SUMMARY

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Total pension in 2018

*How are the earnings-related and national pensions and taxation determined?*

The amount of the take-home net pension is affected by how the earnings-related and national pension benefits and the taxation of pensions are determined. This review outlines how these factors have been determined for the year 2018. The tables with examples illustrate what the total net pension consists of in the different income brackets. We have also examined the taxation of pensions in general terms and have compared the tax and contribution burden of pension recipients and wage earners in different income brackets.

The 2018 national pension index has been frozen at the 2017 level. It follows that the amount of the national pension will be the same as in 2017. In 2018, the full monthly national pension for a single person is 628.85 euros and for a married or cohabiting person 557.79 euros. A discretionary increase of 15.01 euros was made to the guarantee pension. As a result, together with the guarantee pension, the minimum pension amount is 775.27 euros per month for both single and married or cohabiting persons.

Earnings-related pensions rose at the beginning of 2018 by 0.55 per cent due to the earnings-related pension index. The wage coefficient used, for instance, to revalue earnings when determining the pension rose by 0.14 per cent. The increase in the wage coefficient was smaller than in the earnings-related pension index mainly because of the slow increase in income due to the Competitiveness Pact.
The retirement age of those born in 1955 has been confirmed at 63 years and 3 months. Starting earnings-related pensions will be adjusted with the life expectancy coefficient. It will reduce the monthly pension of those born in 1955 by 3.7 per cent. The life expectancy coefficient for those born in 1956 has been confirmed at 0.96102. It will reduce the monthly old-age pensions of that cohort – as well as any early pensions starting in 2018 – by 3.9 per cent.

The state income tax rate has been mitigated in 2018 by adjusting income limits by 1.5 per cent, increasing the lower limit of the third income bracket with 600 euros and reducing the marginal tax rate of all income brackets with 0.25 per cent. The so-called solidarity tax, that is, the reduced lower limit of the highest income bracket on the tax scale, intended to tighten the taxation of large incomes temporarily, has been kept unchanged in 2018.

The taxation of wage earners is tempered by a higher income tax relief. The taxation of both pension recipients and wage earners is also affected by the higher maximum basic tax deduction. The deduction in pension income in the municipal taxation will continue at the 2017 level while the state deduction in pension income will decrease slightly. The additional tax on pension income has been determined as in 2017 and is 5.85 per cent of the annual pension income that exceeds 47,000 euros.

In 2018, the average municipal tax rate is 19.86 per cent (19.91% in 2017). The public broadcasting tax is 2.5 per cent for an annual income that exceeds 14,000 euros. The maximum tax amount has risen to 163 euros (€143). Pension recipients getting a monthly pension of 858 euros or more had to pay the public broadcasting tax in 2017. In 2018, it will be paid by pension recipients who get a monthly pension of 1,167 euros or more.

In 2018, the earnings-related pension contribution rate for wage-earners is 6.35 per cent (aged 17–52 and 63–67) and 7.85 per cent (aged 53–62). The equivalent rates in 2017 were 6.15 and 7.65 per cent respectively. The unemployment insurance contribution of wage-earners has risen from 1.6 per cent in 2017 to 1.9 per cent in 2018.

In 2017, wage earners no longer had to pay the medical care insurance contribution. The same applies in 2018. The medical care insurance contribution levied on pension and other benefit income has risen to 1.53 per cent in 2018 (1.45% in 2017). The health insurance contribution has risen to 1.53 per cent (1.58%) for wage earners with an annual income of at least 14,020 euros (€14,000).

The change in tax and contribution rates of pension and wage income varies in different income brackets. Comparing the tax rate in 2017 for the same amount of income, and with average municipal tax rates, the tax rate for pension recipients has declined slightly in nearly all income brackets. The tax rate of pension income has been cut the most (0.8 percentage points) for those with a monthly pension of around 1,000 euros, mainly due to the higher income limit for the public broadcasting tax.
The net pension of a person who gets only a national and a guarantee pension from Kela has risen by about 2 per cent. The pension amounts in the higher pension brackets has risen by 0.2–1.0 per cent. However, in real terms, pensions will decrease slightly (apart from the guarantee pension) since the predicted inflation for 2018 is 1.2 per cent. In the last 10 years, the pension of those with only a national and a guarantee pension has grown real-term by about 23 per cent. The pension of those with a monthly pension income of 1,000 to 1,200 euros has grown by approximately 7 per cent and of those with a monthly pension income of 1,400 to 3,000 euros by 3 to 5 per cent.