Finland

Finland: Pension system in 2018

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 practically the same rules for different groups. Some of the schemes for private-sector employees are partially pre-funded while others are pay-as-you-go financed.

Key indicators: Finland

		Finland	OECD
Average worker earnings (AW)	EUR	43 984	35 230
	USD	51 918	41 584
Public pension spending	% of GDP	11.4	8.0
Life expectancy	at birth	81.6	80.7
	at age 65	20.3	19.7
Population over age 65	% of working- age population	40.1	31.2

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Qualifying conditions

The **earnings-related** pension accrues based on earnings from age 17 to 68, increasing to 69 for those born between 1958 and 1961 and to 70 for those born after 1961. Accrual according to the pension acts for self-employed begins at the age of 18. There are no waiting periods or monetary limits to obtain the right to an earnings-related pension, even though there are minimum earning levels for pension insurance.

The **national pension** is subject to a residency test (but no contribution requirements), withdrawn against pension income from the earnings-related schemes.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

The **guarantee pension** is also subject to a similar residency test as the national pension, but there are no pro rata adjustments. It is payable only to persons residing in Finland who receive normal old-age or disability pensions from national and earnings-related pension schemes. It is withdrawn at 100% against other pension income.

Benefit calculation

Earnings-related

Among different earnings-related schemes, the scheme for private sector employees (TyEL) is covered here. This scheme covers about 65% 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.

From 2017, the accrual rate is 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%. The life expectancy coefficient is calculated for each cohort at the age of 62. For example, the coefficient for those who start their career at age 20 in 2018 is 0.868, which means a 13.2% reduction of their monthly pension compared to that of a person born in 1947. The expected lifetime of the 1998 cohort after the age of 62 is estimated to increase by 6.5 years compared to that of the 1947 cohort.

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

As the earnings-related pension system is decentralised to various pension providers, 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 2018 was EUR 628.85. The national pension is reduced by 50% of the difference between other pension income and a small disregard, which in 2018 was EUR 55.54 per month. No pension is payable once other pension income from Finland and other countries exceeds EUR 1 299.88 or EUR 1 157.71 per month. Certain parts of earnings-related pension are not included in the pension test, for example the increment for deferring the pension above the lowest pensionable age.

Targeted (guarantee pension)

Since 2011, the guarantee pension guarantees a minimum pension level of EUR 775.27 per month to pensioners should the national and earnings-related pension together remain under the mentioned level. It is withdrawn by 100% of all pension income. The guarantee pension is the same for singles as well as pensioners with a spouse.

The national and guarantee pension benefits, the parameters of the income test and pension payable are up-rated annually in line with prices. In recent years, the annual up-rating of the national pensions has been frozen or national pensions have even been reduced by separate parliament acts, whereas the guarantee pensions have been increased by separate parliament acts.

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 for which a social benefit is paid. If the 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 full retirement is not possible under the earnings-related scheme. After the lowest pensionable age for each cohort, pension is paid without reductions. However, it is possible to take out 25% or 50% of the accrued pension right at the age of 61, without any requirements for working or non-working. For the part of the old-age pension taken early, a 0.4% reduction is applied for each month that the part of the pension is taken out before the lowest pensionable age of each cohort.

Early national old-age pension is available from the beginning of the month following one’s 63rd birthday. For those born between 1958 and 1961 take-up is possible at the age of 64. After that, it is no longer possible to take out the national old-age pension before the lowest old-age retirement age defined in the legislation for earnings-related pension scheme. The amount of the pension 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 for the national pension scheme.

Late retirement

The increment for late retirement is 0.4% for each month (4.8% per year) in the earnings-related scheme after the lowest pensionable age.

The national pension can be deferred after the normal retirement age of 65. The pension is then increased by 0.6% for each month by which retirement is postponed. This percentage is harmonised with the earnings-related pension for those born in 1962 and after.

It is possible to combine receipt of pension and earnings from work. The legislation requires that the employment must end before a person can apply for the earnings-related old-age pension of that employment. After taking the old-age pension, the person can start another work or continue with the same employer but under different conditions than before. These earnings accrue additional pension with the accrual rate of 1.5% per year until the age of 68 (or 69 or 70 depending on cohort).

Childcare

From 2005 onwards, during periods of maternity, paternity and parent's allowance, the pension accrues (from age 18) based on 1.17 times the salary, on which the family benefit is based. The maximum period is 11 months for which earnings-related parental benefit is paid.

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 728.34 per month in 2018, which is around one-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 parental leave benefit period is partly financed 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 lowest eligibility age for old-age pension 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 61 before the 500 days have ended, the earnings-related unemployment allowance can be paid until age 65. These individuals receiving earnings-related allowance are entitled to choose between earnings-related old-age pension from the lowest pensionable age (63 possible for persons born before 1958, in which case there is no reduction for early retirement) and earnings-related unemployment benefits until 65. Those unemployed who are not entitled to an earnings-related benefit may claim flat-rate or income-tested (under various conditions) unemployment assistance (labour market support or basic unemployment allowance). None of these benefits are not credited for the pension entitlement.

In the national pension system, individuals receiving unemployment benefit after the age of 61 are able to take national old-age pension at the age of 64 without reduction for early retirement if they are born between 1958 and 1961.

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 2018, the maximum allowance was EUR 9 040. The allowance is withdrawn at a rate of 51% 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 26 765. 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 2018, the maximum allowance was EUR 11 560. The allowance is withdrawn at a rate of 38% 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 41 981. 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 47 000 a person has to pay additional tax in the central-government taxation. The additional tax is 5.85% of the amount exceeding EUR 47 000.

