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The History of Finnish Earnings-related Pension in the Private Sector

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Long before a society of paid work, people lived in a society of work. The basic unit earning an income was the family, consisting of (grand)parents, children and siblings. The elderly and those lacking the capacity to work performed lighter tasks or assisted family members or other relatives. Life expectancy was reduced not only by failed crops, diseases and wars but also by high child and infant mortality. However, those who survived through their first years in life might expect to have a long life ahead of them. Both individuals and societies had to be prepared accordingly.

Livelihood in old age was arranged in different ways in different parts of rural Finland. A traditional life-annuity was common in southern and western Finland. It was an agreement by which the owner surrendered his farm (real estate) to another person – often his son – in exchange for free board and keep on the farm for himself and his spouse for the rest of their lives. In eastern and northern Finland, extended family households consisting of several married couples were more common. Measured by the standards of those days, these institutions offered a reasonable income which varied based on how prosperous the farm was and how successful the crops were.

Officials with a permanent post in Finland under the Russian Empire were granted a pension in 1826. Initially, the retirement age was 65 years after 35 years in service, but it was reduced to 63 years in 1866. Even earlier, when Finland belonged to the kingdom of Sweden, it was an established praxis that the monarch provided for officials who had lost their work capacity. In addition, in Lutheran countries in which priests were allowed to marry, the livelihood of a priest's widow and children was secured in different ways. As of the early 1900s, there were various degrees of pension regulations in municipalities. Even the bourgeoisie and the craftsmen had mutual funds that initially offered security for, in particular, widows and children. A pension institution for seafarers was founded in 1879 and closed down in 1936. Pension provision for seafarers was rearranged through legislation in 1956 (The Seamen's Pensions Act[1]).

Along with industrialization, sickness and pension funds were established in factories as of the mid-19th century. They were usually financed through employer and employee contributions. These relief funds covered only some of the paid employees, and especially pensions were often very modest. Workers' relief funds were based on the previously established craftsmen's funds and also on old farm owners' maintenance liability within agrarian society. The employer's obligation to provide for long-term employees continued in later legislation, as did the duty of adult children to take care of their parents. Municipal poor relief was the last form of subsistence security resorted to.

Finnish society experienced a profound structural change from the late 19th century onwards. Population growth, changes in land ownership circumstances and industrialization, which gave rise to a society of paid work, gradually broke up the agrarian, overtly unequal society of estates. The change was evident in the economy, working life, the livelihood of the elderly and in people's opinions of what a desirable course of life looks like.

The change also involved a discussion of social insurance, which was investigated in State committees as of the 1890s. The committee members wanted to avoid mistakes made elsewhere and adopt good practices from more developed countries. Moreover, in the early 1900s, the social democrats challenged the dominant form of society and forced the other political groups to change their attitude towards social security. However, the dissent of the political groups and the Russian administration's reluctance to introduce change prevented any major reforms.

1 The act was renamed The Seafarer's Pensions Act in the early 2010s.

When Finland became independent in 1917, circumstances were more favourable, but the 1918 civil war aggravated the political juxtaposition and created an economic environment unsuitable for extensive social reforms for many years to come.

In line with an industrializing agrarian society, the pension system was finally realised as a result of cooperation between centre (agrarian) and left-wing groups, in the form of a compromise. During a post-Depression economic boom in the latter half of the 1930s, after nearly half a century of planning, a national insurance covering the entire population was introduced.

National Pension Reform and the Birth of the Employees Pensions Act[2]

The first obligatory old-age and disability insurance was legislated with the National Pensions Act in 1937. The act came into force in 1939 so that the first disability pensions were paid in 1942 and the first old-age pensions in 1949. When the act came into force, those who had turned 55 years were excluded from coverage. The national pension was based on individual insurance contributions collected in savings accounts. The idea was that the national pension would partly offer earnings-related security. Due to the population's war-time mobility, it was difficult to collect the contributions, and the heavy post-war inflation reduced the significance of the saved capital. The national pension no longer met up with the minimum level of social security as stipulated in the 1952 agreement of the International Labour Organization.

When the war was over, work on reforming the pension provision was begun. A reform proposal compiled by a broad-based committee suggested in 1954 that the pension amount be raised but the system be left unchanged in other respects. However, in Parliament, the principles of the national pension scheme were completely revised. According to the new National Pensions Act, everyone above the age of 65 or disabled was paid an equal-sized pension. If the pensioner had no other income, the pension could be topped up with supplements. The new National Pensions Act took effect in 1957.

