

07/2016

FINNISH CENTRE FOR PENSIONS, STUDIES

# SUMMARY

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## Farmers' working lives and pensions

Statutory earnings-related pension insurance for farmers and other agricultural entrepreneurs in Finland is governed under the Farmers' Pension Act (MYEL). The MYEL pension scheme is broadly similar to those in place for employees and self-employed persons, but it does include some distinctive features such as special pensions for farmers. However, there is only limited research on farmers' employment histories and pension insurance. This report provides an up-to-date review of some key aspects surrounding farmers' statutory pension insurance.

In addition to up-to-date figures, the report examines changes that have taken place in the demographics of farmers insured under MYEL. The declining role of primary production, the rise of educational levels, population ageing and other recent trends in society are inevitably reflected among agricultural entrepreneurs as well. The maturation of the Finnish earnings-related pension system is reflected above all in the situation of pension recipients. The Farmer's Pension Act has been in force since 1970, so the youngest people now moving into retirement have worked their whole careers under the provisions of earnings-related pension acts.

The focus of the report is on persons who at some stage have worked as farmers or agricultural entrepreneurs. The analysis covers both working age and retired farmers, and is specifically concerned with the earnings-related pension insurance of those insured under the MYEL scheme. The report examines the number of people insured under the scheme, their demographic characteristics and educational background. Another focus is to discuss factors

related to statutory pension insurance, including confirmed income, other employment that accrues pension, and length of employment history. A third focus is the level of statutory pension insurance among retired as well as newly retired farmers.

### Number of farmers falling, but educational level rising

Finland's economic structure has changed in the past decades. The number of people earning a living from primary production and industry has fallen, and at the same time the role of services has grown. Along with these structural changes, the number of people insured under MYEL has dropped in the past 45 years from over 420,000 to 73,700 (2015). This figure includes 5,400 grant and scholarship recipients, who have been covered under the MYEL scheme since 2009. In 2015 the number of farmers with MYEL insurance cover was 68,350. The declining number of people with MYEL pension cover has been accompanied by a declining number of farms in Finland, but at the same time the average size of farms has grown. In 2015 people insured under MYEL had on average 47 hectares of cultivated fields and 61 hectares of forest land. The average MYEL area, computed as a weighted sum of field and forest land areas, forms the basis for MYEL pension calculations. In 2015 it was 52 hectares, around twice as much as 20 years ago.

There have also been changes in the demographics of people insured under MYEL. Men account for a growing proportion of those with MYEL insurance cover. In the first decades of the scheme, men and women were equally represented. In 2015, the proportion of men was almost 70 per cent. The ongoing trend of population ageing is also reflected among farmers. In 2015 the mean age of farmers and agricultural entrepreneurs was 48.5 years, more than two years higher than in the 1970s. One of the reasons behind the ageing of farmers is that the number of new agricultural entrepreneurs has been falling, while their mean age has been rising.

The educational level of farmers and other agricultural entrepreneurs has risen over the past decades. In 1990 one-half of Finnish farmers had basic level qualifications, by 2013 this proportion had dropped to 17 per cent. At the same time the share of those with other qualifications, and higher degree qualifications in particular, has increased. Today farmers with upper secondary level qualifications are the biggest educational category. Around one in four have a post upper secondary education. The rise in the educational level is being driven by younger age groups: over half of new agricultural entrepreneurs had upper secondary and one-third tertiary level qualifications.

### Many farmers on a low confirmed income

Both capital and a substantial labour input on the part of the individual entrepreneur are invested in agricultural activity. One measure – but by no means the only or an exhaustive measure – of the extent of agricultural business activity is provided by confirmed MYEL income, which determines the level of pension security. Whereas other self-employed persons'

income may vary from year to year, confirmed MYEL income is based on the area of field and forest land of the farm and possible ancillary farming activities and as such aims to provide a more stable measure of the farmer's labour input.

In 2015 the mean confirmed income of farmers was 19,200 euros. This is less than the corresponding figure for self-employed persons carrying pension insurance under the Entrepreneurs' Pension Act (YEL) or the mean earnings of employees in Finland. One-quarter of farmers have a confirmed income of less than 10,000 euros. On average, men's confirmed income is higher than women's. The confirmed income of farmers under 35 and over 55 is lower than the mean confirmed income of age groups in the middle.

Mean confirmed MYEL income has remained more or less unchanged in the past few years, despite the growing size of farms and regardless of market situation. Mean confirmed incomes have risen slightly. This growth has been stronger in the higher confirmed income brackets. The confirmed income distribution is tilted towards lower incomes. Part of the reason for this is that some farmers practise agriculture as a subsidiary occupation, but some genuinely derive only a low income from agriculture.

For most people with a farmer's background, however, a low confirmed income does not translate into low retirement earnings, because many of them have also accrued pension as employees and/or through the YEL scheme. Benefits paid out by the Social Insurance Institution (Kela) also add to farmers' overall pension security.

### Over one-third work outside the farm as well

People with MYEL pension cover include both full-time and part-time farmers. A significant proportion of them earn a wage or salary from employment outside the farm. In 2015, 35 per cent of farmers earned at least 1,000 euros a year in employment income. Mean earned income alongside existing MYEL pension insurance was around 29,000 euros a year in 2015. Women earned an income from outside the farm more often than men: 43 per cent of them as compared with 32 per cent of men had a paid job outside the farm. The proportion of farmers with earnings from outside the farm has remained more or less constant over the past 10 years. Men's average outside earnings were higher than women's.

