



Marja Kiviniemi

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FI-00065 Eläketurvakeskus Finland
Tel. +358 10 7511 • Fax +358 9 148 1172

Eläketurvakeskus

00065 ELÄKETURVAKESKUS
Puhelin 010 7511 • Faksi (09) 148 1172

Pensionsskyddscentralen

00065 PENSIONSSKYDDSCENTRALEN
Tfn 010 7511 • Fax (09) 148 1172

Email: firstname.surname@etk.fi

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ABSTRACT

This report analyses the level of pension contributions paid in Finland mainly in 2005. The main contribution data have also been compiled into statistics series (2005–2008). Background facts of the contribution level are described by presenting briefly the financing principles of pension provision and the structure of the pension scheme. Pension assets and related investment operations are not included in the analysis.

To make a comparison of pension contribution levels in different countries easier, the total premium income collected in Finland is compared to the data on wage sum and GDP for Finland compiled into statistics by the OECD. In 2005 the pension contributions, including the State's share, were over one-fourth in relation to all compensations of employees. The corresponding proportion in relation to wages and fees was a good one-third. All pension contributions in relation to GDP at market prices was 12.8 per cent and in relation to GDP at basic (factor) prices 14.8 per cent.

In this report total pension provision includes, besides statutory earnings-related pensions, also residence-based national pensions and voluntary earnings-related pension insurance, but not personal pension insurance. The presented pension contribution shares include, besides employer and employee contributions, also the State's share and the contributions paid into the scheme by the Unemployment Insurance Fund. The premium income accumulated from different sources totalled 20.2 billion euros in 2005. In the year under review the pension expenditure in relation to the premium income was nearly 90 per cent.

The report is part of a more extensive comparison of the total level of pension contributions in nine European countries in 2005 made by the Finnish Centre for Pensions. Besides Finland, the countries compared are Denmark, France, Germany, Great Britain, the Netherlands, Norway, Sweden and Switzerland. The data concerning the other countries will be published as separate reviews. The overall results of the comparison have been published in the publication *Pension contribution level in nine European countries* (Finnish Centre for Pensions, Working Papers 2009:1).

ABSTRAKTI

Tässä selvityksessä tarkastellaan Suomessa maksettujen eläkevakuutusmaksujen tasoa pääasiassa vuonna 2005. Keskeisimmät maksutiedot on koottu myös tilastosarjoiksi (2005–2008). Maksutason taustaa kuvataan kertomalla lyhyesti eläketurvan rahoitusperiaatteista ja eläkejärjestelmän rakenteesta. Eläkevarat ja niihin liittyvä sijoitustoiminta on jätetty tarkastelun ulkopuolelle.

Eri maiden eläkemaksutasojen vertailun helpottamiseksi Suomessa kerätty kokonaismaksutulo on suhteutettu maattamme koskeviin OECD:n tilastoimiin palkkasumma- ja bruttokansantuotetietoihin. Vuonna 2005 eläkemaksut olivat valtion suoritukset mukaan lukien yli neljänneksen kaikista maksetuista palkansaajakorvauksista. Palkoista ja palkkioista laskettu vastaava osuus oli runsas kolmannes. Markkinahintaisesta bruttokansantuotteesta kaikkien eläkevakuutusmaksujen osuus oli 12,8 prosenttia ja tuottajahintaisesta bruttokansantuotteesta 14,8 prosenttia.

Lakisäätteisten työeläkkeiden ohella kokonaiseläketurvaan on luettu tässä tarkastelussa myös kansaneläkkeet ja vapaaehtoinen työeläkevakuutus, mutta ei yksilöllinen eläkevakuutus. Esitetyihin eläkemaksuosuuksiin sisältyvät työnantajien ja työntekijöiden maksujen lisäksi valtion ja Työttömyysvakuutusrahaston eläkejärjestelmään maksamat suoritukset. Maksutuloa kertyi eri lähteistä kaikkiaan 20,2 miljardia euroa vuonna 2005. Eläkemenon osuus tarkasteluvuoden maksutulosta oli lähes 90 prosenttia.

Selvitys on osa Eläketurvakeskuksessa laadittua laajempaa eläkemaksujen kokonaistasoa koskevaa vertailua yhdeksässä Euroopan maassa vuonna 2005. Suomen lisäksi muut tarkastelumaat ovat Alankomaat, Iso-Britannia, Norja, Ranska, Ruotsi, Saksa, Sveitsi ja Tanska. Muita maita koskevat tiedot julkaistaan erillisinä katsauksina. Kokonaistulokset on esitetty julkaisussa *Pension contribution level in nine European countries* (Finnish Centre for Pensions, Working Papers 2009:1).

