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Gender mainstreaming in the  
Finnish pension reform 2005

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## **ABSTRACT**

This paper is a summary of the assessment of the gender effects of the Finnish pension reform 2005 in the earnings-related pension acts of the private sector. The Government Bill was introduced to Parliament in November 2002 and approved in February 2003. The reform on the earnings-related pensions takes effect as of the beginning of 2005. In the reading of the Bill, it was also considered important to investigate whether the reform has any disadvantageous effects in terms of gender equality.

In the assessment, attention was paid to the new method of calculating pensions, the implementation of a flexible retirement age, the calculation of the projected pensionable service in disability pensions, the introduction of a life expectancy coefficient, and the amendments to the provisions on unpaid periods in the private-sector earnings-related pension acts. The amendments apply to the pension acts for both employees and self-employed persons. The self-employed persons are thus included in the assessment.

In summary, we can state that, on the basis of the assessments, the new career model of the earnings-related pension scheme does not create gender inequality. The reform in accordance with the Government Bill will safeguard a functional scheme in terms of equality impacts. When taking especially into account the reforms concerning unpaid periods and the effects of the National Pensions Act on pension provision for the genders, the reform will contribute to levelling out the difference in pensions between men and women in Finland.

The pension reform will, above all, affect the pensions of young people and persons who enter the labour market in the future in comparison with the pensions of those who have been in the labour market for a long time. This is because a pension pursuant to the new career model will start accruing as of 2005. The effects of the reform on the pension level of the population and on the gender difference in pensions will only begin to show in the course of time.

The attached figures and the table are based on national and statutory earnings-related pension registers, and were compiled by Heidi Nyman from the Statistical Department of the Finnish Centre for Pensions.

The paper was translated into English by Maria Lindholm from the Finnish Centre for Pensions.



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## 1 Main features of the pension reform

On 12 November 2001, the central labour market organisations reached an agreement on developing the earnings-related pensions in the private sector. On 5 September 2002, this agreement was supplemented by an agreement on questions that had been left open. A Government Bill on the pension reform in the private sector was prepared on the basis of these agreements. The Bill was approved by Parliament in February 2003. The corresponding amendments concerning the public sector were approved by Parliament in June 2004. The state and local government earnings-related pension acts will in broad outline change in accordance with the same principles as the private-sector pension acts.

The pension reform mainly taking effect in 2005 seeks to postpone the effective retirement age by two to three years, to adapt the pension scheme to an increasing average life expectancy, and to pave the way for unification and simplification of the earnings-related pension scheme in the private sector.

### Main contents of the pension reform

#### *Flexible retirement age*

The current fixed retirement age of 65 will be abolished and as of 1 January 2005, the retirement age will be flexible. This increases people's freedom of action. By means of the reforms, it will be possible to retire flexibly between the ages of 62 and 68. There are no other conditions for entitlement to the pension than the age. An insured person may act as he wishes: retire on a pension or continue in working life. If the insured person retires, for example, at the age of 63, he will receive the pension accrued up to that point without any reduction for early retirement. Staying on in working life is rewarded by an accelerated accrual of the pension. In the ages 63 to 68, the pension will accrue by 4.5% of the salary per year.

The current minimum age limit for the early old-age pension will be increased by two years. It will be possible to retire on an early old-age pension at the age of 62 at the earliest. Taking the old-age pension early by a year means that the pension will be reduced by 7.2% due to early retirement.

Pension will also accrue by 1.5% from salaries earned while drawing an old-age pension. This accrued pension component can be drawn at the age of 68 at the earliest.

### ***New mode of calculating the pension***

The most important decision of principle is that the earnings-related pensions will no longer be calculated separately for each contract of employment, but on the basis of the earnings from the entire working career. A calculation formula based on the entire career emphasises the share of working years at a mature age in the pension accrual. The pension will accrue at the current rate of 1.5% a year up to the age of 53. After that, the rate will increase to 1.9% for a period of ten years. After the age of 63, the pension accrual rate will be 4.5%.

