-2018 with a ratio of 1.17-1.141. This may be due to the non-take-up, which is not accounted for in the model. As the benefit is means-tested, the non-take-up is likely. Both EUROMOD and external statistics show that aggregate amounts for that benefit have increased between 2016 and 2017, but the increase is lower in external statistics. However, both EUROMOD and external statistics show that the aggregate amount increased in 2018 with a steeper increase in external statistics. This results in an overestimation of aggregate amounts by around 17 % in 2018. In 2019 we simulate further increase in the aggregate benefit amount due to policy changes. There are, however, no external statistics yet available to validate this result.

The aggregate amounts of universal child benefit show slight overestimation of 27% in EUROMOD for 2018 compared to external statistics. This could be reasoned with the fact that EUROMOD calculated the amounts for all families with dependent children. In real life, not all parents who raise dependent children, fill the applications in order to receive universal child benefits, therefore the overestimation is recorded. Furthermore, as the model captures families with children, the aggregate amounts may also differ due to the fact, that larger families may not fill the document and thus the overestimation in the amounts is three times higher than overestimation in number of benefit receivers.

Aggregate amounts for birth grants are underestimated with a ratio of 0.67-0.76 in EUROMOD, as well as the number of recipients in the period of 2016-2018. Non-contributory maternity grants are over-simulated. However, the share of this benefit in total spending on non-contributory benefits is small.

The precision of simulation of contributory benefits varies from benefit to benefit. The closest match with external data is achieved for paternity benefit (100-102% in 2016-2018). Meanwhile aggregate amounts of childcare benefits for the period of childcare leave are under-simulated by around 7-13 %, despite of slightly worse match in the number of recipients. Hence, we simulate lower average amounts of childcare leave benefits, which should be due to optimization of benefits by the household as both the duration/replacement rate and the recipient (mother or father) are optional. Maternity benefits are highly under-estimated in EUROMOD. This discrepancy is due to lower number of the new-born children in EUROMOD (see numbers of maternity benefit recipients in Table 4.7).

The total aggregate amount for social assistance in EUROMOD is over-estimated in 2016 (by around 29%). Albeit we simulate an increase in receipt of social assistance for the period of 2016-2018, while the trend is similar with the external statistics however less steep than in EUROMOD. This results in even higher over-estimation in the most recent validation years of 2018 (i.e. by 23% in 2017 and 69% in 2018). The period was characterised by both the improvement in socio-economic situation and a major social assistance reform that decentralized social assistance. These effects cannot be captured in our simulations. As mentioned, in theory the rules for the eligibility conditions for this benefit remain the same (and they are simulated in EUROMOD), however municipalities have gained more discretionary power which they can use to initiate extra checks for compliance with the programme rules and to suspend payments if they suspect a misuse of social benefits or undeclared income in the family. This saved money remains at the disposal of the municipality. Also, it is quite difficult to simulate the assets' means test using UDB SILC which might also be the reason for underestimation. Finally, we do not observe improved labour market situation in EUROMOD as no adjustments are made. Finally, we modeled a significant increase of social assistance amount between 2017-2018. This was expected, as the amount of state supported income was raised along with income disregards, introduced since 2018. We do not yet have external statistics to validate results for 2019. We observe a stable expenditure on social assistance in EUROMOD,



while in reality this amount should probably decrease in 2019 due to improvement in the labour market situation and rapid growth in earnings, including the minimum wage.

Aggregate amounts of contributory unemployment benefits are over-estimated by EUROMOD with ratio of 1.31 in 2016, 1.21 in 2017. We simulate stable amount of the benefit for 2016-2017 and a rapid increase in 2018 and 2019. External statistics can be expected to show decreasing amounts for 2019 due to an improving unemployment situation (not captured in EUROMOD). A reform enacted since July 2017 made the benefit more generous, therefore a rapid increase in the amounts in EUROMOD is seen since 2018, which resulted in higher aggregate amounts both in EUROMOD and external statistics (with a ratio of 1.03). Half-year adjustments may be optionally switched on to correct for this by the users, but the external statistic results does not show a rapid increase in the amounts

Aggregate amounts of direct taxes and social contributions simulated by EUROMOD are close to external data. Income tax is matched at a ratio of 1.07 in 2016, 1.03 in 2017 and 1 in 2018. For 2019 we simulate substantive changes in tax receipt (85% increase) as well as a big reduction in employer contributions and an increase in employee contributions. This was due to a tax reform described in the first and second sections of this report. In general, we see a decrease of the social insurance contributions paid together by the employee and employer (1.4 bln. EUR) and a similar increase in the PIT receipt (which is now applied at a higher rate of 20% and 27% instead of 15% and on a higher tax base, as all earnings were increased by a factor of 1.289 + an annual growth in earnings by about 10%). Hence the total receipt of SIC and PIT remains more or less unchanged. A decrease in SIC is in line with the goals of the reform to lower tax burden on the employed.

Finally, no data are available on credited contributions and social contributions of the self-employed. Based on the previous years of simulations we can assume the latter to be highly overestimated. This may be expected as people might be reluctant to report to tax authorities that they are self-employed. Given the high tax avoidance level in Lithuania and given that the self-employed are concentrated in the bottom income decile, we can tentatively conclude that the problem is related to the high level of under-reporting of self-employment income to tax authorities, while EUROMOD simulates statutory tax incidence based on the assumption of full tax compliance. This issue, however, calls for further in-depth investigation.

### **4.5. Income distribution**

All income distribution results presented here are computed for individuals according to their household disposable income (HDI) equalised by the “modified OECD” equivalence scale. HDI are calculated as the sum of all income sources of all household members net of income tax and social insurance contributions. The weights in the OECD equivalence scale are: first adult=1; additional people aged 14+ = 0.5; additional people aged under 14 = 0.3.

### **4.6. Income inequality**

*Note: Please see Annex I for tables.*

This section estimates how well EUROMOD tracks the changes in income distribution and poverty for 2016-2019 compared to Eurostat where possible (at the time of writing 2017 Eurostat figures referring to 2016 income were available).