CONTENTS

1	Introduction.....	7
2	Pension contribution level in 2005	9
3	Financing of the statutory pension scheme	12
3.1	Earnings-related pensions	13
3.2	Pension contributions.....	14
3.2.1	Private-sector pension contributions	15
3.2.2	State pension contributions	17
3.2.3	Local government pension contributions	18
3.3	Residence-based national pensions	19
3.3.1	Financing principles of the national pensions	19
3.3.2	Employers' national pension contributions.....	20
4	Supplementary pension provision.....	21
4.1	Registered supplementary pension provision	21
4.2	Voluntary and personal supplementary provision	21
	References	23

1 Introduction

The Finnish pension system consists of the statutory earnings-related and residence-based national pension schemes. In addition, statutory separate pension provision may be granted, for instance, on the basis of motor liability and workers' compensation insurance. The pension recipient's total pension consists of the pension components granted under the different provisions. Statutory basic pension provision is supplemented by voluntary employer-specific pension arrangements and personal pension insurance, but the compensations based on such arrangements constitute only a tiny fraction of the pensions paid out annually.

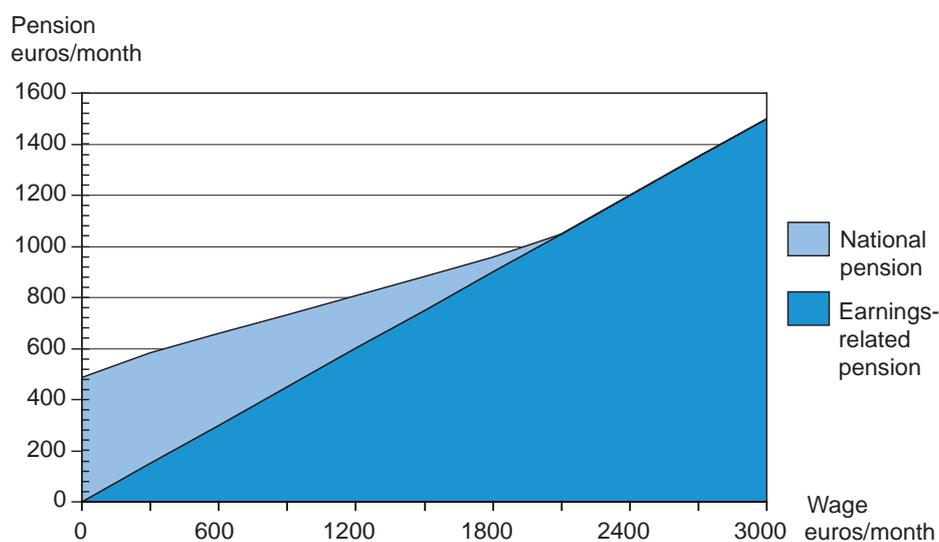
At the end of 2005 there were over 2 million people who had accrued pension rights under the different pension acts of the earnings-related pension scheme. As a rule, the residence-based national pension scheme covers all persons aged 18–68 who are permanently resident in Finland. At the end of the year of observation there were nearly 1.4 million pension recipients, and more than 90 per cent of them received an earnings-related pension. The average total pension was 1,158 euros per month.

The proportion of all pension recipients who received only an earnings-related pension was nearly fifty per cent, and their total pension amounted to on average 1,197 euros per month. Some pension recipients received pension under several different pension acts. The proportion of all recipients of an earnings-related pension who at the same time received a pension from both the private and the public sector was almost one-third. Over 40 per cent of the pension recipients received both an earnings-related and a residence-based national pension. The average total pension of the pension recipients who received a pension from the Social Insurance Institution amounted to 801 euros per month.

Earnings-related pension accrues on the basis of the legislation in force for almost all salaried employment and self-employment for the period for which contributions are paid. Pension contributions are paid by both the employers and the employees. The earnings from the time in employment affect the size of the pension, and the payable pension has no upper limit, i.e. pension ceiling, with the exception of the limits regarding insurance of self-employed persons' earned incomes. It is possible to take the old-age pension flexibly between the ages of 63 and 68.

Figure 1 gives a simplified example of the structure of the statutory total pension determined on the basis of the earnings in 2005.

Figure 1. Total pension made up of the earnings-related and the residence-based national pension in 2005.



The employers pay both earnings-related pension contributions and national pension contributions. The wage earners do not participate in the financing of the residence-based national pensions, but they participate in the financing of the earnings-related pensions through their statutory contribution component. Nowadays the pension providers' investment returns on their pension assets are also a significant means of covering pension expenditure.

The State finances residence-based national pensions and costs arising from the pensions of self-employed persons, farmers as well as persons insured under the Seamen's Pensions Act (MEL). In addition, the State handles the financing of pension provision accumulated under the State Employees' Pensions Act (VEL/VaEL) and of certain pension components accrued for periods of childcare and periods of study. The Unemployment Insurance Fund pays an annually determined statutory levy to the earnings-related pension scheme on the basis of the insured persons' unemployment periods and certain periods of training.

This report analyses the level of pension contributions paid in Finland mainly for 2005. The main changes to the financing of pensions and to the contributions after this are also described as to their key features up to 2008. The background facts for the principles followed in the financing of pension provision have been clarified by briefly describing the structure and the contribution grounds of the pension scheme.