The national pension reform abolished all earnings-relatedness from the national pension provision, thus offering the opportunity to plan a separate earnings-related pension scheme. In addition to the obligatory national pension, some of the private-sector employees, mainly officials, were covered by voluntary pensions, but the majority of wage-earners were totally lacking sufficient old-age security. An obligatory earnings-related pension provision had been the goal of officials' organisations, in particular, but after the national pension reform, the Confederation of Finnish Trade Unions[3] also adopted it as its goal.

Plans for a new pension scheme were launched in a small committee immediately after the national pension reform. The committee comprised representatives of labour market organizations, politicians and pension policy experts. In 1960, the committee managed to reconcile the goals of the employee and employer parties and handed in a proposal for an earnings-related pension act in 1960. The committee's proposal was legislated nearly as such and supplemented with a pension act for people in short employments. Both acts took effect on 1 July 1962. The earnings-related pension provision was implemented in a decentralised way. Taking out earnings-related pension insurance was made obligatory, but the employer could choose from which earnings-related pension provider to take out the insurance. The earnings-related pension provision could also be arranged through an industry-wide pension fund or a company pension fund. Labour market parties were given a crucial position in the administration of the earnings-related pension scheme.

Expansion of Pension Provision and Competing Schemes[4]

The private-sector earnings-related pension scheme took a defensive position when the determination of the pension policy agenda shifted in the 1960s to the critics of the new pension scheme. In addition to the dissension of the left wing and the trade union movement, problems arose due to the decentralised execution of the earnings-related pension scheme. To improve lobbying and co-operation between the pension providers, the Federation of the Finnish Pension Institutions was established in January 1964.[5] Together with the Finnish Centre for Pensions,[6] founded in October 1961, the Federation became a key actor in the mobilising of labour market organisations for the defending and expansion of the earnings-related pension scheme. In addition to these two, a new organisation was established, the Pension Information Office (November 1966), which focused in particular on communications directed at the employees.

3 Renamed Central Organisation of Finnish Trade Unions in 1969.

4 Matti Hannikainen

5 In the early 2000s, The Federation of the Finnish Pension Institutions and the Pension Information Office merged and were renamed The Finnish Pension Alliance TELA.

6 Originally named Central Pension Security Institute.

Pension policy disputes were partly related to tension between rural and urban Finland. After World War II and by international comparison, Finland experienced a rapid structural change from an agrarian society to a service and industrial society. The change involved a growth of the public sector, a mushrooming of female employees and a shift towards a clerical labour force. The service industry became the largest employer. An expansion of the public sector facilitated women's entry on the labour markets in two ways: an increase in care and health services allowed women to transfer from home to working life and created new jobs for women.

The rapid structural change was evident in the pension policy as the national pension and the earnings-related pension schemes were vying with each other over which would be the main provider of a livelihood for the elderly and the disabled. Furthermore, social democrats and communists had differing opinions on social security and other social policy issues. Such a multidimensional competition between the schemes led to an acceleration of benefit improvements over a short period of time, but it was also an obstacle for a correctly dimensioned and systematic pension policy in relation to national economic resources. The pension scheme became complex and difficult to administer. Citizens found it difficult to understand the functions of the pension schemes, but the schemes retained their legitimacy, which was maintained by improving the benefits.

Pension reforms continued in the 1960s. The lowest private-sector earnings-related pensions were raised and national pensions improved. Public-sector pension schemes were also reformed: the Local Government Employees Pensions Act came into force in July 1964, while the new State Employees Pensions Act and the Evangelical-Lutheran Church Pensions Act took effect as of the beginning of 1967. Survivors' pensions were included in the earnings-related pension scheme in 1967 and in the national pension scheme in 1969. After years of preparation, the position of the earnings-related pension scheme was strengthened when the Farmers' Pension Act came into force in 1970. Now the rural population, who was the loser of the rapid structural change, received a state-supported earnings-related pension. At the same time, an expanding population group - the self-employed - were included in the earnings-related pension cover through the Self-Employed Persons' Pension Act. Thus, the earnings-related pension scheme covered nearly the entire population.