In contracts of employment that have started prior to the year 2005 and that will end in retirement no later than 2011, the pension will be calculated using both the old and the new mode. If the pension calculated according to the old mode is larger, the difference will be added to the pension under the new Act.

The pension will start accruing from the age of 18 instead of at the current age of 23. The liability to take out insurance will also start at the age of 18.

After the reform, the pension can be more than 60% of the salary. The current rule on the integration of pensions is 60% of the highest salary during the work history.

### ***Wage coefficient secures***

When calculating the pension, salaries from previous years will be adjusted by a wage coefficient. In the coefficient, the proportion of changes in salaries is 80% and that of changes in prices 20%. The wage coefficient secures that earnings made at a young age, at the beginning of the career, maintain their value better than under the current provisions. In the present 50/50 index the weighting of changes in salaries and prices is equal. Pensions already in payment will be increased by the TEL index (TEL, the Employees' Pensions Act). In the index, the weighting of changes in salaries is 20% and that of changes in prices 80%.

### ***Pension for unpaid periods***

Pension provision for unpaid periods will be improved and the provisions for pension accrual related to these periods will be simplified and harmonised. Pension will accrue for unpaid periods for which earnings-related daily allowance is paid.

As of 2005, the earnings-related pension will accrue for unpaid periods as follows: For periods of earnings-related maternity, paternity and parent's allowance, the old-age pension will accrue on a basis which is 117% of the earnings on which the benefit is based. As concerns earnings-related unemployment allowance and job alternation leave, the rate is



75%, and for sickness allowances and other benefit periods entitling to a pension, the rate is 65%.

A separate act concerning pension accrual for the period of study, and the period of child home care allowance when one of the parents takes care of a child under the age of three, takes effect from the beginning of 2005. For these periods, the pension will also accrue at the rate of 1.5% per year of the income basis, which is 523.61 euros a month in line with the level for 2004. For periods of study, the pension may accrue for a maximum of five years. Entitlement to a pension benefit for the period of study requires that the person takes a degree or qualification. Pension accrual for the period of child home care allowance presupposes that the parent stays at home: a working parent does not accrue pension rights. Benefits under the separate act are financed by taxation.

### ***A life expectancy coefficient will be introduced***

A so-called life expectancy coefficient will also affect the amount of the pension in the future. The coefficient is designed to curb pension expenditure resulting from increased life expectancy.

In practice, this means that if, for example, two people born in consecutive years both retire at the age of 65, the younger person will have to stay on at work somewhat longer than the older one in order to ensure that the life expectancy coefficient does not reduce his pension. The life expectancy coefficient will be introduced in 2009, and it applies to persons born in 1947 and later.

### ***Unemployment allowance instead of unemployment pension***

The unemployment pension will be abolished at the beginning of 2005 for persons born in 1950 and later. The unemployment pension will be replaced by the unemployment allowance. The unemployment allowance is paid to unemployed persons up to the age of 65. An unemployed person may, if he so wishes, choose between the unemployment allowance and the old-age pension at the age of 62 or later.

Amendments to the pension acts do not affect such unemployment pensions that start prior to 2005. Furthermore, many protective rules have been written down in the new Act. The protective rules specify how the unemployment pension will accrue and be calculated for persons born in the 1940s, after the new pension acts have entered into force in 2005.

### ***Some of the reforms will enter into force earlier***

The Parliament has approved part of the pension reform package earlier.

The amendments do not apply to persons who have already retired. As a rule, the changes in the early retirement pensions do not either apply to persons who have already reached the age required by the pension Act in force. For example, the increase in the age limit for the part-time pension from 56 to 58 years applies to persons born in 1947 and later. Persons born earlier, in 1946 and before, who have already turned 56 years will retain a permanent right to the part-time pension on former conditions.

The same is true for the individual early retirement pension. Persons born in 1943 and earlier, who have been entitled to an individual early retirement pension at the age of 58, will retain this right. The prerequisite is that in addition to the age, all the other qualifying conditions for the pension are met.

