

Flexible retirement – a model for the future?

Lessons from Sweden, Norway and Finland

MIKA VIDLUND



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that presents highlights of Finnish pensions and makes international comparisons.

FOREWORD

In its latest pension reform in 2017, Finland relaxed the rules for retirement, giving people more freedom to combine work and retirement. The partial early old-age pension replaced the part-time pension. By introducing a new partial pension, Finland is following the old-age pension scheme design of Sweden and Norway where corresponding pension were established already earlier.

This report reviews the main features of the partial old-age pension and the resulting retirement behaviour in more general in the context of flexible retirement. With this study I am merely scratching the surface. The Finnish Centre for Pensions will continue to examine the retirement behaviour in Finland and monitor the experiences and studies on this subject in our neighbouring countries.

This report was made possible through Nordic cooperation and the support of my colleagues at the Finnish Centre for Pensions. Therefore I wish to express my sincere thanks for the data and comments provided by the following persons: Ole Christian Lien from the Norwegian Labour and Welfare Administration (NAV), Axel West Pedersen from the Institute for Social Research (ISF), Hanna Karlsson Ruiz and Hans Karlsson from the Swedish Pensions Agency, Sara Örnhall Ljungh from the Social Ministry of Health and Social Affairs in Sweden and, finally, Jari Kannisto and Marjukka Hietaniemi from the Finnish Centre for Pensions. I also wish to thank my colleagues Merja Raunis for preparing the manuscript for publication, Lena Koski for checking the language and Antti Karkiainen for setting me deadlines and thus kicking me forward. As an author of this report, I take sole responsibility for the interpretations presented in it and for any possible inaccuracies.

Helsinki 11 October 2017

Mika Vidlund

SUMMARY

As life expectancy rises, governments around the world have increased the retirement age. Simultaneously, the current trend in pension system design seems to lean towards flexible retirement solutions by increasing individual choices and options for pension take-up. According to a recent Eurofound study (Dubois et al. 2016), it appears that Sweden, Norway and Finland are among the forerunners of this evolution and ahead of many European countries.

This paper investigates the change in retirement behaviour in Sweden, Norway and Finland after recent old-age pension reforms in these countries and, particularly, how flexible retirement together with the establishment of partial pensions has affected pension take-up and retirement behaviour. In order to encourage people to work longer and postpone retirement, all three Nordic countries have established decoupled systems, in which people can draw early old-age pensions regardless of whether they stop working or not. The principles and main features of the flexible pension design are pretty much the same, although the schemes differ from each other in some aspect.

Currently, the change in retirement behaviour is most eye-catching in Norway, where a growing number of people have chosen to combine employment with pension benefit take-up. The findings suggest that the implementation of the policy has altered the pattern of pension withdrawal among men. More men than women take their pension as early as possible. In Sweden, the change in the take up ratio has been much more modest. Sweden can well be described as a persistent late retirement country. In both Norway and Sweden, people prefer to draw a full pension rather than a partial one. Around 90 per cent of those who have taken the early old-age pension are drawing their pension in full. As for Finland, it is still too early to evaluate what the actual consequences of the recent pension reform will be. However, statistics from the first six months reveal that men are more likely than women to take the new option of an early partial pension. A wider perspective on flexible retirement reveals that most Finns take the old-age pension at the earliest possible age (63 years) and thus retires earlier than their neighbouring peers.

It remains to be seen whether the traditional cliff-edge between work and retirement will erode. Models to eliminate cliff-edge retirement policies, to encourage part-time and flexible working, and to defer retirement have been introduced. Lessons from Norway and Sweden reveal that the desire to start cashing in pension rights is powerful, but it does not mean that people want to stop working as soon as they reach their earliest possible retirement age or get the cash.

TIIVISTELMÄ

Elinajanodotteen piteneminen on saanut eri maiden hallitukset nostamaan eläkeikää eläkejärjestelmien taloudellisen kestävyuden parantamiseksi. Samanaikaisesti eläkeuudistusten nykyinen suuntaus näyttää nojaavan kohti joustavia eläkeikäratkaisuja, jotka avaavat myös uusia mahdollisuuksia yhdistää työtä ja eläkettä yksilön omista lähtökohdista käsin.

Suomessa vuonna 2017 voimaan tullut osittainen varhennettu vanhuuseläke tuo uudenlaista joustoa vanhuuseläkeikää lähestyville. Vastaavanlainen vanhuuseläkelaji on jo aikaisemmin otettu käyttöön Ruotsissa ja Norjassa. Euroopan elin- ja työolojen kehittämissäätiö Eurofoundin selvityksen mukaan Ruotsi, Norja ja Suomi ovat joustavan eläkeikämallin edelläkävijöitä ja askeleen edellä muita Euroopan maita (Dubois et al. 2016).

Tässä raportissa tarkastellaan vanhuuseläkkeelle siirtymisen muutosta Ruotsissa, Norjassa ja Suomessa viimeaikaisten eläkeuudistusten jälkeen. Erityisesti tarkastellaan sitä, miten joustava eläkeikä on vaikuttanut yhdessä osittaisen varhennetun vanhuuseläkkeen kanssa ihmisten käyttäytymiseen ja missä iässä eläke otetaan. Kaikki kolme pohjoismaata ovat uudistaneet järjestelmiään siten, että ne kannustaisivat työskentelemään nykyistä pidempään ja lykkäämään eläkkeelle siirtymistä.

Vertailu osoittaa, että joustavat eläkeratkaisut ovat pääperiaatteiltaan pitkälti toistensa kaltaisia. Uusi varhennettu vanhuuseläke ei aseta rajoituksia työnteolle ja eläkkeen rinnalla tehdystä työstä karttuu uutta eläkettä normaalisti. Ruotsissa ja Norjassa varhennettu vanhuuseläke onkin usein otettu työskentelyn rinnalle. Molemmissa naapurimaissa eläkkeen osittamisessa on Suomen malliin verrattuna tarjolla useampia vaihtoehtoja ja halutessaan myös koko kertyneen eläkkeen voi ottaa varhennettuna.

Maiden vertailussa huomio kiinnittyy erityisesti Norjaan, missä yhä useammat ovat päättäneet yhdistää eläkkeen ja työn. Suuri osa norjalaismiehistä varhentaa eläkettä heti kun se on mahdollista eli alimmassa eläkeiässä. Ruotsissa varhennetulle vanhuuseläkkeelle siirtyminen on selvästi maltillisempaa.

Sekä Norjassa että Ruotsissa ihmiset ottavat osittaisen eläkkeen sijasta täyden varhennuseläkkeen. Molemmissa maissa yhdeksän kymmenestä ottaa varhennetun vanhuuseläkkeen täytenä maksuun.

Suomen osalta on vielä liian aikaista arvioida osittaisen vanhuuseläkkeen suosiota ja sen vaikutusta työuriin. Ensimmäisen puolen vuoden tilastotietojen perusteella näyttää siltä, että kyseessä on suosituimpi eläkelaji kuin tätä edeltävä osa-aikaeläke, ja miehet hakeutuvat osittaiselle eläkkeelle useammin kuin naiset. Samalla kuitenkin halukkuus jatkaa työssä eläkkeen rinnalla näyttää olevan kasvussa. Tämä toivottavasti myös toteutuu, sillä näkökulman laajentaminen joustavan eläkeiän vaikutuksesta eläkkeelle siirtymiseen osoittaa, että Suomessa vanhuuseläkkeelle siirrytään enimmäkseen alimmassa vanhuuseläkeiässä ja selvästi vertailumaita aikaisemmin.