Pension Level and Coordination of Pension Schemes[7]

In the decades after World War II, labour market policy and social policy entered another phase, which culminated in the 1968 nationwide incomes policy agreement. Extensive co-operation between the government and the labour market organisations aimed for an economically stable development. This corporatist phenomenon was also about a comprehensive organisation of the labour market parties and the growth of mutual trust. It was assisted by the fact that the trade union movement (the blue-collar Confederation of Finnish Trade Unions) grew more solid and its membership increased after the mid-1960s.

The earnings-related pension scheme became a central component of Finnish corporatism. As a counterbalance to the power surrendered to the labour market organisations, they were committed to social planning and to pinning down the short-term and long-term economic limitations for social development. Interest group representatives – including agricultural producers - became permanent members of committees and other planning bodies. The pension schemes introduced a new important group in social and socio-political planning: pension scheme experts.

The general increase of earnings-related pensions in July 1975 was the peak of the labour market period in pension policy, when a substantial reform was agreed on in the 1974 incomes policy agreement. The general increase meant that, as of then, pension accrued at a rate of 1.5 per cent of the earnings instead of the former 1-per-cent rate. The earnings period for a full earnings-related pension remained at 40 years. The new target level for earnings-related pensions was raised one and a half times compared to the previous level, i.e. to 60 per cent of wages.

Pension indexation was changed in 1977 when the so-called ‘fifty-fifty index’ was introduced. According to this, half of the pension index was determined on the basis of changes in the general wage level, while half was determined on the basis of changes in consumer prices. Previously, the index was fully linked to wages. Minor changes were also made to the calculation rules of pensionable wages. These changes were attempts to reduce the so-called ‘super-pension problem’, in which the pension was too high in relation to the wages during the active period. The changes meant a decimation of future pensions.

7 Matti Hannikainen

Competition between the pension schemes ceased when the benefits of the earnings- and national pension schemes were coordinated into a more appropriate entity. The earnings-related pension became the primary and most important pension for most people, but in the late 1970s, the coalition government (left-wing and centre) decided to go ahead with a reform also of the national pension scheme. In the reform carried out in stages in the 1980s, the national pension level was increased, means-testing was abolished, spouse's pensions were differentiated and the scheme was simplified. The national pension reform also brought to light the disagreements concerning the direction of socio-political development. Employers no longer wanted to finance new pension benefits.

Flexible Retirement Age[8]

The discussion of an appropriate retirement age continued immediately after the earnings-related pension acts came into force. The private-sector old-age retirement age of 65 was higher than the public-sector old-age retirement age which, due to supplementary pension arrangements and occupation-specific retirement ages, was 63 or less for practically all public-sector employees. Attention was paid to three issues above all: taking account of war-time active service periods, the retirement age of employees in physically heavy occupations, and elderly persons' problems of subsistence due to structural changes.

Special pensions were created for WW2 veterans. Veterans in a weak financial position were granted additional war pensions from 1968 to 1971. The arrangement was made more permanent through the Front-Veteran's Pension Act, enforced by the Social Insurance Institution that took effect in 1971. The early retirement scheme of veterans came into force in 1982. It was about pensions managed by the earnings-related pension scheme but financed by the State.

The initially delayed structural change seemed to have become a permanent structural change. It was particularly visible in agriculture and forestry. The farm closure and change-of-generation pensions (1974) eased the impacts of the structural change and reduced opposition towards change. A reduction in the number of small farms and forest properties and the accelerating generational circulation also increased productivity and were thus, at least to begin with, justified for the development of the entire economy.

Unemployment pensions (1971) also assisted in the streamlining of regressive fields and companies and thus accelerated structural change and economic growth. Without pension arrangements, the unemployment rate would have been higher. Initially, the lower age limit for unemployment pension was 60 years, but it was lowered to 58 in 1978 and 55 in 1980. The growth in number of unemployment pensions gave rise to criticism. There were two dimensions to the issue. Firstly, some companies used the scheme to their advantage since it became a cheaper alternative to disability pensions, in particular for large companies. Secondly, due to the unemployment pension, mainly the elderly were made redundant since they often stood a smaller chance of finding new employment. For many, redundancy and unemployment meant a permanent transition from working life at a considerably younger age than the old-age retirement age.

