

TUAC Ad Hoc Meeting on Pension Reforms

Paris December 1st 2014

Janne Metsämäki

The Central Organisation of Finnish Trade Unions SAK

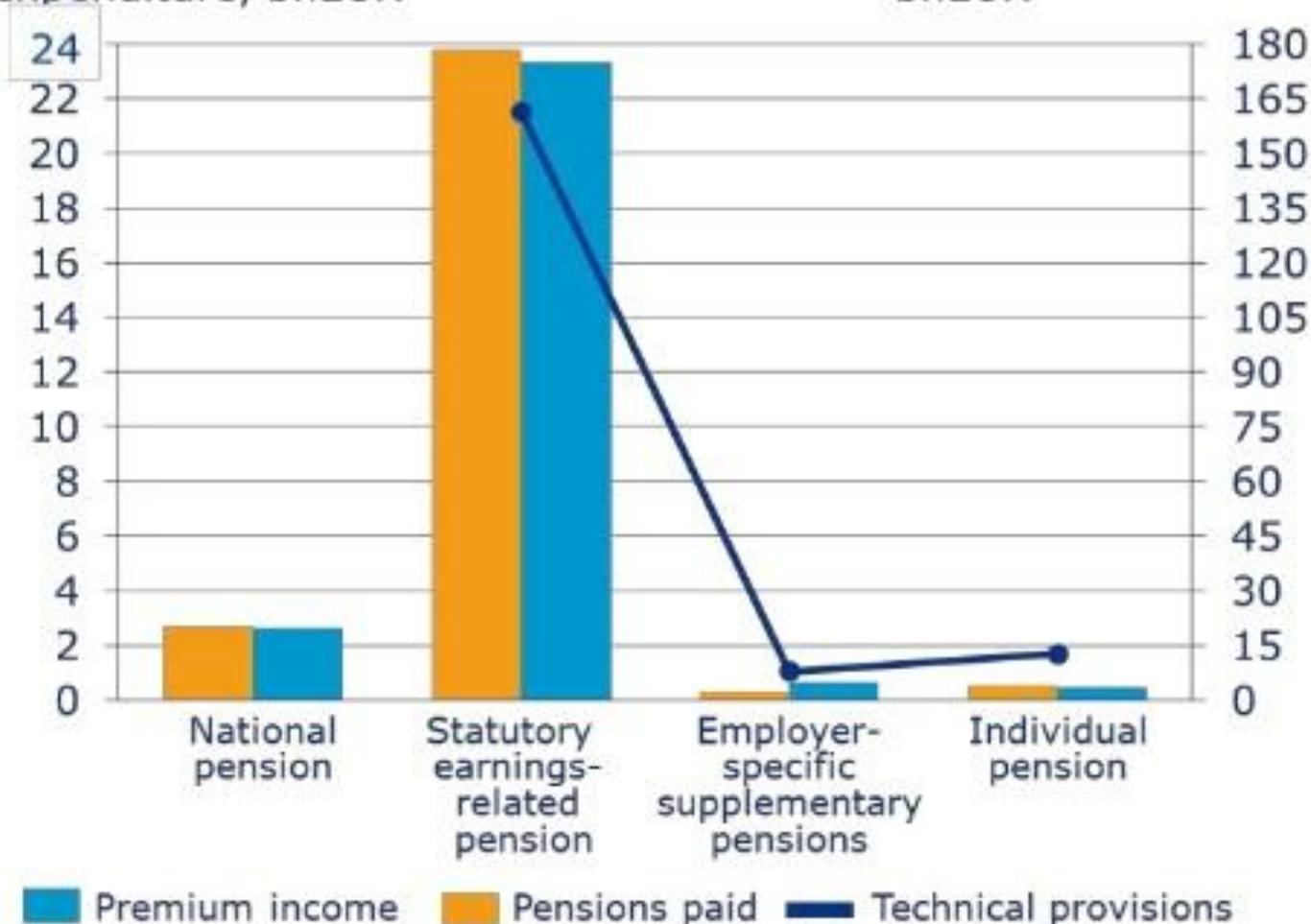
1. The Reform of Finnish Pension System 2017

- Tripartite negotiations January-September 2014
- SAK approved the settlement
- Main goals of SAK
 - Securing the future pensions of younger generations
 - Ensuring respectable retirement path for older employees
 - Securing the financing of the pension system
 - Accruing the pension more equally throughout the working career
 - Improving the quality of work life

Pension insurance in Finland in 2013

Premium income and pension expenditure, bnEUR

Technical provisions, bnEUR



Preparation and coming into force of earnings-related pension acts



Finnish Pension Reform 2017 in Brief

13 November 2014



Finnish Centre for Pensions
ELÄKETURVAKESKUS

- **Currently:**
 - Flexible retirement age from 63 to 68 years.
- **Reform:**
 - The earliest eligibility age for old-age pension will rise (as outlined in the agreement) to 65 years, after which it will be linked to life expectancy.
 - » At first, the age limit will rise by 3 month/age cohort for people born in 1955 or later. The retirement age for those born between 1962 and 1964 will be 65 years.