Table 4.9 shows that in 2016 the income shares by decile predicted by EUROMOD are close to those reported by Eurostat. One exception is bottom income deciles, for which incomes are

over-estimated by around 11% in EUROMOD. This may be due to several issues, including assumptions of full benefit take-up and full tax compliance, limitations of simulated means-testing rules, etc. Assumption of full tax compliance may also play a role here.

The latter leads to the quintile ratio being underestimated in EUROMOD for the baseline of 2016 (ratio 0.92). For Gini coefficients we find a close match for 2016 (ratio of 0.96). Similar ratios are observed for both mean and median incomes in the baseline year, with median income underestimation ratio 0.98 and mean income ratio of 0.96. EUROMOD simulations imply further growth in mean and median incomes, as well as inequality, for the period of 2015-2017 and a decline in 2018. The latter is likely due to the political effort and reforms, including introduction of the universal child benefits, further increase in the general tax allowance, increase of the level of the state supported income, etc.

### 4.7. Poverty rates

*Note: Please see Annex I for tables.*

Table 4.10 shows that at-risk of poverty rates in the baseline year of 2016 are well in line with those reported by EUROSTAT for year 2017 (i.e. 2016 incomes). The worst fit between EU-SILC and EUROMOD for the 60% median equivalized income poverty threshold (ratio of 0.95) is due to over-estimation of disposable income for the first income decile shown in Table 4.9. In general, the best match there is for the 50% median equivalized income (ratio of 0.99), with slightly worse ratio for 40% and 70% median equivalized income poverty threshold (3-4% underestimation).

Decomposition of at-risk of poverty level by age (using a 60% of median household disposable income poverty line) shows a slightly higher degree of underestimation among either younger (0-15 years old), or older working age groups of 65+ (ratio of 0.91 and 0.94 accordingly for 2016). These trends might be due to the fact that families with children and pensioners have full benefit take-up in the model. Another argument could be demographic representation in the model. As for working age groups, external statistics show slightly lower poverty risk levels in this group. EUROMOD captures poverty risk levels relatively well for the prime age population and older working age groups (16-64 years old). EUROMOD estimates for years beyond those available in Eurostat imply increasing poverty rates at the majority thresholds between 2016 and 2018, followed by a decrease in 2018 and 2019. The latter mainly affects children and young adults and can be attributed to the same political effort discussed in the previous section, i.e. extended and more generous universal and additional child benefits, higher disposable income due to tax reform, etc.

### 4.8. Validation of minimum wage

*Note: Please see Annex I for tables.*

In this section we give a brief overview of the impact of the minimum wage policy on income, taxes, social contributions, social assistance benefits, and inequality and poverty rates. It should be noted, that the minimum wage policy is switched off in the baseline scenario. Imposing minimum wage simulation has only weak effect on disposable and employment income, direct taxes and income distribution measures. The highest effect is on poverty rates, albeit in a limit of 1% (see Table 4.11). Increasing minimum wage results in lower poverty risk levels when the minimum wage adjustments are turned on.

### 4.9. Summary of “health warnings”

In conclusion, the following major “health warnings” should be taken into account when using Lithuanian EUROMOD module and the underlying micro-data:

- The EU-SILC (Lithuanian part) is calibrated on a limited number of dimensions: residence area (7 groups), age (17 groups) and gender. No calibration is done towards external income aggregates. Therefore, reciprocity and aggregate amounts for the major income sources may not match between EU-SILC and external aggregates. Analysis on the benefits/taxes/contributions to/by smaller population groups should be done with care due to issues of representativeness.
- The default assumption in EUROMOD is full benefit take-up and full compliance with taxes and contributions. Baseline scenario does not include any employment adjustments.
- In the case of simulating a policy year more recent than the income reference period for the underlying input dataset, non-simulated monetary variables are updated using income-specific updating factors, whereas demographic and socio-economic status variables remain constant.
- Amounts of income taxes and social contributions of employees are well aligned with external statistics. Amounts of contributions paid by the self-employed are highly overestimated, which may be due to different reasons: changes in the number of the self-employed, the quality of reported self-employment income in EU-SILC, etc.
- Major aggregate benefit categories are difficult to validate as they consist of diverse individual components and are often constructed in line with the legal retirement age.
- Social assistance, a means-tested benefit, tends to be over-simulated in EUROMOD due to complexity of the means-test, difficulties in simulating the means-test using UDB SILC and changes in administration of this social assistance benefit (municipalities have gotten more discretion power).

