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FINNISH CENTRE FOR PENSIONS, REPORTS

EXECUTIVE SUMMARY

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Unpaid periods for which pension accrues and their distribution per demographic groups in Finland in 2005–2013

A person may accrue earnings-related pension not only for earnings from work but also for periods during which he or she is neither a wage-earner nor a self-employed person. Such periods include periods of a daily allowance relative to previous earnings. Within the pension system, such breaks in working life are called unpaid periods. In this report, we have divided the unpaid periods into periods of unemployment, family leaves, sickness, rehabilitation and education. This report offers, first of all, descriptive information on how frequent unpaid periods are and what their significance for the earnings-related pension system is. Secondly, the report outlines how long the unpaid periods are in general and how long they are for specific demographic groups.

In connection with the 2005 pension reform in Finland, the scope of unpaid periods for which pension accrues was expanded. As a result of the reform, pension accrues also for studies leading to a degree and for periods of a home care allowance. In addition, the pension that accrues during unpaid periods was improved as a result of the reform. The research of this report spans the period from 2005 to 2013 or, in other words, the period following the pension reform.

There is scarce previous research on how frequent unpaid periods are, how they are distributed per demographic group, how much pension accrues during unpaid periods, and what their significance for the pension system is. In this report, we review more extensively than before the duration of unpaid periods and how it varies per demographic group. We pay attention also to periods that continue past the turn of the year. We begin the report with an overall

review of unpaid periods. After that, we review the variations in the duration of periods of unemployment, family leave and sickness benefits per demographic group. These benefits form the largest entities of unpaid periods within the earnings-related pension system.

We review the distribution of unemployment, family leave and sickness benefits per gender, age group, educational level and profession. It is important to examine the distribution of breaks in working life per demographic group since the unpaid periods that break and split working lives affect both the attachment to the labour market and the earnings development of persons. This way, the unpaid periods are connected to the length of individuals' working life and the size of their pension.

Unpaid periods highly significant when measured in numbers of people

When reviewed on an individual level, the significance of unpaid periods in the pension system is fairly large. During the review period (2005–2013), the annual number of working-aged persons on unpaid periods accounted for, on average, 40 per cent of all pension insured of the same age group and approximately 25 per cent of the general population of the same age. Hence, unpaid periods affected a considerable portion of working-aged Finnish citizens. Measured in this way, the significance of unpaid periods grew during the review period. The growth was stronger for men than for women. Despite this, the significance of unpaid periods was greater for women than for men.

Three main types of unpaid periods

According to our study, periods of unemployment, family leaves and sickness benefits are the three main types of unpaid periods when measured in terms of the number of people. Each year under review, the total share of people drawing these types of benefits amounted to more than 80 per cent of all persons on an unpaid period.

Longer unpaid periods for the less educated

Our analysis of the allocation of unpaid periods due to unemployment, family leaves and sickness benefits per demographic groups was based on benefits that ended in 2010. We reviewed the benefits also for one year before they ended (2010). For women, the duration of family leaves was clearly longer than for men. In addition, when measured in numbers of persons, women drew considerably more benefits relating to family leaves than men did. Towards the end of the review period, however, we observed a slight growth in the duration of the paternity allowance.

As a rule, a lower educational level extended the duration of the reviewed unpaid periods. The differences in the duration of unpaid periods between professions varied per benefit type. Despite this, we observed some regularity. The child home care allowance was paid for the shortest periods of time to both male and female managers and senior experts. The largest

number of days of child home care allowance was paid to male and female farmers and forestry workers. The duration of the parental leave was largely the same in all professions. For both genders, the sickness allowance was paid for the longest period to workers within the construction, repair work and manufacturing business as well as for clerical and customer service employees.

The data used in the study consists of the registers of the Finnish Centre for Pensions, the joint statistical register of the Finnish Centre for Pensions and the Social Insurance Institution of Finland, as well as the earnings and accrual register of Arek Oy. The longitudinal data spanned the period from 2005 to 2013. The data further included Statistics Finland's data on education and profession.

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