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FINNISH CENTRE FOR PENSIONS, STUDIES

SUMMARY

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Work and pension accrual of young Finns from the point of view of the 2005 and 2017 pension reforms

Working is important for young people not only for their development into independent individuals, their studies and employment but also for their pensions. In recent years, employment of the young has been increasingly intertwined with the earnings-related pension system. As a result of the 2005 and 2017 pension reforms in Finland, pension begins to accrue for work at a younger age than before. Since the beginning of 2017, earnings-related pension is accrued from the beginning of the month following the month in which the person turned 17. As a result of the 2005 pension reform, the age at which pension begins to accrue was lowered from 23 to 18. The effects of these reforms on pension accrual have not been properly assessed before. The subject is important in a broader sense also because the labour market attachment of young people affects later working life and earnings.

In this study, we use the Finnish Centre for Pensions' register data to examine how common it is for the young to work and how background variables are associated with working. We also review how much employed young Finns work and how much they earn. The data allows us to analyse the working of the young at different ages. The study focuses particularly on the situation in 2019 and is thus offering an up-to-date review of the working of the young. Changes in the frequency of working in recent years are illustrated by comparing the employment of different birth cohorts at various ages. The young refer to people aged 17–22 years. This age range has been

used because of the pension reforms that have impacted the pension accrual of this specific age group. For both the 17-year-olds and those aged between 18 and 22, we illustrate how much young Finns have worked at these specific ages and how much pension they have accrued from their work.

Most young work and have low earnings

The results of our study show that most young people work at least to some extent already at a rather young age. Of the 19-year-olds, around 76 per cent did at least some work in 2019. The equivalent percentage for the 22-year-olds was slightly more than 80 per cent. In other words, most of the young obtain some experience of working and working life at a young age. Work of the young – particularly those aged under 20 – is characterized by summertime employment. Yet our study shows that many also work at other times of the year.

The young – particularly those under 19 – have on average rather low annual earnings. The relative gap between those earning the least and those earning the most narrows between the ages 18–22 years. This is primarily due to a reduced number of those with very low earnings. Among the young Finns who work the average number of working months per calendar year grows with age. This is explained, on the one hand, by a decreasing number of those who work only for a few months and, on the other hand, by an increase in the number of those who work for 10–12 months per year.

Young women work more often than young men

Our study shows that young women work more often than young men. The difference decreases with age. This is partly because the number of men who work increases with age and partly because the incidence of working among women aged 20–22 remains fairly stable. In terms of the number of working months, there is no longer a gender gap among the 22-year-olds. Through the ages 17–22, the number of working months differs depending on whether the work is performed in the private or public sector: young women work more often in the public sector than do young men. However, the majority of young men and women work in the private sector. Among the 18–22-year-old, men are overrepresented among workers with high earnings.

Young immigrants work less often than the young native population. The gap between the employment rate of immigrant and native males narrows in the ages 18–22, but for females, the gap remains unchanged. Based on our results and compared to native young people, young immigrants are overrepresented among the group with low earnings.

Working more common among those born at the end of the 1990s compared to others born that decade

The considerable growth in employment in Finland before the corona pandemic was reflected in the employment of the young: working was prevalent among persons

born at the end of the 1990s. According to our study, when examined at the same age, those born between 1997 and 2000 worked more frequently than those born between 1992 and 1996. These results illustrate how fluctuations in the economy at the time when the young enter the labour markets may affect how common it is for young Finns to work.

The young have benefitted from the pension reforms although their pension accruals tend to be small

In this study, we assess how much pension young Finns accrue during the ages that have been affected by the 2005 and 2017 pension reforms. As can be expected, lowering the age as of which pension begins to accrue from 18 to 17 years in connection with the 2017 pension reform had only a minor impact on pension accrual. Although more than half of the young do at least some work at age 17, the number of working months and earnings are, on average, very small. The median pension accrual for all 17-year-olds born in 2000 or 2001 was 0.6 euros per month; for those who had worked, it was 1.8 euros per month. A few per cent of the young had accrued pension of more than 10 euros per month for work done at the age of 17.

However, the 2005 pension reform, which lowered the age at which pension is accrued from 23 to 18 years, has affected the pension accrual of most young people in Finland. On average, in the birth cohorts 1992–1996, only slightly less than 9 per cent did not work at all between the ages of 18 and 22. Around 9 per cent of these birth cohorts had worked for less than seven months; slightly less than 9 per cent for 7–12 months; slightly less than 19 per cent between 1–2 years; around 38 per cent for 2–4 years and around 16 per cent for more than 4 years. The median pension for earnings received at age 18–22 of all persons born in 1996 was around 42 euros per month and around 47 euros per month for those who had worked. The 10 per cent with the highest earnings accrued a monthly pension of more than 120 euros.

A large share of the young in Finland work at some point between the ages 17–22 years. Thus, the changes to the age from which pension begins to accrue will be reflected in the earnings-related pensions of most young people. As such, accruing pension from a young age offers security in case of later breaks in working life. In terms of equality, it is also good that the entire working life is considered in earnings-related pensions.

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