In the 1980s, there was a shift from structural-political bulk retirements to individual consideration. After years of clarifications and negotiations, the labour market organisations could not reach consensus on the lower retirement age of the individual early retirement (in force in 1986). Instead of reaching a compromise, the coalition government (left-wing and centre) decided on the notion presented by the Central Organisation of Finnish Trade Unions, the largest labour organisation. Thus, the lower retirement age of the individual early retirement was set at 55 years instead of 63, as presented by the Finnish Employers' Confederation. The individual early pension was a disability pension to which lighter medical criteria were applied. Another new type of pension was the early old-age pension (in force in 1986), which allowed for retirement at the age of 60 at the earliest. In such cases, the pension was permanently reduced. The third new pension type was the part-time pension (in force in 1987, lower retirement age 60 years). The lower age limit for unemployment pension was raised gradually from 55 to 60 years.

In the public sector, the new early retirements took effect in 1989. The lower age limit for early old-age retirement and part-time retirement was set at 58 years, two years less than in the private sector. The reason for the lower age limit was partly to make the temporal dimension the same as in the private sector, i.e. five years below the general retirement age. In the public sector, nearly all were covered by supplementary pension provision, which meant that the retirement age was 63 years. At the same time, after transition periods, the occupation-specific retirement age scheme was renounced.

From Growth to Adaptation[9]

At the onset of the 1990s, the first quarter-century growth period of the earnings-related pension scheme turned into a period of adaptation. The scheme was mainly facing external challenges, above all the disintegration of the Soviet Union and globalisation. Both had an essential impact on the operational preconditions of the export industry, which is important to Finland. The image of the future was also affected by the ageing population and a weakening of the age dependency ratio. Employers, in particular, were more critical of social security than before. Both the national pension and the early retirement reforms had brought the differences of opinion to light already earlier.

The first signs of the change of direction in pension policy were evident in survivors' pensions. In 1990, men and women received equal rights to the surviving spouse's pension in all pension schemes. In the State's survivors' pension scheme, men had been entitled to surviving spouse's pension already earlier. A so-called pension adjustment was introduced to the surviving spouse's pension. It meant that the surviving spouse's earnings-related pension or accumulated pension was taken into account in the surviving spouse's pension. The pension adjustment was made to the surviving spouse's pension when the youngest child turned 18. Although male surviving spouses were covered by the pension entitlement, the surviving spouse's pension expenditure was assessed to be declining in the future.

In the early 1990s, Finland plunged into the deepest peace-time recession of a century nearing its end. The real national product dropped during a three-year period, 1991-1993, by a total of more than 10 per cent. Public economy became indebted and banks were in trouble. Unemployment reached record-high figures: in 1994, the Ministry of Labour's statistics included more than 500,000 unemployed, while the employment statistics of Statistics Finland showed an average unemployment rate of 17 per cent. As economic growth ebbed and unemployment increased, the financial basis for the welfare state weakened.

The consensus of the labour market parties was tried more than ever during the earnings-related pension scheme's 30-year history when employers demanded decimation of both wages, working conditions and social security. The centre/right-wing coalition government and the trade union movement repeatedly juxtaposed each other as the government presented severe austerity measures.

9 Matti Hannikainen

Based on the labour market organisations' agreement, the individual early retirement age was raised in 1994 from 55 to 58 years. At the same time, the conditions for receiving an unemployment pension were tightened. During the recession, major pension reforms were made to public-sector pensions as their benefits were standardized with private-sector pension benefits. As in private-sector pensions, the pension accrual rate was set at 1.5 per cent, the pension target level at 60 per cent, and the old-age retirement age at 65 years.

However, the distress of the labour organisations and the necessity to reform the pension scheme during the years of recession led to a surprising development as the trade union movement's grip of the earnings-related pension scheme was further strengthened. The employee contribution share of earnings-related pension contribution was agreed in the incomes policy agreements of 1991 and 1992. It came into force in 1993 and significantly contributed to this surprising phenomenon. It allowed the trade union movement to justify, more vigorously than ever, its participation in the preparation and decision-making concerning the earnings-related pension scheme. At the same time, employees gained a higher cost awareness of the earnings-related pension scheme as the new benefits and the low effective retirement ages became visible in higher earnings-related pension contributions. In the pension scheme, the focus shifted from benefits to their financing.