Monitoring the pension system in the future

- From 2027 the national labour and employer confederations and the government will monitor career development and the economic and social impact of the pension system at five-yearly intervals.
- This review will consider the working career ratio, meaning how much of the average increase in life expectancy is spent at work.
- The minimum and maximum retiring ages may be revised if necessary with a view to keeping the ratio of working career to retirement years at not less than the 2025 level.

- » The aim of linking the retirement age to life expectancy is to stabilise the ratio between time spent in working life (from age 18 to the earliest eligibility age for the old-age pension) and time spent in retirement (life expectancy at the earliest eligibility age for the old-age pension).
- » No adjustments will be made to the age limits of the old-age pension if the labour years ratio (expected time spent in the labour force/life expectancy of an 18-year-old) has remained on its target level at the minimum.
- » The upper age limit of the old-age pension will rise along with the rise of the earliest eligibility age.

- **Currently:**

- Pension accrues based on age and contribution rate:
 - » 18-52-year-olds 1.5%
 - 53-62-year-olds 1.9%
 - 63-68-year-olds 4.5%
 - » The employee's contribution is deducted from the wage that forms the basis for the accrual (in 2014: 5.55% for persons under 53 years and 7.05% for persons aged 53 and above).

- **Reform:**

- The accrual rate will be 1.5% throughout working life, beginning at age 17.
- The employee's contribution will not be deducted from the pensionable wage.
- An increment for deferred retirement will be introduced: 0.4%/month after the earliest eligibility age for old-age pension.

Life Expectancy Coefficient

- **Currently:**

- As life expectancy increases, the life expectancy coefficient will reduce the monthly pension.

- **Reform:**

- The life expectancy coefficient will be determined as currently until the retirement age is 65 years.
- Linking the retirement age to life expectancy will be reflected in the life expectancy coefficient.

Disability Pension

- **Currently:**

- The disability pension is determined based on the accrued pension and the pension for the projected pensionable service.
- The life expectancy coefficient is applied only to the accrued pension.

- **Reform:**

- The period of the projected pensionable service will be longer due to the increase in the earliest eligibility age of the old-age pension.
- The life expectancy coefficient will also be applied to the pension for the projected pensionable service.

Years-of-service Pension

- **Reform**

- A new pension type called the years-of-service pension will be introduced.
- Entitlement to a years-of-service pension will be determined based on working history:
 - » Working life spanning 38 years
 - » Strenuous and wearing work
- The age limit will be 63 years until the earliest eligibility age for old-age pension is 65 years. After that, the age limit will rise along with the increasing earliest eligibility age for the old-age pension.
- The level of the years-of-service pension will be somewhat lower than that of the disability pension.

Part-time Pension/Partial Old-age Pension

1/2

- **Currently:**

- Part-time retirement possible at age 61.
- Working hours must be reduced.

- **Reform:**

- The part-time pension will be replaced by a partial old-age pension
- Right to partial old-age pension at age 61
 - » The age limit will rise to 62 years in 2025, after which it will be increased along with the increase in the earliest eligibility age for the old-age pension.

Part-time Pension/Partial Old-age Pension

2/2

- » No requirements concerning the reduction of the number of working hours.
- » The partial old-age pension amounts to 25% or 50% of the accrued pension
- A reduction for early retirement (0.4%/month) will be made to a pension drawn before the earliest eligibility age for old-age pension

Effects on Retirement and Employment

- Raising the earliest eligibility age for old-age pension by one year will raise the projected expected effective retirement age by half a year.
- The expected effective retirement age will reach its target level of 62.4 years around 2025.
- The employment rate will rise.
- The unemployment rate will rise, as will the number of persons retiring early.

