In this review, we bring together the components which affect the determination of the total pension in 2016. Example tables describe how the total net pension is built up at different income levels. Our review surveys how the earnings-related pension, the guarantee pension and the residence-based national pension and its supplements are determined, and how the pensions are taxed in the relevant year. In connection with the taxation of pensions, we have also examined the taxation more generally and have compared the tax and contribution burden at different income levels of pension recipients in relation to that of wage earners.

At the beginning of 2016, the national pension index will decrease by 0.4 per cent year-on-year. In 2016, the full monthly amount of the national pension for a single person will be EUR 634.30 and for a married or cohabiting person EUR 562.62. An increase in the level of the guarantee pension will be made, and the full amount of the guarantee pension will rise by EUR 20.28 compared to 2015. Together with the guarantee pension, the minimum pension amount will thus be EUR 766.85 per month for both single and married or cohabiting persons.

The earnings-related pension index will remain at the same level as in 2015, so the earnings-related pensions will not change. The wage coefficient used to revalue, for instance, earnings when determining the pension will rise by 0.73 per cent.

Starting earnings-related pensions will be adjusted with the life expectancy coefficient which, for persons aged 62 in 2016 (i.e. for persons born in 1954), is 0.96800.

The income tax scale for 2016 will be mitigated by adjusting the income limits by approximately 1.2 per cent. The taxation of high earnings will tighten as the lower limit of the upper income bracket will be lowered from EUR 90,000 to EUR 72,300 (i.e., the two top income brackets will merge). By raising the earnings reduction of state taxation and the basic
deduction of municipal taxation, the taxation of mid- and low-income people, in particular, will become lighter. The earnings deduction will affect the taxation of the wage-earners while the basic deduction will ease the taxation of both wage earners and retirees.

In 2016, the average municipal tax rate will be 19.87 per cent (19.84 per cent in 2015). The public service broadcasting tax will remain at 0.68 per cent, with the maximum amount remaining at EUR 143 but the lower amount rising from EUR 51 to EUR 70. For pension recipients, the tax will thus become payable when the monthly pension amounts to approximately EUR 860 (in 2015, the tax was payable when the pension was around EUR 625).

In 2016, the wage-earners’ earnings-related pension contributions will remain on the 2015 level. The contribution for employees under age 53 is 5.7 per cent and for those aged 53–67 years, 7.2 per cent. The unemployment insurance contribution of wage-earners will rise from 0.65 per cent in 2015 to 1.15 per cent in 2016. The medical care contribution of health insurance will be reduced by 0.02 percentage points compared to 2015 and will be 1.30 per cent for wage earners and 1.47 per cent for retirees. The daily allowance contribution of health insurance for wage-earners will be raised to 0.82 per cent (0.78% in 2015).

The tax and contribution rates of pension recipients, when comparing with the tax rate of the same income amount in 2015 and when the municipal tax rates are average, will remain more-or-less at the same level in 2016 as in 2015. Since indexes will not raise pensions, net pensions will remain fairly unchanged in 2016. As a result of the level increase of the guarantee pension and the changes in the public service broadcasting tax, the net pension of a person receiving a pension solely from the national pension system will rise by an ample three per cent.

The reform of the seafarers’ pension system will come into effect at the beginning of 2016. In the future, the pension benefits and their financing will resemble the general earnings-related pension system to a higher degree than before. The taxation of seafarers will also be amended.

In November 2015, Parliament passed a law on the reform of the earnings-related pension acts. The changes will come into force as of the beginning of 2017. As a result of the reform, the earliest eligibility ages for old-age pension will rise gradually, the accrual rates will change and two new pension types – the years-of-service pension and the partial early old-age pension – will be introduced.
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