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**ANNEX I: RAW INDICES FOR DERIVING UPDATING FACTORS**

		2016	2017	2018	2019	
HICP	\$HICP	100.68	104.42	107.07	109.3	EUROSTAT; AMECO updated (29/04/2019) values for 2018
Earnings	\$f_yem	774	840.4	921.4	996	Statistics Lithuania/Main country indicators/ Whole economy (including individual enterprises/ Average gross monthly earnings. Predicted growth (8.1%) for 2019.
Prev_wage	\$f_yempv	714.4	774	840.4	921.4	Yem lagged by 1
Constant	\$f_one	1	1	1	1	Keep constant
Family	\$f_bfa	413.4	384.8	435.4	435.4	Ministry of Social Security and Labour/Statistics/Recipients and amounts of monetary social assistance/ Benefits for families with children (Išmokos šeimoms auginančioms vaikus) - also by Statistics Lithuania
Health	\$f_bho	287.3	300.7	319.7	301.9	Average sickness benefits per person - Atvira Sodra (Ligos pašalpoms priskaičiuota suma (mln. EUR)/ ligos pašalpa (atvejai, tūkst) * 1000); break in 2009. 2019 - q1
Unemployment	\$f_bunct	185.9	221.9	290.1	312.8	Ministry of Social Security and Labour/ Social Reports/ Average social insurance unemployment benefit - also by Statistics Lithuania. 2019 - q1
Assistance	\$f_bsa00	690.7	785.8	970.9	970.9	Ministry of Social Security and Labour/Statistics/Recipients and amounts of monetary social assistance/ Social assistance benefits (Socialinė pašalpa) - also by NSO
Disability	\$f_bdi	189.28	204.28	226.08	238.81	Lietuvos statistikos departamentas, Vidutinė valstybinio socialinio draudimo pensija - svertinis netekto darbingumo ir invalidumo pensiju vidurkis   EUR. 2015 & 2016 - updated in line with growth of social insurance pensions. Fixed in 2010-2011 - cuts in boa_lt. 2019 - q1
Old_age	\$f_boa	255.28	277.66	311.54	344.2	Lietuvos statistikos departamentas, Vidutinė valstybinio socialinio draudimo pensija   EUR. 2015 & 2016 - updated in line with growth of social insurance pensions. Fixed in 2010-2011 - cuts in boa_lt implemented. 2019 - q1
Survivor	\$f_bsu	32.3	33.2	35.66	38.4	"State Social Insurance Fund Board of the Republic of Lithuania/ Statistics/ Survivor and orphan pensions: <a href="http://www.sodra.lt/index.php?cid=13555">http://www.sodra.lt/index.php?cid=13555</a> . Fixed in 2010-2011 - cuts in boa_lt
Early_ret	\$f_byr	183.5	200.23	227.4	251	"Išanskinė senatvės pensijai. State Social Insurance Fund Board of the Republic of Lithuania/ Statistics/ Early retirement pensions. <a href="http://www.sodra.lt/index.php?cid=13555">http://www.sodra.lt/index.php?cid=13555</a> . Fixed in 2010-2011 - cuts in boa_lt

\* Growth in earnings does not include recalculation factor of 1.289, which is applied separately in the model in 2019.

## ANNEX 2: VALIDATION TABLES

Table 4.2. Number of employed & unemployed, thousands (using 2016 data)

	EUROMOD	External			Ratio		
	2016	2016	2017	2018	2016	2017	2018
Number of employed	1289	1354	1346	1367	0.95	0.96	0.94
Number of unemployed	140	116	103	90	1.20	1.36	1.55

Notes: Number of employed and unemployed is computed based on months in employment/unemployment. Numbers computed as averages of monthly data over the year. Sources: Statistics Lithuania (LFS)

Table 4.3. Market Income-Number of recipients, thousands (using 2016 data)

	EUROMOD	External			Ratio		
	2016	2016	2017	2018	2016	2017	2018
Employment income	1409	1194	1193	1209	1.18	1.18	1.17
Self-employment income	276	168	162	160	1.64	1.70	1.72
Investment income	254	N/A	N/A	N/A	N/A	N/A	N/A
Rent income	101	N/A	N/A	N/A	N/A	N/A	N/A
Private pensions	1	N/A	N/A	N/A	N/A	N/A	N/A
Private transfers	50	N/A	N/A	N/A	N/A	N/A	N/A
Other	0	N/A	N/A	N/A	N/A	N/A	N/A
Severance payments	39	N/A	N/A	N/A	N/A	N/A	N/A
Fringe benefits	59	N/A	N/A	N/A	N/A	N/A	N/A
Imputed housing	1763	N/A	N/A	N/A	N/A	N/A	N/A

Table 4.4. Market Income-Aggregate amounts, annual amounts in millions (if not stated otherwise)

	EUROMOD				External			Ratio		
	2016	2017	2018	2019	2016	2017	2018	2016	2017	2018
Employment income	11378	12354	13545	18873	13375	14479	15790	0.85	0.85	0.86
Self-employment income	2061	2238	2454	2653	N/A	N/A	N/A	N/A	N/A	N/A
Investment income	229	238	244	249	N/A	N/A	N/A	N/A	N/A	N/A
Rent income	84	87	89	91	N/A	N/A	N/A	N/A	N/A	N/A
Private pensions	1	1	2	2	N/A	N/A	N/A	N/A	N/A	N/A
Private transfers	83	86	88	90	N/A	N/A	N/A	N/A	N/A	N/A
Other	0	0	0	0	N/A	N/A	N/A	N/A	N/A	N/A
Severance payments	42	46	50	54	177	200	N/A	0.24	0.23	N/A
Fringe benefits	58	63	70	75	N/A	N/A	N/A	N/A	N/A	N/A
Imputed housing	3077	3191	3272	3340	N/A	N/A	N/A	N/A	N/A	N/A
Average employment income	673	731	801	1116	774	840	924	0.87	0.87	0.87

Table 4.5. Non-simulated taxes and benefits-Number of recipients/payers, thousands

	EUROMOD	External			Ratio		
	2016	2016	2017	2018	2016	2017	2018
<b>Benefits</b>							
Old-age pension	665.9	674.4	670.8	671.9	0.99	0.99	0.99
Disability pension	182.7	162.2	164.1	162.2	1.13	1.11	1.13
Survivor's pension	272.0	253.7	250.1	246.1	1.07	1.09	1.11
Early retirement	4.6	8.0	7.2	6.8	0.57	0.64	0.68
Guardianship benefit	7.1	10.3	10.0	9.4	0.69	0.71	0.75
Education allowances	22.5	N/A	N/A	N/A	N/A	N/A	N/A
Compensation for utilities	30.2	129.6	105.5	113.2	0.23	0.29	0.27
Sickness benefit	414.5	805.9	887.9	911.2	0.51	0.47	0.45
Municipal and NGO support	55.8	19.1	18.2	14.5	2.91	3.06	3.84
<b>Taxes and Social Insurance contributions</b>							
Property tax	561.3	N/A	N/A	N/A	N/A	N/A	N/A



Table 4.6. Non-simulated taxes and benefits-Aggregate amounts, annual amounts in millions