The individual early retirement pension is not granted to persons born in 1944 and later. An amendment has, however, been made to the Act, according to which such occupational factors that are known from the individual early retirement pension as, for example, length and contents of work history, will be emphasised in the disability pension decisions for persons who have turned 60.

The reform means that the pension component based on projected pensionable service will always be added to the disability pension. The earnings for the projected pensionable service will be calculated on the basis of the last five years. The accrual rate for the projected pensionable service will be 1.5% between the ages of 18 and 50 and 1.3% between the ages of 50 and 63.

### ***The importance of rehabilitation will be emphasised***

Rehabilitation was reformed already at the beginning of 2004. Insured persons have a statutory right to vocational rehabilitation, paid for by the earnings-related pension scheme, if their work capacity in the near years is threatened because of illness. The insured person has the right to appeal against the rehabilitation decision, but not against the rehabilitation measures.

## 2 Estimating the impact of gender effects

### Introduction

The basis for assessing the gender effects of the amendments to the legislation is the legislation in force and the present differences in pensions between the sexes. The provisions in force are gender neutral; they apply to men and women equally. Differences between the sexes mainly arise because of differences in the labour market: the lower wage level, shorter working career, and lower work input of women due to part-time work among other things. The care of small children also still restricts women's labour market participation more than that of men. It is thus a question of differences that cannot largely be influenced by pension legislation.

The differences between male and female activity rates are relatively small in Finland. The male activity rate (77%) is only a few percentage points higher than the female activity rate (73%). A common feature of work participation for both sexes is also that most people work on a full-time basis. Even though part-time work is more common among women than men in Finland, too, the share of part-time work in female employment is clearly smaller in Finland (17.5%) than in the EU countries on average (33.5%) (Employment in Europe 2003, 209). In Finland, women have been in the labour market engaged in work outside the home already for a longer time than in many other countries, and part-time contracts of employment have not been needed in order to arrange childcare as in such countries where there is no school meals service, for example (Lehto 2003). Because women generally participate in working life, the difference between the sexes as concerns the length of the working career is only a few years and smaller than in many other European countries (Tuominen and Laitinen-Kuikka 2003, 18).

There is a marked difference in the average pension for women and men (see attached Figure 1). This difference perceived in the retired population is partly caused by the fact that women entered the labour market at a later stage than men. In Finland, women entered the labour market relatively early, however, and the differences in pensions can only in part be explained by this factor. The effect of this factor can best be seen in the average pension of the oldest pensioners. The differences in pensions between the sexes are smaller for disability pensioners under the age of 55 than for the oldest age groups.

The main reason for the difference in pensions between the genders is the differences in salary. The earnings of women are, on average, about 80% of those of men (Vartiainen 2002), and the differences have not been found to have decreased significantly. This is why also the differences in the pension accrued from gainful employment have persistently remained the same during the last decade (see attached Figure 3).

### ***New career model will treat the sexes equally***

The investigations and calculations made for the drafting of the legislation show that the new career model of the earnings-related pension scheme does not create inequality between the sexes. The pension reform has been estimated to benefit future pensioners, and both sexes will profit equally by the reform. Also when studied by occupation and sector, the differences are small, and there are no systematic differences between male- and female-dominated sectors (see ELPA eläkepalkka-ryhmän selvitys 2002 (the investigation of the working group on pensionable wage)).

According to the Government Bill, the period of pension accrual will be extended from both ends. Pension will start accruing five years earlier, already from the age of 18, and retirement may be postponed up to the age of 68. When in addition to the extended accrual period, the age-based pension accrual rate is taken into account, i.e. 1.9% between the ages of 53 and 62, and 4.5% in the ages 63 to 68, the reform will improve the possibilities of accruing a pension in accordance with at least the current target level (60% of earnings).