Figure 9. TyEL expenditure relative to wage sum

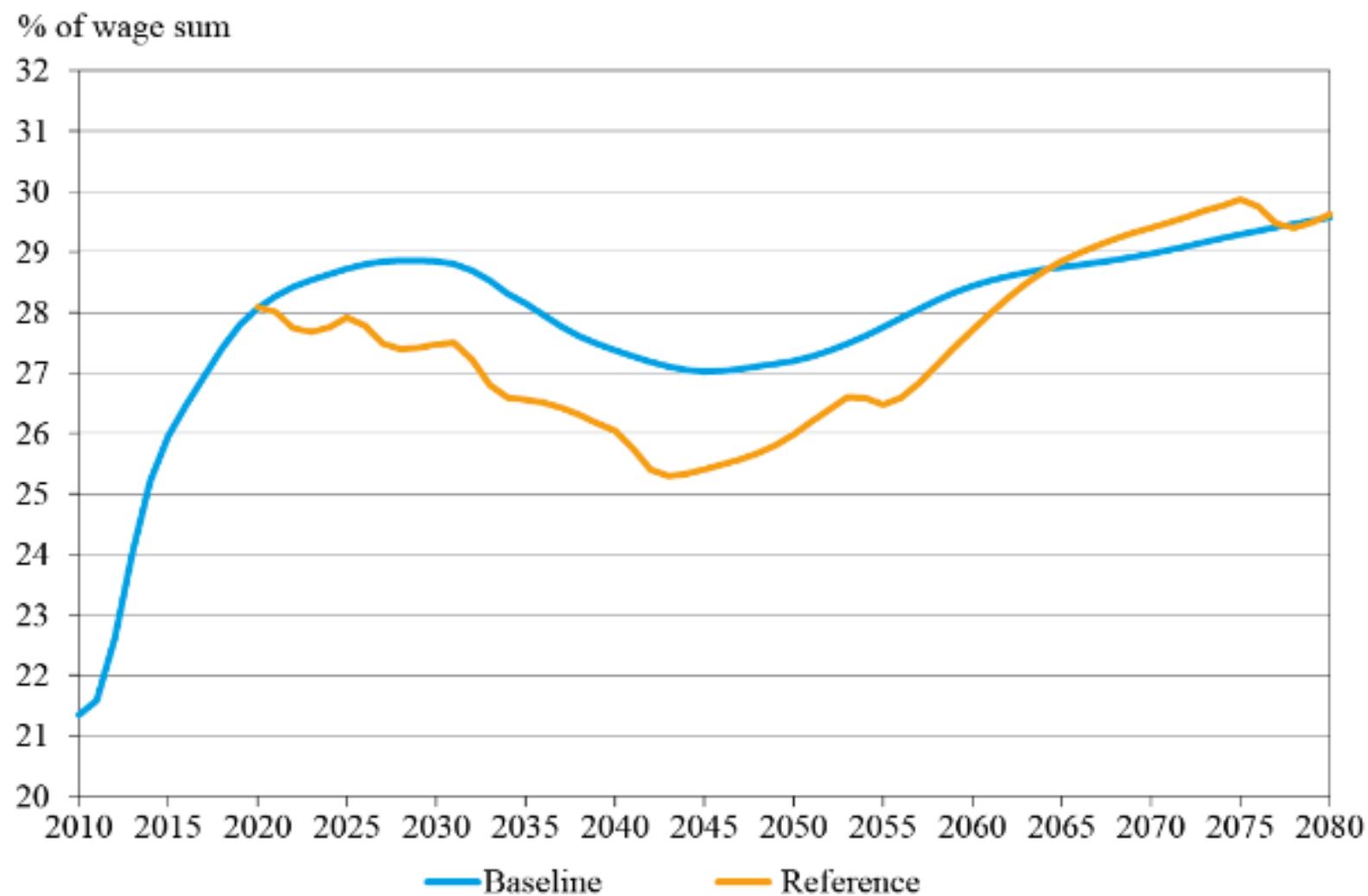


Figure 10. TyEL contribution relative to wage sum