Examples of pension contributions levied from an individual wage earner, which are included in the descriptions of the other countries in the comparison, are not presented for Finland, since there is no pension ceiling and supplementary pensions do not play as significant a role as in other countries.

2 Pension contribution level in 2005

The residence-based national pension scheme covers persons who are permanently resident in Finland, but for the pension based on gainful employment the employers must take out statutory pension insurance for the employees with an authorised pension provider and pay the required pension contributions. Some of the employers complement the insured employees' earnings-related pension provision through supplementary pension arrangements, the premiums of which depend on the level of provision arranged.

Self-employed persons and farmers pay mandatory pension contributions under their own pension acts to their pension providers on the basis of their personal earned incomes. They may, in addition, supplement their basic pension provision through voluntary insurance.

The contribution techniques and the funding principles for pensions related to the financing of private and public-sector earnings-related pensions differ somewhat from each other. The funding principles related to the pensions in different sectors and the differences between them are described in more detail in the following chapter.

In 2005 the total premium income, which also included the premium income for voluntary earnings-related pension insurance, totalled 20.2 billion euros. This amount corresponded to 32.8 per cent of paid wages and fees, and, when including the employers' social security contributions, 26.2 per cent. The premium income corresponded to 12.8 per cent of GDP at market prices.

Table 1 presents the total premium income accumulated from different sources in relation to the total amounts of wages and related compensations as well as in relation to GDP at market prices and basic prices in 2005. The calculations are based on statistics published by the Finnish Centre for Pensions and the Insurance Supervisory Authority as well as public-sector pension statistics and annual reports. The wage sums and GDP figures are statistical figures published by the OECD.

In order to clarify the financing basis for the paid pensions the shares paid into the pension scheme by the wage earners, the employers and the State are here presented separately. The wages and fees paid totalled 61.6 billion euros, and the compensation of employees, including social security contributions, 77.1 billion euros. GDP at market prices amounted to 157.4 billion euros and GDP at basic prices to 136.6 billion euros.

Table 1. Pension contributions in relation to wages and GDP in 2005.

	Percentage of premium income			
	In the compensation of employees*	In wages and fees	In GDP at market prices	In GDP at basic prices
Wage earners				
Private sector	2.45	3.07	1.20	1.38
Public sector	1.15	1.45	0.57	0.65
Contribution of the Unemployment Insurance Fund	0.11	0.14	0.05	0.06
Total	3.71	4.65	1.82	2.10
Employers				
Private sector	8.49	10.63	4.16	4.79
Public sector	5.16	6.46	2.53	2.91
Self-employed persons	0.78	0.98	0.38	0.44
Farmers	0.18	0.22	0.09	0.10
Contribution of the Unemployment Insurance Fund	0.48	0.60	0.23	0.27
Employers' national pension contribution	1.79	2.24	0.88	1.01
Total	16.87	21.13	8.26	9.52
The State's shares and other tax financing				
MEL, State's share	0.05	0.06	0.02	0.03
YEL, State's share	0.04	0.05	0.02	0.02
MYEL, State's share	0.51	0.64	0.25	0.29
VEL, State's share	2.29	2.87	1.12	1.29
Residence-based national pensions	2.10	2.63	1.03	1.18
Total	4.99	6.25	2.45	2.82
Statutory pensions	25.58	32.03	12.53	14.44
Voluntary earnings-related pensions	0.58	0.73	0.29	0.35
All in total	26.16	32.76	12.82	14.79

* Includes also the employer's social security contributions.

Table 2 presents the premium income accumulated in 2005 in order to finance statutory earnings-related pensions and residence-based national pensions and the premium income for voluntary earnings-related pension insurance. For the sake of comparison the pensions paid out in the said year are also presented categorised in a corresponding way. Due to the advance funding of pensions the premium incomes for statutory pensions are clearly higher than the pension expenditure. Total pension expenditure corresponded to only about 87 per cent of the premium income for the year of observation.

Table 2. *Premium income and pension expenditure in 2005, million euros.*

	Premium income	Pension expenditure
Statutory earnings-related pension insurance		
Private sector	9 168	8 715
YEL, MYEL and MEL, State's shares	465	
Contribution of the Unemployment Insurance Fund	452	
Public sector	4 867	5 538
VEL, State's share	1 766	
Total	16 718	14 253
Residence-based national pensions		
Employers	1 381	
State (incl. guarantee payment)	1 218	
VAT revenues	400	
Total	2 999	2 761
Statutory pensions in total	19 717	17 014
Voluntary earnings-related pension insurance	449	464
All in total	20 166	17 478

Special pensions for farmers and compensations for military injuries as well as workers' compensation and motor liability insurance are excluded from the calculations and tables presented here. The Farmers' Social Insurance Institution paid farmers' early retirement aid and pensions from the old farm closure schemes to an amount of slightly less than 150 million euros during 2005. The total amount of compensations under military injuries, workers' compensation and motor liability insurance was approximately 500 million euros. The State finances special pensions for farmers and compensations for military injuries. Compensations from workers' compensation and motor liability insurance are financed by the insurance companies or the State.

