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FINNISH CENTRE FOR PENSIONS, STUDIES

## SUMMARY

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# Pensions and pensioners' economic welfare 1995–2015

This study provides a comprehensive and up-to-date overview of pensions and pensioners' economic welfare in Finland over the past 20 years. Economic welfare is measured using established research indicators: disposable income, consumption, assets, subjective financial well-being and severe material deprivation. Furthermore, pensioners' economic welfare is assessed from an international comparative perspective. The data come from statistics jointly compiled by the Finnish Centre for Pensions (ETK) and the Social Insurance Institution of Finland (Kela), Statistics Finland's income distribution statistics, studies on consumption expenditure and assets as well as European Union statistics on income and living conditions.

### Number of pensioners has increased

In 2015 the number of pensioners residing in Finland was over 1.4 million. Since 1995 this figure has increased by almost 300,000. From 1995 to 2015, the proportion of pensioners in the population has risen from 27.7% to 31.5%.

With the arrival of baby boomers at retirement age, the continuing rise of life expectancy and reforms to the early retirement pension system, old-age pension has become an increasingly prevalent type of pension. The number of people on an old-age pension has risen from 800,000 to 1.2 million, and in 2015 old-age pension recipients accounted for 85% of all pensioners in Finland. At the same time, the significance of early retirement pensions has receded. In 1995–2015 the number of early retirement pension beneficiaries has fallen by more than 100,000.

The earnings-related pension has gained in significance during the period under study. An increasing proportion of pensioners receive an earnings-related pension only, and the earnings-related pension accounts for an increased share of total pension income. The significance of the national pension has declined accordingly. These structural changes in the population of pensioners are explained by the maturation of the earnings-related pension system as well as new rules of the national pension in 1996 which meant that receipt of an earnings-related pension reduced entitlement to national pension by its full amount.

### **Pensioners' economic welfare has developed favourably: average pension, income, consumption and assets have all increased**

In the past 20 years the average total pension has increased in real terms by 36%. This is largely explained by structural changes in the population of pensioners. The higher average old-age pension, then, is explained by the fact that increasing numbers have accrued full entitlements under the earnings-related pension system; that they have longer working histories; and that old-age pension beneficiaries include fewer low-income recipients for whom the national pension has made up the bulk of total pension earnings.

Pensioners' disposable monetary income per consumption unit has increased in real terms by 48% from 1995 to 2014. The gross income item that has increased most is the amount of earnings-related pension. Pensions continue to account for a significant proportion of pensioners' gross income. In 2014, the figure was 62%.

Pensioners' economic welfare has also improved when measured in terms of consumption spending. From 1995 to 2012, pensioner households' consumption spending increased in real terms by 45%. In 1995–2015, pensioner households spent a smaller proportion of their income than both employed households and other economically inactive households. In other words, pensioners saved more than others. The savings rate has been the same throughout the period under study.

The assets of pensioner households have also increased. From 1994 to 2013, pensioner households' net assets have slightly more than doubled, whereas in employee households assets have less than doubled. Pensioner households' net assets have been higher than employees' assets throughout the period under study. In 2013 their net assets were half as much again as those of employees.

### **Pension income has increased even during retirement**

Most of the increase in pensioners' average total pension is explained by structural changes, but the development of pension income is also affected by changes during the retirement period. Pensions in payment are uprated on the basis of different indices. In 1995–2015 the earnings-related pension index increased in real terms by 7% and the national pension index by 9% (including the general increases made to the national pension).

Income changes during the period of retirement were studied by following the development of total pension earnings for those who entered old-age retirement in 1995 through to 2015. In the group surviving through to the end of the follow-up, average total pension earnings increased in real terms by 21%. During retirement, total pension earnings can rise not only with index-linked increases, but also for other reasons, including entitlement to a surviving spouse's pension or a guarantee pension.