The age-based pension accrual highlights considerably the accrual of pension rights at an advanced age. Estimated on the basis of the rates of employment this does not, however, increase the differences in pensions between men and women in the age groups with accelerated accrual. The anticipated growth in employment and the increase in the rates of employment among the ageing are not either estimated to have these kinds of effects. The reason for this is partly that the differences between male and female employment rates will be reduced as the lower retirement ages in the public sector will be phased out, and thus the difference in the effective retirement age for men and women will decrease. In Finland, employment in the public sector is mainly female employment.

### ***Age-based pension accrual will benefit those whose working career is patchy***

The career model, including its incentives, will in the future offer good opportunities to raise the pension level even towards the end of the working career. The age-based accrual rates will especially benefit those whose working career is patchy, for example, due to studies or childcare. This gap can efficiently be compensated by continuing working in the ages with accelerated accrual. Since integrating work and family responsibilities often creates a gap in the work history of women already at the beginning of the working career, the reform will improve the possibilities for women to receive reasonable pension provision.

In the reform, the method of calculating the pension separately for each contract of employment is abandoned and there is a changeover to calculation based on earnings. At the same time, a wage coefficient will be introduced in the calculation of pensions. The salary for each year will be adjusted by this coefficient and the vested and preserved

pension rights from contracts of employment that have already ended will be adjusted in line with the level at the date of commencement of the pension. The wage coefficient, in which the weighting of the earnings level index is 80% and that of the consumer price index 20%, will maintain the earnings level better than the current 50/50 index. In the current index, the weighting of both the earnings level index and the consumer price index is 50%.

In comparison with the current practice, the application of a wage coefficient will especially benefit those persons whose work history includes several contracts of employment already in the early stages of the career. According to statistics, fixed-term contracts of employment are common particularly among young women. This also applies to well-educated persons. If the gender difference in this respect remains the same in the future and young women more often than men have short-term contracts of employment, abandoning the method of calculating the pension separately for each contract of employment and changing over to a wage coefficient will especially benefit women.

### ***Period of childcare will be taken into account when determining the disability pension***

Even though the rules concerning the calculation of the pensionable wage are the same for men and women, the pensionable wage for the projected pensionable service as regards the disability pension might for women be inferior to the stabilised earnings level because the calculation period for the pensionable wage includes unpaid periods of childcare. According to the Government Bill, this means that the earnings that have not been reduced due to childcare periods can be used as the pensionable wage on application by the employee. The years which include childcare periods are omitted from the calculation of the pensionable wage for the projected pensionable service. The period of observation may comprise a maximum of ten calendar years preceding the onset of disability. The pension projected to retirement age is calculated according to the normal rule on the basis of the salary, which is the mean value for the five years preceding the pension contingency. The objective of the provision concerning periods of childcare is to secure that there is no unreasonable deterioration of pension provision due to years of childcare. The protective rule will increase gender equality when determining the disability pension.

### ***Life expectancy coefficient the same for both genders***

According to the Government Bill, the earnings-related pensions will be adjusted by a life expectancy coefficient as of the beginning of 2010. The objective of the life expectancy coefficient is to eliminate the growth in earnings-related pension expenditure resulting from increasing life expectancy. The amount of a pension that starts will thus, in the future, depend on the development of life expectancy. The life expectancy coefficient is the same

for men and women, even though life expectancy for men has increased slightly more than for women. This development is predicted to continue and if the prediction comes true, applying the same coefficient to both sexes is estimated to benefit men more than women. Since statutory social security has to guarantee everybody benefits on the same grounds, the coefficient must be the same for both men and women, and a divergent rate of change of life expectancy cannot affect the amount of the pension benefit.

It should, however, be noted that the starting point is advantageous to women. The insured persons who live longer will receive a pension accrued on the same basis for a longer period of time: the average life expectancy of women at the age of 65 is four years longer than for men. If the prediction that the increase in life expectancy is faster for men comes true, this means that the gender difference in longevity and in the period of payment of pension benefits will be reduced in the future.