3 Financing of the statutory pension scheme

In Finland pensions are financed according to different principles, depending on the applicable pension act¹. There are several different pension benefits. Earnings-related and residence-based national pensions are mainly paid on the basis of old age, disability and the death of the family breadwinner. In addition, unemployment pensions may on certain conditions be awarded to ageing unemployed persons. Persons who have reached the age of 58 and who cut down on their working hours may take a part-time pension before retiring on an old-age pension. This possibility does not exist in the residence-based national pension scheme. On the other hand, also without any actual national pension it is possible to receive different increments payable from the national pension scheme.

The authorised pension providers, which in the private sector include pension insurance companies, industry-wide pension funds and company pension funds, pay the pensions awarded on the basis of employment to the persons entitled to these pensions. Pensions for self-employed persons are handled by the pension insurance companies and five pension funds. Pension provision for farmers and for seamen is handled by the separate pension providers for these industries. At the end of 2007 there were seven pension insurance companies in operation, 27 company pension funds and eight industry-wide pension funds, including the pension funds for self-employed persons.

The largest pension providers in the public sector are the State Treasury and the Local Government Pensions Institution. Pension provision for the Evangelical-Lutheran Church is handled by the Church Council. Pension provision for those employed by the Orthodox Church is handled by the pension fund for the clergy of the Orthodox Church, and depending on the year of insurance pension provision is determined either on the basis of the pension acts for state employees or for private-sector employees. In addition, the personnel of the Bank of Finland, the regional government of Åland and the Social Insurance Institution have their own separate pension arrangements. The residence-based national pensions are administered by the Social Insurance Institution, which functions under the auspices of Parliament.

1 In the private sector the largest pension act by number of insured is the Employees Pensions Act (TyEL), which took effect in 2007, when the Employees' Pensions Act (TEL), the Temporary Employees' Pensions Act (LEL) and the Pensions Act for Performing Artists and Certain Groups of Employees (TaEL) were unified into one single pension act. Seamen are insured under the Seamen's Pensions Act (MEL), and self-employed persons and farmers have their own pension acts (the Self-Employed Persons' Pensions Act YEL and the Farmers' Pensions Act MYEL). The most significant public-sector pension acts are the State Employees' Pensions Act (VaEL, before 2007 VEL) and the Local Government Pensions Act (KuEL) as well as the Evangelical-Lutheran Church Pensions Act (KiEL). Other public-sector actors mainly apply the provisions under the State Employees' Pensions Act. The National Pensions Act (KEL) and the general Survivors' Pensions Act determine the grounds for minimum pension provision.

3.1 Earnings-related pensions

The earnings-related pensions of private-sector wage earners are mainly financed through pension contributions levied in the year the pension is paid out and pension funds accumulated in advance. The need to levy pension contributions depends on the amount of pensions which will become payable and the pension rights which will accrue in each year. The main part of the TyEL contribution is paid by the employer, the employee's share being approximately one-fourth. The pensions for seamen are financed through employer and employee contributions of equal size. In addition, the State annually finances about one-third of pension expenditure under MEL.

Currently the Employees Pensions Act (TyEL) covers all private-sector wage earners, except seamen, whose share of premium income is less than one per cent of the total premium income for private-sector wage earners. The premium income under the Employees' Pensions Act (TEL) was annually over 90 per cent of the aforementioned premium income.

The pensions for self-employed persons and farmers are not funded in advance; instead they are financed through contributions of the same point in time in a similar manner to a PAYG scheme. The levels of the YEL and MYEL contributions are linked to the average TyEL contribution, and before 2007 to the TEL contribution. The State also finances part of the pensions for self-employed persons, since the State annually finances the part of the statutory pension expenditure for self-employed persons and farmers which the contributions do not suffice to finance.

In addition, pension accruals which are also financed through tax revenues are the pension components accrued for periods of childcare and periods of study. The benefits accrued on the basis of daily allowances paid for periods of unemployment and for certain periods of training as well as on the basis of compensations for job alternation leave are financed by the Unemployment Insurance Fund. All the pension providers participate in the financing of the pension components accrued for periods of daily allowances and other unpaid periods.

The employee's share of the contribution is levied from both private and public-sector employees. The contribution is dependent on the insured person's age, so that for persons who have reached the age of 53 the contribution rate is higher than for persons younger than this. The higher contribution is used to finance the higher pension accrual rates after the age of 53. The employer's share is correspondingly lower. The contribution share for employees insured under the Seamen's Pensions Act (MEL) is half of the total contribution, regardless of age. The contributions for older self-employed persons and farmers also increase on the basis of the person's age.

The public-sector pension providers nowadays fund part of the pension contributions. The funding is not done separately for each pension benefit, as in the private sector, but collectively, in which case no individual pension liabilities arise. Thus the accumulation of funds has not depended on accrued benefits and the use of the funds is not linked to any specific pension benefit.

