

FINLAND

Finland: pension system in 2008

There is a basic state pension (national pension), which is income-tested, and a range of statutory earnings-related schemes, with very similar rules for different groups. 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).

		Key indicators	
		Finland	OECD
Average earnings	EUR	37 300	27 800
	USD	54 500	40 600
Public pension spending	% of GDP	8.3	7.0
Life expectancy	at birth	79.6	78.9
	at age 65	83.3	83.1
Population over age 65	% of working-age population	27.4	23.6

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The national pension is subject to a residency test (but no contribution requirements), withdrawn against pension income from the earnings-related schemes.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 62 and 65.

There are no waiting periods or euro limits to obtain a right to earnings-related pension, even though there are minimum earning levels for pension insurance. Pension accrues only after the age of 18.

Benefit calculation

Earnings-related

Among different earnings-related schemes, the scheme for private sector employees (TEL) is covered here.

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. For a full-career worker working from age 20 until retirement at age 65, the total lifetime accrual will be 77.5% of pensionable earnings (if pensionable earnings are assumed to remain constant for the whole career).

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 2008, the employee's pension contribution was 4.1% for employees under 53 years old and 5.2% for employees 53 years old or older. Note, however, that the replacement rates are shown relative to total 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. From 2005, wage growth has an 80% weight and price inflation, 20%. At the baseline assumptions for prices and wages growth, this policy reduces the value of the pension to 91.5% compared with a policy of full earnings valorisation of earlier years' pay. After retirement, the earnings-related pension is uprated using a formula of 20% of earnings inflation and 80% of price inflation.

From 2010 new earnings-related pensions will be reduced according to increases in life expectancy from 2009. (The calculations use lagged mortality data: for 2010, for example, the data are the average for 2004-2008 compared to base year which is based on data for 2003-07.) Between 2002 and 2040, the Statistics Finland mortality projections imply an increase in life expectancy at age 65 from 18.0 years to 24.1 (calculated from unisex mortality rates). The adjustment takes the form of an annuity calculation using a discount rate of 2% per year. The adjustment expected in the year 2040, based on the mortality projections, is to reduce benefits to 85.2 % of their value under the pre-reform rules. The life expectancy coefficient is calculated for each cohort at the age of 62.

There is no contribution floor and no ceiling to contributions or pensionable earnings, which means there is no pension ceiling either. However, there are minimum earnings limit for pension insurance.

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

Targeted (national pension)

The full basic monthly benefit for a single pensioner in 2008 was EUR 558.46 (around a fifth of average earnings). The national pension is reduced by 50% of the difference between other pension income and a small disregard which in 2008 was EUR 591 per year. No pension is payable once other pension income exceeds EUR 1 154.30 or EUR 1 028.13 per month.

From 2005 on, earnings-related (employment) pension accrued after the age of 63 will be disregarded when national pension entitlement is calculated.

The basic pension benefit, the parameters of the means test and pension payable are uprated annually in line with prices. In practice there have been additional increases based on separate decisions.

Variant careers

For non-standard careers a salary base is used when calculating pension for unpaid periods. If the pension accrual is based on the salary on which the benefit is based there is no deduction of pension contribution (see Benefit calculation / earnings related above). Usually the corresponding amount has already been deducted when the wage for the calculation of the benefit has been calculated.

Early retirement

Early national old-age pension is available from the beginning of the month following one's 62nd birthday. 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. These rules operate from 2005.

Early retirement is possible at age 62 under the earnings-related scheme, 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

From 2004 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.

From 2005 onwards, the increment for late retirement is reduced to 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. From 2005 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 588.54 per month (2008), 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, earnings-related unemployment can be paid until age 65. (Due to age limits these rules will not be applied before 2009.) Individuals receiving allowance after 500 days are entitled to choose claiming old age pension from age 62. In such cases, 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.

Personal income tax and social security contributions

Taxation of pensioners

There are no special rules for the taxation of pensioners.

