05/2017
FINNISH CENTRE FOR PENSIONS, REPORTS

SUMMARY

Meeri Kesälä

The Finnish Centre for Pensions' long-term projections: how they compare with actual outcomes

This report revisits long-term projections made by the Finnish Centre for Pensions and compares them with historical outcome data that is available for part of the forecast period. The investigation is specifically focused on five projections published between 2004 and 2013 and on how these projections compare with actual outcomes in 2005–2016. The projections concern the pension system as it stood at the time of publication and are contingent upon assumptions made about population and economic development. The examinations are based on data published in the projections and on data extracted from current and earlier versions of the Finnish Centre for Pensions' long-term planning model. In addition, the introduction and appendix to the report include some data from long-term projections made in 1980, 1990 and 1999.

The projection reports are quite extensive in scope and cover a range of results on the pension system complete with sensitivity analyses. The focus here is confined to some of the main results that appear in all the reports in as identical form as possible: we revisit the long-term projections for life expectancy, old age dependency ratio, life expectancy coefficient, earnings-related pension expenditure, average pension and pension contributions and pension assets under the Employees Pensions Act (TyEL). In addition, the examination takes in some shorter term expenditure projections under different pension acts and different types of pensions.

The period under review has seen a prolonged recession that took hold in 2008. This is reflected most particularly in projections for sum of earned income, which are higher than historical outcomes. This is true of all projections except the one published immediately after the outbreak of the financial crisis, which predicted a deeper five-year cyclical downturn than actually happened. Most of the results in the published projections are reported as a percentage of sum of earned income. However absolute value (euro) projections of pension expenditure, for example, are more closely aligned with historical outcomes than the corresponding projections expressed in percentage terms of sum of earned income. Indeed, these euro projections for pension expenditure under different pension acts and different pension types are quite well in line with outcomes over the period under review. Euro projections for expenditure on disability pensions, however, overestimate the actual spending.

The report analyses the extent of forecast error in the long-term projections by replacing some of the main assumptions with historical outcome data and repeating the projections. Special focus is given to the calculation of pension expenditure, sum of earned income and TyEL pension assets in a situation where pension indices, employment trends, return on investments and TyEL contributions are one by one adjusted to reflect historical outcomes. This examination shows that the projection model performs as intended: if the background assumptions are true, the projection will yield results that, by and large, are consistent with outcomes. The forecast error for pension expenditure is relatively minor. The forecast error for sum of earned income is explained by index and employment factors, but even after adjusting the background assumptions the projection does not correctly predict the timing of the turnaround in the sum of earned income that was seen during the period under review. The forecast error in TyEL assets is largely attributable to the accuracy of the return on investments assumption.

The Publication is available only in Finnish:
Eläketurvakeskuksen pitkän aikavälin laskelmat jälkikäteen arvioituna. Eläketurvakeskuksen raportteja 05/2017.

Ordering of publication:
www.etk.fi › Publications › Reports › The Finnish Centre for Pensions' long-term projections: how they compare with actual outcomes
or aineistotilaukset@etk.fi

ISBN 978-951-691-275-5 (PDF)
ISSN 1798-7490 (verkkojulkaisu)

Subscribe to our Newsletter in English

Finnish Centre for Pensions
ELÄKETURVAKESKUS

Finnish Centre for Pensions
FI-00065 Eläketurvakeskus Finland
Phone +358 29 411 20
Fax +358 9 148 1172

Eläketurvakeskus
00065 ELÄKETURVAKESKUS
Puhelin 029 411 20
Faksi 09 148 1172

Pensionsskyddscentralen
00065 PENSIONSSKYDDSCENTRALEN
Telefon 029 411 20
Fax 09 148 1172

www.etk.fi
› Publications