Kokemukset Norjasta ja Ruotsista osoittavat, että varhennettu vanhuuseläke on houkutteleva, mutta se ei tarkoita sitä, että ihmiset haluavat lopettaa työnteon ja siirtyä pelkästään eläkkeelle heti saavutettuaan alimman eläkeiän. Aika näyttää, miten työn ja eläkkeen yhdistäminen sekä tavoite työurien pidentymisestä lopulta toteutuvat. Nykyiset mallit joka tapauksessa kannustavat työssä jatkamiseen ja antavat mahdollisuuden lykätä varsinainen eläkkeelle siirtymistä aiempaa joustavammin.

CONTENTS

1 Introduction	9
2 Institutional design of flexible retirement	11
2.1 Adjusted models for flexible retirement	12
2.1.1 The Swedish model	12
2.1.2 The Norwegian model	14
2.1.3 The Finnish model	16
3 How have people reacted to the old-age pension take-up options?	19
3.1 Changes in pension take-up	19
3.2 Share of old-age and other pensioners in relation to the aged population ...	24
4 Flexible retirement: Eroding the cliff-edge between work and retirement?	29
References	33
Annexes	37
Annex 1. Sweden	37
Annex 2. Norway	39
Annex 3. Finland	41

1 Introduction

The primary aim of pension schemes is to provide people with an income in the after-work years. Retirement has traditionally been seen as a cliff-edge at which work stops and retirement begins. However, attitudes towards retirement are changing and retirement need no longer be – and is no longer seen to be – an all or nothing choice, where people switch from work to retirement overnight. From the individual's point of view, flexible retirement with a smooth transition seems more attractive.

As longevity is increasing, pension systems around the globe are in the process of increasing the incentives to retire late and reforming their systems in order to promote longer working lives and restrain pension expenditure. The majority of OECD countries have answered this challenge by increasing the retirement age (see, for example, OECD 2015). At the same time, though, many of the people facing a higher retirement age are concerned about their ability to continue working to the required age.

While a rising retirement age almost certainly results in later retirement, it does so in a rather inflexible way. It imposes a uniform, and often binding, minimum retirement age on people with different preferences, health status and job opportunities. (Hernæs et al. 2015.) It also typically generates a spill to disability and unemployment insurance programs.

Reform plans and ongoing discussions in many countries reveal that there is a great interest in flexible and partial retirement solutions that allow people to combine work and pension and which give individuals the flexibility to decide both the timing of pension take-up and the amount of pension they draw. The aim of this kind of partial or phased-in retirement is to allow older employees to gradually reduce their work load before retirement instead of being suddenly cut off altogether. It provides them the chance to adjust to new patterns of work and retirement. These kinds of solutions have been established in Sweden, Norway, Finland and Germany. Recent reform proposals in Estonia and Switzerland include such an element as well.

According to a recent Eurofound-study (Dubois et al. 2016) Sweden, Norway and Finland are among the forerunners and one step ahead of many other European countries in applying the partial pension system. In all three countries, the formerly fixed retirement age has become flexible, introducing a window within which one can retire. Sweden established its current model of flexible retirement age nearly two decades ago, followed by Finland in 2005 and Norway in 2011. Partial retirement was part of the reform, except in Finland, where a new partial early old-age pension replaced the part-time pension in 2017. Partial retirement in its earliest forms has been available in Sweden and Finland for even longer.

The statutory pension systems in Finland, Norway and Sweden are flexible in terms of the retirement age, and the system gives individuals more choice in their retirement decisions. Individuals have a right to choose when they will retire on an old-age pension after they have reached the lowest possible retirement age. They have moved towards decoupled systems, where people can draw partial or full pensions regardless of whether they stop working or not. This has been established by removing disincentives to continue working beyond the earliest possible retirement age and establishing graduating payouts together

with incentives for late retirement. As a consequence the traditional cliff-edge between work and retirement is eroding.

The current schemes have many similarities in their design, but a look back reveals that Norwegians have taken a big leap as they did not have a statutory early retirement or part-time pension scheme before the reform in 2011. Instead they had the AFP, a special early retirement scheme, set by collective agreements. It provided a generous early retirement option for public sector employees and half of the private sector employees between the ages of 62 and 66 years.

Despite the increased interest in partial and decoupled systems, they also raise many questions. Earlier experiences from many countries have shown that challenges exist in designing a partial pension system so that it does not stimulate early pension withdrawal as such, but facilitates the reduction of working hours for people for whom this would help extend their working lives (Dubois et al. 2016). Whether or not partial retirement extends working lives is difficult to say for sure as there are studies both in favour of and against such an argument. In addition, the results differ from one country to another (see, for example, Delsen 1996; Ilmakunnas & Ilmakunnas 2006; Kantarci & Van Soest 2008; Dubois et al. 2016).

Insights from behavioural economics suggest that people will tend to draw a pension and enjoy the increased liquidity as early as possible. This presents challenges to the sustainability of pension schemes but also to the adequacy of one's future pension. There is plenty of international evidence that people prefer to retire as soon as they are allowed to do so, whether or not that is in their own best long-term interest (Barr 2013).

Bearing this background in mind, the focus of this paper is to review the change in retirement behaviour in Norway, Sweden and Finland and, particularly, how a flexible statutory old-age pension has affected the take-up of old-age pensions. This paper reviews the relative attractiveness of the partial old-age pension and other corresponding options for early retirement. The questions this paper seeks to answer are (1) how have people reacted to the flexibility, and (2) at what age do people draw their pensions. Given the differences in retirement behaviour between men and women, the analysis is gender-specific throughout.

The structure of the paper is as follows: In Chapter 2, the major features of the flexible old-age pension system are described. Chapter 3 reviews the statistics on how people have reacted to the different old-age pension take-up options, followed by the discussion and conclusions in Chapter 4.

2 Institutional design of flexible retirement

The current trend in the pension system design is to increase individual choices and options for retirement as the retirement ages rise. Flexible retirement allows people to achieve a mix of pension and continuity at work. It gives the individual the option to draw only a portion of the pension while continuing working, either with a reduced number of working hours and salary or without any restrictions (total flexibility). It is also possible to continue accruing new pension rights for that work. However, early withdrawal comes at the cost of a lower future pension as the part that is drawn early is permanently reduced. That means that early retirement is financed by the retirees' own pension entitlements.

The origin of the partial pension can be traced back to Sweden where the part-time pension became effective in 1976, at the same time that the retirement age was reduced from 67 to 65 (Ginsburg 1985). Already then, the objectives of the part-time pension were to:

- 1) increase flexibility and freedom of choice regarding retirement,
- 2) provide for a smoother transition from work to retirement, and to
- 3) ease the work-load during the last years of labour force participation.

One of the major differences between the present partial pension and the part-time pension that existed in Sweden as well as in Finland is that the former requirement of reduced working hours has been abolished in the new pension type. Work and pension can now be freely combined. In addition, incentives for postponing retirement have been increased to full actuarial neutrality – meaning that the total sum of expected retirement benefits is unaffected by the timing of benefit take-up. The objectives have remained more-or-less unchanged where the main purpose is to encourage longer working lives and to increase the labour market participation of the elderly.

According to Barr (2013), pension design should seek to raise the average retirement age to accommodate aggregate resource pressures and individual differences by offering people different ways to move from full time work to full retirement. Increasing the average retirement age imposes the cost of adjustment on future pensioners, but flexible retirement options (with the option to draw only a part of the pension) allow individuals to respond in the way that suits them best.

