





European Platform Undeclared Work

Social insurance contribution top-ups for employee wages below the minimum wage

Lithuania

	Summary <p>A recent amendment to social security legislation aims to ensure that employers pay social insurance contributions at the minimum wage rate, even though they may be paying their employees less than the minimum monthly wage rate (in effect, a 'top-up'). This in turn ensures that these employees accumulate a year's pension and help to reduce under-declared employment.</p>
Title of the practice in original language	<i>Darbdavio mokamos socialinio draudimo įmokos už mažesni nei minimalų darbo užmokestį</i>
Name(s) of authorities/bodies/organisations involved	<ul style="list-style-type: none"> • The State Social Security Institution, responsible for the collection and administration of the social security contributions; • The State Labour Inspectorate, responsible for ensuring that employers abide by the new rules.
Sectors	All
Target groups	<ul style="list-style-type: none"> • Employers with employees earning less than the minimum monthly wage (directly targeted), • Employees earning less than the minimum monthly wage (directly targeted).
Purpose of measure	Prevention


	Aims and objectives <p>A nationwide reform to ensure social security rights and pension entitlements for employees.</p>
Background context	<p>The legislative amendment was introduced in 2018, against a background of high level of undeclared work amongst employees officially declared as receiving wages below the minimum monthly wage (by declaring they worked part-time or otherwise under-declaring their working time although in practice employees worked full-time). This, even though in practice such employees were working full-time and should have been paid the minimum wage, with the accompanying social insurance contributions paid by employers.</p> <p>To save the costs of social insurance contributions, employers would not declare to the public authorities the</p>



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	<p>full extent of the wages paid and pay part of the wages instead as “envelope” wages directly to the employees. The direct negative consequence for such employees was a loss to their social security entitlements and coverage.</p> <p>The amendment was implemented from 1 January 2018 onwards. It is a nationwide reform, applicable across all sectors, and applying to all employers paying wages below the minimum monthly wage. Certain exceptions apply including employees up to 24 years old, retired, persons with disabilities and employees who work for more than one employer.</p>
Key objectives of the measure	<p>General objectives:</p> <ul style="list-style-type: none"> • Reduce the extent of under-declared work arising from the rules governing employer social security contributions. <p>Specific objectives:</p> <ul style="list-style-type: none"> • Ensure that employers pay social insurance contributions on employee wages falling below the minimum monthly wage. • Ensure that employees whose wages are lower than the minimum monthly wage still accumulate a year’s pension.
Main activities	<ul style="list-style-type: none"> • For employees whose salary is below the minimum monthly wage, regardless of whether they work full time or not, the employer must pay the relevant social insurance contributions related to an income not lower than the minimum monthly wage (currently EUR 400). • However, social insurance contributions to be paid by the employee will continue to be calculated from the basis of the employee’s officially declared gross salary (which may be lower than EUR 400).
Funding/organisational resources	<p>The State Labour Inspectorate as part of their daily inspection, awareness raising, and information activities undertakes compliance control and monitoring of the new legislative rules.</p>



	Outcomes <p>Early indications show a reduction in violations concerning working-time declarations after its implementation.</p>
Achievement of objectives	<p>In the first nine months of 2018, this has dropped to 49% of all violations detected, compared to 70% in the nine months of 2017 (before the legislative amendment became operational). In this way, early indications of success show a decrease in the violations of working time detected through inspections.ⁱ</p>
Lessons learnt and success factors	<ul style="list-style-type: none"> • The preparation of the legislative amendment was accompanied by extensive rounds of consultations with employer representatives. This is important to ensure employers understand the reasons for change and secure their buy-in to the changes. • To address concerns raised by the employers, certain exceptions were allowed in the legislative amendment (e.g. for student employees) to avoid undue business and competitiveness costs. • The legislative amendment was accompanied by a range of measures by the State Labour Inspectorate to raise both employee and employer awareness of risks and costs associated with undeclared work including loss of social security and future pension entitlements for employees.
Transferability	<p>The legislative amendment followed similar experiences in Estonia. The transfer of learning was successful due to similar economic situations, working cultures, and the widespread acceptability of undeclared work amongst employees and employers in both countries.</p> <p>The key aspects of transferability include the need for political will to change the existing legislative framework and securing buy-in from employers through extensive information and consultation rounds.</p>

Further information	
Contact	<p>Gediminas Noreika, Deputy Head of Unit State Labour Inspectorate, Republic of Lithuania Email address: Gediminas.noreika@vdi.lt</p>
Useful sources and resources	<p>State Labour Inspectorate: https://www.vdi.lt/ Law on State Social Insurance, Republic of Lithuania: https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/TAIS.1327/EurAQVIUcg</p>

ⁱ Data provided by the State Labour Inspectorate.