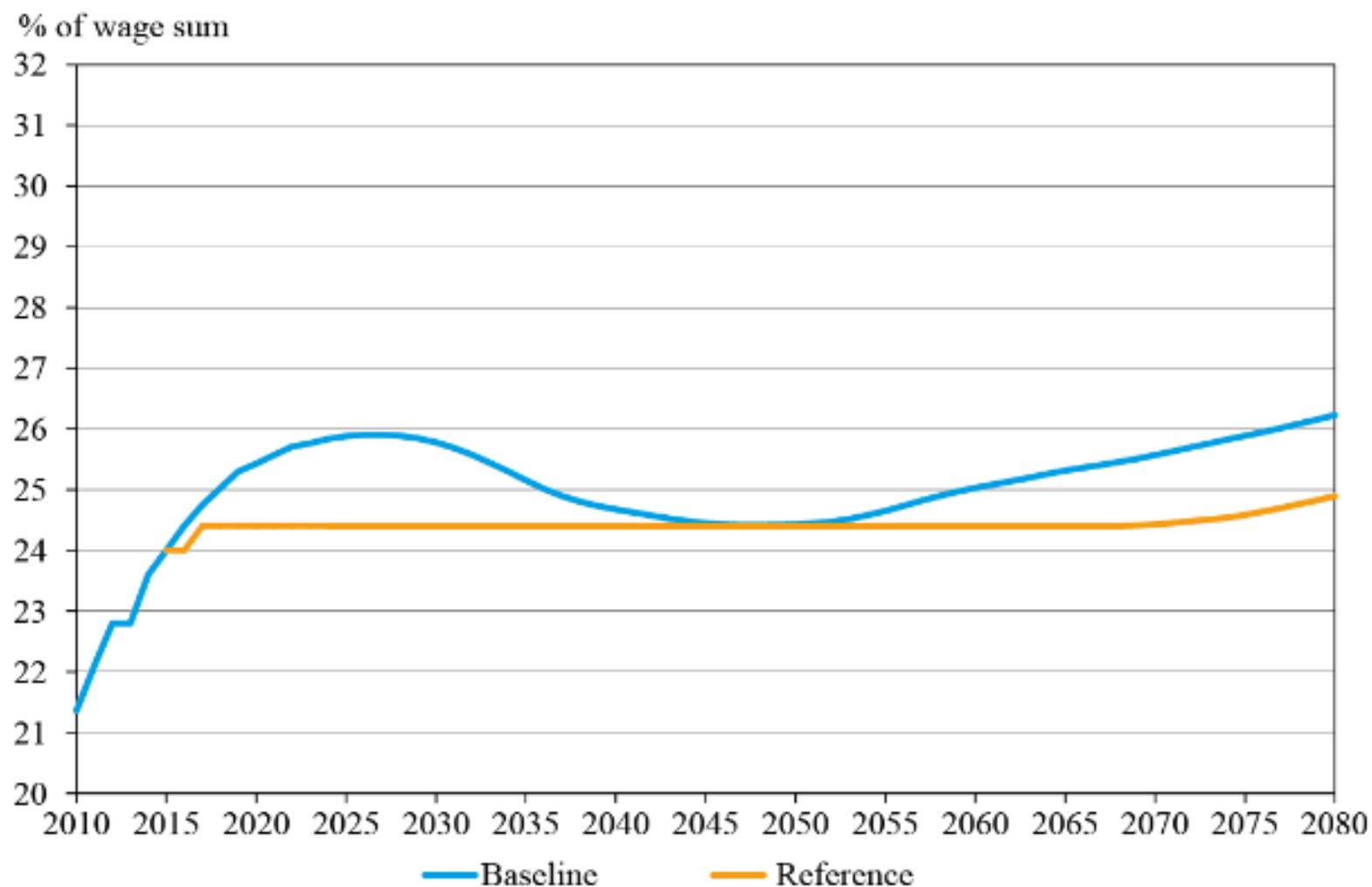


Figure 12. Change in average pension according to year of birth³ at age 75 for different age cohorts