In the following the changes in the institutional design of the partial pension are discussed in more detail. Table 1 summarizes the current options for old-age pension take-up in each of the countries under review.

Table 1.*Statutory retirement ages and options for old-age pension take-up.*

Countries	Early retirement age	Retirement age	Employment termination age	Options for pension take-out
Norway	62	62–75	70/72*	20%, 40%, 50%, 60%, 80%, 100%
Sweden	61	61– (no upper limit)	67	25%, 50%, 75%, 100%
Finland	61 62 (2025), Linked to life- expectancy (2027)	63–68 65–70 (2027–2029), Linked to life- expectancy (2030)	70	25%, 50%

* For public sector employees the termination age is 70. In the private sector the standard termination age is 72, but private employers are allowed to impose a termination age of 70, as long as they practice the age limit consistently among their employees.

The new rules mean that retirement and resignation from work are two independent decisions which no longer need to be taken at the same time. Continued employment after reaching the retirement age will also accumulate pension entitlements and thus lead to a higher annual pension when it is finally claimed. Many will therefore have a strong financial incentive to defer their retirement and continue working.

The old age pension is also adjusted in line with the average life expectancy. The life expectancy adjustments have been introduced to make sure that the pension system remains financially sustainable. In Finland, the balancing mechanism adjusts both the level of beginning pensions as well as the retirement age to changes in life expectancy (for more details, see Sankala & Reipas 2017). In Norway and Sweden, the longevity adjustment is made to the level of pension benefits, but the reduction in benefit levels can be offset by choosing to work longer. In all cases, this means that if the average life expectancy rises, people will have to work longer to receive the same monthly payment than without these adjustments.

2.1 Adjusted models for flexible retirement

2.1.1 The Swedish model

The Swedish old-age pension system was reformed during the late 1990s. The reform established flexible retirement between the ages of 61–67 and a new statutory partial retirement in 2003. The earliest possible retirement age under the old system was 60 and the official retirement age was 65. The pension was actuarially reduced if taken early and increased if taken late, after the age of 65 (Lachowska et al. 2009). However, very few chose to retire early. In 1990, only 6 per cent of all old-age pensioners had chosen to draw their pension before the age of 65 (Hagen 2013).

Sweden had a special partial pension scheme between 1976 and 2000, which was open for employees aged 60–64, that is, before reaching the retirement age of 65. The right to a part-time pension was linked to rules on the reduction of working hours. Initially, the part-

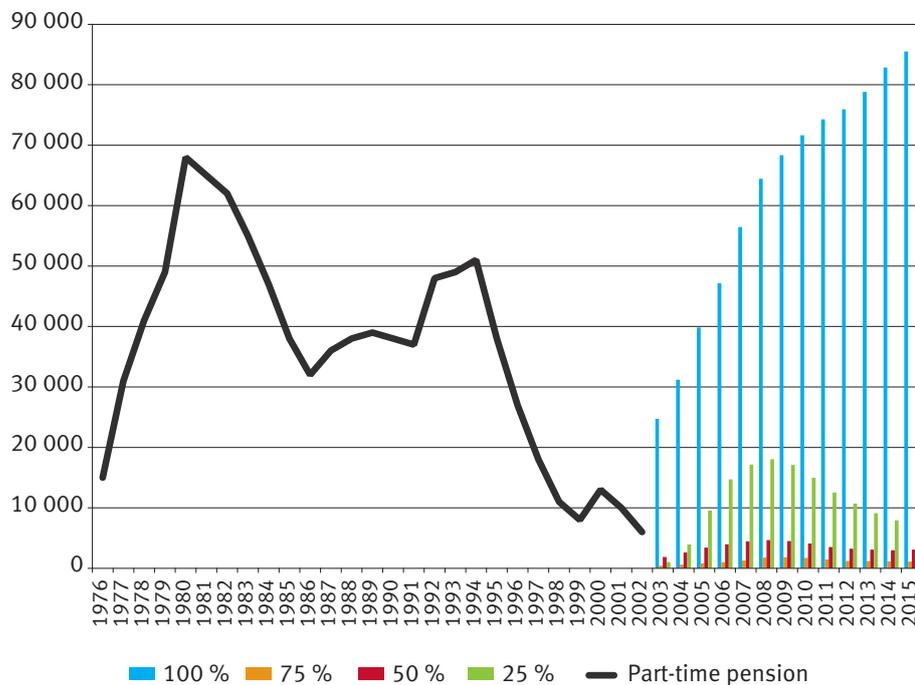
time pension was available only to employees, but as of January 1980, the self-employed could also apply for this pension. Instead of retiring on an early old-age pension, people preferred to retire early on a part-time pension or a disability pension as these pension types did not reduce the old-age pension taken out at age 65. (Wadensjö 2006; Lachowska et al. 2009; Hagen 2013)

The part-time pension scheme became very popular with a high take up rate in a short time and was criticized for being too expensive. Due to the calculation rules the effect of the reduction in working hours on an individual's subsequent old-age pension was limited. The number of part-time pensioners reached its peak (68,000) in 1980, corresponding to 14 per cent of the population aged 60–64 years (Figure 1).

In the 1990s adjustments were made to the scheme together with a raise of the lower age limit to 61 (Wadensjö 2006; Hagen 2013). As a consequence the take-up dropped significantly (see, for example, Dubois et al. 2016). The part-time pension was abolished and no new part-time pensions were granted after the year 2000 (Wadensjö 2006; Lachowska et al. 2009). This happened alongside a major reform of the old-age pension. From 2001 to 2002, there was no part-time pension option. However, a special part-time pension for state employees was introduced through occupational pension schemes in 2003 and for local government employees in 2007. (Lachowska et al. 2009.)

Figure 1.

Number of part-time pensions compared to the number of early and partial old-age pensions, 1976–2015.



Source: Swedish Pensions Agency 2017.

The current pension scheme in Sweden allows for people to take up 25, 50, 75 or 100 per cent of their pension from the age of 61, regardless of how much (or little) they work. Taking the pension early will lead to a permanently and actuarially reduced old-age pension. The size of the pension is adjusted to life expectancy and the retirement age with an annuity divisor. Additionally, it is up to the individual to decide whether or not to draw income pension and premium pension, that is, two parts of the earnings-related pension, at the same time. Unlike in Norway and Finland, the pension will reduce the amount of the unemployment benefit if these benefits are combined.

According to Barr (2013), Sweden is unusual (and praiseworthy) in that the national system does not force workers to make a binary choice between work and pension but allows partial deferral, that is, the option to draw part of the pension while the deferred element continues to grow.

Figure 1 show that the number of early retirees in the current scheme, that is, those who have retired on the old-age pension between the ages of 61 and 64, has increased continuously and is higher than in previous schemes. We could argue that a new development of part-time retirement is under way, as was foreseen by Wadensjö (2006). However, instead of taking a partial pension, people prefer to have their accrued pension in full.

Nevertheless, there are other ways to leave the labour market than to retire on the statutory old-age (or disability) pension. Employees can access agreement-specific partial and early retirement options through occupational pensions. Approximately 90 per cent of the employees are covered by occupational pensions provided by their employer.

Since 2013, an increasing number of employees with occupational pensions have been covered by flexible retirement options (*flexpension*), that is, by additional provisions to the pension and the opportunity to reduce their working load in the final years of their working life. Additionally, they have had the option to retire early through a special early retirement package, or a so-called severance pension (*avgångspension*). It can be used in case of an unintended early retirement due to production cutbacks and redundancy for employees aged 60–65. The exact terms of such contracts can vary between individuals. If the employee is 62 or older, then the end-payment is levied on the whole group of employers through a collective fee and not charged to the specific employer alone. If the early retirement is made before the age of 62, then the employer alone is responsible for the end-payment of the pension contributions. (Sahlén & Fölster 2010; Hallberg 2011.)