Currently the public sector builds up buffer funds, which can be used to regulate the contribution level and smooth the costs in coming decades arising from the pensions of the baby-boomers. Public-sector pension expenditure is increasing also due to the previous pension accruals, which were more generous than in the private sector. Namely, in the public sector the target level of the pensions has been as high as 66 per cent of earnings, compared to 60 per cent in the private sector.

Furthermore, there have in recent years been significant changes, for instance, in the service structure and personnel of the municipalities. Services have been outsourced and operations have been transferred to private service producers, which causes uncertainty concerning the development in the wage sum and the contribution level. The number of persons covered by the state employees' pension scheme is nowadays also only a part of the number on the basis of which the payable pension stock has been built up, and the employers' and employees' pension contributions cover less than half of the annual pension expenditure.

The state employees' pensions are financed through the national budget, to which funds are annually transferred from the State Pension Fund in accordance with the criteria laid down by law. The transferred amount is at the most 40 per cent of the annual state pension expenditure. The offices render account for both employer and employee contributions to the State Treasury, which enters the contributions as income to the State Pension Fund. The funding target is one-fourth of the pension liability in the state employees' pension scheme. At the end of 2005 the funding level was approximately 14 per cent.

The amount transferred from the State Pension Fund to the national budget during 2005 totalled 1.2 billion euros. In contrast, in 2006–2007 most of the premium incomes were left to build up the fund and the state employees' pensions were almost fully financed from the national budget. The State Treasury handles the payment of the pensions.

Pension provision in the local government pension scheme is handled by the Local Government Pensions Institution. Part of the levied KuEL contributions are transferred to a pension liability fund in accordance with an annually made decision and part of the contributions are used to finance current pensions and administrative expenses. The local government sector has for a long time collected more pension contributions than the amount needed to cover pension expenditure, since the aim has been to build up the pension fund. At the end of 2005 the fund amounted to 17.3 million euros.

The financing mode of the pensions of the Evangelical-Lutheran Church is similar to that of the local government sector. The pensions of the regional government of Åland, the Bank of Finland and the Orthodox Church are financed in a similar manner to the rest of the public sector.

3.2 Pension contributions

Employers pay contributions for their employees aged 18–68 to the pension providers on the basis of the insured person's individual earnings. Self-employed persons and farmers pay the pension contributions themselves, and the contributions are determined on the basis of the

confirmed/reported incomes. The contribution rates in percentage of the wages and earned incomes for the different pension acts for the years 2005–2008 are presented in table 3. The accumulation of contributions includes both the employers' and the employees' shares. In addition, for instance the KuEL contribution includes the total accumulation of contributions, not just the salary-based contribution. The temporary reductions in the contribution have been taken into account in the TEL/TyEL contribution for 2006–2008.

Table 3. Average pension contributions in 2005–2008.

	Contribution accumulation percentage				Contribution share for under-53-year-olds percentage points				Contribution share for persons aged 53 and over percentage points			
	2005	2006	2007	2008	2005	2006	2007	2008	2005	2006	2007	2008
TEL/TyEL	21.6	21.2	21.1	21.1	4.6	4.3	4.3	4.1	5.8	5.4	5.4	5.2
LEL	22.7	22.5	-	-	4.6	4.3	-	-	5.8	5.4	-	-
TaEL	19.6	20.3	-	-	4.6	4.3	-	-	5.8	5.4	-	-
MEL	22.0	22.0	22.0	22.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
YEL	20.2	19.6	19.5	19.4	21.4	20.8	20.8	20.6	22.6	21.9	21.9	21.7
MYEL	11.0	10.7	10.7	10.6	21.4	20.8	20.8	20.6	22.6	21.9	21.9	21.7
VEL/VaEL	24.2	24.1	24.8	24.7	4.6	4.3	4.3	4.1	5.8	5.4	5.4	5.2
KuEL	28.1	28.3	28.4	28.2	4.6	4.3	4.3	4.1	5.8	5.4	5.4	5.2
KiEL	31.8	31.5	31.5	31.3	4.6	4.3	4.3	4.1	5.8	5.4	5.4	5.2

The contribution shares under YEL and MYEL for under-53-year-olds and for persons aged 53 and over are contributions without any reductions. Furthermore, the contribution accumulation percentages under YEL and MYEL for 2008 are estimates.

3.2.1 Private-sector pension contributions

The Ministry of Social Affairs and Health annually confirms the contribution grounds under TyEL. The manner of determining the contribution varies slightly in the pension insurance companies, industry-wide pension funds, company pension funds and separate pension providers, but the aim is to determine the contribution so that it is sufficient, together with the returns on the pension assets, to cover each year's funded pension liability and the pension expenditure financed on a PAYG basis as well as administrative costs and possible premium losses and other expenses. The TEL/TyEL contribution and the funding of the different pension benefits have been described in more detail in paragraph 3.2.1.1. The annual changes to the average contribution level are divided in half between the employer and the employee contribution.