### ***Pension will accrue for unpaid periods on uniform bases***

Nowadays the pension accrues for unpaid periods according to two different techniques: according to the so-called one-year rule and in the form of an increment for credited periods. The one-year rule means that breaks of shorter duration than a year in the contract of employment do not suspend pension accrual. This covers maternity leaves, job alternation leaves, sick leaves and other breaks of shorter duration than a year regardless of reason. The one-year rule applies to TEL (Employees' Pensions Act). In sectors covered by the LEL and TaEL pension acts<sup>1</sup>, however, no pension at all accrues for these periods. Furthermore, pension accrues for certain days, specified in the pension legislation, for which earnings-related daily allowance is paid, such as for periods of unemployment. As concerns these benefit periods entitling to an increment for credited periods, the persons who come within the scope of the pensions acts for employees are in an equal position.

As of 1 January 2005, pension will accrue for unpaid periods on uniform bases. Pension will only accrue for earnings-related benefit periods specified in the pension legislation, and the basis for pension accrual is the income on which the daily allowance is based. The earnings on which the pension is based do, however, vary in the way that they amount to 117% for periods of maternity, paternity, special maternity, and parent's allowance, to 75% for earnings-related unemployment allowance and job alternation leave, and to 65% for any other periods for which earnings-related daily allowance entitling to a pension is paid. For periods of maternity and parenthood allowance, the pension will accrue on the basis of at least 523.61 euros a month if the income on which the daily allowance is based

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<sup>1</sup> LEL = Temporary Employees' Pensions Act

TaEL = The Pensions Act for Performing Artists and Certain Groups of Employees

is smaller than this amount or there is no income at all. The accrual rate is the same for all unpaid periods, i.e. 1.5% a year.

***Pension will also accrue for periods of study and periods of home care of children under the age of three***

A separate act, according to which pension also accrues for students and parents who stay at home to take care of children under the age of three, takes effect from the beginning of 2005. Pension accrual for the period of study presupposes that the studies end in a degree or qualification, and the period of accrual varies according to the level of the degree or qualification. For a university degree the pension will accrue on the basis of five years, which is also the maximum period for pension accrual for periods of study. The income basis for the accrual of a pension benefit is 523.61 euros a month (level in line with the index for 2004). For a parent who stays at home to take care of a child under the age of three and who draws child home care allowance, the pension will accrue according to the same income basis (523.61 euros/month) after the pension ceases to accrue on the basis of the income on which the daily allowance for the periods of maternity and parent's allowance is based. The condition for entitlement to a pension benefit is that the parent leaves gainful employment for the period of drawing home care allowance. The pension accrual rate for both the periods of study and the periods of childcare is 1.5%. The pension benefit accruing for these periods is financed by taxation.

Pension accrual for childcare periods is improved under the new provisions of the acts on the earnings-related pension and the new act concerning unpaid periods. The reform benefits women more than men as the care of small children is still predominantly women's work. In the long term, the reform will contribute to reducing gender differences in pensions.

The reform benefits women somewhat more than men also for the reason that the women in Finland study more than the men. Research shows that women have a higher level of education than men also as regards those who are covered by YEL (Self-Employed Persons' Pensions Act). This improves the pension level of self-employed women a bit more than that of men. If the gender differences in education remain as at present, the pension benefit accruing from periods of study will contribute to levelling out the gender difference in pensions.

***Persons in a particular labour market position will attain an equal position***

The new provisions on unpaid periods under the acts on the earnings-related pension promote equality for employees. The persons who are covered by the pension acts for employees will come within the scope of the same accrual rules as of 1 January 2005.

Pension will then accrue for employees, as regards the benefit periods specified in the pension legislation, according to the same rules irrespective of which sector they work in. This means also that women active in different sectors will attain an equal position as regards pension rights accruing for periods of maternity leave. In the future, pension will also accrue for periods of maternity leave for persons who work in sectors covered by the LEL and TaEL pension acts.