Taxation of pension income

Recipients of pension income can deduct an allowance from their income subject to municipal income tax. The amount of pension-income allowance in municipal taxation is based on the full

national pension and the basic allowance for all individuals with low incomes. In 2008, the maximum allowance was EUR 7 710 for a single person and EUR 6 670 for each partner in a married couple. (There is separate taxation of couples.) The allowance is withdrawn at a rate of 70% of the amount by which the income subject to tax exceeds the full allowance. This means that there is no allowance once the income exceeds EUR 18 725 (single person) or EUR 16 199 (each partner in a couple). The pension-income allowance cannot exceed the amount of pension. The allowance is 'wasteable': i.e., the pension-income allowance cannot exceed the amount of pension income.

There is also a pension-income allowance in the central-government income tax. In 2008, the maximum allowance was EUR 11 060. The allowance is withdrawn at a rate of 53 % of the amount by which the income subject to tax exceeds the full allowance. This means that there is no allowance once the income exceeds EUR 31 928. The pension-income allowance cannot exceed the amount of pension.

Workers receive a deduction for work-related expenses, which is not available for pensioners.

Earned income deduction in municipal taxation

Recipients earned income deduction is calculated on the basis of taxpayer's income from work. The deduction amounts to 51 per cent of income between EUR 2 500 and EUR 7 230, and 28 per cent of the income exceeding EUR 7 230, until it reaches its maximum of EUR 3 570. The amount of the deduction is reduced by 4.5 per cent of the earned income minus work related expenses exceeding EUR 14 000.

Earned income deduction in national taxation

An earned income tax credit is granted against the central government income tax. The credit is calculated on the basis of taxpayers' income from work. The credit amounts to 3.6 per cent of income exceeding EUR 2 500, until it reaches its maximum of EUR 400. The amount of the credit is reduced by 0.9 per cent of the earned income minus work related expenses exceeding EUR 33 000. The credit is fully phased out when taxpayers' income is about EUR 78 000.

