Finland

Finland: Pension system in 2016

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. A substantial pension reform has taken place at the beginning of 2017.

Key indicators: Finland

		Finland	OECD
Average worker earnings (AW)	EUR	43 816	34 803
	USD	46 105	36 622
Public pension spending	% of GDP	11.1	8.2
Life expectancy	at birth	81.6	80.9
	at age 65	20.1	19.7
Population over age 65	% of working- age population	35.0	27.9

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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The national pension is subject to a residency test (but no contribution requirements), withdrawn against pension income from the earnings-related schemes.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, with the age increasing in line with life expectancy, subject to a maximum of two months per year. 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.

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, from age 18 to 68, increasing to 70 for those born after 1961, on the basis of every earned euro.

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 was 1.5% of pensionable earnings at ages 18-52, 1.9% at ages 53-62 and 4.5% at ages 63-67.

As part of the 2017 reform the accrual rate will be 1.5% of annual earnings across all age groups in the long term. Between 2017 and 2025, the accrual rates for covered workers are 1.5% for those younger than age 53, including also those aged 17, 1.7% for those aged 53 to 62 and 1.5% for those aged 63 and above. From 2026 onwards the accrual is 1.5% for all.

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 stabilize 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 5 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 27.4 years in comparison to 21 years in 2009. The life expectancy coefficient is projected to reduce benefits to 80.1% 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 limit for pension insurance. Voluntary contributions are possible also 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 2016 was EUR 634.30. The national pension is reduced by 50% of the difference between other pension income and a small disregard which in 2016 was EUR 55.95 per month. No pension is payable once other pension income from Finland and other countries exceeds EUR 1 311.05 or EUR 1 167.71 per month.

Targeted (guarantee pension)

Since 2011 there is also a guarantee pension. The benefit guarantees a minimum pension level of EUR 766.85 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, increasing by three months per year for those born after 1954 until reaching age 65, after which it is linked to life expectancy. 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, increasing in line with life expectancy. The pension will not rise to its regular level when the recipient reaches the age of 65.

Early retirement is not possible under the earnings-related scheme. After the age of 63, increasing to 65 and then in line with life expectancy, the pension is paid without reductions.

Late retirement

The national pension can be deferred after the normal retirement age 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 the minimum pension age, rather than the maximum retirement age as was done previously.

There was no adjustment between ages 63 and 68 because of the accelerated accrual of pension at those ages under the old system.

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 718.92 per month in 2016, 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 child home-care allowance.

The part of the pension that is based on unpaid periods of child home-care allowance (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 60 before the 500 days have accrued (age 61 for persons born in 1957 or after), earnings-related unemployment allowance can be paid until age 65. Individuals receiving earnings-related 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. Those unemployed who are not entitled to earnings-related may claim flat-rate or income-tested (under various conditions) unemployment assistance(labour market support or basic unemployment allowance). 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. However, pension income entitles to special pension income deductions (see section below).

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 2016, the maximum allowance was EUR 9 110. The allowance is withdrawn at a rate of 54% 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 25 980. 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 taxation. In 2016, the maximum allowance was EUR 12 230. The allowance is withdrawn at a rate of 44% 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 40 026. The pension-income allowance cannot exceed the amount of pension.

If a person has a full disability pension, he/she gets a tax credit in central-government taxation of EUR 115. For partial disability pension the credit is half of this amount.

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

Additional tax on pension income in the central-government taxation (since 2013): If pension income after the deduction of pension-income allowance exceeds EUR 45 000 a person has to pay additional tax in the central-government taxation. The additional tax is 6% of the amount exceeding EUR 45 000.

Earned income deduction in municipal taxation

Recipients earned income deduction is calculated on the basis of taxpayer’s income from work (not pensions). The deduction amounts to 51% of income between EUR 2 500 and EUR 7 230, and 28% 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% of the earned income minus work related expenses exceeding EUR 14 000.

Earned income deduction in central government 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 (not pensions). The credit amounts to 11.8% of income exceeding EUR 2 500, until it reaches its maximum of EUR 1 260. The amount of the credit is reduced by 1.146% of the earned income minus work related expenses exceeding EUR 33 000. The credit is fully phased out when taxpayers’ income is over EUR 120 000.