The reform will also bring those who are in a particular labour market position into an equal position as concerns pension provision accruing for unpaid periods. At present, pension accrues under the one-year rule for persons whose contract of employment is in force and who return to this employment within a year from the start of the unpaid period. When the reform has come into force, pension will accrue under the same rules both for persons in permanent contracts of employment and for persons in fixed-term employment, and also for employees who, for one reason or another, are temporarily absent from the labour market. As women, more often than men, have temporary employment, the reform will increase gender equality. This means also that in future pension will accrue for periods of maternity leave for all mothers. The condition for receiving an earnings-related pension for unpaid periods is that the earnings from which pension accrues during the entire work history amount to at least 12,566.70 euros. This is required by the earnings principle of the earnings-related pension.

Moreover, the changes concerning unpaid periods will equalise pension accrual for working careers of various lengths. The length of the career does no longer affect pension accrual for unpaid periods, as at present. Under the current rules, pension accrual for periods entitling to an increment for credited periods is, in accordance with the earnings principle, better for those whose working career, including periods entitling to an increment for credited periods, is longer. Since the working careers for men are somewhat longer than for women, the accrual of pension benefits for periods of daily allowance entitling to a pension is slightly better, under the current scheme, for men than for women. The reform promotes gender equality as regards pension accrual for unpaid periods.

### ***Pension reform will apply in identical terms to employees and self-employed persons***

In broad outline, the pension reform will be implemented in identical terms in both the employees' and the self-employed persons' pension acts. As far as the self-employed persons are concerned, the assessment of the major changes of the reform did not bring out any disadvantageous facts as regards gender equality. The reform will improve the level of pensions also for self-employed persons thanks to the accelerated accrual rates, the changeover to a wage coefficient, and the changes in unpaid periods. The reform of unpaid



periods is estimated to slightly reduce gender differences in pensions for self-employed persons.

For self-employed persons, too, the main cause of the difference in pensions between the sexes is the difference in earnings from self-employment between male and female entrepreneurs. The national pension is also a supplement to self-employed persons' pension provision when the pension accrued from self-employment is small. The national pension plays a greater role in the total pension provision for female entrepreneurs than for male entrepreneurs.

### ***Reform of the earnings-related pensions will also affect the national pension***

The national pension in Finland is proportional to the earnings-related pension. Other income does not affect the amount of the national pension. In the reform, it was decided that the part of the earnings-related pension that accrues after the person turns 63 years of age shall not, however, affect the amount of the national pension. From this age onwards, pension will accrue on the basis of a so-called accelerated accrual, i.e. by 4.5% of annual earnings. This pension component fully increases the pension: in other words, it does not reduce the national pension at all. This is a significant advantage for persons who have accrued a small earnings-related pension or who have not accrued any earnings-related pension at all. Since women, more often than men, are recipients of a national pension, this will improve the possibilities for women to raise the level of their pensions. This is also estimated to contribute to reducing the gender difference in pensions.

Pension accruing for periods of study and home care of children under the age of three (pension benefit accruing under the separate act mentioned above) is not either taken into account when determining the national pension. As these benefits are not taken into account when calculating the national pension, this will raise the level of women's pensions more often than that of men. The national pension is included in total pension provision more often for women than for men (see attached Table 1).

In the reform of the earnings-related pensions the retirement age will become flexible, so that it will be possible to retire on a pension, accrued during the work history, at the age the person wishes between 63 and 68. The flexible retirement age does not, however, apply to the national pension scheme where the retirement age is set at 65 years. Taking the pension early, before the age of 65, means that the national pension will be reduced. We can assess that it is more difficult for those who receive a small pension, mostly women, to make use of the possibility to retire flexibly within the earnings-related pension scheme.

### **3 Conclusion**

In summary, we can state that, on the basis of the investigations and estimates made, the new career model of the earnings-related pension scheme does not create gender inequality. Neither does it have such individual features that would be problematic from a gender equality perspective. The reform of the earnings-related pensions is estimated to benefit future pensioners, and both sexes will profit by the reform.

