





## European Platform Undeclared Work

### Cherry letters

Lithuania

	<b>Summary</b> 'Cherry letters' were part of a nationwide preventative approach which alerted employees about the implications for their future pension payments if they did not accumulate a full annual pension entitlement, which would result if they did not declare, or under-declared their work.
<b>Title of the practice in original language</b>	<i>Vyšniniai vokai</i>
<b>Name(s) of authorities/bodies/organisations involved</b>	<ul style="list-style-type: none"> <li>• Social Security Authority (SODRA, <i>Socialinis draudimas</i>);</li> <li>• State Tax Inspectorate (VMI, <i>Valstybinė Mokesčių Inspekcija</i>);</li> <li>• State Labour Inspectorate (VDI, <i>Valstybinė Darbo Inspekcija</i>).</li> </ul>
<b>Sectors</b>	All
<b>Target groups</b>	<ul style="list-style-type: none"> <li>• Workers potentially involved in undeclared work (directly targeted);</li> <li>• Employers potentially involved in undeclared work (indirectly targeted).</li> </ul>
<b>Purpose of measure</b>	Prevention

	<b>Aims and objectives</b> 'Cherry letters' were sent with the intention of 'nudging' the behaviour of workers and employers towards compliance in paying full state pension contributions to increase tax and social security contributions and to ensure workers received the benefits which they would be entitled to.
<b>Background context</b>	<p>Each year, around a quarter of people starting to draw a state pension have not accumulated the mandatory pension contribution period of 30 years.</p> <p>Often, undeclared work, and wages paid in part via "envelope" wages, result in workers accumulating less than the full annual contribution period. Therefore, in 2017, the state social security institution sent so-called 'Cherry letters' to notify those workers who were assessed in the previous year as not accumulating a full annual pension</p>



	entitlement (which may have been due to undeclared or under-declared work) of their personal pension contribution status. <sup>i</sup>
<b>Key objectives of the measure</b>	<p><b>General Objective:</b></p> <ul style="list-style-type: none"> <li>To nudge the behaviour of workers and employers towards compliance with paying full state pension contributions.</li> </ul> <p><b>Specific Objectives:</b></p> <ul style="list-style-type: none"> <li>To alert employees about their accumulated pension contributions, their anticipated pension amount, the actions they could take to address the problem and the support available from state institutions;</li> <li>Indirectly, via mobilised workers, reach employers who are not declaring part of an employee's wages.</li> </ul>
<b>Main activities</b>	<p>In May 2017, the social security authority (SODRA) sent 138 000 'Cherry letters' to employees, of which 132 000 letters reached the intended recipient. The letters reported to them, in a visually attractive and personalised way, that in the preceding year (2016) they did not accumulate one year of full pension contributions. The letters were personalised to the situation of each employee, outlining precisely the contribution period in the preceding year, its implications for the anticipated pension amount that they would be likely to receive, what actions they could take to improve their personal situation, and what support was available from the public institutions.</p> <p>Among the recipients of 'Cherry letters' there were 13 000 heads of companies and administration, 23 000 engineers, specialists and technicians, 37 000 skilled workers and 30 000 unskilled workers. Thus, the letters reached across a diverse group of occupations and skill levels in the national labour market.</p> <p>Currently, there are no plans to repeat the exercise of sending out the 'Cherry letters' as the problem was addressed through recent legislative changes. As a result of the recent amendment to the national Labour Code, the social security and pension contributions are now counted on the basis of receipt of the full monthly minimum wage, thus reducing the incentive to pay 'envelope wages'.</p>
<b>Funding/organisational resources</b>	<p>The 'Cherry letters' were sent by the social security authority (SODRA) using internal staff resources and internal work procedures. The cost of sending out the letter was estimated to be around EUR 1 million; this compares with the additional pension contributions received after sending out the letters which was in the region of around EUR 17 million over the four months after the initiative was implemented. Costs were minimised by using IT systems</p>



	to automatically generate the personalised contents of the letters.
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	<p><b>Outcomes</b></p> <p>Average salaries increased in 2017 after the 'Cherry letters' were sent to workers who had not accumulated full annual pension contributions in the previous year. Recipients of low wages also declined and social security contributions rose over the four months after the letters were sent.</p>
<p><b>Achievement of objectives</b></p>	<p>In 2017, a year after the 'Cherry letters' were sent out, the income of 50 000 employees who received the 'Cherry letters' grew, and their salary exceeded the minimum wage monthly salary. This would allow them to start paying the contributions necessary to draw a full state pension in the future (provided they met the contribution conditions). The average salary reported to the public authorities increased by 55 %, from EUR 183 in 2016 to EUR 284 in 2017. The proportion of lower wage recipients also declined in 2017, compared to the previous year.<sup>ii</sup></p> <p>The social security institution SODRA also received EUR 17 million more social security contributions over the four months after the initiative was implemented.</p>
<p><b>Lessons learnt and success factors</b></p>	<ul style="list-style-type: none"> <li>• Letters should make it easy for the recipient to comply, by stating, for example, the next steps the employee should take;</li> <li>• Letters should highlight the key messages in a clear and simple way (also with helpful infographics);</li> <li>• Letters with personalised information should be used so that addressees understand why the message is relevant to their personal circumstances;</li> <li>• Letters should highlight the risks and impact of non-compliance (e.g. the personal impacts on them such as their increased risk of not receiving a full state pension in the future);</li> <li>• Letters should be accompanied by a wide communication campaign before and during the process of sending letters, as well as clear follow-up and support procedures.</li> </ul>
<p><b>Transferability</b></p>	<p>The letters have been developed using lessons from similar experiences from Nordic countries, as well as Germany and France. Hence, the transferability of the initiative is high, provided the lessons learnt (detailed above) are taken into account. The measure could also be applied to preventing other types of undeclared work.</p>



Further information	
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<b>Useful sources and resources</b>	Cherry Letters website: <a href="https://www.sodra.lt/lt/vysninis-vokas">https://www.sodra.lt/lt/vysninis-vokas</a> EU Platform for Undeclared Work, 2019. Preventative approaches for tackling undeclared work, focusing upon tax rebates and notification letters, a Learning Resource: <a href="https://ec.europa.eu/social/main.jsp?catId=1299&amp;intPageId=4875&amp;langId=en">https://ec.europa.eu/social/main.jsp?catId=1299&amp;intPageId=4875&amp;langId=en</a>

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<sup>i</sup> The contribution period is calculated on an annual basis, linked to the minimum monthly wage. To accumulate the full annual contribution period, the worker must receive 12 monthly minimum wage payments otherwise the annual contribution period is reduced accordingly in the calculation of pension accumulation.

<sup>ii</sup> Information provided by the State Labour Inspectorate of Lithuania.