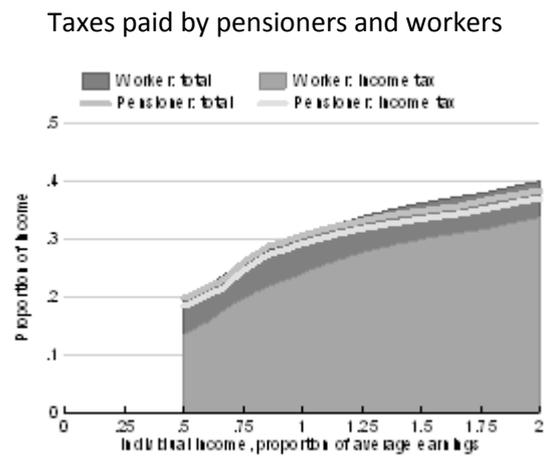
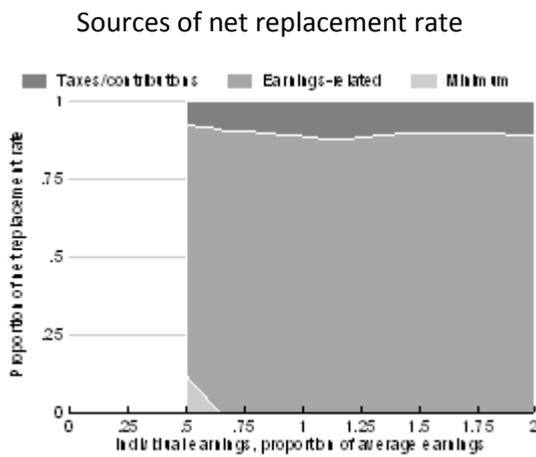
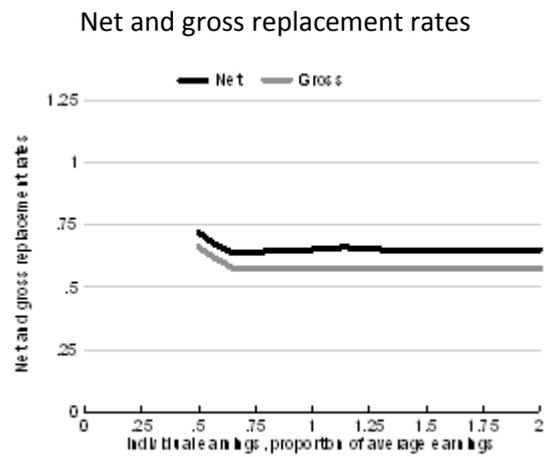
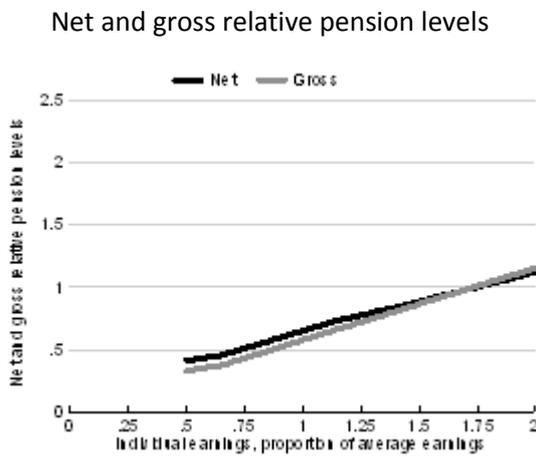
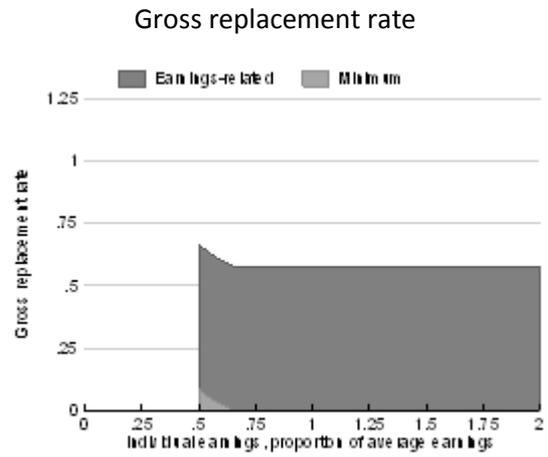
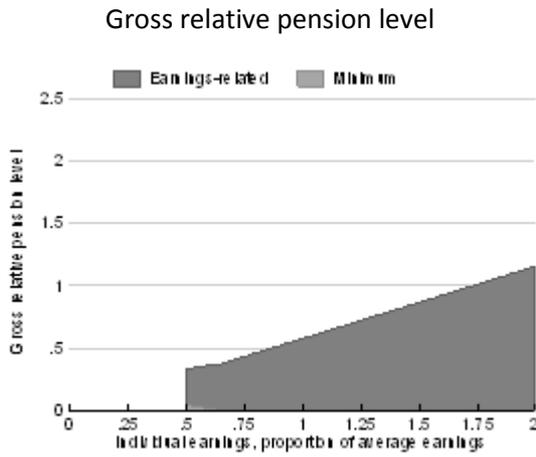
If the amount of credit is higher than central government income tax the rest of the credit can be credited against local income tax, church tax and health insurance contribution for medical care insurance.

Social security contributions paid by pensioners

There are no contributions on pension income for pension or unemployment insurance.

There are separate contributions for health care insurance and earned income insurance (daily allowances). Health care contributions of the insured will still be based on taxable income as defined in municipal taxation. The contributions of the insured for earned income insurance will be based on income from work (wages and salaries, for entrepreneurs the income used for calculating pension insurance contributions are used as base). The health care contribution rate is 1.41% for pension income and 1.24% for other income in 2008. The contribution for earned income insurance is 0.67% and it is deductible in taxation.

Pension modelling results: Finland



Men Women (where different)	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level (% average gross earnings)	52.0	33.2	43.3	57.8	86.7	115.5
Net relative pension level (% net average earnings)	59.6	41.6	51.2	65.2	88.4	112.1
Gross replacement rate (% individual gross earnings)	57.8	66.4	57.8	57.8	57.8	57.8
Net replacement rate (% individual net earnings)	64.8	72.0	64.1	65.2	64.4	65.1
Gross pension wealth (multiple of average gross earnings)	9.5 11.4	10.9 13.0	9.5 11.4	9.5 11.4	9.5 11.4	9.5 11.4
Net pension wealth (multiple of average net earnings)	7.6 9.1	9.5 11.3	7.8 9.4	7.5 8.9	6.8 8.1	6.4 7.7