In recent years the average TEL/TyEL contribution has been around 21 per cent and the MEL contribution one percentage point higher. The wage earners' contribution shares, except that for seamen, were the same, but the employer's share varied slightly, depending on the employer's size and the insurance provider. The employers who had insured the employees under the Seamen's Pensions Act (MEL) paid a contribution of 11 per cent of the earnings which the contribution was based on, as did both the employees who had reached the age of 53 and the employees who were younger than 53. The State's share was 37 million euros in 2005.

The self-employed persons' contribution percentage under YEL and basic contribution percentage under MYEL correspond to the average contribution for insurance under TEL/TyEL without the increased contribution component for over-53-year-olds. The pension contributions for self-employed persons and farmers are increased from the beginning of the calendar year following the person's 53rd birthday by a percentage equal to that of employees who have reached the age of 53.

The average contribution rates for self-employed persons presented in table 3 are nearly double the contributions for farmers. In addition, the accumulations of contributions are clearly lower than the confirmed basic contribution rates. The contributions are reduced especially by reductions in the contribution granted to new self-employed persons and the large number of farmers with low earned incomes, who pay contributions according to the lowest contribution rate.

The principles for the self-employed persons' contributions were changed from the beginning of 2005, so that self-employed persons may pay additional contributions of 10–100 per cent flexibly in good years, and if the earned incomes decrease, the contribution may be reduced by 10–20 per cent. The flexibility in the payment of contributions also affects the pension accrual for the relevant year in the same direction. In the same way as previously new self-employed persons are, regardless of age, allowed a reduction of 25 per cent on the contribution under YEL for the first four years of self-employment.

The contributions for farmers vary depending on the MYEL income without the aforementioned flexibility in the contributions. In 2005 the contribution for under-53-year-olds was 10.49 per cent for incomes of less than 19,822.14 euros. The contribution rate increased gradually for incomes ranging from 19,822.14 to 31,149.13 euros, and for the share exceeding 31,149.13 euros the contribution was 21.4 per cent of the earned income. The corresponding contribution rates for persons aged 53 and over were 11.07 and 22.6 per cent.

The State's share of the financing has been the main source of financing in the case of farmers' pensions for as long as they have existed. In 2005 the share was about 400 million euros, which was 77 per cent of pension expenditure under MYEL. The State's share in the financing of pensions for self-employed persons was 32 million euros, i.e. approximately five per cent of pension expenditure under YEL in 2005.

3.2.1.1 TEL/TyEL contribution and funding by pension benefit

The contributions levied to finance private-sector earnings-related pensions are mainly used to finance pensions to be paid out the same year. However, part of the contributions under the pension acts for employees is funded for future pension expenditure. The funding is carried out by the pension providers according to certain actuarial calculation grounds. The funding technique varies slightly for pension insurance companies, industry-wide pension funds and company pension funds. In the following the TEL/TyEL contribution as regards pension insurance companies is presented.

The average contribution contains separate components for funding and for the pay-as-you-go pension expenditure, for which the pension providers are jointly liable. Assets are built up

for future old-age pensions through the old-age pension component of the contribution. The part which is not funded in advance will at the relevant point in time be financed through pooling. There are also separate contribution components for disability and unemployment pensions, but these pensions are not funded until the pension starts. No separate contributions are levied in advance for survivors' and part-time pensions; instead they are taken into account through the pooled component of the contribution. This component is also used to finance the costs arising from disability and unemployment pensions which are not covered through funding.

The pension contribution also includes components which are used to finance costs arising from the operations of the pension providers and the Finnish Centre for Pensions as well as contributions which remain unpaid. In 2005 the pension insurance companies levied from the employers in advance as separate contribution components the administrative cost and premium loss components as well as a component to cover the costs of the Finnish Centre for Pensions. The industry-wide and company pension funds use a different contribution technique than the pension insurance companies, and all the aforementioned charges are levied in connection with their contributions.

Table 4 presents the main average components of the TEL/TyEL contribution in 2005–2008. The total contribution is reduced by bonuses to the policyholders and temporary reductions in the contribution. The size of the actual contribution to be levied is, depending on the size of the employer, affected by for instance the employees' age, the wages paid, and the possible disability pension expenditure.

Table 4. Components of the average TEL/TyEL contribution in 2005–2008, % of wages.

	2005	2006	2007	2008
Old-age pension component	3.0	3.0	3.0	2.9
Disability pension component	1.3	2.0	2.0	1.8
Unemployment pension component	0.3	0.0	0.0	0.0
Pooled component	16.3	16.1	16.1	16.6
Other components	1.0	1.0	0.8	1.0
Estimated bonuses	-0.3	-0.5	-0.4	-0.5
Temporary reduction	0.0	-0.4	-0.4	-0.7
Total	21.6	21.2	21.1	21.1

3.2.2 State pension contributions

In the case of the State the employers' pension contributions are determined according to the calculation grounds confirmed by the State Treasury. The contributions only cover liabilities which have arisen after the establishment of the State Pension Fund. The pensions are paid from the means annually reserved for this purpose in the national budget, and individual pensions do not include any funded component, in contrast to private-sector pensions. The employers' pension contribution rates vary between the offices, institutions or corporations.

