Finland

Finland: Pension system in 2012

There is a 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.

Key indicators

		Finland	OECD
Average worker earnings (AW)	EUR	41 500	32 400
	USD	54 700	42 700
Public pension spending	% of GDP	9.9	7.8
Life expectancy	At birth	80.4	79.9
	At age 65	19.6	19.1
Population over age 65	% of working-age population	30.9	25.5

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Qualifying conditions

The national pension is subject to a residency test (but no actual contribution requirements), withdrawn against pension income from the earnings-related schemes.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. The earliest eligibility age to early old-age pension is 63 for those born in 1952 or later.

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 on the basis of every earned euro of the insured person. Pension accrues after the age of 18 to the age of 68. Old-age pension is payable from age 63. The possibility to take out early old-age pension at 62 is possible for persons 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 2012, the employee's pension contribution was 5.15% for employees under 53 years old and 6.5% 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 have been reduced according to increases in life expectancy from 2009. (The calculations use lagged mortality data: for 2012, for example, the data are the average for 2006-10 compared to base year which is based on data for 2003-07.) Between 2012 and 2050, the Statistics Finland mortality projections imply an increase in life expectancy at age 63 from 21.6 years to 26.8 (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 2050, based on the mortality projections, is to reduce benefits to 81.7% 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. 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.

Minimum (national pension and guarantee pension)

The full basic monthly benefit for a single pensioner in 2012 was EUR 608.63 (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 2012 was EUR 644.40 per year. No pension is payable once other pension income from Finland and other countries exceeds EUR 1 257.96 or EUR 1 120.46 per month.

The guarantee pension took effect in 2011. This pension guarantees a minimum pension level of EUR 713.73 per month to Finnish pensioners should the national and earnings-related pension together remain under the mentioned level.

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 income 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 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. These rules operate from 2005.

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.

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 675.98 per month (2012), 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.

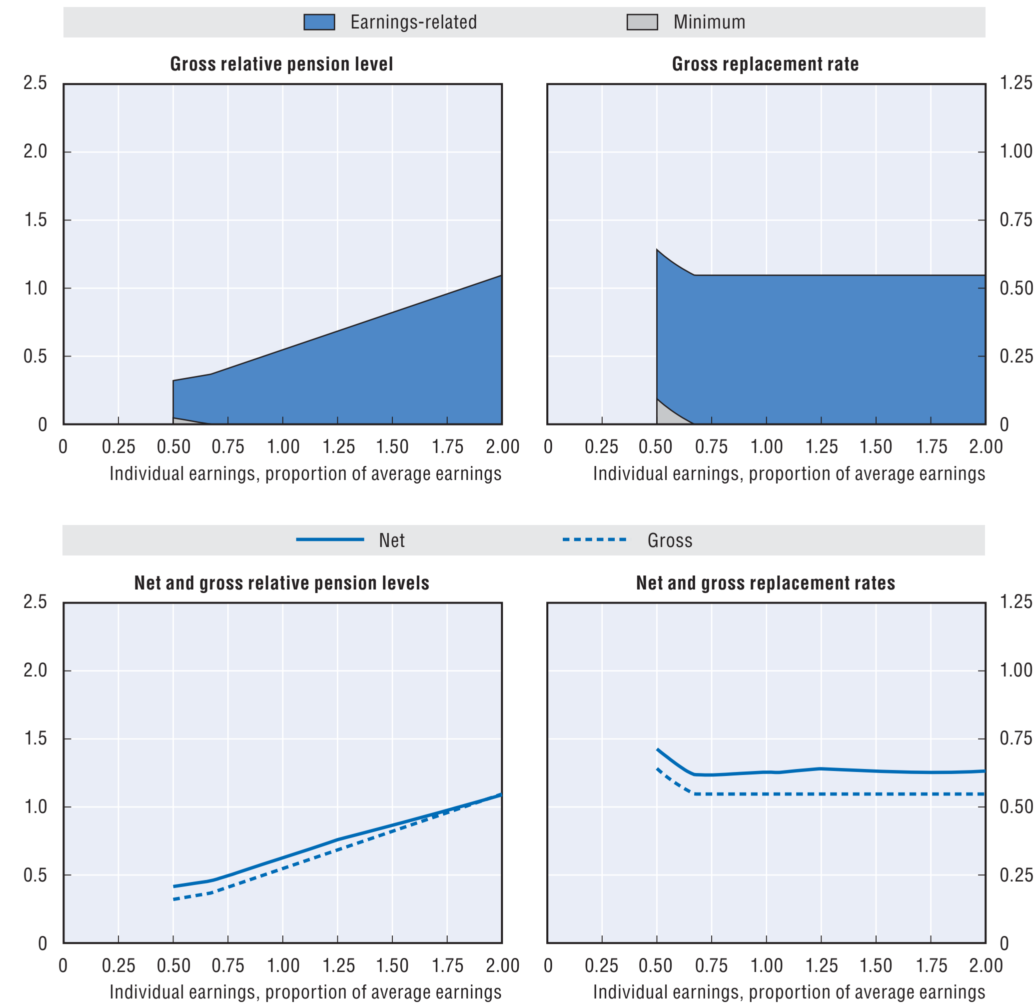
The part of the pension that is based on unpaid periods of child care (and studies) is not included in the income test of the national pension.

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 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.

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	49.3	32.1	41.1	54.8	82.1	109.5
(% average gross earnings)						
Net relative pension level	57.5	41.5	49.5	62.8	86.6	108.9
(% net average earnings)						
Gross replacement rate	54.8	64.1	54.8	54.8	54.8	54.8
(% individual gross earnings)						
Net replacement rate	62.4	71.3	61.7	62.8	63.2	63.2
(% individual net earnings)						
Gross pension wealth	9.5	11.1	9.5	9.5	9.5	9.5
(multiple of individual gross earnings)	*11.2*	*13.1*	*11.2*	*11.2*	*11.2*	*11.2*
Net pension wealth	7.7	10.0	8.0	7.6	7.0	6.6
(multiple of individual gross earnings)	*9.1*	*11.8*	*9.4*	*9.0*	*8.3*	*7.8*

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