Pension Reforms 1995-2007[10]

The challenges posed by the ageing population received increasing attention as the recession subsided. As in other Western countries, the future weakening of the age dependency ratio, predicted already in the 1980s, gave rise to a discussion in Finland about a lengthening of careers. The aim was to shift part of the extended life expectancy to working. For earnings-related pensions, the reforms mostly meant decimations of benefits and a slowing down of future pension expenditure growth. At the same time, the basics of the scheme were simplified and standardised between different population groups, and the coverage improved.

Perhaps the most significant reforms in terms of their economic impacts were carried out as of the beginning of 1996 when pension indexation was weakened, future disability and unemployment pensions were cut and the calculation of the pensionable earnings began to include earnings from 10 years rather than 4 years prior to retirement. The work distribution between the pension schemes, pending for decades, was completed when the national pension gradually became fully pension-tested as of 1996. In the future, as the earnings-related pensions increase, increasingly more people would receive only an earnings-related pension and no national pension at all. Both the weakening of the pension index and the abolishment of the basic amount of national pension gave rise to criticism of the weakening of 'promised' pension benefits. This criticism has gone on for years.

The earnings-related pension scheme attempted to match up to the changes that had taken place in working life and, in particular, in the duration of employment relationships. The qualifying period of the Employees' Pensions Act, i.e. the period after which pension provision began to accrue, was shortened to one month in 1971 (it was previously 6 months and, as of 1965, 4 months). In 1986, the Pensions Act for Performing Artists and Certain Groups of Employees, which concerned so-called freelance employees, came into effect. Along with the reform that took effect in 1998, employments under the Employees' Pensions Act that lasted for less than one month or fell below the previous earnings-level for the obligation to insure were insured under the Pensions Act for Performing Artists and Certain Groups of Employees. As of 2009, persons on a grant were covered by the statutory and obligatory earnings-related pension provision under the Farmers' Pensions Act. At the same time, the social security of grant recipients was improved.

The large pension reform that covers nearly all sections of the pension scheme came into force in 2005, after years of preparation (agreements in 2001 and 2002). The pension acts concerning private-sector employees (Employees Pensions Act, Temporary Employees Pensions Act and the Pensions Act for Performing Artists and Certain Groups of Employees) were combined as of the beginning of 2007 into one act, the Employees Pensions Act. The most difficult point of the pension reform concerned the criterion for determining the pensions: should the pension be determined on the basis of the final salary or of the earnings throughout the entire career? This dispute prolonged the reforms and finally threatened the labour market organisations' mutual cooperation. The employers and the Central Organisation of Finnish Trade Unions were in favour of the entire working career, while the officials' organisations were in favour of the terminal wage. In the end, it was decided that pensions would be calculated on the basis of earnings from the entire working career, combined with a higher pension accrual rate during the final years of the career: 1.5 per cent between the ages of 18 and 52, 1.9 per cent between the ages of 53 and 62 and 4.5 per cent between the ages of 63 and 67.

Early retirement benefits were reduced when individual early retirement was abolished and the unemployment pension created for elderly unemployed was replaced with an improved unemployment allowance. The old-age retirement age of 65, legislated in the 1937 National Pensions Act, was replaced in the earnings-related pension schemes by a flexible old-age retirement age of 63-68 years. In the national pension scheme, the old-age retirement age remained 65 years. It was also decided that pension will accrue from the age of 18 instead of 23, and that pension will accrue during periods of study and child care. The life expectancy coefficient was part of the reform. It came into effect for the first time in 2010 and leads to pensions being automatically cut in the future as the expected life expectancy increases, unless working careers are prolonged at the same time.

All changes to the private-sector earnings-related pension scheme were prepared by the labour market organisations' pension negotiation group. During the long economic boom following the recession in the 1990s, the coalition governments led by the social democrats did not interfere with the pension negotiations as long as results were achieved that supported the general socio-political goals. When consensus was reached in the negotiation group, the government accepted the pension agreement and Parliament approved the reforms without any significant changes or additions. As long as the labour market organisations were able to agree on the reforms, they maintained a strong hold on the earnings-related pension scheme.

Cooperation and Competition[11]

Both cooperation and competition are important in the earnings-related pension scheme. One of the benefits of a decentralised pension scheme is considered to be increased efficiency due to mutual competition between pension insurers. On the other hand, the co-operation of the actors provides benefits of scale regarding the maintenance and development of the scheme's infrastructure. Competition in the insurance business differs from that in many other lines of business, and when it comes to earnings-related pension insurance, the special features of the insurance business become more pronounced. An earnings-related pension insurance company cannot decide on the content or price of the product it sells, nor can it choose its customers. The only means of competition left are the quality of customer service and customer bonuses, which an earnings-related pension provider can award to its customers from the surplus of its administrative expenses and investment returns when the return exceeds the administratively set expected return, i.e. the technical rate of interest.