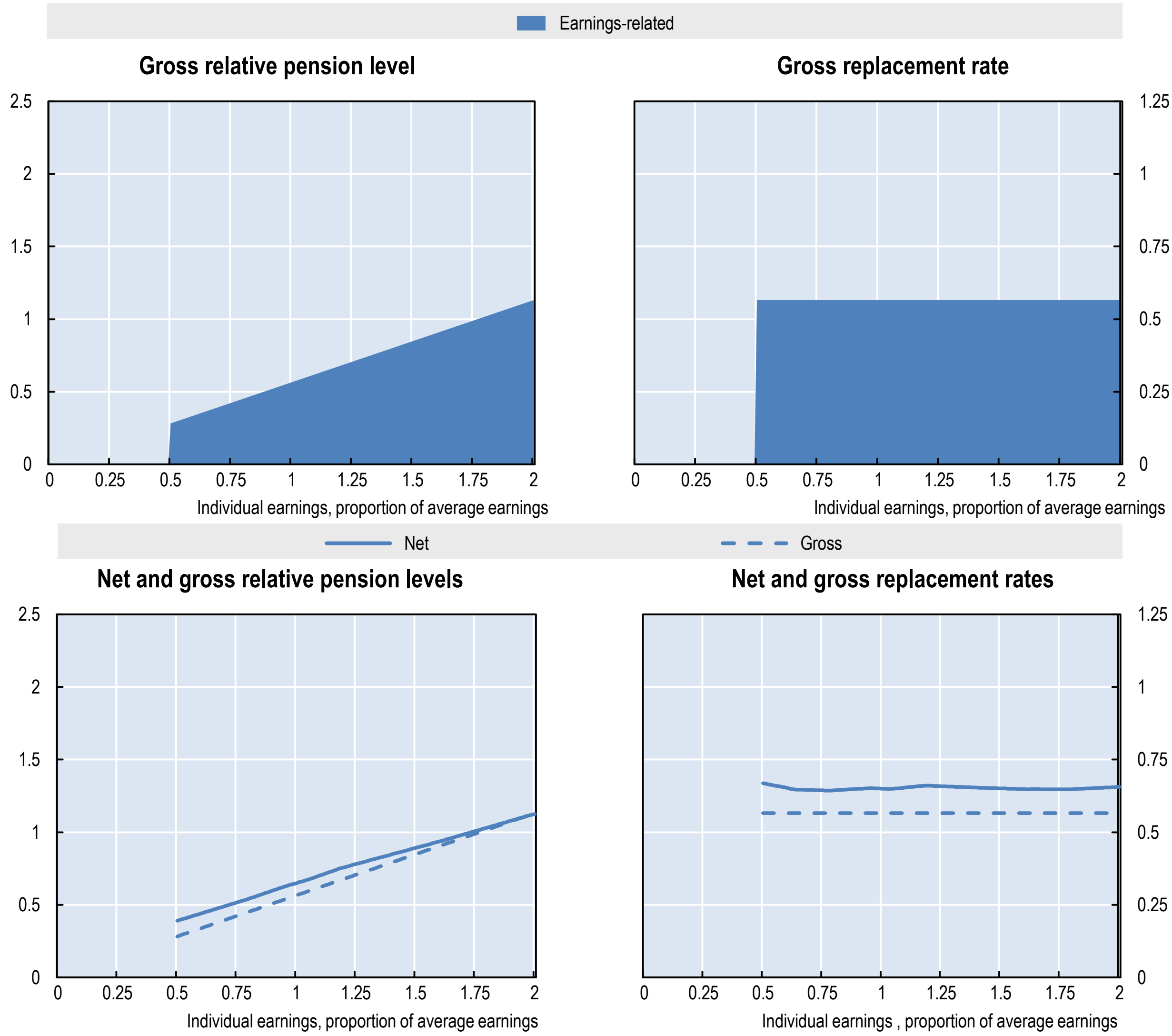
If the amount of credit is higher than central government income tax the rest of the credit can be credited against local income tax, church tax and health insurance contribution for medical care insurance.

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 are based on taxable income as defined in municipal taxation. The contributions of the insured for earned income insurance are 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 1.47% for pension income and benefits and 1.30% for work income in 2016. The contribution for earned income insurance is 0.82% and it is deductible in taxation.

Pension modelling results: Finland in 2064 retirement at age 68



Men	Individual earnings, multiple of average					
Women (where different)	0.5	0.75	1	1.5	2	3
Gross relative pension level	28.3	42.4	56.6	84.8	113.1	169.7
(% average gross earnings)						
Net relative pension level	39.1	51.6	65.0	89.2	112.6	159.3
(% net average earnings)						
Gross replacement rate	56.6	56.6	56.6	56.6	56.6	56.6
(% individual gross earnings)						
Net replacement rate	66.9	64.4	65.0	65.1	65.6	68.0
(% individual net earnings)						
Gross pension wealth	9.8	9.8	9.8	9.8	9.8	9.8
(multiple of individual gross earnings)	*11.1*	*11.1*	*11.1*	*11.1*	*11.1*	*11.1*
Net pension wealth	11.6	11.2	11.3	11.3	11.4	11.8
(multiple of individual net earnings)	*13.1*	*12.6*	*12.7*	*12.7*	*12.8*	*13.3*

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 90%. Labour market entry occurs at age 20 in 2016. Tax system latest available: 2015.

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