Finland

Finland: Pension system in 2014

There is a targeted basic state pension (national pension and guarantee pension) which is pension income-tested, and a range of statutory earnings-related schemes, with very similar rules for different groups. Some of the schemes for private-sector employees are partially pre-funded while the public-sector schemes are pay-as-you-go financed (with buffer funds to even out future increases in pension contributions). Pre-funding has no direct impact on the benefit level. In 2014 an agreement was reached on a substantial pension reform for 2017.

Key indicators: Finland

		Finland	OECD
Average worker earnings (AW)	EUR	42 910	33 036
	USD	51 965	40 007
Public pension spending	% of GDP	10.3	7.9
Life expectancy	At birth	80.5	80.0
	At age 65	19.8	19.3
Population over age 65	% of population	20.4	16.2

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Qualifying conditions

The national pension is subject to a residency test (but no contribution requirements), withdrawn against pension income from the earnings-related schemes. The national old-age pension is payable from age 65. The full old-age national pension benefit is payable with 40 years residence as an adult, with *pro rata* adjustments for shorter periods of residence. It is possible to retire to early old-age national pension between ages of 63 and 65. For those born before 1952 the earliest eligibility age to early old-age pension is 62.

There are no waiting periods or euro limits to obtain a right to an earnings-related pension, even though there are minimum earning levels for pension insurance. Pension accrues, from age 18 to 68, on the basis of every earned euro of the insured person. Old-age pension is payable from age 63 with an early old-age pension available at age 62 for those born before 1952.

Benefit calculation

Earnings-related

Among different earnings-related schemes, the scheme for private sector employees (TyEL) is covered here. This scheme covers over 50% of employed people in Finland. The rules of other earnings-related pension schemes are very similar to TyEL.

From 2005, the accrual rate is 1.5% of pensionable earnings at ages 18-52, 1.9% at ages 53-62 and 4.5% at ages 63-67.

Pensionable earnings are, from 2005, based on average earnings of the whole career. However, as pension accrues differently in different age groups (see above), the earnings received by older workers have more weight in the total pension. When the pensionable earnings are calculated the amount corresponding to employee's pension contribution is deducted from the earnings. In 2014 the employee's pension contribution was 5.55% for employees under 53 years old and 7.05% for employees 53 years old or older. Note, however, that the replacement rates are shown relative to total average lifetime revalued gross earnings (for comparison with other countries) rather than this measure of pensionable earnings.

Earlier years' earnings are re-valued in line with a mix of economy-wide earnings and prices. Wage growth has an 80% weight and price inflation, 20%. After retirement, the earnings-related pension is uprated using a formula of 20% of earnings inflation and 80% of price inflation.

Since 2010 the level of new earnings-related pensions has been adjusted to take into account the changes in life expectancy after 2009. This is done by a mechanism called the life expectancy coefficient, which aims to stabilise the actuarial present value of new pensions, in a manner similar to notional defined contribution systems. The calculation of this coefficient uses unisex mortality statistics from the past five years and assumes a yearly discount rate of 2%. By 2059, the Statistics Finland mortality projections imply an increase in life expectancy at age 63 to 27.8 years in comparison to 20.9 years in 2009. The life expectancy coefficient is projected to reduce benefits to 79.2% of their value under the pre-reform rules in 2060. The life expectancy coefficient is calculated for each cohort at the age of 62.

There is no contribution floor or ceiling to contributions or pensionable earnings. However, there are minimum earnings limits for pension insurance. Voluntary contributions are also possible for earnings below these limits.

The Finnish Centre for Pensions co-ordinates the schemes, resulting in a single pension payment even for people who have been members of different earnings-related pension schemes.

Basic (national pension)

The full basic monthly benefit for a single pensioner in 2014 was EUR 633.91. The national pension is reduced by 50% of the difference between other pension income and a small disregard which in 2014 was EUR 55.95 per month. No pension is payable once other pension income from Finland and other countries exceeds EUR 1 310.30 or EUR 1 166.96 per month.

Targeted (guarantee pension)

Since 2011 there is also a guarantee pension. The benefit guarantees a minimum pension level of EUR 743.38 per month to pensioners should the national and earnings-related pension together remain under the mentioned level. The earnings-related (employment) pension accrued after the age of 63 is disregarded when national pension entitlement is calculated.

The national and guarantee pension benefits, the parameters of the income test and pension payable are up-rated annually in line with prices.

Variant careers

If a person has time in his/her career when there is no work income, pension also accrues according to certain unpaid periods. If a benefit is based on previous salary, this salary is also used to calculate the pension accrual up to a certain percentage (this percentage varies according to the benefit). For child home-care allowance and periods of study a certain fixed salary base is used.