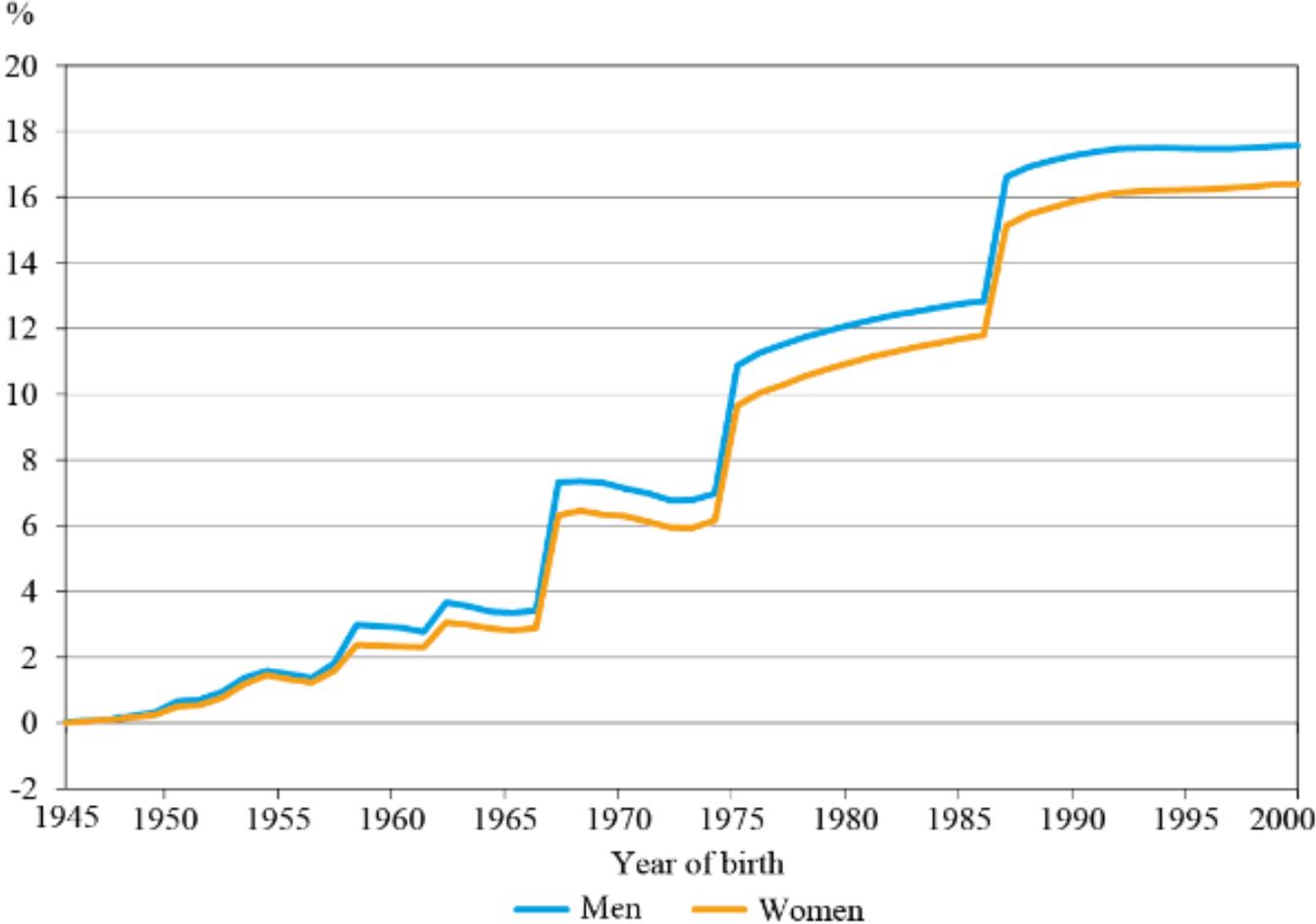


Figure 13. Difference between baseline and reference projection in TyEL contributions and benefits over the life cycle of various cohorts, as well as their combined effect, both genders

