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FINNISH CENTRE FOR PENSIONS, STUDIES

SUMMARY

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Who opt for a partial old-age pension?

*A study on the factors behind the choice to take
early payment of a partial old-age pension*

This study examines those people who have chosen to take payment of a partial old-age pension. The aim is to find out whether this is particularly common or particularly rare in certain population groups. The data used comprises all individuals who have taken a partial old-age pension and those who have chosen not to do so even though they would have been eligible. Data collection spanned one and a half years from 1 Feb 2017 to 30 June 2018, divided into three periods as follows: 1 Feb 2017 – 30 June 2017, 1 July 2017 – 31 Dec 2017, and 1 Jan 2018 – 30 June 2018.

Most people who choose a partial old-age pension take the pension early. For this reason the focus here is to investigate those people who have taken a partial old-age pension early. The results show that the most common age of taking a partial early old-age pension is 61 years: around 70 per cent of those who choose to take payment of the pension start at age 61. The majority of new partial early old-age pension recipients are wage-earning employees. During the period under investigation their share was 50–60 per cent, compared to 13–16 per cent for self-employed persons and around 15 per cent for the unemployed.

In 2017 several age groups gained eligibility to the pension benefit, in 2018 just one new age group

In February 2017 eligibility to receive a partial old-age pension was opened to all persons aged 61 or over, meaning that several age groups gained coverage at the same time. This is reflected in the results for the first half of 2017 and to some extent for the latter half of the

year. For this reason the results on the receipt of a partial old-age pension in 2017 cannot be considered to describe the “typical” situation. In 2018 just one age group reached pensionable age, so the true characteristics of the group of people who choose to take early payment of a partial old-age pension will only begin to be seen from the results for the first half of 2018.

Most people who choose a partial old-age pension take the pension early

By 30 June 2018 almost 17,800 persons had chosen to take a partial old-age pension. The numbers of new partial old-age pensions have decreased somewhat after the first half of 2017. In the first half of 2018 some 5,500 persons took a partial old-age pension. Almost 90 per cent have chosen to take out 50 per cent of their accrued monthly pension.

Most people who choose a partial old-age pension take the pension early. The proportion of partial old-age pensions that are taken early has increased since 2017. Nine out of ten partial old-age pensions starting in the first half of 2018 were taken early.

The time gap between the commencement of an early partial old-age pension and full retirement age has also grown longer during the period under investigation. In the first half of 2017 partial old-age pensions were taken on average 20 months early, in the first half of 2018 the average was 24.5 months early. One contributing factor to this trend is the higher age of eligibility for a full old-age pension, which has thus increased the time span during which it is possible to take the partial pension early.

Almost eight per cent of eligible persons have taken a partial old-age pension

The number of persons taking a partial old-age pension as a proportion of all those eligible was 7.8 per cent throughout the period under investigation. The rates for the three different periods indicate a slight downward trend since the first half 2017. The rate for men (9.3%) is higher than for women (6.3%).

The rate of new partial old-age pensions taken early is higher than the rate of all new partial old-age pensions. This is because most people deciding to take a partial pension have chosen to take payment early and because the group of people eligible to take their pension early is smaller than the total group eligible to receive a partial pension. During the whole period under study the proportion who took an old-age pension early was 8.6 per cent of those eligible to do so at some point during this period. For men the number of persons taking early payment of a partial old-age pension as a proportion of all those eligible was 10.4 per cent and for women 6.8 per cent.

The rates of new partial old-age pensions vary according to sociodemographic factors. An examination of individual background factors shows that the rates are higher for employed persons, private sector employees and especially self-employed persons. Lower than average rates are observed, among others, for persons with a higher-degree level tertiary education, public sector employees and upper-level employees.

Taking a partial old-age pension brings no change to labour market status

The labour market status of persons choosing to take a partial old-age pension remains effectively unchanged. Almost nine in ten of those who were employed before the decision to take a partial old-age pension were still working six months later. The results were largely the same for the continuity of unemployment: almost 90 per cent of those who were out of work before taking a partial pension were unemployed six months later.

A partial old-age pension is most likely taken by a self-employed or unemployed male aged 61

Modelling results provide insight into which groups have a higher or lower likelihood or risk of taking a partial old-age pension than others when the effects of other factors are controlled for.

According to the modelling results a partial early old-age pension is most likely taken by a self-employed or unemployed male aged 61 who lives in an urban or densely populated area. In these groups the likelihood of taking a partial early old-age pension is higher than in others. If the individual is a wage-earning employee, he or she is less often employed in the public than the private sector and is more often a lower-level employee. Furthermore, a new retiree on a partial pension has completed a lower-degree level tertiary education more often than a higher-degree level tertiary education. Length of working career also influences the decision to take a partial old-age pension early. Those who choose to take a pension early have longer working careers.

Men form a more clear-cut group than women

The modelling results were also examined separately for men and women. In both genders age, sector of employment, self-employment and length of working career have similar underlying effects on the choice to take a partial old-age pension.

Men form a more clear-cut group than women in terms of education, socio-economic status, labour market status and place of residence. Among men a lower-degree level tertiary education increases the likelihood of taking a partial early old-age pension. Male lower-level employees take early payment of a partial old-age pension more often than upper-level employees. Unemployed men take a partial early old-age pension more often than others. A higher regional unemployment rate also increases the likelihood that men choose to take a partial early old-age pension. Furthermore, men who live in rural areas take a partial early pension less often than men who live in other areas. Among women, taking a partial early old-age pension is equally common at all educational levels and in all socio-economic groups. Neither experienced unemployment nor residential area influences women's decision to take a partial early old-age pension.

Partial old-age pension offers flexibility more equally across population groups

The partial early old-age pension allows for greater flexibility towards the end of the individual's employment career than the previous part-time pension scheme and does so more equally across different population groups, including many who were not eligible to a part-time pension. Whereas recipients of a part-time pension came from a background of full-time employment, were less often self-employed and on average had better incomes, the partial early old-age pension is particularly popular among the self-employed and unemployed. The choice to take a partial old-age pension hardly varies by education or socio-economic status: those who have chosen to take a partial old-age pension early are not a particularly highly educated group, nor do they occupy higher positions than others in the workplace. In other words, the partial early old-age pension is not a pension for the "elite", but rather would appear to be a "people's pension".

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