Statistics on severance pensioners is not collected. However, according to estimation based on the Longitudinal Individual Data Base (LINDA), the number of severance pensioners was around 17,000 in 2015. The number of pensioners has nearly halved since 1997 (33,000) and has continued to shrink even after 2007 (26,000), when it was projected to possibly double due to the economic crisis (see Sahlén & Fölster 2010).

2.1.2 The Norwegian model

Norway introduced some flexibility into their pension scheme in 1973 when the statutory retirement age was reduced from 70 to 67. However, it differed considerably from the Swedish pension provision. The Norwegian plan encouraged phased-in retirement after – not before – reaching the retirement age of 67. Additionally, the pension was reduced if

it was combined with an income above an earnings-tested threshold. So the scheme did rather prevent than encourage people from combining full pensions with income from work. (Dubois et al. 2016.)

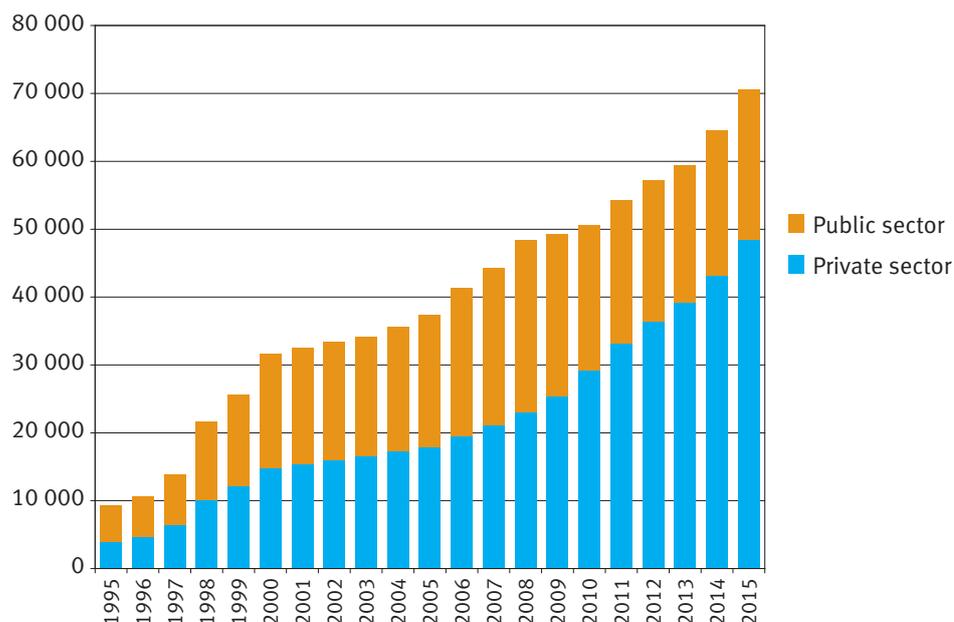
Even though no statutory early retirement system existed, around half of the private sector employees and all the public sector employees have had access to a specific supplementary early retirement system (hereafter referred to as AFP) since 1989 set by collective agreement.

The rationale behind the establishment was not to allow for a combination of work and pension but to relieve older employees with long working lives and physically demanding jobs who wanted to retire earlier than the general retirement age of 67. At the time, the retirement age was set at 66 years, but it has later been reduced on several occasions: to 65 in 1990, 64 in 1992, 63 in 1997, and finally 62 in 1998. It was not until 1997 that the introduction of the so-called partial pension opportunity enabled employees to combine pension with paid employment in the AFP. On several occasions, the scheme has been criticized for being too generous in the sense that too many people leave the work force early although many of them could have stayed in employment longer. (OECD 2013; Hernæs et al. 2016.) The number of pensioners has risen steadily, and at the moment there are over 70,000 AFP pensioners (Figure 2).

The AFP system has represented a strong disincentive to continue working after the age of 62. It offered the same amount of full statutory pension that workers would have received from age 67 had they continued in employment until that age. In addition, the AFP system involved earnings testing. Thus, there was no financial reward to postpone retirement. On the contrary, it resulted in a high implicit tax on continued employment. As a consequence, most workers started taking out their pension around the age of 62. (Hernæs et al. 2016.)

Figure 2.

Number of AFP pensioners in 1995–2015.



Source: NAV 2017b.

Starting in 2011, the Norwegians opted for flexibility as the main early retirement reform strategy. In comparison to earlier rules, the reform is a big leap forward, as individuals can now combine work and pension without an earnings test and by own personal choice. Pension can also be combined with the unemployment benefit without any reductions. The pension reform lowered the earliest statutory retirement age from 67 to 62 years with an actuarially fair reduction of pensions. The pension may be drawn between the ages of 62 and 75 in full or in part: at 20, 40, 50, 60, 80 or 100 per cent. In order to prevent an excessive erosion of future pensions, taking the pension early, either in part or full, requires that the person has earned pension funds to an amount of at least the full minimum pension before retiring.

The AFP pension was also radically changed into an actuarially fair system for all private sector workers in 2011. Currently, the AFP system provides a supplement to the statutory old-age pension and is paid as an annuity. It accrues up to the age of 62 with an actuarial deferment for each year that a worker delays pension take-out, until age 70. It can be combined with the old-age pension and with earnings from work, without earnings testing. However, in the public sector, the old AFP system is still in place as an early retirement pension for the ages of 62–66. It cannot be combined with the old-age pension. The share of employees who combine work and pension is higher in the private sector than in the public sector due to the change in the private AFP system (Nordby & Næsheim 2017).

The number of people withdrawing a pension in Norway increased substantially as a consequence of the pension reform from 40,000–50,000 per year in 2006–2010 to 90,000 in 2011. This increase reflects the great interest in the new flexible retirement option. It must be taken into account, however, that the window of retirement opened up the possibility to draw this pension for five cohorts simultaneously in 2011. This high volume of new retirees can also be explained with the different cohort sizes and the fact that large post-war cohorts reached the retirement age at the time of the reform. Since the peak in 2011, the number of new old-age pensioners has steadily declined to 65,000 in 2016, but is clearly higher than in the pre-reform years. (NAV 2017b.)