Early retirement

Early national old-age pension is available from the beginning of the month following one's 63rd birthday (62 for those born before 1952). Its amount is permanently reduced (in comparison with the ordinary old-age pension) by 0.4% for each month the pension is to be paid before the normal pensionable age of 65 years. The pension will not rise to its regular level when the recipient reaches the age of 65.

Early retirement is possible at age 62 under the earnings-related scheme only for persons born before 1952, subject to a 0.6% benefit reduction per month of early retirement until the age of 63. After the age of 63 there is no reduction in pension. However, there is more rapid accrual of earnings-related benefits after this age (see above).

Late retirement

The national pension can be deferred after the age of 65 and the pension is then increased by 0.6% for each month by which retirement is postponed.

The increment for late retirement is 0.4% for each month (4.8% per year) in the earnings-related scheme after age 68. There is no adjustment between ages 63 and 68 because of the accelerated accrual of pension at those ages.

It is possible to combine receipt of pension and earnings from work. After taking the old-age pension, earnings accrue additional pension and the accrual rate is 1.5% per year until the age of 68.

Childcare

From 2005 onwards, during periods of maternity, paternity and parent's allowance, the pension accrues based on 1.17 times the salary, on which the family benefit is based. The maximum paid parental leave period is 11 months.

For unpaid periods of childcare by either parent during which child home-care allowance is claimed, pensions accrue as if the person received a salary of EUR 706.87 per month in 2014, which is around a fifth of average earnings. This is the case until the child reaches the age of three.

People on parental leave are not liable for pension contributions. The pension accruing for paid parental leave is paid by the earnings-related pension system. The state finances the pension for periods of unpaid childcare leave.

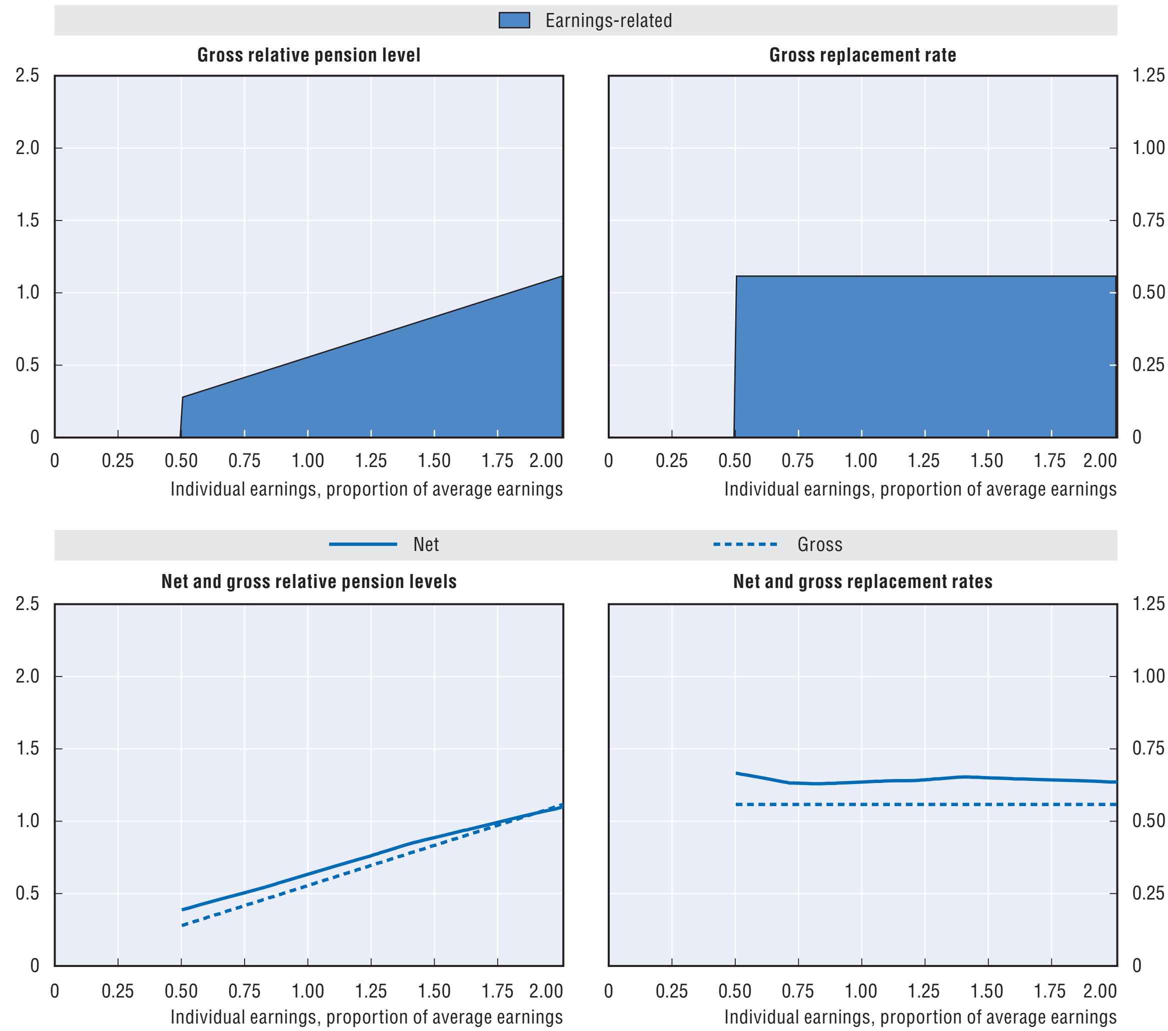
The part of the pension that is based on unpaid periods of child care (and studies) is not included in the income test of the national pension.