The proportion of persons earning an income from outside agriculture decreases with higher confirmed MYEL income. Almost 60 per cent of those in the lowest confirmed income quartile earn a wage or salary outside the farm, in the highest quartile the figure is less than 8 per cent.

### Increasing numbers retiring directly on an old-age pension

In 2015 some 5,700 persons with a farmer's background moved into retirement. Most of them (59%) retired on an old-age pension. Full disability pensions accounted for 12 per cent and special pensions for farmers for 10 per cent of all new pensions. Both these figures have declined in recent years. As recently as the early 2000s, 25 per cent of people who had

been agricultural entrepreneurs retired on a disability pension and 18 per cent on a special pension for farmers. Farmers have had the opportunity to cease farming before reaching retirement age and to transit into retirement via special pensions. However these early retirement options are gradually being phased out.

Although farmers have very high workloads, the proportion of those retiring on a disability pension is not any higher than among self-employed persons or employees. Some 17 per cent of people moving into retirement from a farming background retire on a full disability pension or partial disability pension. The corresponding figure for employees is 23 per cent and for self-employed persons 19 per cent (in contrast to the figures for farmers, those for self-employed persons and employees include cash rehabilitation benefit and partial rehabilitation benefit). Almost half or 46 per cent of the disability pensions of persons with a farmer's background are granted due to musculoskeletal disorders. This is some 10 percentage points higher than the corresponding figure for employees and self-employed persons retiring on disability pension. The most common causes of employment-terminating disabilities are physical diseases and degeneration.

The mean age of retirement in 2015 for persons with a farmer's background was 61.9 years. The corresponding figure for all persons retiring on earnings-related pensions was somewhat lower at 60.7 years. During the 2000s farmers' mean age of retirement has risen by around three years. This rise has been most notable among persons retiring on disability pensions.

### People retire on average after 39 years of work

In this study length of work history is measured from age 18 through to the end of the year of retirement. In 2015 the median work history of persons with a farmer's background was 38.9 years. This is one and a half years higher than the figure for employees, and roughly the same as for persons covered under the YEL scheme. On average, persons retiring on a MYEL pension had been covered by the scheme for two-thirds of their employment career, i.e. almost 26 years.

The employment histories of men with a farmer's background were slightly longer than women's. Men's median employment history was 39.7 years, women's 37.6 years. Gender differences in MYEL history were wider. The median length of retiring men's MYEL careers was 27 years, for women the figure was 23 years.

The length of employment histories overall has increased more rapidly than the length of MYEL histories. From 2005 to 2015, overall employment histories have increased by three years. During the same period, the length of MYEL histories has increased by half of this, i.e. 18 months. The length of work histories has increased most notably among people retiring on an old-age pension. This shift towards longer employment histories has been driven by the higher age of retirement, the falling number of disability pensions, and the growing proportion of people retiring directly on an old-age pension.

## Statutory pension insurance lower than average pensions

At year-end 2015 the number of persons with a farmer's background and drawing a pension based on their own working career was 182,000. The mean pension in one's own right, including both earnings-related pension and Kela pensions, was 1,100 euros. This is lower than in the rest of the pensioner population on average. The mean pension accrued from gainful employment among all persons resident in Finland was around 1,600 euros. If survivors' pensions are included, that figure is some 80 euros higher. Survivors' pensions are more important for older pensioners.

Pension recipients with a farmer's background include people of different ages and with different employment histories. Older pensioners have lower pensions than younger pensioners. Some have been covered by MYEL insurance for only a short duration of their employment. In 2015, women's pensions were on average just over 300 euros lower than men's.

Many pension recipients have accrued only a small MYEL pension from their work in agriculture. For all pension recipients with a farmer's background, the average amount of pension accrued under the MYEL scheme as part of the individual's pension in one's own right was 350 euros. The rest of their pension was made up of earnings-related pension accrued through self-employment or as an employee and Kela pensions. The share of MYEL pension cover is particularly low among older pension recipients.

Large numbers of pension recipients with a farmer's background have small pensions. Less than 4 per cent of them received a guarantee pension through Kela. The proportion of guarantee pension recipients among pensioners with a farmer's background was lower than among all pension recipients, of whom some 7 per cent received a guarantee pension. Women accounted for 56 per cent of all guarantee pension recipients, but for over 80 per cent of guarantee pension recipients with a farmer's background.

People retiring in recent years have received higher pensions. The mean pension in one's own right among people who retired in 2015 was 1,340 euros, of which the MYEL pension accounted for 550 euros. Men's pensions were on average higher. Women's mean pension in one's own right was 1,160 euros, men's 1,460 euros. The difference of 300 euros is the same as for pensioners with a farmer's background on average.

People retiring on an old-age pension had the highest pensions, those retiring on partial disability pension and part-time pension the lowest pensions. The average old-age pension was 1,570 euros. This is roughly the same as for people covered under the YEL scheme, but a few hundred euros lower than for employees. Men's average pensions were higher in all pension categories. The mean old-age pension of men with a farmer's background was 1,670 euros, for women the figure was 1,320 euros.

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

Maatalousyrittäjien työurat ja eläketurva. Eläketurvakeskuksen tutkimuksia 07/2016.

**Ordering of publication:**

[www.etk.fi](http://www.etk.fi) > Publications > Studies > Farmers' working lives and pensions  
or [aineistotilaukset@etk.fi](mailto:aineistotilaukset@etk.fi)

ISBN 978-951-691-258-8 (s-b)

ISBN 978-951-691-259-5 (PDF)

ISSN 1236-3049 (printed)

ISSN 1798-7482 (online)



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