The reform in accordance with the Government Bill will safeguard a functional scheme in terms of equality impacts. When taking especially into account the reforms concerning unpaid periods and the effects of the National Pensions Act on pension provision for the genders, the reform will contribute to levelling out the difference in pensions between men and women in Finland. As regards total pension provision, it is important that the national pension supplements an earnings-related pension which is small due to part-time work or periods of absence from work, for example. The national pension still plays a greater role in the total pension provision for women than for men (see attached Figure 3 and Table 1).

The pension reform will affect the pensions of young people and persons who enter the labour market in the future more than it affects the pensions of those who have been in the labour market for a long time. This is because a pension pursuant to the new career model will start accruing as of 2005. The effects of the reform on the pension level for the population and on the gender difference in pensions will only begin to show in the course of time.

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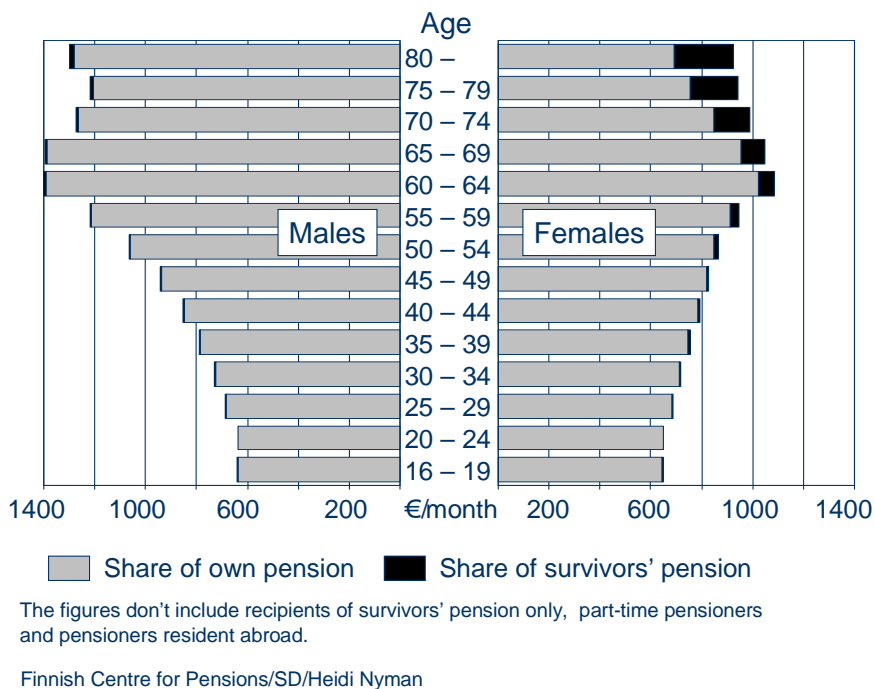
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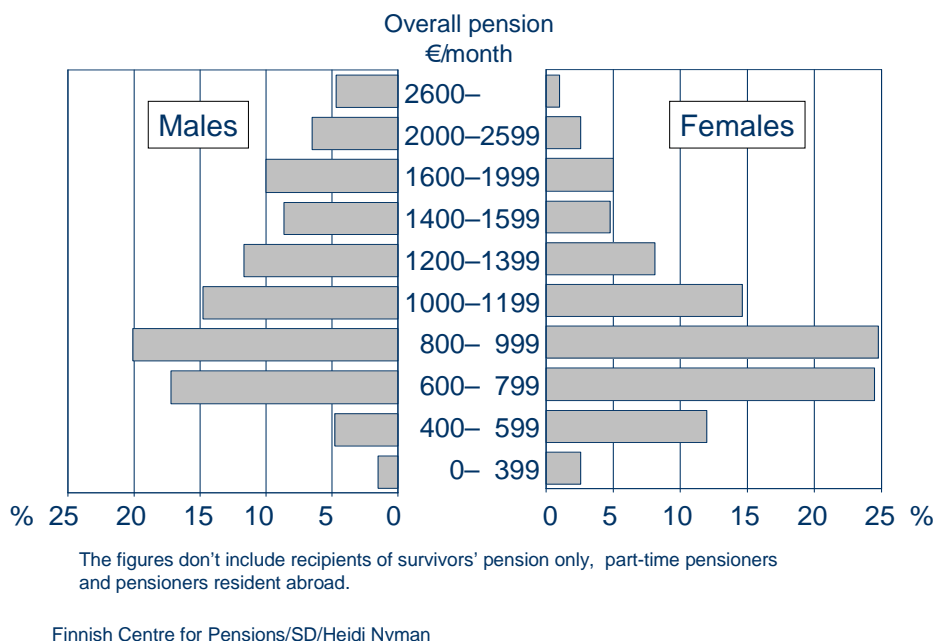
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## Attached Figures and Table