2.1.3 The Finnish model

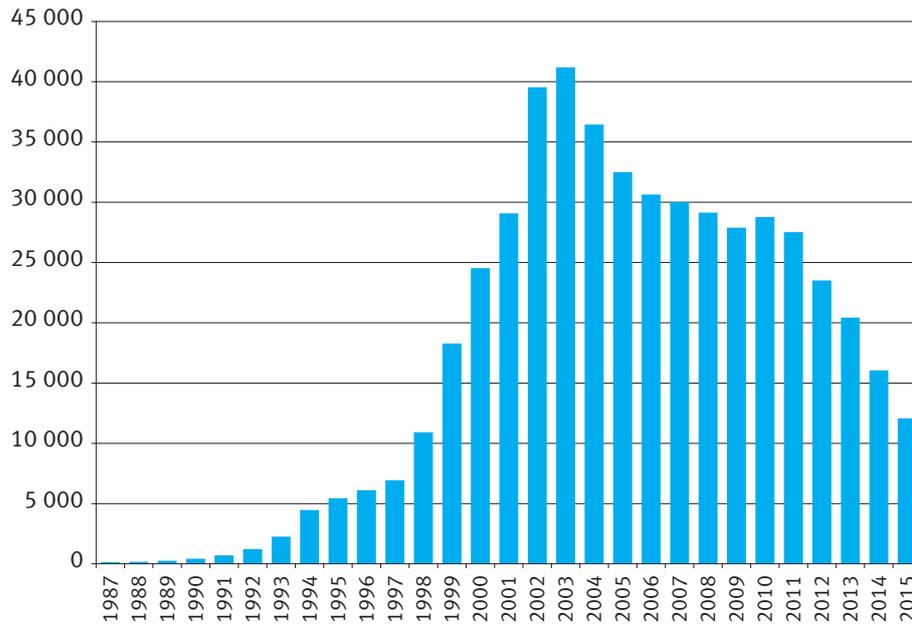
In Finland the flexible retirement age with a longevity adjustment was established in the pension reform of 2005. It was up to the individual to retire within an age window of 63 to 68 years. In the most recent pension reform in Finland in 2017, the retirement age has been indexed to life expectancy. Additionally, the rules for retirement have been relaxed by introducing a new partial pension, giving people more freedom to combine work and retirement.

An earlier version of partial retirement was first introduced in 1987. The part-time pension scheme was open to people aged 60 to 64, but the qualifying age was lowered to 58 years in 1994 and further to 56 in 1998. Afterwards, the earliest qualifying age was raised to 61 in 2013 before the whole scheme was abolished at the end of 2016. The highest number of part-time pensioners was recorded in 2003, with more than 40,000 new part-time pensioners (Figure 3). Since then, the number of new part-time pensioners has steadily decreased,

largely due to adjustments made to the eligibility age and the calculation rules, that is, to the increase in the lower age limit and decrease in pension accumulation during the period of part-time work. (Takala & Hietaniemi 2008; Dubois et al. 2016; Takala & Väänänen 2016.)

Figure 3.

Number of part-time pension recipients in Finland in 1987–2015.



Source: Finnish Centre for Pensions 2017b.

As in Sweden, the part-time pension in Finland faced criticism in terms of its advantages versus costs and especially its unfavourable impact on the length of working lives. The part-time pension attracted mostly individuals with relatively good earnings possibilities. The part-time pension was also an advantageous benefit with no actuarial reduction in old-age benefits. In addition, it was an administratively costly scheme as pension providers had to continuously verify the number of working hours and the income of part-time retirees as the pension was linked to a reduction in working hours and earnings. (Ilmakunnas & Ilmakunnas 2006; Takala & Hietaniemi 2008; Määttä & Hakola 2009; Dubois et al. 2016.)

As part of the 2017 pension reform, the part-time pension was replaced with the partial old-age pension. It allows people to draw 25 or 50 per cent of their accrued pension funds and to combine work and pension income without limits. Pension can also be combined with the unemployment benefit without any reductions. Currently, it can be taken at the age of 61 at the earliest. The partial pension is actuarially reduced. When the retirement age is linked to life-expectancy, the eligibility age for the partial pension will rise correspondingly to three years before the cohort-specific retirement age.

In the first six months, that is, by the end of July 2017, about 9,400 persons had applied for a partial old-age pension. It has been estimated that, by the end of the year, roughly 14,000 persons will apply for this pension type. That is around 6 per cent of all cohorts

entitled to a partial pension in 2017. The share of applications of those born in 1956, (aged 61 in 2017) is around 10 per cent. (Kannisto 2017.)

As for Finland, it is still too early to evaluate what the actual consequences of the partial pension reform will be. But the available statistics on the number of applications reveals that the partial pension will be more popular than its predecessor, the part-time pension. Men are more interested in this new type of pension than women: nearly 60 per cent of all applicants so far are men. (Finnish Centre for Pensions 2017a.)

3 How have people reacted to the old-age pension take-up options?

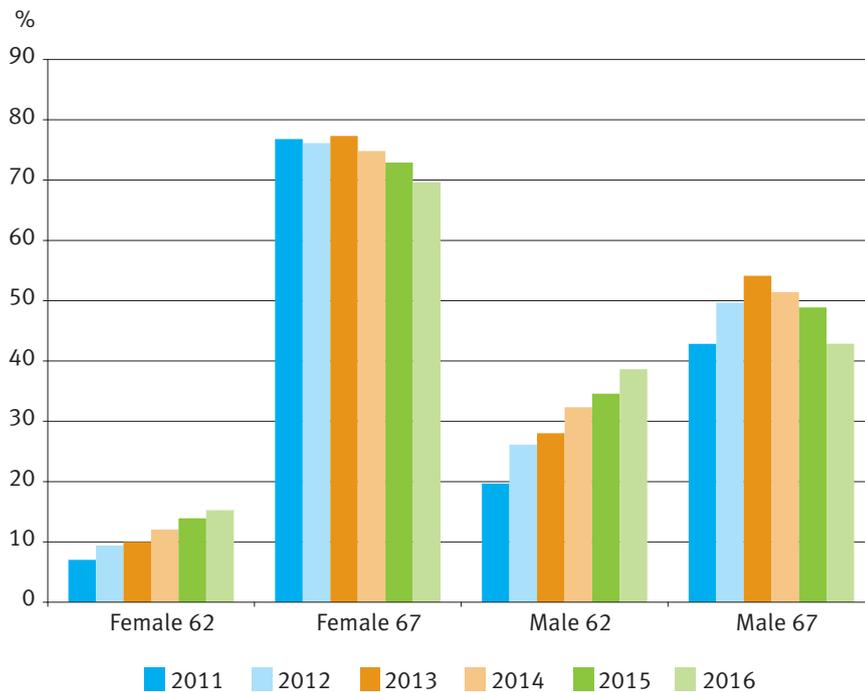
3.1 Changes in pension take-up

It seems that the possibility to retire flexibly has changed men's retirement behaviour more than women's. This is most eye-catching in Norway, where almost 40 per cent of the men claim their pension as soon as they can, at age 62. The pattern of pension withdrawal is clearly two-folded, though, since another another 40 per cent wait until they turn 67. However, there is a clear contrast compared to women: 70 per cent take their pension at the age of 67 (Figure 4).

An important reason for this is that Norwegian disability pensioners become old-age pensioners at age 67. The same applies to those who receive the public sector AFP or the survivor's pension. Of the Norwegian population between the ages of 65 and 67 years, 33 per cent of the men and 39 per cent of the women drew a disability pension at the end of 2016. Of all the men and women who drew their old age pension at age 67 in 2016, approximately two thirds had been transferred from another pension (NAV 2017b).

Figure 4.

Share of new old-age pension retirees aged 62 and 67 years, by gender, in relation to all new old-age pensioners in 2011–2016 in Norway, %.



