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Early Retirement

The study investigates the development in early retirement over the past decade. In addition to full disability pension, partial disability pension, individual early retirement pension, early old-age pension and unemployment pension, the analysis includes the part-time pension and the period of unemployment preceding the unemployment pension. The paper also examines the profiles of persons who have retired on different types of early retirement pathways.

The study is based on a 25 per cent sample from the employment statistics of Statistics Finland of the population aged 50–65 in Finland in 1989–2002. Research on the changes in and use of different early retirement pathways in different population groups can form the basis for the analysis of early retirement issues in the final years of this decade.

Ageing people's early retirement in 1990–2002

Over the past decade ageing people's retirement has been postponed. An analysis by retirement pathway, age, and labour market status before the retirement indicate how the change has happened, but also how the position of ageing people in the labour market or outside the labour market has changed in structure. In addition to business cycle and structural factors affecting the functioning of the labour market, the changes in the preconditions of the early retirement pathways have also had an impact.

An important reason for the postponed retirement has been the decrease in disability risk. The change can be most clearly observed among the employed, to which most ageing people belong before retirement. Both the fact that people are in better health and the increases to the age limit

for the individual early retirement pension have reduced the disability risk. Previously this pension was one of the most popular early retirement pathways among persons aged 55–59. Nowadays it is no longer even possible for them to retire on an individual early retirement pension. However, in contrast to the general trend, the disability risk for unemployed persons has increased.

This report defined the unemployment pathway to retirement as starting when the person becomes unemployed, continuing as an unemployment pension and ending in an old-age pension. Since the unemployment pathway is linked to unemployment, its use varies according to the business cycle. Especially during the recession at the beginning of the 1990s the use of the unemployment pathway was common. The significance of the arrangement itself shows in that becoming unemployed and prolonged unemployment is more common among persons of “unemployment pathway age” than at a slightly younger age. Furthermore, when the age limit for the unemployment pathway was raised from 53 to 55 years, the risk of becoming unemployed was postponed. It should be kept in mind that not all unemployed persons are entitled to enter the unemployment pathway. Some of them also reenter the labour market or retire on a disability pension.

As a pension, the unemployment pathway does not show until the person retires on an unemployment pension, usually at the age of 60. This fact and the high unemployment caused by the recession explain why the expected effective retirement age in 1997–2002 remained close to 60 years.

The strong increase in part-time pensions in the late 1990s has also been a significant event. Since the precondition for the part-time pension is part-time work, a large share of the increase in ageing people’s employment concerns part-time employment. The increase in part-time pensions is a significant phenomenon also because previously the alternatives to full-time work were mainly either full-time retirement or unemployment.

During the study years it was usually not possible to retire on an early old-age pension until the ages of 60–64. When analysing people in this age group, retirement from work on an early old-age pension was nearly as frequent as taking a part-time pension or becoming unemployed.

Profiles of early retirees

Early retirement is based on both compelling factors and factors which indicate voluntary inclination to retire. Of the early retirement pathways, the disability pensions and the unemployment pathway to retirement may be assumed to involve the largest extent of compelling factors. If work is not possible due to lack of employment or due to ill-health, retirement is the best alternative of the available poor alternatives.

The part-time pension and the early old-age pension may be assumed to involve the largest extent of factors which generate an inclination to retire. If the individual wants to have more

spare time and this is financially possible, the part-time pension and the early old-age pension are obvious alternatives, since the individual may himself significantly affect his decision to retire.

In 2002 the profiles of persons who had used either the unemployment pathway or a full disability pension were fairly similar, even though the first one is based on labour market reasons and the latter one on medical reasons. Both pathways are typical of single men and men whose spouse is not working. Also previous experiences of unemployment, low level of education and living in a sparsely populated area increase the risk of unemployment or disability. These types of characteristics may be assumed to be more frequent among ageing persons whose retirement is based more on compelling reasons than on reasons based on a voluntary choice.