The VEL/VaEL contribution is based partly on a tariff contribution and partly on the employer's own pension cases, depending on the number of employees. The contribution includes separate components for old-age, disability, unemployment and survivors' pensions

and, since 2007, also an administrative cost component. In 2005 the pension contributions totalled nearly 1.5 billion euros, of which the share of the employee contributions was 301 million euros.

Currently there are three different contribution categories, and the most extensive of them is the general contribution category. This category included approximately 76 per cent of the wage sum under VEL in 2005. There are separate contribution categories for those who are entitled to military pensions and for those who have chosen a lower retirement age. There may be persons belonging to different contribution categories in the employ of the same employer.

The employee contribution rates correspond to those of the private sector, i.e. 4.6 and 5.8 per cent. The total contribution rates in 2005–2008 are presented in table 3. The contribution for a VEL employer was determined as a weighted average of the pension contributions of the persons who belong to different contribution categories. In 2005 the contribution rates were

- in the general contribution category 23.41 per cent
- in the category for persons with lowered retirement ages 31.04 per cent
- in the category for persons entitled to military pensions 36.34 per cent.

When all the paid pension contributions and the payers in the state pension scheme are taken into account, the total contribution accumulation corresponded to about 24.2 per cent of the wage sum under VEL.

3.2.3 Local government pension contributions

The total contribution accumulation in 2005 for local government employees and other employee groups who are covered by the Local Government Pensions Act (KuEL) was 28.1 per cent of the wage sum under KuEL. The local government pension contribution consisted of the employee's salary-based contribution and the employer's salary-based contribution and possible contribution component based on pension expenditure as well as deductible contributions. The average salary-based contribution was 22 per cent of the earnings under KuEL. Of the contribution the employer's salary-based share was 17.1 per cent. As in other sectors, the employees paid a pension contribution of 4.6 per cent, and after reaching the age of 53 a contribution of 5.8 per cent. The average share of the contribution for employees of different ages was 4.9 per cent of wages.

In addition to the aforementioned contributions, the members of the Local Government Pensions Institution which had been established before 2005 (municipalities, federations of municipalities, local government owned companies) paid contributions based on pension expenditure totalling 5.6 per cent of the wage sum. This contribution concerns previous more generous pension provision. The deductible contributions of the local government employers were on average 0.6 per cent of the total amount of wages in 2005. From the beginning of 2006 the deductible system was replaced by a contribution based on pension expenditure for early pensions, which the employer pays when the employee retires for the first time on a disability pension, an unemployment pension or an individual early retirement pension or cash rehabilitation benefit. This contribution roughly corresponds to the disability pension

contribution under TyEL, and it is dependent on the employer's size. The smallest employers pay the contribution based on pension expenditure for early pensions on the basis of joint liability in proportion to the wage sum. The categorisation as small employer is done on the basis of the wage sum under KuEL.

3.3 Residence-based national pensions

The Social Insurance Institution (Kansaneläkelaitos Kela) pays old-age, disability and unemployment pensions as well as survivors' pensions to those who are entitled to such pensions. The size of the pension depends, for instance, on the applicant's other income from earnings-based pensions and his family ties. Single persons receive a higher pension than married and cohabiting persons, and the pension is reduced by periods which the person has previously lived abroad. Before 2008 the amount of the national pension was also affected by the person's municipality of residence in Finland.

Kela also pays pensioners' housing allowance, pensioners' care allowance, increase for a child and front-veterans' supplement either as a national pension or as a supplement to the earnings-related pension. At the end of 2005 the proportion of pension recipients who received a pension from the national pension scheme was approximately fifty per cent. Those who received only a national pension numbered less than 10 per cent of all pension recipients.

In 2005 the average national pension, including front-veterans' supplements, amounted to 293 euros per month. The pension of a single person who receives only a residence-based national pension and who lives in the more expensive cost-of-living category of municipalities was 505 euros per month. Pensioners' housing allowance was paid to persons entitled to this benefit to an average amount of 144 euros and care allowance to the amount of 104 euros per month. The number of persons who receive housing and care allowance is increasing, whereas the number of national pensions and front-veterans' supplements, which are affected by the person's earnings-related pensions, decreases continuously.

In the year of observation pensions awarded by Kela were paid out to a total amount of 2,761 million euros. Of this amount 2,635 million euros were paid as national pensions and 38 million euros as survivors' pensions. In addition, 88 million euros were paid out as front-veterans' supplements.

3.3.1 Financing principles of the national pensions

The benefits payable from the National Pension Fund and the operating costs are financed through national pension contributions paid by the employers and state financing as well as investment returns of the fund. The financing mode is based on the PAYG principle, in other words, the benefits paid in each year are financed through revenues for the same year. The insured do not pay any separate national pension contribution.