Unemployment

Following the 2005 reform, earnings-related unemployment benefits accrue pension rights based on the proportion of the salary (75%) on which the benefit is based. Only unemployment benefit received before the age of 63 generate a pension credit.

Unemployment-insurance benefits are paid for 500 days (around 23 months, with average 21.5 days per month). If an unemployed person reaches age 59 before the 500 days have accrued (age 60 for persons born in 1955 or after), earnings-related unemployment can be paid until age 65. Individuals receiving allowance after 500 days are entitled to choose claiming old-age pension from age 63 (62 possible for persons born before 1958, in which case there is no reduction for early retirement) and earnings-related unemployment benefits cease. After the period with earnings-related unemployment benefits, flat-rate or income-tested (under various conditions) unemployment assistance could be claimed but the period under these benefits are not credited for the pension entitlement.

Pension modelling results: Finland in 2059, retirement at age 65



Baseline scenario: Legislation scenario (price indexation of safety-nets schemes)

Men	Individual earnings, multiple of average					
Women (where different)	*0.5*	*0.75*	*1*	*1.5*	*2*	*3*
Gross relative pension level	27.9	41.8	55.8	83.7	111.6	167.4
(% average gross earnings)						
Net relative pension level	38.8	50.7	63.5	88.9	109.9	155.2
(% net average earnings)						
Gross replacement rate	55.8	55.8	55.8	55.8	55.8	55.8
(% individual gross earnings)						
Net replacement rate	66.6	63.1	63.5	65.0	63.5	65.9
(% individual net earnings)						
Gross pension wealth	9.8	9.8	9.8	9.8	9.8	9.8
(multiple of individual gross earnings)	*11.7*	*11.7*	*11.7*	*11.7*	*11.7*	*11.7*
Net pension wealth	9.7	8.4	7.9	7.4	6.8	6.5
(multiple of individual gross earnings)	*11.5*	*10.0*	*9.4*	*8.8*	*8.1*	*7.7*

Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equal 85%. Labour market entry occurs at age 20 in 2014. Tax system latest available: 2013.

Pension modelling results: Finland in 2059, retirement at age 65 *(cont.)*

Alternative scenario: Full-wage indexation of targeted schemes

Men	Individual earnings, multiple of average					
Women (where different)	*0.5*	*0.75*	*1*	*1.5*	*2*	*3*
Gross relative pension level	35.2	42.1	55.8	83.7	111.6	167.4
(% average gross earnings)						
Net relative pension level	77.2	63.4	63.5	65.0	63.5	65.9
(% net average earnings)						
Gross replacement rate	70.3	56.2	55.8	55.8	55.8	55.8
(% individual gross earnings)						
Net replacement rate	77.2	63.4	63.5	65.0	63.5	65.9
(% individual net earnings)						
Gross pension wealth	12.3	9.9	9.8	9.8	9.8	9.8
(multiple of individual gross earnings)	*14.6*	*11.7*	*11.7*	*11.7*	*11.7*	*11.7*
Net pension wealth	11.2	8.5	7.9	7.4	6.8	6.5
(multiple of individual gross earnings)	*13.3*	*10.1*	*9.4*	*8.8*	*8.1*	*7.7*

Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated except for the safety-nets which follow real-wages. Transitional rules apply where relevant. DC conversion rate equal 85%. Labour market entry occurs at age 20 in 2014. Tax system latest available: 2013.

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