	EUROMOD				External			Ratio		
	2016	2017	2018	2019	2016	2017	2018	2016	2017	2018
<b>Benefits</b>										
Old-age pension	2305.6	2437.2	2743.2	3074.9	2426.9	2595.4	2970.0	0.95	0.94	N/A
Disability pension	392.7	420.7	465.9	492.4	422.1	457.4	N.D.	0.93	0.92	N/A
Survivor's pension	108.6	111.6	119.9	129.1	162.9	159.2	N.D.	0.67	0.70	N/A
Early retirement	8.9	9.7	11.0	12.2	17.7	17.2	18.4	0.50	0.56	0.60
Guardianship benefit	14.9	14.9	14.9	14.9	15.8	15.5	14.6	0.94	0.96	1.02
Education allowances	15.1	15.1	15.1	15.1	N/A	N/A	N/A	N/A	N/A	N/A
Compensation for utilities	4.6	4.8	5.2	4.9	17.9	15.8	22.1	0.26	0.31	0.23
Sickness benefit	216.7	235.3	257.9	278.8	234.2	256.4	291.3	0.92	0.92	0.89
Municipal and NGO support	9.5	9.8	10.1	10.3	1.8	2.1	2.2	5.15	4.76	4.50
<b>Taxes and Social Insurance contributions</b>										
Property tax	22.8	23.7	24.3	24.8	28.4	30.1	36.8	0.80	0.79	0.66
Average pension	288.53	304.99	343.29	384.79						
growth in average pension		1.06	1.13	1.12						
external: average pension	244.45	255.28	277.66	307.40						
	1.18	1.19	1.24	1.25						
		1.04	1.09	1.11						

Table 4.7. Simulated taxes and benefits-Number of recipients/ payers, thousands

	EUROMOD				External			Ratio		
	2016	2017	2018	2019	2016	2017	2018	2016	2017	2018
<b>Benefits</b>										
Child allowance (additional)	54.63	80.16	99.13	99.31	45.36	65.76	73.64	1.20	1.22	1.35
Universal child allowance	0.00	0.00	368.87	368.87	N/A	N/A	337.76	N/A	N/A	1.09
Birth allowance	22.40	22.40	22.40	22.40	33.59	30.96	29.57	0.67	0.72	0.76
Childcare benefit	51.36	51.36	51.36	51.36	41.12	42.74	42.33	1.25	1.20	1.21
Maternity benefit	14.79	14.79	14.79	14.79	22.80	23.20	24.00	0.65	0.64	0.62
Pregnancy grant (non-contr)	7.61	7.61	7.61	7.61	5.66	4.89	4.21	1.34	1.55	1.81
Paternity benefit	14.66	14.66	14.66	14.66	15.60	15.10	15.40	0.94	0.97	0.95
Social assistance	63.25	55.72	80.48	75.65	87.90	74.55	71.21	0.72	0.75	1.13
Unemployment benefit	102.20	102.14	103.88	103.88	135.84	139.60	148.60	0.75	0.73	0.70
Long-term employment benefit	0.00	0.00	18.39	18.39	N/A	N/A	N/A	N/A	N/A	N/A
Students' childcare benefit	0.00	0.80	0.80	0.80	N/A	0.40	0.47	N/A	2.03	1.71
Benefit for multiple birth families	0.00	0.14	0.14	0.14	N/A	1.38	1.64	N/A	0.10	0.09
<b>Taxes and Social Insurance contributions</b>										
Income tax	1360.02	1274.07	1309.43	1404.34	1501.36	1518.08	1523.37	0.91	0.84	0.86
Tax allowance	1256.32	1249.53	1148.73	1343.34	N/A	N/A	N/A	N/A	N/A	N/A
Tax allowance (wh)	1256.32	1249.53	1148.73	1343.34	N/A	N/A	N/A	N/A	N/A	N/A
tintc	195.30	187.61	194.04	200.03	N/A	N/A	N/A	N/A	N/A	N/A
Income tax (wh)	1241.77	1147.34	1188.14	1332.35	N/A	N/A	N/A	N/A	N/A	N/A
Health contributions	59.17	60.74	71.14	71.14	N/A	N/A	N/A	N/A	N/A	N/A
Employee contribution	1408.82	1408.82	1408.82	1492.66	1318.60	1324.20	1335.50	1.07	1.06	1.05

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Self-employed contr	276.15	276.15	260.47	260.47	N/A	N/A	N/A	N/A	N/A	N/A
Employer contributions	1408.82	1408.82	1408.82	1408.60	N/A	N/A	N/A	N/A	N/A	N/A
Credited contributions	1244.43	1242.86	1238.76	2541.08	N/A	N/A	N/A	N/A	N/A	N/A

Table 4.8. Simulated taxes and benefits- Aggregate amounts, annual amounts in millions

	EUROMOD				External			Ratio		
	2016	2017	2018	2019	2016	2017	2018	2016	2017	2018
<b>Benefits</b>										
Child allowance (additional)	21.2	31.5	39.1	48.6	15.0	24.4	33.5	1.41	1.29	1.17
Universal child allowance	0.0	0.0	204.1	344.7	N/A	N/A	161.0	N/A	N/A	1.27
Birth allowance	9.4	9.4	9.4	9.4	14.0	13.0	12.4	0.67	0.73	0.76
Childcare benefit	165.3	179.3	200.2	213.1	177.1	192.3	230.8	0.93	0.93	0.87
Maternity benefit	30.6	33.5	37.5	40.1	58.1	65.9	70.4	0.53	0.51	0.53
Pregnancy grant (non-contr)	0.6	0.6	0.6	0.6	0.4	0.4	0.3	1.34	1.55	1.81
Paternity benefit	12.0	13.2	14.4	15.5	11.8	12.9	14.4	1.02	1.02	1.00
Social assistance	78.3	71.9	117.1	124.0	60.7	58.6	69.1	1.29	1.23	1.69
Unemployment benefit	101.6	107.0	169.1	184.3	77.3	88.6	165	1.31	1.21	1.03
Students' childcare benefit	0.0	1.5	2.2	2.2	N/A	0.6	1.1	N/A	2.66	2.03
Benefit for multiple birth families	0.0	0.4	0.4	0.4	N/A	1.1	1.4	N/A	0.34	0.27
<b>Taxes and Social Insurance contributions</b>										
Income tax	1662.4	1683.4	1837.9	3395.4	1548.5	1626.8	1840.3	1.07	1.03	1.00
Tax allowance	2212.5	3204.4	2883.7	3293.0	N/A	N/A	N/A	N/A	N/A	N/A
Tax allowance (wh)	2212.5	3204.4	2883.7	3293.0	N/A	N/A	N/A	N/A	N/A	N/A
tintc	11.7	11.8	12.7	18.2	N/A	N/A	N/A	N/A	N/A	N/A
Income tax (wh)	1492.0	1497.4	1734.6	3756.1	N/A	N/A	N/A	N/A	N/A	N/A
Health contributions	22.4	24.9	30.7	33.1	N/A	N/A	N/A	N/A	N/A	N/A
Employee contribution	1024.0	1111.9	1219.0	4139.7	1015.7	N/A	N/A	1.01	N/A	N/A
Self-employed contributions	334.5	380.2	409.7	374.2	209.2	N/A	N/A	1.60	N/A	N/A
Employer contributions	3539.3	3842.9	4258.3	357.4	3631.9	3990.8	4431.7	0.97	0.96	0.96
Credited contributions	337.8	373.4	419.4	641.1	N/A	N/A	N/A	N/A	N/A	N/A

