Pensions at a Glance 2023

Finland

Finland: Pension system in 2022

There are targeted old-age benefits: national pension and guarantee pension, which are income-tested, and occupational earnings-related schemes with largely unified benefit rules but their financing is backed by financial assets to a varying degree.

Key indicators: Finland

		Finland	OECD
Average worker earnings (AW)	EUR	50 774	39 182
	USD	53 468	41 261
Public pension spending	% of GDP	11.9	7.7
Life expectancy	at birth	82.3	80.7
	at age 65	85.6	84.6
Population over age 65	% of working-age population	41.5	31.3

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 minimum earning levels to be covered by the for pension insurance. The minimum retirement age in the earnings-related schemes is being gradually raised by three months per cohort from 63 (in 2017) to 65 by 2027. In 2022, persons born in 1958 have reached their minimum retirement age at 64. Workers in arduous jobs will maintain the right to fully retire at age 63 based on years-of-service pensions. However, the role of this pension scheme is marginal. For the national pension, the statutory retirement age will remain at age 65 until 2030. The option to claim a reduced benefit is possible at 64 but will be removed by 2027.

From 2030, all retirement ages, including for workers in arduous jobs, will increase by two-thirds of life expectancy gains at 65, with the expressed goal of stabilising the present ratio of expected time in retirement to time spent working. As a result, the normal retirement age will increase from 65 to 68 around 2055.

The national pension is subject to a residency test (but no contribution requirements), withdrawn against pension income from the earnings-related schemes.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 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 It is withdrawn at 100% against other pension income.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 61% of employed people in Finland. The rules of other earnings-related pension schemes are very similar to TyEL.

From 2005 until 2017, 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 22 in 2022 is 0.879, which means a 12.1% reduction of their monthly pension compared to that of a person born in 1947. The expected lifetime of the 2000 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 to be covered by 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 national pension monthly benefit for a single pensioner in the beginning of 2022 was EUR 679.50. In the beginning of August, the amount was raised, as an advance index adjustment, to EUR 703.45. The national pension is reduced by 50% of the difference between other pension income and a small disregard, which in 2022 was EUR 57.45 per month (1st of August, EUR 59.45). No national pension is payable once other pension income from Finland and other countries exceeds EUR 1 402.63 (1st August, EUR 1 452.05) or EUR 1 256.88 (1st August, EUR 1 301.13) 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 855.48 (1st August, EUR 885.63) 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.

Variant careers

Early retirement

Early full retirement is not possible under the earnings-related scheme, 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 64th birthday for those born between 1958 and 1961. 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 pregnancy and parental allowance, the pension accrues (from age 18) based on 1.21 times the salary, on which the family benefit is based. The maximum period of earnings-related parental allowance if only one parent uses the parental leave is about 8 months after the one and a half month's pregnancy allowance reserved only for mothers. If the parents share the parental allowance equally, both can receive 6.4 months of parental allowance in addition to the mother's pregnancy allowance period.

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 785.94 per month in 2022, 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 75%of the salary 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 a person aged 58 or more has a career of at least five years during the last 20 years (for other unemployed persons 300 days maximum with less than 3 years of work history and 400 days maximum, if work history exceed 3 years). If an unemployed person reaches age 61 before the 500 days have ended, the earnings-related unemployment allowance can be paid until age 65 (additional days). These additional days will be abolished from the 1965 cohort. For the 1961 and 1962 cohorts the age limit 61 is raised to 62, for the 1963 cohort to 63 and for the 1964 cohort to 64. 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 credited for the pension entitlement.

In the national pension system, individuals receiving unemployment benefit for the additional days (see above) 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.

Self-employed

The nominal contribution rates and pensions accruals are the same for employees and the self-employed. Contribution base for the self-employed is calculated as a percentage of the confirmed income that forms the basis of the future pension. The confirmed income is not based on the financial performance of the business; instead, it should correspond to the financial value of the self-employed person’s work input. It can be estimated as how much the wage should be for the other person doing the same job. When confirming the income from self-employment, the pension provider considers available data depicting the self-employed person’s work input, scope of self-employment, professional skills and value of work input.

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. In municipal taxation the amount of the pension income allowance is determined based on the full amount of national pension. In 2022, taking into consideration the raise of national pension in August, the maximum allowance was EUR 9 660. 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 28 602. 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 2022, the maximum allowance was EUR 11 630. 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 42 236. 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 13% of income exceeding EUR 2 500, until it reaches its maximum of EUR 1 930. The amount of the credit is reduced by 1.96% of the earned income minus work related expenses exceeding EUR 33 000. The credit is fully phased out when taxpayers’ income is over EUR 132 200.

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.