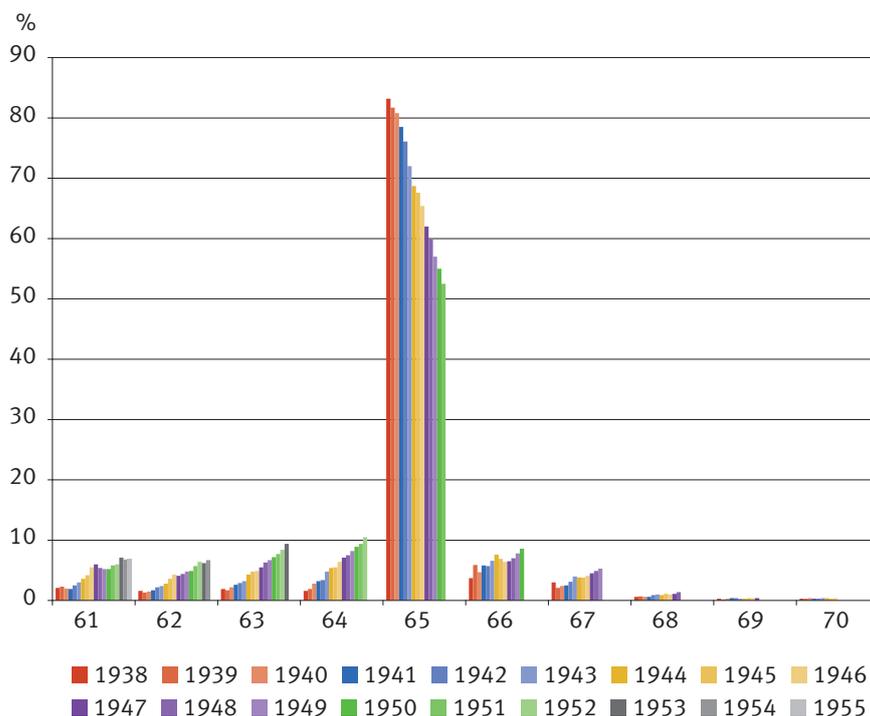
Source: NAV 2017a.

In contrast to Norway, the take-up of early old-age pensions in Sweden is more equally divided across the ages. However, the majority of the population begins to withdraw their old-age pension at age 65. The number of persons drawing an early old-age pension has increased steadily since the reformed legislation took effect, and an increasing share is drawing pension benefits at the ages of 61–64. For example, the proportion of women who have taken out an old-age pension at the earliest possible age of 61 has increased from around 2 per cent to 7 per cent and up to 10 per cent at the ages of 63 and 64 of the respective age group. (Figures 5 and 6.)

Puur et al. (2015) notes that this kind of retirement behaviour is in line with the results of earlier studies (for example, European Commission 2011; Gruber & Wise 2002) in that, although pension systems vary markedly across European countries, the age profiles of the probability of retirement reveal a close connection between retirement age provisions and retirement decisions. A typical age profile of retirement tends to have modes at the minimum age for early retirement and the statutory retirement age. Common features also include the skewness of retirement profiles towards the earliest possible age for retirement.

Figure 5.

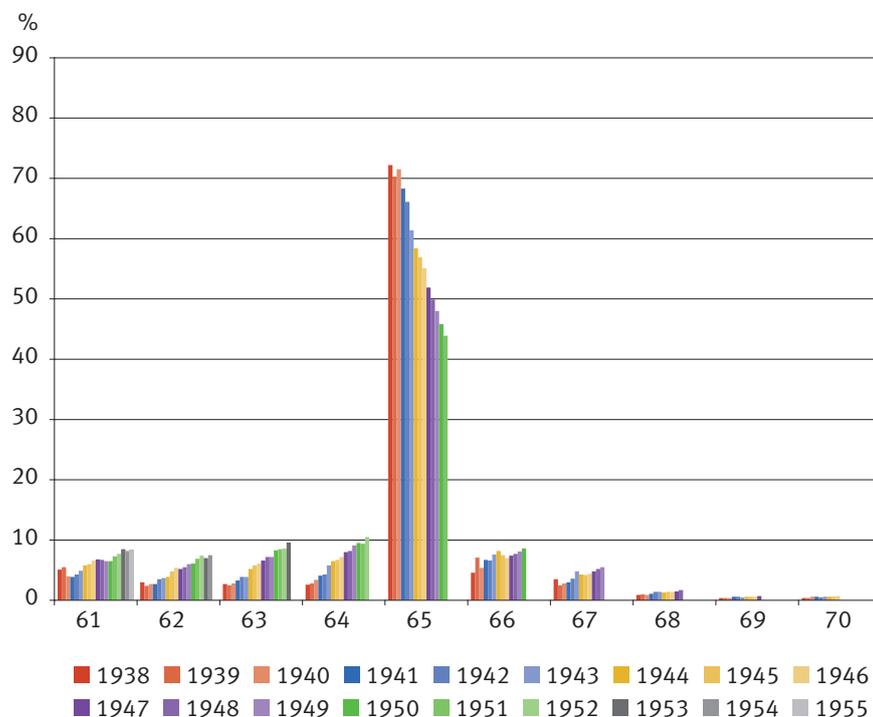
Share of new retirees (female) on an old-age pension at age 61–70 in relation to all new old-age retirees in 1999–2016 in Sweden, %.



Source: Carneck et al. 2017

Figure 6.

Share of new retirees (male) on an old-age pension at age 61–70 in relation to all new old-age retirees in 1999–2016 in Sweden, %.



Source: Carneck et al. 2017

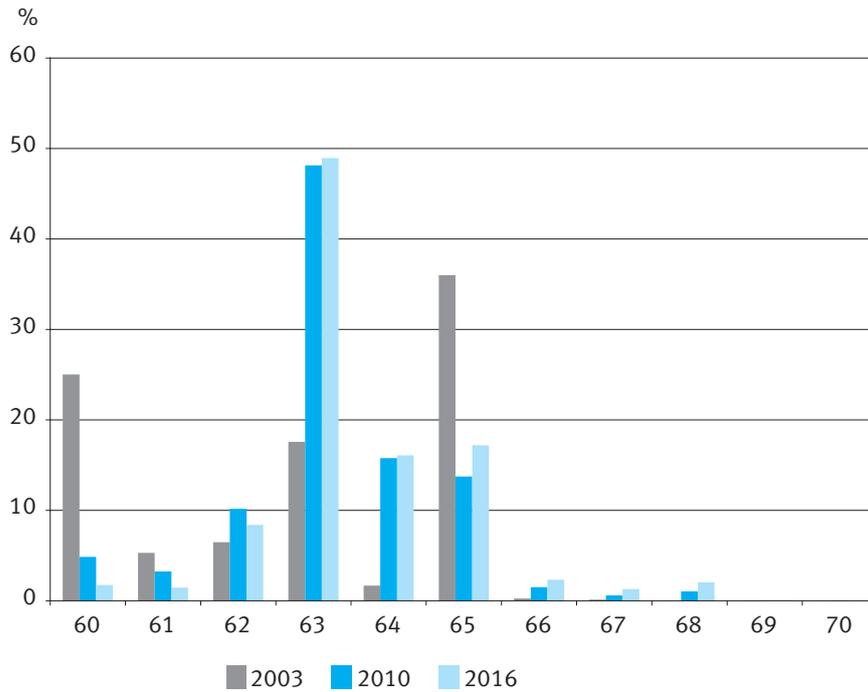
This can also be observed in the Finnish retirement behaviour (Figures 7 and 8). In Finland, people tend to retire as soon as they reach the required minimum age of 63. The share of these persons has grown so that currently, every other person retiring on an old-age pension retires at age 63. The share of those drawing old-age pensions after the required minimum age has increased, but the take-up at 65 has declined significantly compared to the years before the reform.

At the same time, the share of persons retiring before age 63 has decreased noticeably. Before the 2005 reform, it was possible to take the old-age pension already at the age of 60. However, retirement on the old-age pension is even more affected and postponed as public-sector lower ages, or so-called occupational pension ages, are phased out. As the share of women working in the public sector is higher than that of men, this also explains the higher share of women than men on an old-age pension at the age of 60.

