PUBLIC AUDIT REPORT

RESULTS OF THE FINANCIAL AUDIT OF THE SET OF ACCOUNTS OF THE PENSION ANNUITY FUND FOR 2024

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The National Audit Office - the supreme audit institution - supervises the legality and efficiency of the management and use of state assets and the implementation of the state budget. By providing audit observations and recommendations, the National Audit Office promotes a positive and effective impact of public audit on the public financial management and control system, and on results- and public needs-oriented public governance. For more information on the activities of the National Audit Office and the results of the public audit, please visit the website of the National Audit Office at: www.valstybeskontrole.lt.

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The public audit report was submitted to: the Seimas of the Republic of Lithuania, the Government of the Republic of Lithuania, the Ministry of Social Security and Labour of the Republic of Lithuanian and the State Social Insurance Board under the Ministry of Social Security and Labour.

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INTRODUCTION

Audit Objective and Scope

We have conducted financial audit of the set of annual accounts of the Pension Annuity Fund for the year 2024 in accordance with the Law on the Accumulation of Pension Savings and the Law on National Audit Office[1]. The audit was conducted in accordance with the International Standards of Supreme Audit Institutions, which include International Standards on Auditing. The audit report presents only the matters identified in the audit, while the independent audit opinion on the annual accounts of the Fund is given in the Auditor's report. The scope of the audit and the methods applied are described in more detail in Annex to the report "Audit scope and methods" (pp. 7-8).

Purpose of the Pension Annuity Fund

As of 1 July 2020, the Pension Annuities Fund, a resource fund, started operating after the Board of the State Social Insurance Fund (the "SSIF") became the centralised payer of pension annuities. The resources of this Fund consist of lump-sum contributions from participants, income from the investment of the Fund's assets, borrowed money and other legally obtained money. The resources of the Pension Annuities Fund may only be used for the payment of pension annuity benefits, for the management and administration costs of the Fund, for investment activities, and for making other payments as provided for in the legislation adopted by the payer of pension annuities.

The objective of the payer of pension annuities is to ensure that pension annuities are paid to beneficiaries for life, for their maximum benefit, and that the assets of the Pension Annuities Fund are managed in a transparent, sustainable manner[2]. The fulfilment of this objective by the payer of pension annuities is overseen by the Pension Annuity Board acting in a collegial manner[3].

The Pension Annuities Fund is accounted for and reported on by the Board of the SSIF separately from its own accounting as a budgetary institution. Pursuant to the Law on the Accumulation of Pensions[4], the budget of the Pension Annuities Fund is approved by the Law of the Republic of Lithuania on the Approval of the Budget Indicators of the Pension Annuities Fund for the respective year.

The set of annual accounts of the Pension Annuities Fund is prepared and submitted to the National Audit Office by the 1st of April of the following year at the latest, and to the Government by the 5th of May, which, after approving the set of accounts, submits it to the Seimas by the 15th of May at the latest. The National Audit Office submits to the Seimas the public auditor's report and the public audit report on the audited set of annual accounts[5] by the 15th of May at the latest. The Fund's set of annual accounts, together

[1] Law on the Accumulation of Pensions, Article 35(10)(4), and Law on the National Audit Office, Article 8(2)(4).

[2] Ibid., Article 35(1)(1).

[3] Ibid., Article 35(2)(1) and (2).

[4] Ibid., Article 35(10)(1).

[5] Annex to the Law on Public Sector Accountability.

with the National Audit Office's auditor's report on those accounts, are published on the pension annuity payer's website by the 1st of June of the following reporting year[6].

[6] Law on the Accumulation of Pensions, Article 35(11)(1).

AUDIT RESULTS

1. THE SET OF ANNUAL ACCOUNTS IS FAIR IN ALL MATERIAL RESPECTS

1. The set of annual accounts of the Pension Annuities Fund is prepared in accordance with the Law on Public Sector Accountability and the Public Sector Accounting and Financial Reporting Standards[7]. We have not identified any material misstatements in the Fund's set of accounts for 2024, which are accurate in all material respects.

2. The payer of pension annuities invests the Fund's assets in order to ensure maximum benefit for annuitants, in accordance with the approved asset investment strategy and investment policy[8], and distributes the profit to the annuitants. At the end of 2024, the Fund had 4 361 pension annuitants, of whom 1 570 purchased an annuity in the year under review (37% more than planned)[9].

3. Amendments to the description of the procedure for the distribution of pension annuity fund profits to beneficiaries were adopted in 2024[10], allowing for the distribution of investment profits earned in the current year. In 2024, EUR 644.6 thousand of profits were distributed to the beneficiaries of pension annuities:

   - ✓ received for 2023 from other sources - EUR 27,8 thousand;
   - ✓ investment profits from the Growth Portfolio[11] - EUR 482.2 thousand and other investment profits - EUR 134.6 thousand.

   Having examined the calculation of profits and their distribution to annuitants we did not identify any discrepancies.