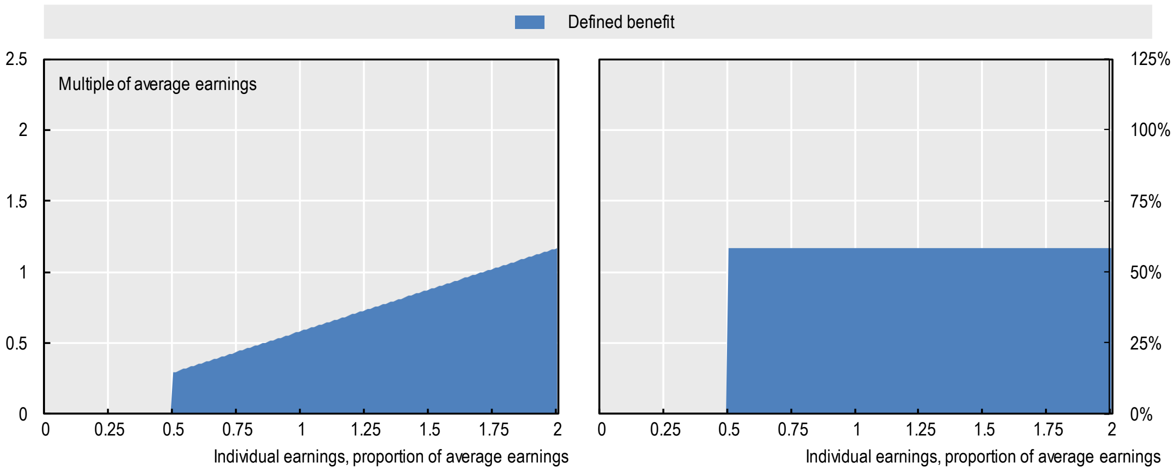
Social security contributions paid by pensioners

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

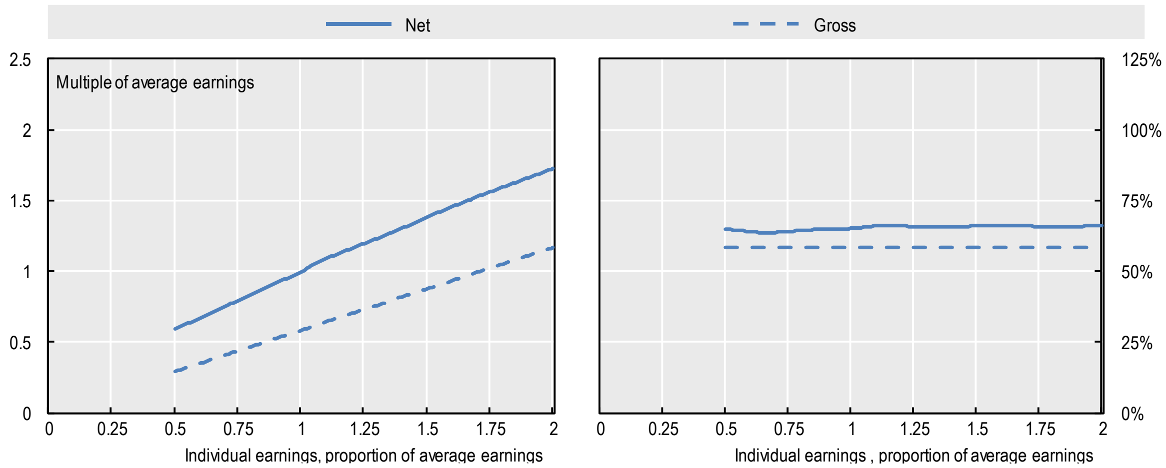
There are separate contributions for health care insurance (pensioners) and earned income insurance (daily allowances for wage earners). Health care contributions of the insured are based on taxable income as defined in municipal taxation. The contribution of the insured for earned income insurance is 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 1.5% and for wage-earners 0.53%. The contribution for earned income insurance for wage-earners is 1.18% of income exceeding EUR 15 128 and it is deductible in taxation.

Pension modelling results: Finland in 2068 retirement at age 68

Gross relative pension level **Gross replacement rate**



Net and gross relative pension levels **Net and gross replacement rates**



Men	Individual earnings, multiple of average					
Women (where different)	0.5	0.75	1	1.5	2	3
Gross relative pension level	29.2	43.8	58.4	87.6	116.9	175.3
(% average gross earnings)						
Net relative pension level	59.2	79.4	100.0	138.2	172.8	237.0
(% net average earnings)						
Gross replacement rate	58.4	58.4	58.4	58.4	58.4	58.4
(% individual gross earnings)						
Net replacement rate	64.9	64.1	65.1	66.0	66.1	66.6
(% individual net earnings)						
Gross pension wealth	10.6	10.6	10.6	10.6	10.6	10.6
(multiple of individual gross earnings)	12.0	12.0	12.0	12.0	12.0	12.0
Net pension wealth	11.8	11.6	11.8	12.0	12.0	12.1
(multiple of individual net earnings)	13.3	13.1	13.3	13.5	13.5	13.7

Assumptions: Real rate of return 2.5%, real earnings growth 1.25%, inflation 2%, and real discount rate 1.5%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equals 90%. Labour market entry occurs at age 22 in 2022. Tax system latest available: 2022.