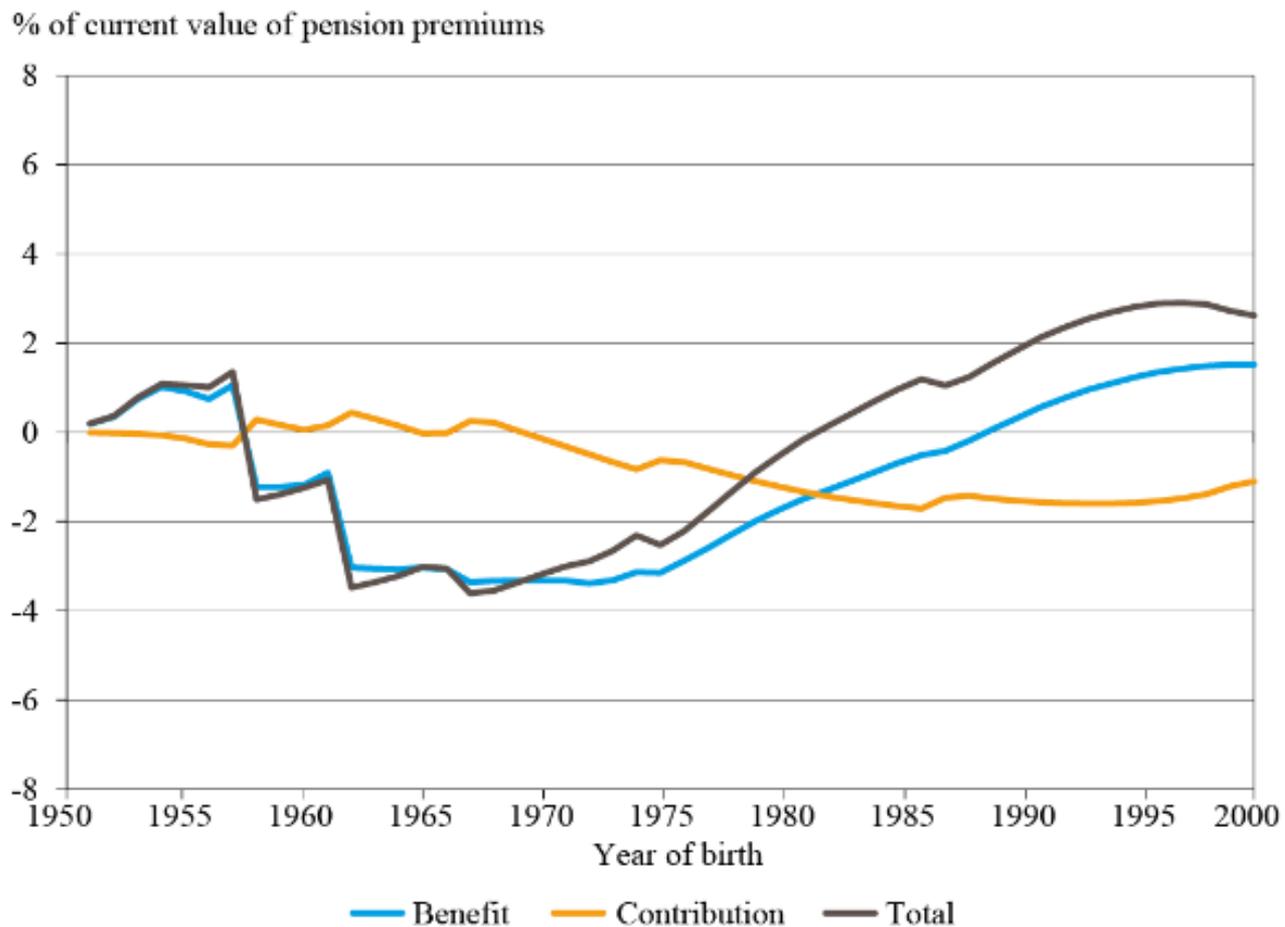
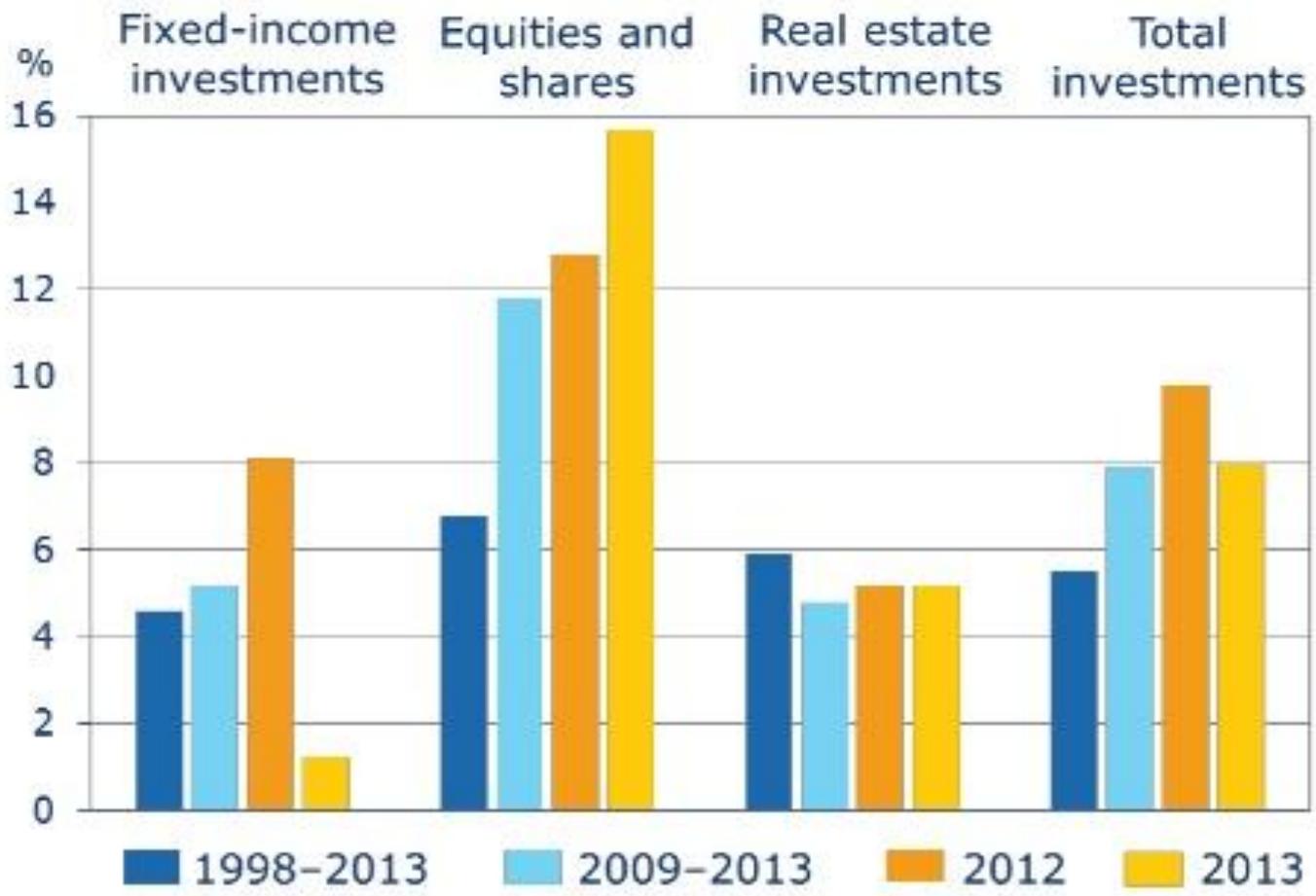