Table 4.9. Income distribution

	EUROMOD				External			Ratio
	2016	2017	2018	2019	2016	2017	2018	2016/2017
D1	2.34	2.26	2.57	2.62	2.0	2.1	0.0	1.11
D2	4.07	4.07	4.27	4.38	4.1	4.0	0.0	1.02
D3	5.29	5.27	5.37	5.50	5.1	5.1	0.0	1.04
D4	6.40	6.40	6.45	6.56	6.3	6.2	0.0	1.03
D5	7.65	7.69	7.74	7.82	7.4	7.5	0.0	1.02
D6	8.89	8.90	8.92	8.95	8.7	8.8	0.0	1.01
D7	10.31	10.36	10.32	10.41	10.5	10.3	0.0	1.00
D8	12.20	12.21	12.08	12.11	12.5	12.3	0.0	0.99
D9	15.51	15.50	15.37	15.32	15.6	15.6	0.0	0.99
D10	27.35	27.34	26.90	26.35	27.7	28.3	0.0	0.97
Median	6010	6497	7284	8066	5645	6134	0.0	0.98
Mean	7283	7858	8811	9666	7033	7555	0.0	0.96
Gini	36.10	36.16	35.13	34.37	37.0	37.6	0.0	0.96
S80/S20	6.70	6.77	6.18	5.95	7.1	7.3	0.0	0.92

Table 4.10. At risk of poverty rates by gender and age, percent

	EUROMOD				External			Ratio
	2016	2017	2018	2019	2016	2017	2018	2016/2017
<b>40% median HDI</b>								
Total	8.85	9.09	7.02	6.61	8.3	9.1	0.0	0.97
Males	10.11	10.33	7.90	7.46	9.2	10.2	0.0	0.99
Females	7.77	8.04	6.27	5.88	7.7	8.2	0.0	0.95
<b>50% median HDI</b>								
Total	15.94	15.85	13.93	13.30	15.9	16.1	0.0	0.99
Males	15.77	15.66	13.49	12.95	15.4	15.8	0.0	1.00
Females	16.07	16.02	14.31	13.59	16.4	16.4	0.0	0.98
<b>60% median HDI</b>								
Total	21.65	21.89	20.74	20.19	21.9	22.9	0.0	0.95
Males	20.61	20.51	19.19	18.70	20.4	21.4	0.0	0.96
Females	22.54	23.06	22.07	21.46	23.1	24.2	0.0	0.93
<b>70% median HDI</b>								
Total	29.68	29.96	29.25	28.56	29.2	30.8	0.0	0.96
Males	27.97	28.23	27.35	26.74	26.9	29.3	0.0	0.95
Females	31.13	31.43	30.88	30.12	31.3	32.1	0.0	0.97
<b>60% median HDI</b>								
0-15 years	22.94	22.89	19.33	17.47	25.7	25.3	0.0	0.91

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16-24 years	25.23	25.71	24.75	24.22	23.4	26.5	0.0	0.95
25-49 years	15.80	15.68	14.52	13.90	16.9	16.7	0.0	0.95
50-64 years	18.86	18.58	18.12	18.12	21.0	19.3	0.0	0.98
65+ years	31.53	33.02	32.94	32.93	27.7	33.4	0.0	0.94

Table 4.11. Impact of minimum wage (annual monetary amounts in millions EUR)

	Baseline				Min Wage Incl.				Ratio			
	2016	2017	2018	2019	2016	2017	2018	2019	2016	2017	2018	2019
Equivalised disposable income	14344	15467	17322	18989	14387	15513	17366	19050	1.00	1.00	1.00	1.00
Employment income	11378	12354	13545	18873	11420	12400	13589	18933	1.00	1.00	1.00	1.00
Social assistance	78	72	117	124	78	72	117	124	1.00	1.00	1.00	1.00
Personal income tax	1662	1683	1838	3395	1662	1683	1838	3395	1.00	1.00	1.00	1.00
Employee contribution	1024	1112	1219	4140	1024	1112	1219	4140	1.00	1.00	1.00	1.00
Gini coefficient	36.10	36.16	35.13	34.37	35.98	36.04	35.04	34.26	1.00	1.00	1.00	1.00
Poverty rate (60% median HDI)	21.65	21.89	20.74	20.19	21.44	21.73	20.54	20.26	1.01	1.01	1.01	1.00



## ANNEX II: RECALCULATIONS AND COMPENSATIONS OF PENSIONS

Due to fiscal consolidation during the period of economic crisis social insurance and state pensions were progressively cut in Lithuania in 2010. Cuts lasted until 2012 and since 2014 compensations for the losses have been initialised. All these recalculations of pensions were of progressive nature and had different effect on the different groups of pensioners. Therefore, we opted for simulating them directly in the model instead of applying the regular updating procedure for non-simulated benefits. Below rules and procedures for simulating pension recalculations in Lithuania are discussed.