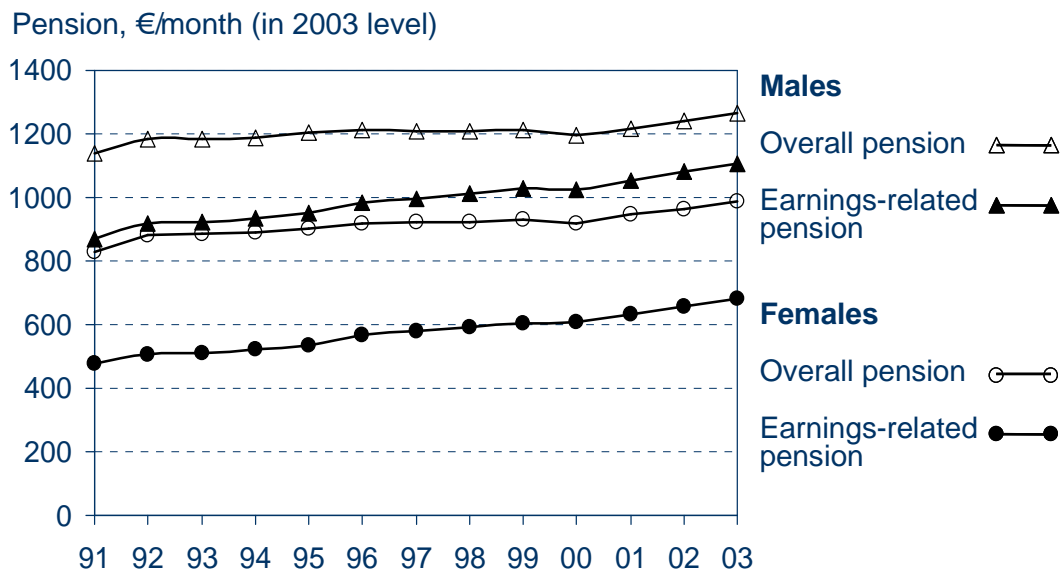
**Figure 1.** The average overall pension of all pension recipients by age at 31.12.2003.



**Figure 2.** All pension recipients by size of overall pension at 31.12.2003.



**Figure 3.** Average pension in the statutory earnings-related pension scheme.



The overall pension includes also survivors' pensions and national pensions.

Finnish Centre for Pensions/SD/Heidi Nyman

*Table 1. All pension recipients by pension component.*

	Males		Females	
	1990 %	2003 %	1990 %	2003 %
Statutory earnings related pension only	9	57	6	39
Both national and statutory earnings related pension	82	36	70	52
National pension only	9	7	24	9
All	100	100	100	100
Number	468,00	569,00	693,00	761,000

From the beginning of 1996, the basic amount of the national pension became proportional to the earnings-related pension. If the national pension did not include an additional amount, the basic amount was reduced gradually up to the beginning of 2001. This meant that more than 300,000 pension recipients who had received both a national pension and an earnings-related pension became at the same time pension recipients who receive only an earnings-related pension.

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