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FINNISH CENTRE FOR PENSIONS, REPORTS

EXECUTIVE SUMMARY

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SOCIOECONOMIC DIFFERENCES – working lives, retirement and the pension system

This report serves as an introduction to outlining significant socioeconomic differences in connection with the pension system. The report focuses on the length of working lives and transitions to retirement, as well as reviews the length of time spent in retirement and how socioeconomic differences in life spans are reflected in the pension system.

The report consists of six independent yet interconnected articles. The first article *Socioeconomic differences in the pension system: introduction and summary* provides a background for reviewing socioeconomic differences, gathers together the empirical observations most central to the report, and ponders the importance of socioeconomic differences for the pension system.

The following four articles lay down new information about differences between men, women and different socioeconomic groups when it comes to retirement, the length of working lives and the proportion of years in retirement to years at work. The articles are based on comprehensive data collected at the Finnish Centre for Pensions, where individual-level register data of the earnings-related pension scheme has been combined with data on education and occupation received from Statistics Finland. The results mainly concern the year 2011.

In the second article of the report, *Working lives of new pensioners on an old-age pension*, we look at the routes leading to old-age retirement, how long the working lives of old-age pensioners have become, and the accumulation of working years at different ages of life in

different socioeconomic groups. The observed length of working lives has been measured based on pension insurance data at the start of old-age retirement. Socioeconomic differences in the length of observed working lives are clearly smaller than previously estimated based on working life expectancies. The working lives of the self-employed are longer than those of employees. There is no difference in working life length between male manual employees and clerical employees. The length of female working lives is approximately two years shorter than for men, and the working lives of manual employee women are shorter than for every other group.

There are significant differences between socioeconomic groups regarding the number of persons retiring on an old-age pension from gainful employment and the number to do so from a disability pension or unemployment. A significantly smaller group of manual employees (39% in 2011) were in gainful employment until old-age retirement compared to higher clerical employees (69%). A significant share of manual employees and lower clerical employees retire on an old-age pension from disability pension or unemployment. When reviewing those that have continued until old-age retirement, the working lives of male manual employees are the longest in this group. Among women who retired on an old-age pension directly from work, the working lives of lower clerical employees are the longest, but manual employee women work the longest when seen in the framework of the flexible retirement age.

As a whole, the working lives of manual employees begin earlier, whereas those of higher clerical employees continue longer. In the manual employee group, work carried out before the age of 23 has accumulated more than in other socioeconomic groups. Compared to higher clerical employees, the difference is approximately a year and a half. There are hardly any differences between socioeconomic groups when it comes to the amount of work accumulating between the ages of 23 and 52. Persons aged 53–62 who work as employees have working lives that are approximately a year and a half shorter than for those working in clerical positions. For the 63–68 age bracket the difference is half a year. The differences between men and women regarding the length of working lives are formed between 23 and 52 years of age. The working lives of women up to that age are on average two years shorter than for their male counterparts.

In the third article of the report, *Working lives of new pensioners on a disability pension*, the focus is on reviewing incidences of disability retirement and the length of working lives at the time of retirement in the different socioeconomic groups. Based on education level, the age-adjusted incidence rates of disability retirement are the highest for those that have only completed basic education. The disability retirement incidence rate is high also for those with intermediate level education. Based on socioeconomic status, the incidence rate is the highest for manual employees, but the self-employed and lower clerical employees also have fairly high incidence rates for disability pensions.

There are no great differences between socioeconomic groups in the working life lengths of those retiring on a disability pension. The working lives of those retiring on a disability pension will, however, be roughly 10 years shorter than for those continuing to work until old-

age retirement. The reason for this difference is partly the early retirement, but some of the difference is created already prior to retirement on a disability pension. The working lives of those retiring on a disability pension are more than three years shorter compared to the non-retired population of the same age. The difference indicates that the working lives of those retired on a disability pension are shorter already before retirement has begun.

The fourth article *Who continues to work past the age of 63?* examines at what age those retiring on an old-age pension from work actually retire. Generally speaking, those with a high education and good socioeconomic status, working in management or expert roles, continue working past the age of 63 at a greater rate than others. Those having received basic or intermediary education and working in employee occupations retire in significantly large numbers at the age of 63 at the latest, in practice as soon as possible. Men retire more often at 63 than women. Those working the longest into old age are, on the one hand, those with particularly short working lives and on the other hand, those with particularly long working lives.

There are clear differences between the private and public sector when it comes to old-age retirement ages. In the public sector, over half continue working until at least 64 years of age. In the private sector, on the other hand, the typical old-age retirement age is 63 years. These differences are visible in all socioeconomic groups.

The fifth article, *The ratio of time spent in retirement to time spent working* looks at the ratio of years at work to years in retirement in the different socioeconomic groups. The article combines the register data of the Finnish Centre for Pensions on the observed working lives of 50-year-olds with the calculations of Myrskylä et al. (2013) on expectancies for time spent working and time spent in retirement. According to results, the ratio of time spent in retirement to time spent working is roughly the same in the different socioeconomic groups, when taking the entire retirement period into account – old-age as well as early retirement. The gender difference is quite clear here. In relation to the length of the working life, women spend clearly more time in retirement than men. There are two reasons for this. The life expectancy for women is longer than for men, and the working lives of women are somewhat shorter than those of men.

The last article of the book is called *The pension system and socioeconomic differences*. In light of the results of earlier articles, it mainly ponders whether the earnings-related pension scheme is fair to both men and women and different socioeconomic groups. The article differentiates between the procedures of the earnings-related pension scheme and the fairness of the (end) results of those procedures, examining the latter in particular.

A woman's pension is roughly three quarters that of a man. The highest pension level of the socioeconomic groups can be found among upper clerical personnel, followed by lower clerical personnel, employees and the unemployed. The pension level of the self-employed, in particular that of farmers, is the lowest. Differences observed in the pension level can mainly

be explained by differences in earnings levels and working life lengths. Socioeconomic differences are also affected by the accumulation of working years at different ages of life. Socioeconomic differences in the pension level are still somewhat smaller than the differences in earnings level during the years preceding the pension. From this perspective, the pension system can be seen to level out differences.

Differences between socioeconomic groups when it comes to the number of working years are smaller than the differences in life expectancy measured on the cusp of old-age retirement age. The pension system partly diminishes socioeconomic differences in the time spent in retirement, compared to life expectancies being reflected in the pension system at a ratio of one to one. This is due to two things in particular. One, upper clerical personnel continue working until an older age than employees, and in so doing they spend shorter time in retirement than what could be assumed based on life expectancies. Two, persons in employee roles spend more years in early retirement, of which disability retirement time is the most important. The number of years in retirement does not really alter for women according to socioeconomic status, and their socioeconomic life expectancy differences are smaller than for men.

The longer lives of women are, however, reflected in the pension system in that the number of retirement years is large compared to that of men, and time in retirement is accrued in relation to working lives to a greater degree than for men. Measured in this way, women receive a better profit on their pension contributions than men. In this sense the earnings-related pension scheme transfers "pension capital" from men to women. Since the number of retirement years for male manual employees is lower than for clerical employees, a certain amount of "pension capital" is transferred from male manual employees to (higher) clerical employees.

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