The Provisional Law on Recalculation and Payment of Social Benefits of the Republic of Lithuania as of December 9, 2009 came into effect on January 1, 2010 (hereinafter – the Provisional Law; Official Gazette, 2009, No.152-6820). This law establishes, among others, the procedure for recalculation of state social insurance pensions and payment of these pensions when a person has the insured income and/or works on a self-employment basis.

The following state social insurance pensions shall be recalculated:

- Old age pensions exceeding the marginal amount of the state social insurance pension, i.e. 650 LTL;
- Early old-age pensions, exceeding the marginal amount of the state social insurance pension, i.e. 650 LTL;
- Work incapacity pensions awarded to individuals who have lost 60-70 per cent of capacity for work (Group II disability pensions), exceeding the marginal amount of the state social insurance pension, i.e. 650 LTL;
- Work incapacity pensions awarded to individuals who have lost 45-55 per cent of capacity for work (Group III disability pensions), exceeding the marginal amount of the state social insurance pension, i.e. 325 LTL;
- Pensions for the time served exceeding the marginal amount of the state social insurance pension, i.e. 650 LTL;
- Orphan's (loss of breadwinner) pension which amount per each orphan exceeds half the marginal amount of the state social insurance pension, i.e. 325 LTL;
- Survivors' pension, not depending on its amount.

Cuts on state pensions are not discussed here in detail as those were not explicitly simulated in EUROMOD, although most of them were implicitly recalculated.<sup>127</sup> More details on the structural cuts are provided by the State Social Insurance Fund Board of the Republic of Lithuania and can be found in English at: <http://www.sodra.lt/index.php?cid=1945>.

The structural cuts for the following categories of pensions were simulated in EUROMOD for 2010-2011 and included into the baseline (policy sheet *boa\_lt*): old-age benefits (*boa*), early

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<sup>127</sup> Recalculated state pensions as indicated in the Temporary Law include the following major groups: *State pensions of degree one or two of the Republic of Lithuania, State pensions for victims, State pensions for judges, State Pensions for officers and soldiers, State pensions for scientists, State loss of breadwinner's pensions.* According to the Temporary Law state pensions were recalculated in most cases in accordance to rules and marginal amounts also applicable for state social insurance pensions. Therefore and due to the fact that state pensions are aggregated together with social insurance pensions in the EUROMOD input database, they were recalculated implicitly, structural cuts being equally applied on all types of pensions within the same aggregated category of benefits/pensions if not indicated otherwise.

retirement pension (*byr*), disability benefits (*bdi*), orphan's benefits (*bsu*). Up to 2009 these benefits were updated using regular updating procedure. In 2010-2011 the pension cuts were implemented directly in the model; these simulations are linked to 2010 SILC (2009 income reference).

The main health warnings for the implementation of the structural cuts in EUROMOD are:

- Old age and state pensions are aggregated in *boa* (although these two types of pensions are recalculated according to different rules); invalidity pensions after the pension age are included into *boa*; the bonus for the length of the service can't be identified and is ignored this in our simulations.
- We disregard the reduction of *boa* pensions for those receiving insurable income.
- There is no information on a degree of work incapacity in the input database. Those were imputed by differentiating the marginal average sizes of the three types of work incapacity/disability pensions and by ratios of the three categories as indicated by external statistics.
- Survivor and orphan pensions are aggregated in the input database and were differentiated according to the age of recipients.
- All indicated categories of pensions in EUROMOD are aggregate categories. The structural cuts were equally applied on all types of benefits within the same category if not indicated otherwise.

Since 2012 the recalculation of state insurance pensions was cancelled, although recalculation rules still applied to state pensions. State pensions cannot be identified in EUROMOD and therefore are not recalculated. For the dataset with the income reference period of 2011 (i.e. 2012 SILC) reverse recalculation rules were implemented for 2012 and later policy years.

Since 2014 compensations for the loss due to those structural cuts made in 2010 and 2011 have been initialised. It affects old-age, early retirement and disability pensions (but not survivor's pensions). The amount of compensation for the pensioner is equal to his/her losses due to the cuts in 2010-2011. The total amount of compensation (in nominal terms) is to be paid over the 2014-2016 period. 20 percent of this amount is to be paid in 2014, 40 percent is to be paid in 2015 and the rest 40 percent – in 2016 (payments of an equal amount will be made in March, June, September and December). 500 thousands persons are entitled to these compensations. The average compensation is 1044 LTL. If the estimated amount of compensation is under 100 LTL it will be paid at once.

Since 2016 compensations for those whose pensions were reduced due to receiving insurable income (i.e. earnings) were initiated. This involves those in receipt of social insurance old-age pensions and state pensions. It is foreseen that 33% of the losses would be paid in 2016, 33% in 2017 and 34% in 2018. In EUROMOD we did not model pension cuts for those in work, neither their compensations are modeled.

Since 2019, the old-age pension indexation was introduced and implemented in the model since 2018 policy year. From January 1<sup>st</sup> 2018 onwards, state pension bonuses also started to be paid to recipients of small old-age pensions. Pension bonuses are granted and paid according to the Law on Social Assistance Pensions of the Republic of Lithuania<sup>128</sup>. If a person is eligible for the pension, he is paid a full difference of 95 % of minimum consumption needs (251 EUR in 2019) and the received pension. If a person has a minimum length of service but is not eligible to receive the pension, the proportion of the bonus is reduced proportionately. Furthermore,

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<sup>128</sup> Based on the following law: Lietuvos Respublikos šalpos pensijų įstatymas, No. I-675. <https://www.e-tar.lt/portal/lt/legalAct/TAR.2CE6CFE9E2EE>

compensations for social insurance old-age and state pensions were included in the model (with SWITCH function). Since 2018 policy system, the conversion coefficient (0.78) is applied when recalculating former pension records into the point system.