2. CHANGES TO THE LAW ON THE ACCUMULATION OF PENSIONS MAY ADVERSELY AFFECT THE SUSTAINABILITY OF THE FUND

4. The set of Accounts of the Pension Annuity Fund for 2024 indicates that amendments are planned to the Law on the Accumulation of Pensions[12] as a result of the ruling of the

[7] Law on the Accumulation of Pensions, Article 35(10)(2).

[8] Order V-427 "Investment Policy and Strategy of the Pension Annuities Fund" of the Director of the Board of the SSIF of 1 September 2020 (wording of Order No V-281 of 25 July 2022).

[9] According to the set of accounts of the Pension Annuity Fund for 2024 (Note 11).

[10] Order No V-198 of the Director of the SSIF Board of 18 June 2024.

[11] No investment profits were realised on this portfolio in 2023, but a significant amount was realised in Q1 2024.

[12] Draft Law No XVP-374 on amending the name of the Articles 1, 4, 5, 7, 8, 10, 12, 13, 15, 22, 24, 28, 29, 30, 33, 35(1), 35(2), 35(7), 35(8), 35(9), 35(10), 36, 37 and 40 and Part V , supplementing the law with Article 29(1) and Article 6, and repealing the annex to the law of the Law on the Accumulation of Pensions No. IX-1691.

Constitutional Court[13]. These amendments propose: a move to a voluntary model of accumulation; the possibility of withdrawing from pension accumulation during a transitional period; and more flexible options for making additional contributions, stopping contributions and withdrawing 25% of the money accumulated.

5. Impact of the draft proposals[14] on the Pension Annuity Fund:

   - ✓ the number of new clients will decrease (currently, the Fund's administrative expenses are covered by deductions from one-off contributions made by new clients), but it is envisaged that a 3% deduction from the amount paid out will be applied and transferred to the Fund when assets or part of assets are paid out;
   - ✓ pension annuities for new customers are likely to decrease;
   - ✓ The repayment of loans granted by the Ministry of Finance will take longer than planned at the time the loans were granted. There will also be a need for additional loans (as at 31 December 2024, the fund's loan obligations to the Ministry of Finance amounted to EUR 344.1 thousand).[15]);
   - ✓ the investment policy and strategy will need to be reviewed. This may reduce the possibility of indexing annuities in the future.

6. It should be noted that the proposed changes to the pension system are not consistent with the observations made by the National Audit Office[16]:

   - ✓ on the steps needed to increase the replacement rate in the long term (the proposed measures are likely to reduce the replacement rate for future pensioners and increase the pressure on the sustainability of public finances);
   - ✓ on the prospects for the Pension Annuity Fund (risk of becoming a niche fund in the long term);
   - ✓ on the need for long-term fiscal decisions in the context of an ageing population, and the risk that the immediate income of the SSIF may lead to long-term liabilities not covered by sustainable sources.

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[13] Ruling No KT21-N3/2024 "On Compliance of Article 4(8), Article 5, Article 29 of the Law on the Accumulation of Pensions of the Republic of Lithuania (as amended on June 28, 2018) with the Constitution of the Republic of Lithuania".

[14] Explanatory Note to the Draft Laws on amending the name of the Articles 1, 4, 5, 7, 8, 10, 12, 13, 15, 22, 24, 28, 29, 30, 33, 35(1), 35(2), 35(7), 35(8), 35(9), 35(10), 36, 37 and 40 and Part V , supplementing the law with Article 29(1) and Article 6, and repealing the annex to the law of Law on the Accumulation of Pensions No. IX-1691, amending Article 739 of the Civil Procedure Code, amending Articles 11 and 12 of the Law on social insurance pensions No. I-549, amending Articles 7, 15 and 39 of the Law on State Social Insurance No. I-1336, amending Articles 14 and 17 of the Law on Monetary Social Assistance to Needy Residents No. IX-1675, and amending Articles 17 and 21 of the Law on Income Tax of Residents No. IX-1007

[15] The interest-free loans granted by the Ministry of Finance have been used to cover management and administration costs for the period 2020-2023. No new loans were raised in 2024. They are due for repayment in 2026-2030.

[16] Letter No (SD-(70-1.8 Mr))-298 of 16 April 2025 to the Ministry of Social Security and Labour.

Annex to the Public Audit Report "Results of the financial audit of the set of annual accounts of the Pension Annuity Fund for 2024"

Audit Scope and Methods

Audited set of accounts of the Pension Annuity Fund for 2024 comprising:

- ✓ statement of financial position prepared on the basis of data as at 31 December 2024.
- ✓ statement of performance prepared on the basis of data as at 31 December 2024.
- ✓ statement of changes in net assets prepared on the basis of data as at 31 December 2024.
- ✓ cash-flow statement prepared on the basis of data as at 31 December 2024.
- ✓ explanatory note prepared on the basis of data as at 31 December 2024.

In accordance with Article 35 (11) of the Law on the Accumulation of Pensions, the set of annual accounts of the Fund also includes information on the main objectives of the pension annuity activity and its performance, the adequacy of the technical provisions and their coverage by assets.

Subsidiary, controlled and/or consolidated institutions:

- ✓ The Fund has no subsidiaries, controlled or consolidated institutions.