Figure 14. Differences in TyEL benefits over the life cycle for various cohorts, per gender, baseline and reference projections

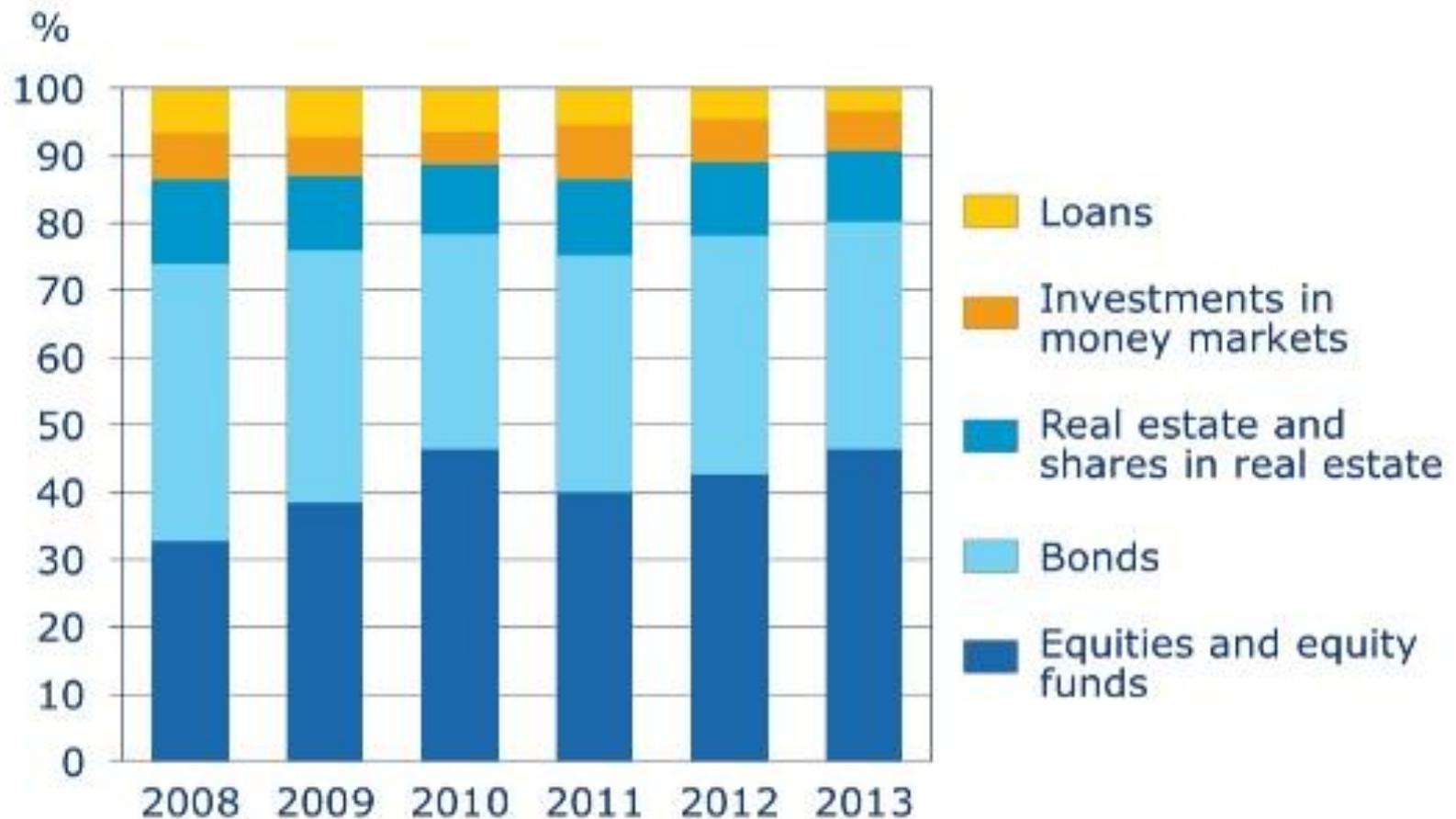


Return on earnings-related pension investments at current values in 1998–2013



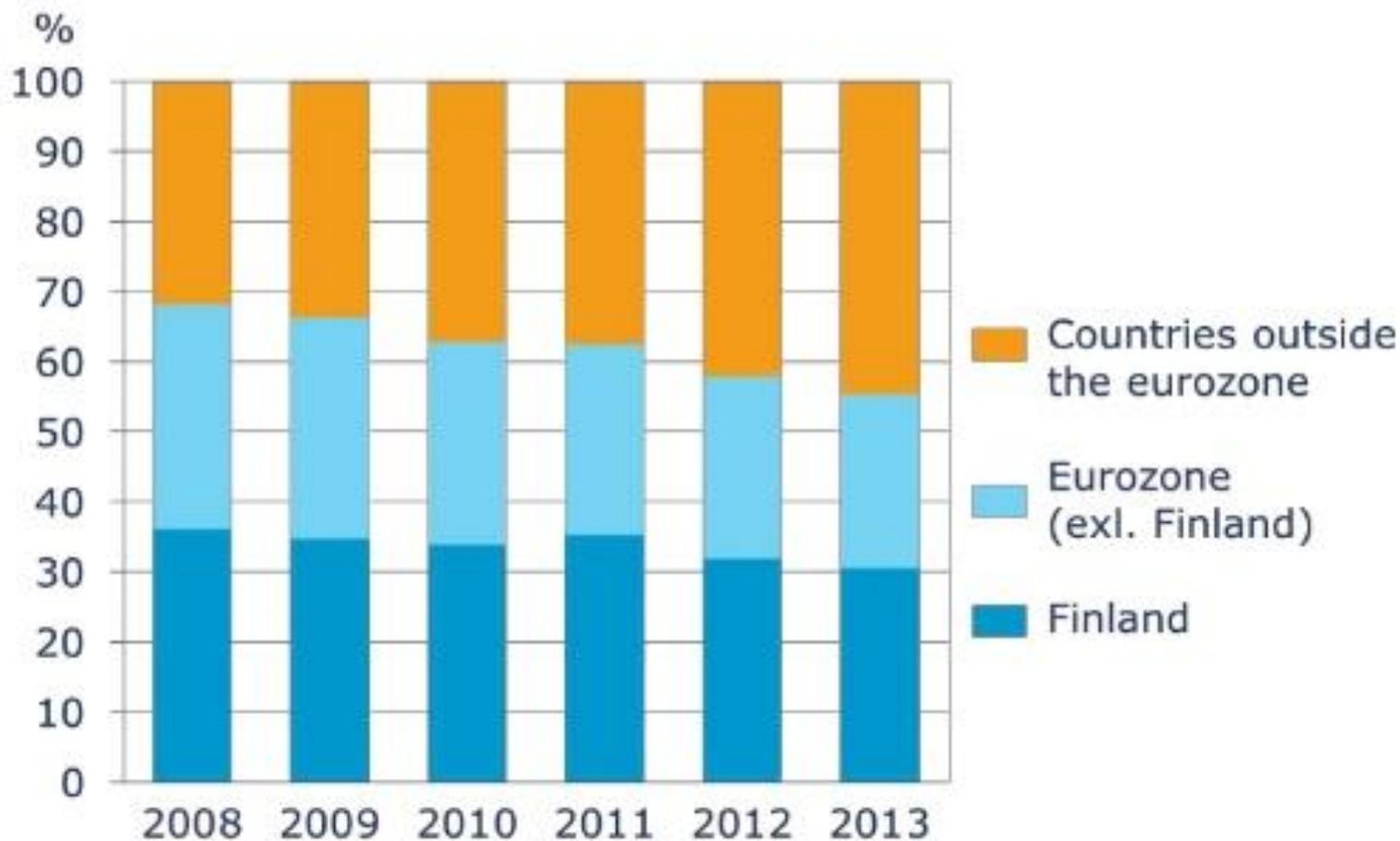
Source: The Finnish Pension Alliance TELA

Earnings-related pension investments, by asset class in 2008–2013



Source: The Finnish Pension Alliance TELA

Earnings-related pension investments, by region in 2008–2013



Source: The Finnish Pension Alliance TELA