To sum up, the additional policy for recalculations of pensions (boa\_lt) functions as following:

1. **Not available (n/a)** up to 2010, i.e. benefits updated using regular updating procedure.
2. **'On' since 2010:**
  - a. In 2010-2011 the pension cuts are linked to 2010 SILC or earlier datasets (2009 income reference, i.e. sgl\_s ≤ 2009). Cuts modelled for: old-age benefits (*boa*), early retirement pension (*byr*), disability benefits (*bdi*), orphan's benefits (*bsu*).
  - b. Since 2012 restoration of pensions is modelled for datasets which refer to pensions with applied cuts (i.e. sgl\_s = 2010 & sgl\_s = 2011). No actions taken for datasets with restored pensions (i.e. referring to 2012 year or later).
  - c. For 2014-2016 compensations modelled for lost pensions due to cuts (i.e. 20% in 2014, 40% in 2015, 40% in 2016).
  - d. Since 2017 – no cuts or compensations apply. We roll back any cuts/or compensations present in the data.
  - e. No cuts or compensations modelled due to receipt of insured incomes (i.e. earnings).
  - f. Additional simulations were added for old-age and disability benefits (disaggregation of variables), which are siwithched off by default, therefore are not represented in the baseline model results.
  - g. State pension bonuses also started to be paid to recipients of small old-age pensions.

## ANNEX 3: POLICY EFFECTS IN 2018-2019

### *Preliminary: Indexation based on projected HICP for 2019<sup>129</sup>*

Table A3.1 shows the effect of policy changes implemented in 2019 on mean equalised household disposable income by income component and income decile group, as a percentage of mean equalised household disposable income in 2018. The effect is estimated as a difference between simulated household net income under the 2019 tax-benefit policies (deflating monetary parameters by Eurostat's Harmonized Index of Consumer Prices, HICP) and net incomes simulated under 2018 policies. It should be noted, that the estimations show a large increase in the original income as a policy effect. This is due to the most recent tax reform: changes in PIT and recalculation of social insurance contributions, which resulted in recalculation of all the gross wages in Lithuania using a coefficient of 1.289. These reform resulted in substantially higher gross original income, which also shows through PET results. Nevertheless, the change was absorbed by the changes in PIT and SIC. Hence, the high coefficients on original income, PIT and SIC components in Table A3.1. To adjust for this, we allocate the effect of the change in original income proportionally to the change in SIC and PIT in Table A3.2 and Figure A3.1. Furtheron we comment on these adjusted results.

In general, we see progressive change to income due to policy reforms between 2018-2019. The positive effect is the highest for lower income deciles and amounts for around 10% in the 1<sup>st</sup> decile. The effect declines for higher income deciles and only amounts for 0.42% for the 10<sup>th</sup> decile. On average policy reforms increased disposable income by 3.2% in real terms between 2018-2019.

The largest positive effect to the lower income deciles is due to increases in public pensions. This change can be associated with newly introduced pension bonuses for low pensions. Increased amounts of assistance pensions base, basic monthly pension and pension indexation have also resulted in positive change in public pensions for all income decile groups.

We also see positive effect of non-means-tested benefits to lowest income deciles (1-3<sup>rd</sup>) of around 2-3%. Such changes are associated with more generous universal child benefits and introduction of additional amounts for disabled children. The positive income effect is the highest for the lower income deciles (1-3<sup>rd</sup>), where larger families with children are located.

Changes in means-tested programmes included more generous additional child benefits, which size was extended and equalized irrespectively to children age. On the other hand, the amount of state-supported income (SSI) used in the system of social assistance was not increased between 2018-2019. Hence, the total real effect for the lowest two income deciles is marginally negative.

The changes in direct taxes have slightly positive results on mean disposable income. While the nominal PIT rate was increased, but so did tax allowances and the gross wages (which were recalculated using a factor of 1.289). The effect shown in Table 3.2 and Figure 3.1 is in line with the general aim of the tax reform – to decrease tax burden across the population. The negative effect in the 10<sup>th</sup> income decile is in line with an introduction of a second marginal tax bracket of 27% since 2019, albite EUROMOD only reflects this reform partially due to a high income threshold for application of the second marginal tax rate and censoring of the SILC data.

<sup>129</sup> Results based on the final HICP will appear in the annual EUROMOD report Effects of tax-benefit policy changes across the income distributions of the EU-28 countries: 2016-17 (updated).

There were also changes in employee and self-employed social insurance contributions. While the nominal rate of the employee SIC increased due to tax and SIC reform, it is applied on the higher income base. Also, the rate was increased less than increase of the recalculated gross income as a fraction of pension funding for the basic pension part was transferred from the Social Insurance Fund's budget to the general budget. Also the SIC rate applied on recalculated gross income is lower as contributions to the II pillar pensions are now paid in addition to SIC on an opt-out basis. All these changes generated positive effects on income with a slightly progressive pattern. Speaking of the self-employed persons, we see marginal negative results as there was no obligations to recalculate self-employment income as it was the case for wages. Hence the higher PIT and SIC rates apply on this income type.

Overall the changes in the abovementioned policies between 2018 and 2019 have had a positive impact throughout the distribution, especially so for the first three income deciles. Hence it can be concluded that policy reform between 2018-2019 was progressive and had a pro-poor orientation. It should be noted, though, that the adjusted policy reform results should be treated with some caution, especially for PIT and SIC components due to assumption of applying the effect to original income identified in Table A3.1 proportionally to PIT and SIC.