On the other hand, there are many people within the public sector whose individual retirement age is higher than the current age limit of 63 years. The individual retirement ages above 63 years in the public sector cause a considerable drop in the pension level for those drawing their pension early. Therefore, retirement on an old-age pension before the individual retirement age has been rare in the public sector. However, the individual retirement ages will be gradually abolished. (Finnish Centre for Pensions 2013.)

Figure 7.

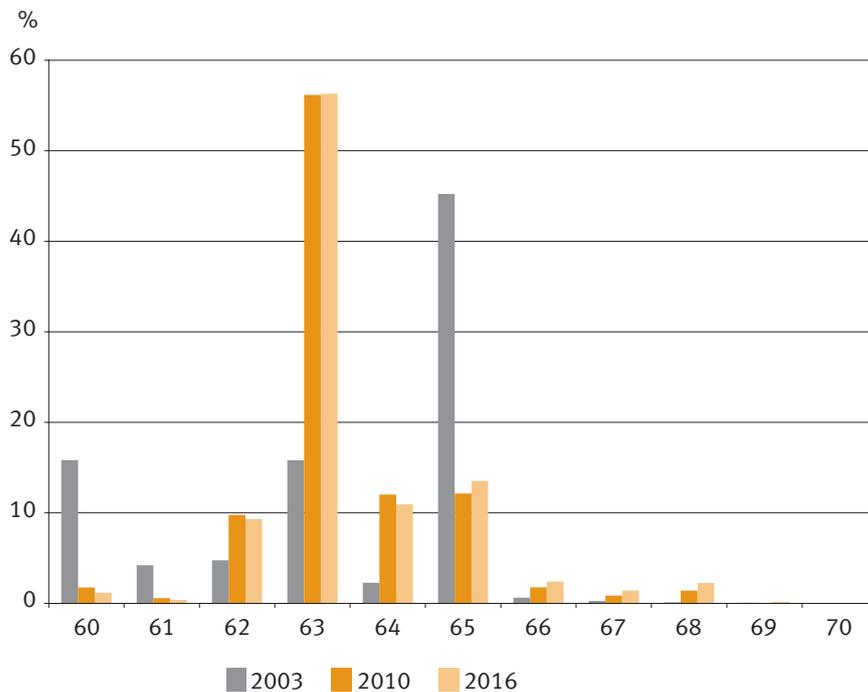
Proportion of people granted an old-age pension (male) at age 60–70 in relation to all new old-age pensioners in 2003, 2010 and 2016 in Finland, %.



Source: Finnish Centre for Pensions.

Figure 8.

Proportion of people granted an old-age pension (female) at age 60–70 in relation to all new old-age pensioners in 2003, 2010 and 2016 in Finland, %.



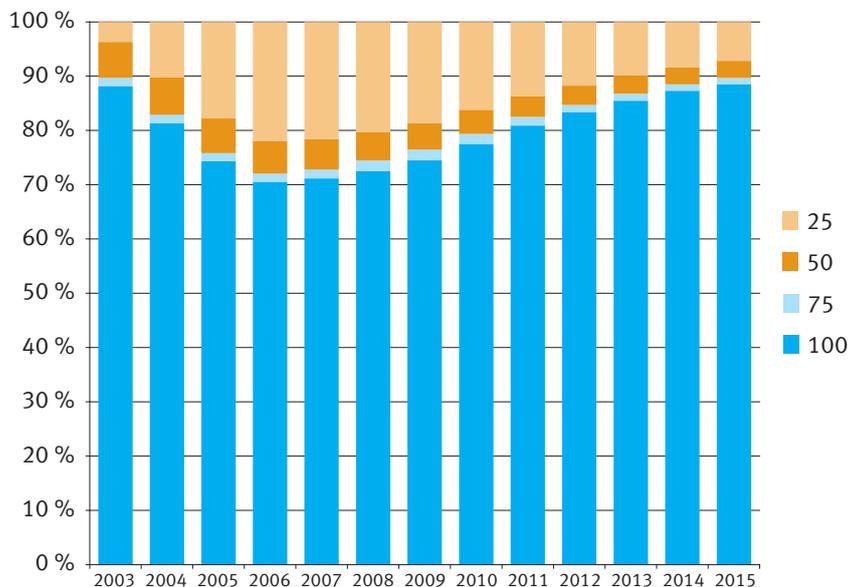
Source: Finnish Centre for Pensions.

It is remarkable that in both Norway and Sweden, around 90 per cent of those who have taken their old-age pension early are drawing their accrued pension in full (Figures 9 and 10). Similarly, in Finland nearly 90 per cent took out the maximum amount (50%) of their accrued pension (Finnish Centre for Pensions 2017a). Sweden and Norway both have a declining trend in the share of partial pensions. In both countries, women withdraw partial pension more often than men do.

It is noticeable that the number of early partial old-age pensions in Sweden has declined after a significant increase in the number of 25%-pensions in the early years of the reform (Figure 9). Especially for those born between 1938 and 1953 it has been profitable to withdraw a 25%-premium pension, that is, as little pension as possible for getting retirement discounts. The final loss of future pension is small because for these cohorts the pension is only partially calculated according to the rules of the new system¹.

Figure 9.

Share of early retirees with full or partial old-age pension at age 61–64 in Sweden.

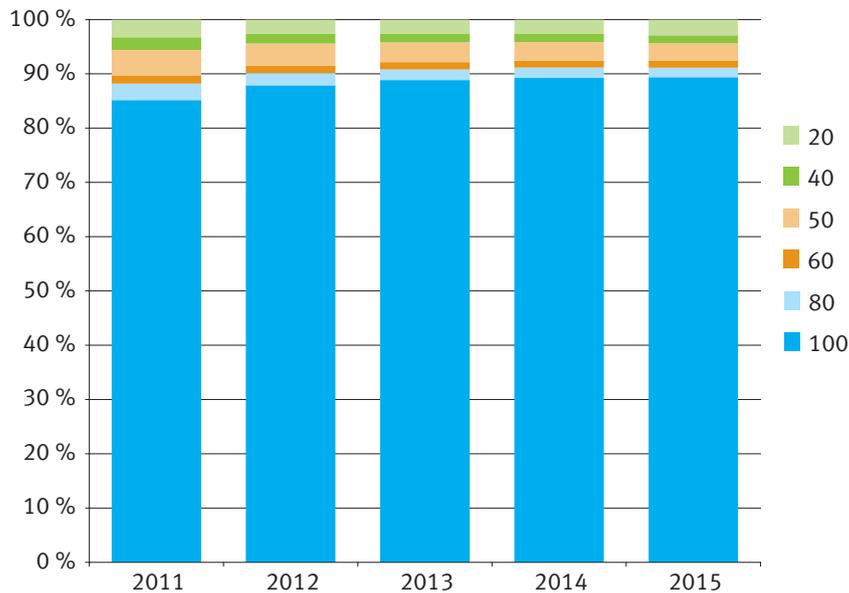


Source: Swedish Pensions Agency 2017.

¹ Persons born in 1938 have accrued 20 per cent of their benefit from the new system and 80 per cent from the old system. Those born in 1953 will receive 20 per cent from the old and 80 per cent from the new. Persons born 1954 or later are totally covered by the new system.

Figure 10.

Share of early retirees with full or partial old-age pension at age 62–66 in Norway.



