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Pensions and pensioners' disposable income Trends in 1990–2005

Adequate pensions and the economic sustainability of pension provision are among the central objectives of pension policy. This book provides material for assessing the adequacy of pensions. It reviews how pensions and pensioners' income have developed during the past 10–15 years both in real terms and in relation to changes in the earnings level.

The book consists of six articles. The first article provides a backdrop by investigating economic and social security trends, especially the pension policy pursued. It also summarises the main findings of the study. The second article focuses on changes that have taken place in retirement and in the employment of older people. The third article deals with pension trends. The fourth article widens the perspective from pensions to pensioners' taxable income. The fifth article widens the perspective further to the disposable income of pensioners. households by taking into account all sources of income available to the members of the household. The sixth article compares the disposable income of Finnish pensioners against that of pensioners in the 15 old Member States of the European Union.

The number and structure of pensioners have changed dramatically since 1990. The number of pensioners has increased at the same time as their mean age has risen. The trends identified in retirement and in continued working since the latter half of the 1990s have been in line with the goals set for pension and employment policies. During the 1990s, the expected retirement age of a 25-year-old person rose by 18 months. During this decade, the expected retirement age of a 50-year-old person has risen by about six months. People on early retirement account for a smaller percentage of the total population than before, and the employment rate of older people has risen.

The average total pension of people on old-age and unemployment pension increased by about 20 per cent in real terms between 1992 and 2005. This trend is largely explained by changes in the pensioners' group: new, starting pensions are higher than the average level, while old, ceased pensions were lower than the average level. In real terms, the total pension income of people on disability pension remained unchanged during the period under review.

When compared against the income level of people in gainful employment, the total pension level of people on old-age and unemployment pension has remained fairly steady, at around 50 per cent. The total pension level of people on disability pension, in relation to the general earnings level, has clearly fallen.

For examining the distribution of total pensions, pensioners were divided into ten deciles according to the size of their pension. It was thereafter calculated how much of the total amount of pensions falls into each decile. The share of the 10 per cent of pensioners who receive the highest pensions has diminished slightly, while the share of the remaining 90 per cent has increased correspondingly. This means that the distribution of total pensions became slightly more even during 1990–2005.

Analysis of taxable gross and net income among pensioners and among other population groups in 1990–2004 shows that pensioners' relative status improved during the recession years but has declined ever since. If we examine the whole period between 1990 and 2004, pensioners have maintained their income level with respect to wage-earners, when measured by their gross income. However, when taxation is taken into account and the focal point is net income, pensioners' income level has declined in comparison to wage-earners. This is because more tax reliefs have been introduced in wage-earners' taxation than in pensioners' taxation.

Between the years 1987 and 2004, the disposable income of pensioners' households increased by 50 per cent in real terms. The disposable income of pensioners' households in relation to that of wage-earners' households has varied depending on macroeconomic cycles. In 2004, the average income level of pensioners' households was 70 per cent of the level in wage-earners' households. Distribution of disposable income among pensioners' households is more even than among the rest of the population. Pensioners also run a much smaller risk of poverty than they did in the early 1990s; however, in recent years the trend has been the opposite. A sign of successful pension policy is that the risk of poverty among pensioners is not greater than the risk among the total population.

Comparison of pensioners' disposable income in Finland and in the 15 old EU Member States reveals Finland's interesting profile. The purchase power of Finns at pensionable age is among the lowest in the countries compared; the purchase power is also modest when compared to that of people at working age. Distribution of disposable income among Finnish pensioners is more even than average, and the risk of poverty is among the smallest. An exception is the group of women past 75 years of age; their risk of poverty is above the average in the EU Member States.

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ISSN 1238-5948
ISBN (pdf) 951-691-063-7
ISBN (printed book) 951-691-062-9

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