



ESPN – Flash report

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**Increasing the effective retirement age:
the 2017 pension reform**

Olli Kangas
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Contact: Valdis ZAGORSKIS

E-mail: Valdis.ZAGORSKIS@ec.europa.eu

*European Commission
B-1049 Brussels*

EUROPEAN SOCIAL POLICY NETWORK (ESPN)

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Theme(s):	<i>Pensions</i>
Title:	Increasing the effective retirement age: the 2017 pension reform
Category:	<i>Measures adopted and debates currently underway</i>
Abstract:	Population in Finland will age faster than in most OECD countries. In order to improve sustainability of the pension system, reforms should be effective as from 2017. The reform package consists of tightening /closing early exit routes, combining a life expectancy coefficient with pension age related to life expectancy and changing accrual rates.
Description:	<p>The 2005 pension reform was designed to combat future demographic and sustainability challenges. A flexible retirement age (63 to 68 years of age) was introduced, life time income was taken as basis for benefit calculation and the annual accrual rates were 1.5% for a worker aged 18–52; 1.9% for 53–62 and 4.5% for 63–67. Pensions were adjusted by a life expectancy coefficient to eliminate increasing longevity. However, the measures were not effective enough. In order to improve sustainability of the system, new reforms are under discussion and should be effective as from 2017.</p> <p>Since 2005, the average pension age has increased primarily because of the abolishment of unemployment pension and tightening pre-retirement options. Furthermore, despite rising life expectancy there is a huge spike in retirements at the lowest pension age of 63. Thus, if the present system remains unchanged, either benefits will become inadequate and old-age poverty will be a problem (because of the life time coefficient eating up the pension amount) or the system will become unsustainable (if all pensioners have long working careers and benefit from the ‘super’ accrual rate of 4.5% their pensions are ‘too’ high for sustainability of the system). Therefore, options discussed include:</p> <ul style="list-style-type: none"> • increasing the earliest eligibility to 65 years (and possibly the upper limit up to 70 years) of age. • increasing pension age according to life expectancy. From 2025 pension ages will be increased by 2/3 of increase in life expectancy. Thus 3 years increase in life expectancy yields increase of 2 years in retirement ages. • keeping life time coefficient and combining it with the pension ages.
Outlook & Commentary:	In Finland, employment-related pensions are administrated by social partners. Therefore, the primarily discussions take place between labour market partners. Unsurprisingly, partners have different opinions. Employers demand stronger and more rapid

	<p>measures to combat increases in pension expenditure and in employer contributions that are the main source financing the system. Representatives of trade unions are not unanimous. Whereas the white collar unions emphasise the role of 'super' accrual rates in the lower end of work career to enchant postponement of retirement, blue collar unions insist on better pension accumulation in the earlier part of worker's career.</p> <p>The deadline for social partners is loosely defined to be autumn 2014. If they cannot find solutions, the government will take the issue from the partners and make its own decision – which would be a breaking point in the pension policy making in Finland. Up to now, all major pension decisions have been tailored by social partners.</p> <p>The reform has winners and losers related to the socio-economic structure. Salaried and academics have more possibilities than unskilled and workers to benefit from postponement incentives. Furthermore, closing down early exit routes may increase retirement age but the flip side is increased unemployment among the older age groups.</p>
Further reading:	<p>Nicholas Barr (2013): The pension system in Finland: Adequacy, sustainability and system design. Helsinki: Finnish Centre for Pensions.</p> <p>Finnish Centre for pensions (2014): Statutory pensions in Finland: long-term projections 2013. Helsinki: Finnish Centre for pensions, Reports 03/2014.</p>
Author:	Olli Kangas (olli.kangas@kela.fi)