Table A3.1. Policy effects in 2018-2019, using the CPI-indexation (CPI = 1.024), % - unadjusted\*

<i>Deciles</i>	<i>Original income</i>	<i>Public pensions</i>	<i>Means-tested benefits</i>	<i>Non means-tested benefits</i>	<i>Employee SIC</i>	<i>Self-employed SIC</i>	<i>Other SIC</i>	<i>Direct taxes</i>	<i>Disposable income</i>
<i>Decile 1</i>	6.87	5.57	-0.47	3.21	-4.64	0.52	-0.10	-0.84	10.13
<i>Decile 2</i>	10.23	4.31	-0.17	2.45	-6.86	0.14	-0.02	-2.83	7.25
<i>Decile 3</i>	15.47	3.44	0.09	2.43	-10.32	0.16	-0.01	-4.51	6.73
<i>Decile 4</i>	16.09	3.16	-0.01	1.53	-10.82	0.23	-0.01	-4.66	5.52
<i>Decile 5</i>	21.18	2.22	0.04	1.54	-14.07	0.27	-0.01	-6.21	4.96
<i>Decile 6</i>	23.30	1.47	0.02	1.20	-15.56	0.27	-0.01	-6.78	3.90
<i>Decile 7</i>	26.05	1.06	0.00	1.03	-17.28	0.37	-0.01	-7.78	3.43
<i>Decile 8</i>	26.50	0.95	0.00	0.87	-17.62	0.41	-0.01	-8.13	2.97
<i>Decile 9</i>	26.96	0.88	0.01	0.64	-17.93	0.37	0.00	-8.60	2.32
<i>Decile 10</i>	25.96	0.38	0.00	0.31	-17.49	0.40	0.00	-9.14	0.42
<i>Total</i>	23.22	1.48	-0.01	1.03	-15.52	0.34	-0.01	-7.34	3.20

Comment: \* These are unadjusted PET results. Change in original income is due to the tax reform and recalculation of gross earning using 1.289 factor. For adjusted results, see Table A3.2.

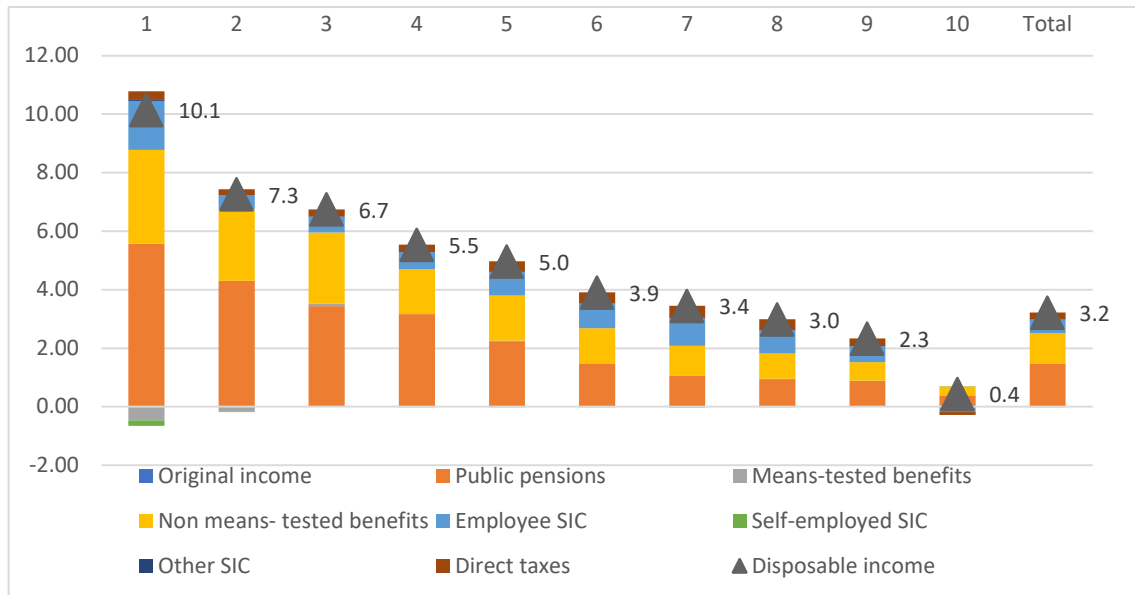
Table A3.2. Policy effects in 2018-2019, using the CPI-indexation (CPI = 1.024), % - adjusted\*

<i>Deciles</i>	<i>Original income</i>	<i>Public pensions</i>	<i>Means-tested benefits</i>	<i>Non means-tested benefits</i>	<i>Employee SIC</i>	<i>Self-employed SIC</i>	<i>Other SIC</i>	<i>Direct taxes</i>	<i>Disposable income</i>
<i>Decile 1</i>	0.00	5.57	-0.47	3.21	1.67	-0.19	0.04	0.30	10.13
<i>Decile 2</i>	0.00	4.31	-0.17	2.45	0.48	-0.01	0.00	0.20	7.25
<i>Decile 3</i>	0.00	3.44	0.09	2.43	0.55	-0.01	0.00	0.24	6.73
<i>Decile 4</i>	0.00	3.16	-0.01	1.53	0.59	-0.01	0.00	0.26	5.52
<i>Decile 5</i>	0.00	2.22	0.04	1.54	0.82	-0.02	0.00	0.36	4.96
<i>Decile 6</i>	0.00	1.47	0.02	1.20	0.85	-0.01	0.00	0.37	3.90

<b>Decile 7</b>	0.00	1.06	0.00	1.03	0.94	-0.02	0.00	0.43	3.43
<b>Decile 8</b>	0.00	0.95	0.00	0.87	0.80	-0.02	0.00	0.37	2.97
<b>Decile 9</b>	0.00	0.88	0.01	0.64	0.54	-0.01	0.00	0.26	2.32
<b>Decile 10</b>	0.00	0.38	0.00	0.31	-0.18	0.00	0.00	-0.10	0.42
<b>Total</b>	0.00	1.48	-0.01	1.03	0.48	-0.01	0.00	0.23	3.20

Comment: \* These are adjusted results, i.e. allocating the effect of the change in original income proportionally to the change in SIC and direct taxation.

Figure A3.1. Policy effects in 2018-2019, using the CPI-indexation (CPI = 1.024), % -adjusted\*



Comment: \* These are adjusted results, i.e. allocating the effect of the change in original income proportionally to the change in SIC and direct taxation.