The study does not answer the question of to what extent different retirement pathways are substitutes for each other. The similarity in profile of the persons who have transferred from work to the unemployment pathway and to a full disability pension may, however, indicate that the unemployment pathway to retirement and the disability pension may be alternatives to each other.

Of the different types of disability pension, the partial disability pension and the individual early retirement pension differed from the full disability pension mainly in that the risk for persons with families to retire on these types of pension was higher than for single persons. For the full disability pension the risk was higher for single persons.

The part-time pension was popular among persons with families, especially among women, and the early old-age pension among persons with families whose spouse was not working. In addition, highly educated persons and persons in the high-income brackets were more prone than other population groups to retire on an early old-age pension. Among persons in the high and middle-income brackets the part-time pension was more popular than among persons in the low-income brackets. These characteristics may be assumed to be more prevalent among ageing persons whose retirement is based more on voluntary reasons than compelling reasons.

Company-specific reasons are also significant for people's retirement and choice of retirement pathway. As can be expected, factors related to the demand for workforce, such as differences between lines of industry, could mainly be observed in the form of use of the unemployment pathway. Moreover in large and middle-sized enterprises lay-offs were more concentrated to persons of unemployment pathway age than in small enterprises.

The size of the enterprise also showed in the use of other retirement pathways. The use of the part-time pension, partial disability pension or early old-age pension was more common among persons who worked in large enterprises than among persons who worked in small

enterprises. In large enterprises the possibilities of different working hour and pension arrangements may be better than in small enterprises.

The alternative to the ending of employment is continued employment. In this respect self-employed persons constituted a group of their own, since they had a lower risk of running out of employment than wage earners. Persons in the high-income bracket and highly educated persons also stayed on in the labour market longer than on average. On the other hand, they retired on an early old-age pension more often than other gainfully employed persons. As regards family background, those who stayed on at work the longest were persons with families, and especially those whose spouse was still working.

Unemployed persons and other persons who are outside the labour market can in practice only retire on an unemployment pension or a disability pension. Most unemployed persons retire on an unemployment pension at the age of 60. As regards the disability pension, when the alternative is continued unemployment, an increase in disability risk for unemployed persons in the age group 60–64 could be discerned. In this age bracket most receive an unemployment pension and therefore the disability risk may for them be higher than for unemployed persons in the age bracket 55–59. It could also be noted that long-term unemployed persons had a high disability risk.

In 1997 the profiles of early retirees were fairly similar to those in 2002. The exception to this is the part-time pension, the use of which was clearly more disparate in 1997. At that time those who took a part-time pension instead of working full-time were especially well-off, highly educated women with families who lived in the region of Uusimaa and who worked in other jobs than in the industrial sector. Five years later the popularity of this pension in different population groups was clearly more evenly distributed.

When and how to retire after the pension reform?

Through the 2005 pension reform the preconditions for retirement changed in many respects. The individual early retirement pension was abolished, but similar criteria as for the individual early retirement pension are used when assessing the entitlement to a disability pension of persons who have reached the age of 60. The age limit for the unemployment pathway was raised to 57 years and the unemployment pension was abolished. Nowadays the unemployment pathway continues through unemployment benefits until the old-age pension. The early old-age pension was changed so that the old-age pension may be taken early at the age of 62. The age limit for the part-time pension was raised from 56 years back to 58 years in 2003.

The most significant change of the reform was, however, the introduction of the possibility to retire according to one's own choice between ages 63 and 68. This extended the issues that have traditionally been connected to early retirement to also concern the old-age pension and to older age groups than before. Firstly, the question is how many can work or are allowed to work until the age of 63, and secondly, how many want to stay on at work after the age of 63.

Studying the effects of the pension reform will be possible from the end of this decade, when there will be enough data on the period after 2005. It is evident that the labour market behaviour of the population who has reached the age of 60 will be a special point of interest. The experiences over the past decade of different early retirement pathways provide a good basis for comparison when analysing this issue.

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