

04/2016

FINNISH CENTRE FOR PENSIONS, STUDIES

# SUMMARY

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## Working lives reduced by disability pensions

Retirement on a disability pension is a central early exit route from working life. In 2014, approximately seven per cent of the working-age population drew a disability pension. On average, people retired on this type of pension at the age of 52. However, there are no previous studies on the extent to which working lives are shortened by disability pensions, which diseases contribute to shorter working lives, how changes in retirement on a disability pension influence the length of working lives, and whether the amount of time spent on a disability pension differs between population groups.

In this study, we examine the time spent on a disability pension in the period ranging from 2005 to 2014 by calculating the disability pension time expectancy using the Sullivan method. This expectancy depicts how long a person of a certain age is expected to draw a disability pension, providing the age-specific mortality rates and the proportions of those drawing a disability pension were to remain on the same level as at the time of measurement. Mortality rates used in the study were derived from the life table of Statistics Finland and the age-specific proportions of people drawing a disability pension from the registers of the Finnish Centre for Pensions.

### Less time is spent on a disability pension

Between the years 2005 and 2014, the disability pension time expectancy for a 25-year-old decreased from 2.25 years to 1.88 years. In other words, the disability pension time expectancy was reduced by an ample four months. Men spent a longer time on a disability

pension than did women, but the gender gap narrowed during the observation period. In 2014, men's expected time on a disability pension was 1.95 years (2.40 years in 2005). For women, the equivalent figure was 1.81 (2.11) years.

Older age groups contributed more to the disability pension time expectancy than did younger age groups. The reduction in the expected time on a disability pension between 2005 and 2014 also mainly originated from the older age groups. On average, the 25-year-olds spent approximately five per cent of their potential working life on a disability pension. The proportion of time spent on a disability pension increases as people get older: on average, the 60-year-olds spent 20 per cent of their remaining working life on a disability pension.

### **Mental disorders prominent underlying cause of time on a disability pension**

Women spend more time on a disability pension due to mental disorders and musculoskeletal diseases than do men. The gender gap in disability pension time due to mental disorders stems, in particular, from disability pensions granted based on depression. In contrast, other somatic diseases than the musculoskeletal ones reduce working life more for men than for women. This is primarily due to disability pensions granted based on diseases of the cardiovascular system, injury and accidents.

Between 2005 and 2014, the disability pension time expectancy was reduced in all disease categories. The only exceptions were made up of women who were granted a disability pension due to depression or diseases of the nervous system. The expected time spent on a disability pension was reduced more for men than for women, particularly due to a reduction of disability pension time due to other somatic diseases than musculoskeletal ones. For both genders, the proportion of time spent in retirement due to mental disorders increased. This was so because time spent on a disability pension decreased less for people on a disability pension due to mental disorders than for people on a disability pension due to other diseases.

### **Partial disability pensions and cash rehabilitation benefits increasingly significant**

For women, the amount of time spent on a partial disability pension covers a larger part of all time spent on a disability pension than for men. Partial disability pensions play a significant role when it comes to pensions granted based on musculoskeletal diseases in particular. For both genders, the contribution of partial disability pensions to the time spent on a disability pension has increased. The majority of people on a partial disability pension continue to work while drawing the pension. As a result, the increasing share of partial disability pensions clearly influences the length of working lives.

The spread of vocational rehabilitation may have influenced the reduction in time spent on a disability pension. The amount of time spent on a disability pension mostly originates from disability pensions granted until further notice. However, the share of fixed-term rehabilitation

allowances of the total amount of time spent on a disability pension has grown. As cash rehabilitation benefits have become increasingly frequent, a greater number of persons on a disability pension are likely to return to work. Even if rehabilitation could not prevent final retirement on a disability pension, its deferral to a later age will reduce the amount of time spent on a disability pension.

### Large gaps between educational levels

In 2014, the expected time spent on a disability pension for men with a primary education was 2.53 years. For men with a tertiary education, the expectancy was only 0.82 years. The equivalent figures by educational level for women were very similar. In the period from 2005 to 2014, the expected time spent on a disability pension was reduced on all levels of education. People with a primary or secondary education spent more time on a disability pension than did people with a tertiary education in all disease categories. In particular, people with a primary or secondary education who suffered from a musculoskeletal disease were expected to draw a disability pension for a clearly longer time than those with a tertiary education.

The gaps in the amount of time spent on a disability pension due to musculoskeletal and other somatic diseases of people of the various educational levels have narrowed as the time spent in retirement has reduced more among those with a primary or a secondary education than among those with a tertiary education. However, in pensions granted based on mental disorders, the gap has grown since the time on a disability pension has decreased more among those with a tertiary education. In fact, among women with a primary or secondary education, the time spent on a disability pension granted due to mental disorders has slightly increased.

### Reduced time on a disability pension in the older age groups may have contributed to increasing employment

Although the expected time on a disability pension for a 25-year-old man or woman is nearly two years, the time spent on a disability pension reduces working lives less than the time spent in unemployment. Between the years 2005 and 2014, men's expected time in employment remained unchanged while that of women increased. The expected time of unemployment increased among men but remained unchanged among women. The expected time spent on a disability pension was reduced in particular in the older age groups, in which the time spent working increased for both genders. These results may indicate that the reduction in the amount of time spent on a disability pension among the older age groups may have been compensated by the increase in the amount of time spent working. Hence, the reduced amount of time spent on a disability pension may have led to extended working lives.

**The Publication is available only in Finnish:**

Työkyvyttömyyden vuoksi menetetty työura. Eläketurvakeskuksen tutkimuksia 04/2016.

**Ordering of publication:**

[www.etk.fi](http://www.etk.fi) > Publications > Studies > Working lives reduced by disability pensions  
or [aineistotilaukset@etk.fi](mailto:aineistotilaukset@etk.fi)

ISBN 978-951-691-246-5 (s-b)

ISBN 978-951-691-247-2 (PDF)

ISSN 1236-3049 (printed)

ISSN 1798-7482 (online)



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