11 Jussi Vauhkonen

The execution of a decentralised earnings-related pension provision in 1961-1963 required the founding of insurance companies specialising in earnings-related pension insurance. Company pension funds and industry-wide pension funds existed already before that. In 1961, the Finnish Centre for Pensions was founded as the joint co-operation body for the scheme. Earnings-related pension insurance companies co-operated with insurance companies offering other types of insurance rather than established their own sales and marketing organisations. The data technology required by the earnings-related pension scheme was quickly constructed in cooperation between the Finnish Centre for Pensions and the earnings-related pension providers. The earnings-related pension scheme was based on automatic data processing as it required registration and processing of data on the insured. An accurate calculation and payment of the pensions also required considerable data processing capacity.

Throughout the 20th century, the insurance business was branded by centralisation. It took place in three waves. In the first wave, small insurance companies merged and grew into bigger ones. In the second wave, life and non-life insurance companies formed pools, which became groups or more independent consortiums. These waves passed in the mid 1980s when the insurance field was divided between five joint ventures. The development also led to the founding of new earnings-related pension companies and the closing of former ones. The third wave occurred in the following decade, when the insurance conglomerates transformed into financial conglomerates, i.e. when banks and insurance companies formed fixed joint ventures. In the 1990s, the earnings-related pension scheme also experienced a serious crisis, when the severe recession overthrew the credit insurance business administered by the Finnish Centre for Pensions and mid-sized insurance company Kansa.

When Finland joined the European integration in the early 1990s, the basic organisational principles of the earnings-related pension scheme had to be reviewed. A decision had to be made regarding whether earnings-related pension insurance should be defined as part of the life insurance business and thus be covered by the EU life assurance directives. In the EEA and EU treaties of accession, a compromise was made for Finland's part. The earnings-related pension scheme was completely excluded from the life assurance directives on the prerequisite that the statutory insurance was completely separated from other insurance activities. The treaty of accession and the permanency of the entry into the life assurance directive have since given rise to differences in interpretation. Brought to a head, one may say that, if elements of market competition are added to the earnings-related pension scheme, its special position in relation to the life assurance directive is called into question. On the other hand, if the joint liability of the earnings-related pension providers and the co-operation conducted within the framework of the scheme are emphasised, doubt arises concerning an inappropriate limitation of competition within a decentralised social insurance scheme.

Financing of Earnings-Related Pensions[12]

The financing of the pension schemes may be constructed either on the basis of a pure PAYGO scheme, a fully funded scheme or a mixture of the two. As of 1957, the financing of national pensions was arranged mainly on the basis of a PAYGO scheme. In a PAYGO scheme, insurance contributions are collected each year roughly to the amount needed for the pension payments and administrative costs of the year in question. For a long time, the public-sector earnings-related pension acts were based on a PAYGO scheme, but due to the projections concerning the growth of future pension expenditure, funding was introduced as of the late 1980s. Nevertheless, pensions are mainly financed according to the PAYGO scheme.

In private-sector schemes under the Employees Pensions Act and the Temporary Employees Pensions Act, partial funding was used as of 1962 when the scheme came into effect. Funding was used also to finance the pensions of the insured under the Seamen's Pensions Act[13] that came into force in 1956 and the Pensions Act for Performing Artists and Certain Groups of Employees that came into force in 1986. Partial funding was also part of the new Employees Pensions Act that came into force in 2007. However, the majority of the pensions paid are financed according to the PAYGO scheme. Pensions under the Self-employed Persons' Pensions Act and the Farmers' Pensions Act are financed according to the PAYGO scheme, although they also include minor funding.

For the earnings-related pension contribution, the central changes can be condensed as follows:

- Employers paid the contribution alone from 1962 to 1992, employee's share of the contribution introduced as of 1993.
- The starting level was low.
- Rapid growth in 1970-1995.

12 Matti Hannikainen

13 The act was later renamed The Seafarer's Pensions Act.

- Used as a means in economic counter-cyclical policy between 1977 and 1992.
- The pressure to increase the contribution due to the ageing population was dampened and predictability of future contributions increased in 1996-2011.