### **Pensioners' relative position unchanged vis-à-vis working population**

The ratio of average total pension income to employees' average earned income has been unchanged at around 50% throughout the period under study. The position of pensioners vis-à-vis the working population in terms of income and consumption is also unchanged. Pensioners' income has varied in the range of 73–81% of the income of the economically active population, and in the range of 86–93% of the income of the total population. In 1995–2015, pensioner households' consumption spending was around two-thirds of the figure for the economically active population. The position of pensioners vis-à-vis other economically inactive groups has clearly improved.

### **Overall income differentials between pensioners more or less unchanged – age group differences have increased and gender differences decreased**

Pensioners are not a homogeneous, coherent group with respect to income or income development. The average total pension is highest in the age group 65–74. Pensioners in this same age group have also seen the biggest increase in their total pension as well as in their disposable income and consumption in 1995–2015. In this age group there are large numbers who have retired recently, who have long work histories and who have worked much of their careers under the earnings-related pension system. By far the lowest average total pension is recorded for disability pension recipients under 55, whose average total pension has not increased at all in real terms from 1995 to 2015. The level of disability pension has declined in comparison with average earned income.

The gender gap in pensions, by contrast, has been reduced. Women's total pension has increased more than men's. In 1995 women's total pension was 73% of men's pension, in 2015 that figure was up to 78%. The main reason why this gap has narrowed lies in women's increased labour market participation, which has meant that women's earnings-related pension has accrued more rapidly. In 1995–2015, the proportion of women receiving a national pension only has clearly fallen.

There has been no significant change in the distribution of pensions over the past 20 years. Differences between pensioner households in consumption spending are also unchanged. However, income differentials in the pensioner population have increased slightly during the period under study. This change is largely explained by increased property income in the highest income decile. Income differentials among pensioners are still smaller than in the population on average.

### Pensioners' risk of poverty at the same level as in the total population, economic welfare weakest among pensioners under 55 and pensioners living alone

In 2014, 12.8% of Finnish pensioners were at risk of poverty based on the poverty threshold of 60% of median household income. This is roughly at the same level as in the total population. Based on the 50% of median income criterion, the proportion of pensioners at risk of poverty in 2014 was 4%. Under this lower threshold criterion the figure for pensioners is lower than in the whole population.

Economic welfare, when measured in terms of disposable income and consumption, is weakest among the youngest pensioners. Risk of poverty is most common in the age group under 55 (34%). The poverty risk rate has trebled from 1995 to 2015. It is noteworthy that among pensioners under 65, the poverty risk rate has increased throughout the period in focus, whereas among old-age pensioners it has not increased at all in the past 10 years. Another indication of the deteriorating position of younger pensioners is that a growing proportion of them depend on a national pension as their only source of pension income.

Pensioners living alone are at much higher risk of poverty than pensioners living with a family. When measured in terms of consumption, too, single-living pensioners are in a weaker welfare position than pensioners living with a family. In 2014, 27% of single-living pensioners were at risk of poverty, compared with less than 3% of pensioners living with a family. In the age group under 55, a very high 59% of pensioners were at risk of poverty in 2014. The risk of poverty is also high among single-living pensioners over 75. Single-living women aged over 75 constitute the biggest group of pensioners at risk of poverty.

### Financial position of pensioners in Finland better than in the EU on average, severe material deprivation or difficulties making ends meet very rare

Indicators of income and income distribution suggest that the position of Finnish people in retirement age is around the European average. Purchasing power in this age group is slightly stronger in Finland than in the EU on average, and it has slightly improved in a European comparison from 2004 to 2013. Income differentials between pensioners are smaller than in the EU on average, but on the other hand the relative income position of pensioners compared with the working age population is slightly weaker than in Europe on average. Finnish pensioners' relative poverty risk is close to the EU average, but the risk for older people, women and single-living persons is higher than average.

When measured on the basis of subjective experiences, pensioners' economic welfare in Finland is clearly higher than in the EU on average. In 2014 no more than a couple of per cent of the population in retirement age experienced severe material deprivation or serious difficulties making ends meet. These experiences have continued to decrease over the past decade. Indeed, a multidimensional examination of economic welfare shows that the financial position of Finnish pensioners is stronger than in the EU on average.

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