Materiality applied to the audit:

- ✓ EUR 1 336.79 thousand for the statements of financial position and changes in net assets;
- ✓ EUR 460,38 thousand for the statements of performance and cash flows.

Smaller misstatements that are important to the user of the information because of the nature, circumstances or context in which they occurred are also considered qualitatively material. The absence of, or failure to comply with, key internal controls is also considered to be qualitatively material.

Limitations on the scope of the audit:

- ✓ we note that the scope of the audit was not limited.

The audit has been carried out:

- ✓ in accordance with international standards of supreme audit institutions, which include International Standards on Auditing (ISA)[17];
- ✓ to obtain reasonable assurance that the set of annual accounts is free from material misstatement. Full assurance is not possible due to the inherent limitations of audit and internal control and the fact that we did not audit all (100%) of the economic transactions, events and transactions entered into.

[17] International Standards on Auditing and Assurance issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants (International Standards on Auditing and Assurance issued by the Lithuanian Chamber of Auditors ((until 28 February 2017) and by the Audit, Accounting, Assets Valuation and Insolvency Service of the Ministry of Finance of the Republic of Lithuania ((since 01 March 2017), translated into Lithuanian language, available online: https://avnt.lrv.lt/lt/teisine-informacija/teises-aktai/auditas (accessed on 2025-04-28).

Audit Scope and Methods
The opening and closing balances of assets and, respectively, financing amounts, liabilities and net assets at the beginning and end of 2024:
– at the beginning of 2024, the assets amounted to EUR 39 805.2 thousand and at the end to EUR 66 839.5 thousand; - at the beginning and at the end of 2024, financing amounts of EUR 0.0 thousand; - liabilities at the beginning of 2024 amounted to EUR 38 339,2 thousand and at the end to EUR 59 860,1 thousand; - net assets at the beginning of 2024 amounted to EUR 1 466,0 thousand and at the end to EUR 6 979,4 thousand.
Revenues generated and expenses incurred in 2024:
The Fund received revenues of EUR 23 018.9 thousand from pension annuity contributions and incurred operating expenses of EUR 24 521.5 thousand, of which: - EUR 21 474.6 thousand from the change in the value of technical provisions; - EUR 2 625.9 thousand was the expense on pension annuity benefits; - EUR 421,0 thousand were management and administration expenses.
Revenue received and expenses incurred in 2024:
The Fund received EUR 22 576.7 thousand in pension annuity contribution revenue and incurred operating expenses of EUR 3 079.6 thousand, of which: - EUR 2 597.1 thousand of annuity benefit expenses; - EUR 411,8 thousand of management and administration expenses; - EUR 70,8 thousand of other expenses.
Areas assessed and procedures performed on data from the sets of annual accounts for 2024
The examination of the audited entity's performance, accounting and internal control systems has identified areas where there is a risk of material misstatement:
– No areas identified where there is a risk of material misstatement.
Areas where the efficiency of internal control procedures has been assessed (tests of controls performed):
Testing of internal control procedures has been carried out in the area of financial assets (also includes related area of financial and investment activities and cash). For the 2022 audit, testing of internal control procedures was carried out in the areas of pension annuity benefit costs/expenditure (also includes the related liability and cash area) and income/revenue area: the results of this testing were used.
Areas where substantive audit procedures (tests of details and/or analytical procedures) have been performed:
– In the areas of fixed and current assets, mid-range tests of details and key analytical procedures were performed to obtain completeness, occurrence, existence, valuation, and disclosure assertions. Investments were assessed for legal compliance. In the areas of income and revenue, to obtain completeness, occurrence, existence, valuation, disclosure assertions. – Key analytical audit procedures were performed in the areas of long-term and short-term liabilities (technical provisions) and operating expenses (changes in the value of technical provisions, pension annuity benefits, management and administration) to obtain completeness, occurrence, existence, valuation, and disclosure assertions. In the area of expenditure, key analytical procedures and small and medium scope tests of details were performed. Small scope tests of details were performed to assess the correctness of the calculation of the level of pension annuities, and key analytical procedures were performed to assess the correctness of the calculation of the investment return and the profit earned from other sources and the distribution, allocation and payment of the benefit to the beneficiaries. – In the area of financial and investment activity expenses, small scope tests of details and key analytical procedures were performed to obtain completeness, occurrence, existence, valuation, and disclosure assertions. – Compilation of annual accounts - analytical procedures performed to obtain valuation and disclosure assertions.
Overall assessment of the set of accounts:
The following have been assessed: - the adequacy of the accounting policies used and the reasonableness of the accounting estimates and related management disclosures. The Bank of Lithuania is the supervisory authority that performs the function of supervising the activities of the pension annuity provider, which includes the approval of the methodology for calculating technical provisions, and therefore our assessment covers the calculation of the amount of technical provisions in accordance with the methodology, but does not include an assessment of the adequacy of the methodology itself; - the overall presentation, structure and content of the accounts, including disclosures, and whether the accounts present the underlying transactions and events in a manner that is consistent with the requirements of the PSFARS and the Law on the Accumulation of Pensions.