In 2005 the employers' national pension contributions financed approximately 46 per cent of the costs of pension insurance. The revenues from the employers' contributions totalled 1,381 million euros. The State's share, together with the State's guarantee payment related to

Kela's solvency (83 million euros), amounted to 1,218 million euros, i.e. approximately 40 per cent of costs for residence-based national pension insurance. In addition, the amount received in the year of observation from VAT revenues was 400 million euros, over 13 per cent of total financing. The share of investment and financing returns and other revenues was less than one per cent. Since 2006 VAT revenues have no longer been allocated to Kela.

3.3.2 Employers' national pension contributions

The national pension contribution is part of the social security contribution paid by the employer. The size of the contribution and its levels are laid down by law. The national pension contribution of private-sector employers is divided into three contribution categories, depending on the current year's depreciation on the acquisition costs for fixed assets, as reported by the employer for taxation purposes, and the wages paid the same tax year. State-owned companies are considered similar to private employers. Table 5 presents the grounds for the employers' national pension contribution in 2005–2008.

Table 5. Employer's national pension contributions in 2005–2008, in % of wages.

National pension contribution	2005	2006	2007	2008
Private sector				
- I contribution category	1.366	0.898	0.901	0.801
- II contribution category	3.566	3.098	3.101	3.001
- III contribution category	4.466	3.998	4.001	3.901
Public sector		1.948	1.951	1.851
The State and Åland Islands	3.966			
Municipalities and the Church	2.416			

The average national pension contribution paid by the employers in the private sector was 2.09 per cent of wages in 2005. The average contribution for all employers was 2.30 per cent in the same year.

4 Supplementary pension provision

Statutory earnings-related pension provision is complemented by supplementary pension provision arranged for the employees by the employer or by the individual for himself. Supplementary pension arrangements in force are either registered with the Finnish Centre for Pensions or free-form. Currently the employer may take out supplementary pension insurance for the employees with a life insurance company as group pension insurance or alternatively, but less frequently, as personal pension insurance. Supplementary pensions are also paid by several industry-wide and company pension funds. Previously the employer could improve the pension benefits of the employees through registered supplementary provision, which was tightly linked to the employment contract and statutory basic pension provision. Self-employed persons were also entitled to their own supplementary pension arrangements, which were linked to the earned incomes. Table 6 presents data on premium income and pension expenditure related to supplementary pension provision for 2005.

Table 6. Premium income and pension expenditure for supplementary pension insurance in 2005, million euros.

	Premium income	Pension expenditure
Registered supplementary provision under TEL and YEL	33	188
Voluntary group pension insurance		
- life insurance companies	411	237
- company pension funds	32	184
- industry-wide pension funds	6	43
Total	482	652

4.1 Registered supplementary pension provision

Arranging registered supplementary pension provision was possible up to the end of 2000. The arrangement meant pension provision under section 11 of TEL, governed by the terms and conditions approved by the Ministry of Social Affairs and Health, through which the employer could improve the pension benefits of a certain group of employees. Currently approximately 10 per cent of private-sector pensions include registered supplementary pension.

The employer may pay the costs arising from registered supplementary pension provision in full, but the employee may also have his own contribution component. Contributions may not be levied from the employees for supplementary pension provision arranged with a company pension fund, but in the case of industry-wide pension funds it is possible.

4.2 Voluntary and personal supplementary provision

A more free-form means to improve the employees' pension provision is for the employer to take out group pension insurance with a life insurance company, which is not linked to statutory basic pension provision. In voluntary pension insurance policies the benefits and the

entitlement criteria for the pension may be determined flexibly. However, the group of persons to be insured should also for this type of insurance be defined according to, for instance, line of business or some other criterion. The retirement ages and periods for each group should always be agreed on, even though the contents of supplementary provision may otherwise be determined less strictly than registered provision. Free-form group pension insurance may, for instance, include just old-age pension, which is granted either for life or for a limited period. The retirement age may be agreed separately for each group. The lowest possible retirement age is 55 years. If the insured person pays part of the premium himself, the lowest retirement age possible is 60 years. Free-form insurance may also include disability, unemployment or survivors' pension provision, which are agreed on separately.

In voluntary insurance the premiums are determined either on the basis of a targeted total pension level or premium grounds agreed on beforehand. Each life insurance company may, in contrast to the pension insurance companies, have different calculation grounds. The grounds for determining the premiums should be the same for a certain group of persons, and they can thus not be individual.

When the employer so wishes, he may, instead of group pension insurance, take out fully personal pension insurance for an employee with a life insurance company. The premiums for personal pension insurance are dependent on the level of provision and the insured person's age. Personal pension insurance taken out by the employers for the employees is not included in the statistics presented in this report, since extensive statistical data on this type of insurance are not available.

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Finnish Centre for Pensions 
ELÄKETURVAKESKUS

Finnish Centre for Pensions

FI-00065 ELÄKETURVAKESKUS

Finland

Tel. +358 10 7511

Fax +358 9 148 1172

Eläketurvakeskus

00065 ELÄKETURVAKESKUS

Puhelin 010 7511

Faksi (09) 148 1172

Pensionsskyddscentralen

00065 PENSIONSSKYDDSCENTRALEN

Tfn 010 7511

Fax (09) 148 1172

www.etk.fi