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 12% of income exceeding EUR 2 500, until it reaches its maximum of EUR 1 540. The amount of the credit is reduced by 1.51% 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.

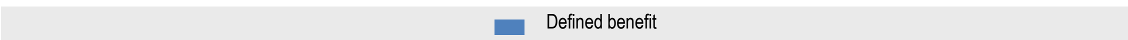
If the amount of credit is higher than central government income tax the rest of the credit can be credited against local income tax, church tax and health insurance contribution for medical care insurance.

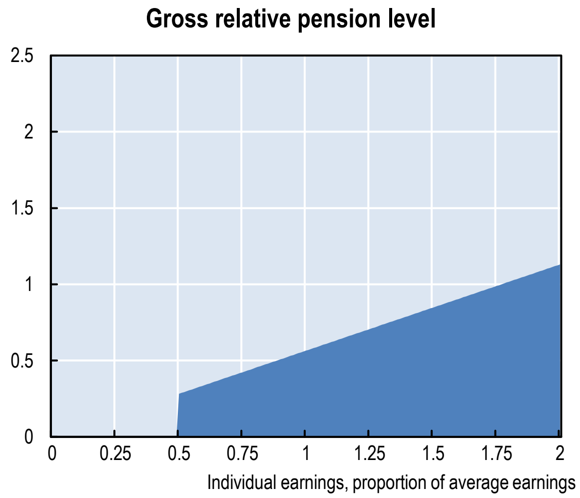
Social security contributions paid by pensioners

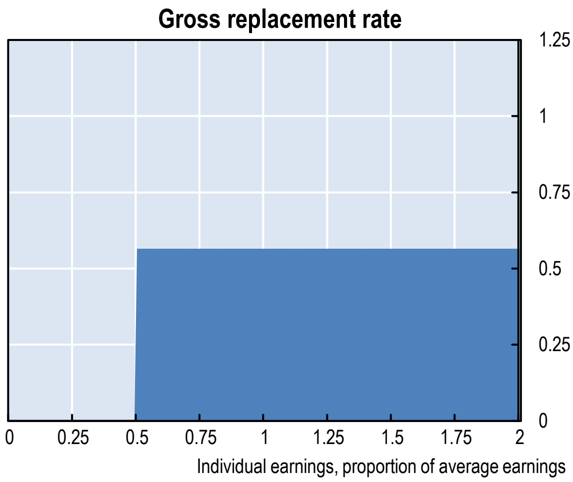
There are no contributions on pension income for pension or unemployment insurance.

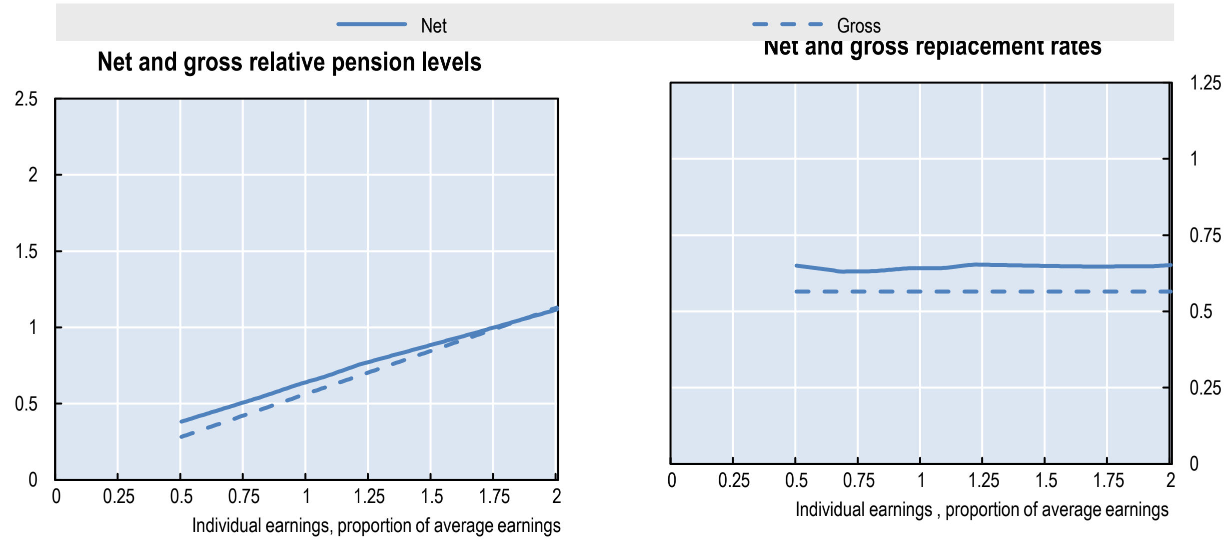
There are separate contributions for health care insurance (pensioners) and earned income insurance (daily allowances for wage earners). Health care contributions of the insured are based on taxable income as defined in municipal taxation. The contribution of the insured for earned income insurance is 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 insurance contribution for pension income is 1.53% and the contribution for earned income insurance for wage-earners is also 1.53% 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	56.5	84.8	113.0	169.5
(% average gross earnings)						
Net relative pension level	38.3	50.9	64.2	88.6	111.8	158.5
(% net average earnings)						
Gross replacement rate	56.5	56.5	56.5	56.5	56.5	56.5
(% individual gross earnings)						
Net replacement rate	65.1	63.1	64.2	64.9	65.2	68.4
(% 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	11.3	10.9	11.1	11.3	11.3	11.9
(multiple of individual net earnings)	*12.8*	*12.4*	*12.6*	*12.7*	*12.8*	*13.4*

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 22 in 2018. Tax system latest available: 2018.

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