Since the pension expenditure during the first few decades remained relatively small, pension providers collected more assets than needed to pay running pensions. Against securities, employers had an automatic right to borrow back the part of earnings-related contributions that was not needed for running pensions and administrative costs. During the first few decades as of the 1960s, the investment operations of earnings-related pension companies thus mainly consisted of lending. Credits granted by earnings-related pension providers were either so-called premium lending or investment loans spanning more than one year. The funding of the earnings-related pension scheme made the credit markets more versatile as of the 1960s. Earnings-related pension assets were also used to build apartments and finance important infrastructure projects.

A liberation of the money and exchange markets in the 1980s gradually led to more thorough changes in the investment activities of earnings-related pension funds. The automatic premium lending directed at companies lost its significance. As the State became increasingly indebted during the recession in the early 1990s, earnings-related pension assets were on demand. An increasingly larger share of earnings-related pension insurance companies' new investments was in Finnish government bonds. Compared to other investment objects, they had a competitive interest rate, and because they were low-risk investments, they were appropriate investment objects for earnings-related pension assets.

A change in the financing environment required extensive reforms of earnings-related insurance companies' investment operations, carried out in 1997 and 2007. The aim of the reforms was to engage in more versatile and riskier investment activities by investing an increasing share of pension insurance companies' assets in shares and foreign investments. It required an improvement of pension insurance companies' solvency. Both reforms were prepared in the labour market organisations' pension negotiation group. The pressure to increase earnings-related pension contributions due to an ageing population and the subsequent fading economic growth was fought by cutting benefits, prolonging working careers and increasing fund returns.

In 2008, the global economy faced a crisis unprecedented since the Depression in the 1930s. Beginning in the United States of America, the financial crisis quickly spread to Europe and sent real economy into a recession. The investment returns of private-sector earnings-related pension providers plunged and the invested pension capital was reduced. Temporary amendments to rules concerning pension providers' investment activities and solvency were made. The temporary act that took effect at the end of 2008 strengthened the solvency margins of pension providers and reduced the solvency requirement. Initially, the act was in force until the end of 2010, but in the spring of 2010, the validity period of the temporary act was extended until the end of 2012.

Results of Pension Scheme[14]

In 1980, the total number of pension recipients (all pension schemes) amounted to approximately one million. In 30 years, the amount grew by nearly half a million to 1.46 million in 2010. That is more than a quarter of Finland's population. During the first decades of the earnings-related pension scheme, there were relatively few recipients of private-sector earnings-related pensions compared to recipients of the national pension. However, they rapidly increased in number. In 2010, private-sector old-age pension was paid to approximately 872,000 persons while the equivalent public-sector figure is 458,000 persons.

At the same time as the average life span increased, the effective retirement age decreased, both in Finland and other Western countries. The change was explained partly by new early retirement pensions, although they reduced the growth of the number of actual disability pensions. Prolonging working careers has been one of the central targets of pension reforms since the 1990s. The effective retirement age has risen because early retirement benefits have been cut and age limits raised.

After a long economic boom, the real earnings of employees rose, which was also evident in pensions. People transferred from rural areas to work in more productive manufacturing and services for better wages. Within the lines of business, rationalisation abolished low-productivity and lower-wage jobs and professions. Women participated in gainful employment more frequently than before. Since new pension recipients had more pension-accruing years each year, the average pension level rose.

The correct dimensioning of pension and social security became central components of social planning. The roots of the planning go back to the late-19th-century social insurance committees. As social expenditure grew vigorously as of the 1960s and pension expenditure, in particular, seemed to be rising quickly also in the future, calculations on expenditure spanned an increasingly longer period into the future.

Social Change and Pensions[15]

Earnings-related pension provided paid employees with the prospect of a better future. Pensions were used to solve the central problem of society at the time: large-scale old-age poverty. Rapid social changes and an emphasis on individuality increased the demand for alternatives. The rising standard of living created the wherewithal. Pension no longer meant only money and an income but an important phase in life, earned through working.

In the 21st century, a prolonging of careers seems to be society's widely accepted indicator of the ability to change. If this will happen, it appears to be a revolutionary change. The ageing of the population and the extended life expectancy have led to the long cycle of earning an income being clearly outlined again. Working prevents poverty.

15 Matti Hannikainen