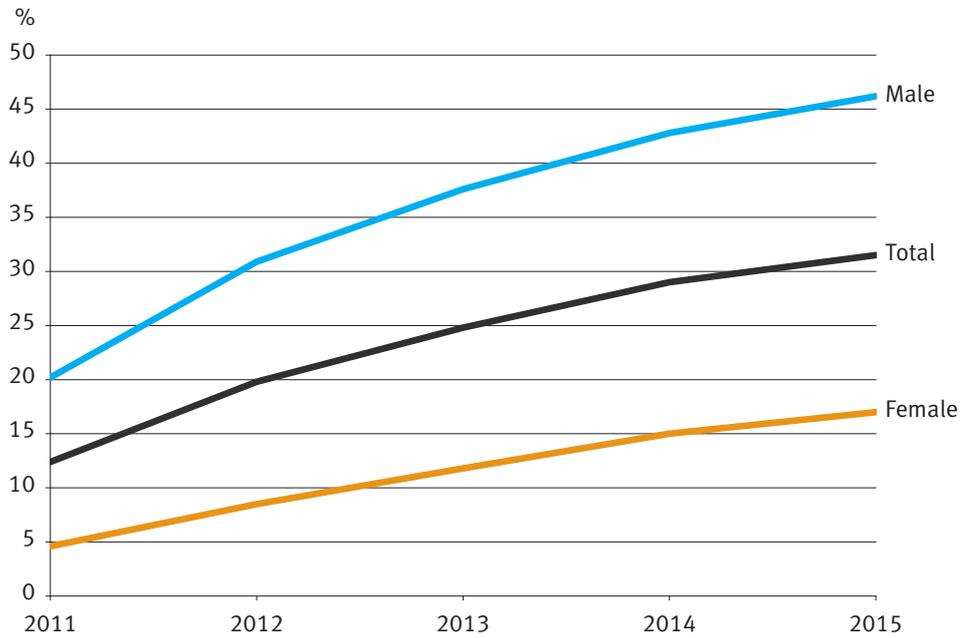
Source: NAV 2017b.

3.2 Share of old-age and other pensioners in relation to the aged population

According to statistics published by NAV and the Swedish Pensions Agency, every third Norwegian in the age group 62–66 years has claimed an old-age pension. In Sweden, the use of the early retirement option is more limited: every fifth Swede aged between 61 and 64 years has taken their pension early (Figures 11 and 12).

Figure 11.

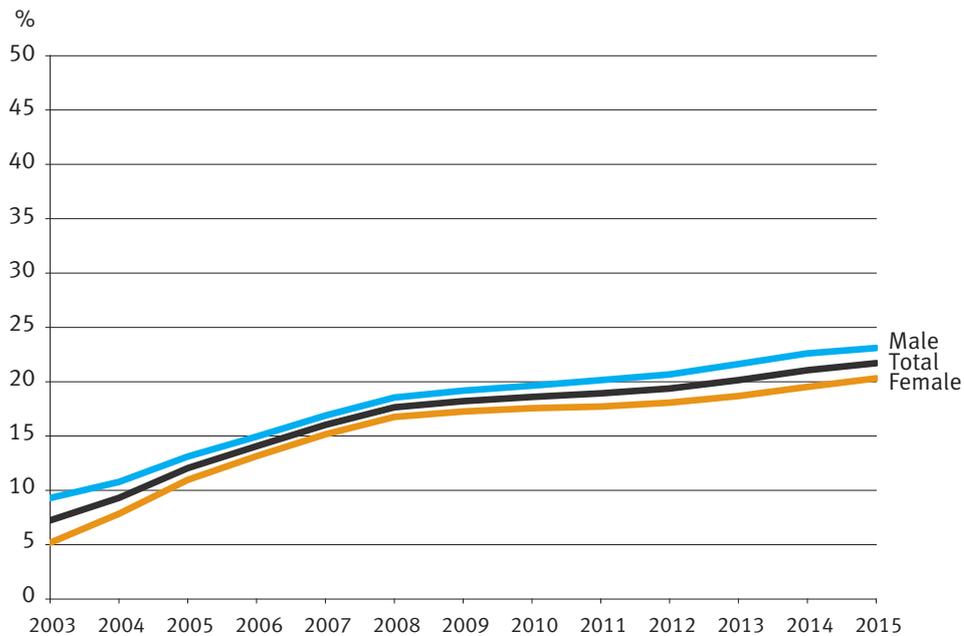
Share of old-age pensioners (62–66-year-olds) in relation to the whole age group in Norway in 2011–2015.



Source: NAV 2017b.

Figure 12.

Share of old-age pensioners (61–64-year-olds) in relation to the whole age group in Sweden in 2003–2015.

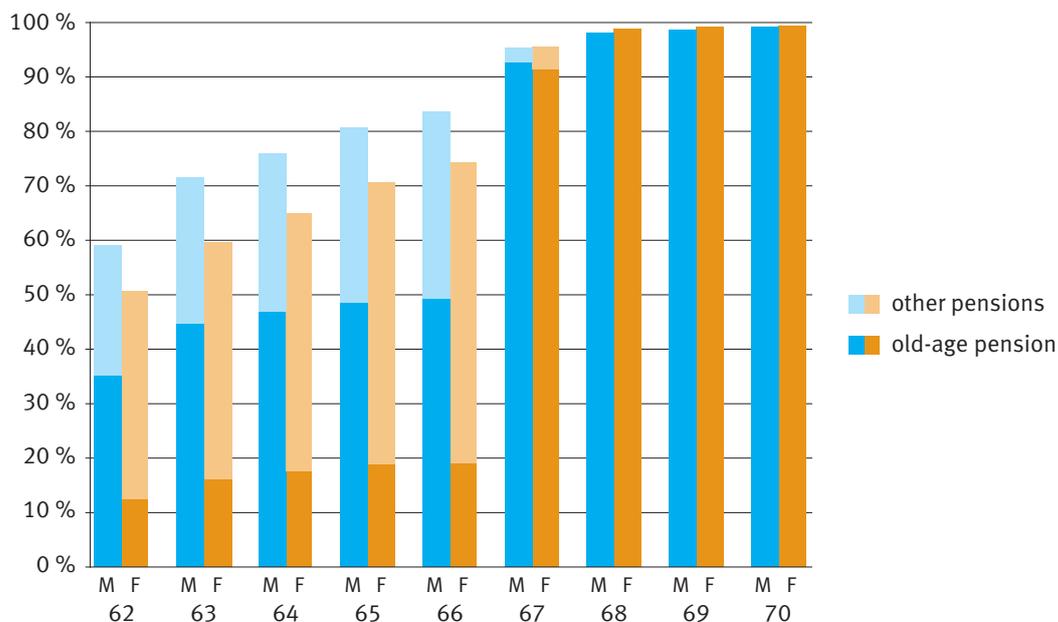


Source: The Swedish Pensions Agency 2017.

The overall picture of retirement in Norway is not that clear cut. There are several reasons for explaining the gender difference. First of all, fewer women than men have accumulated enough pension rights in order to fulfil the requested minimum pension amount for early retirement. Secondly, more women than men work in the public sector, where it still pays off to take the AFP rather than the actuarially adjusted statutory old-age pension. AFP pensions for public sector workers continue to be paid out from the age of 62 to 66 and cannot be combined with the old-age pension. Therefore, public sector workers can only access the new old-age pension before the age of 67 by giving up their AFP entitlements. But the main reason for the gender differences in Norway is that more women than men are already on a (full) disability pension. When taking both the disability pension and the AFP into account, the differences between men and women on an early retirement clearly diminishes (Figure 13; Annex 2). (Arbeids- og sosialdepartementet 2016; 2017; NAV 2017b.)

Figure 13.

Share of people receiving an old-age and other (disability and AFP) pensions by gender (M = male, F = female) in relation to the whole age group in Norway in 2015.

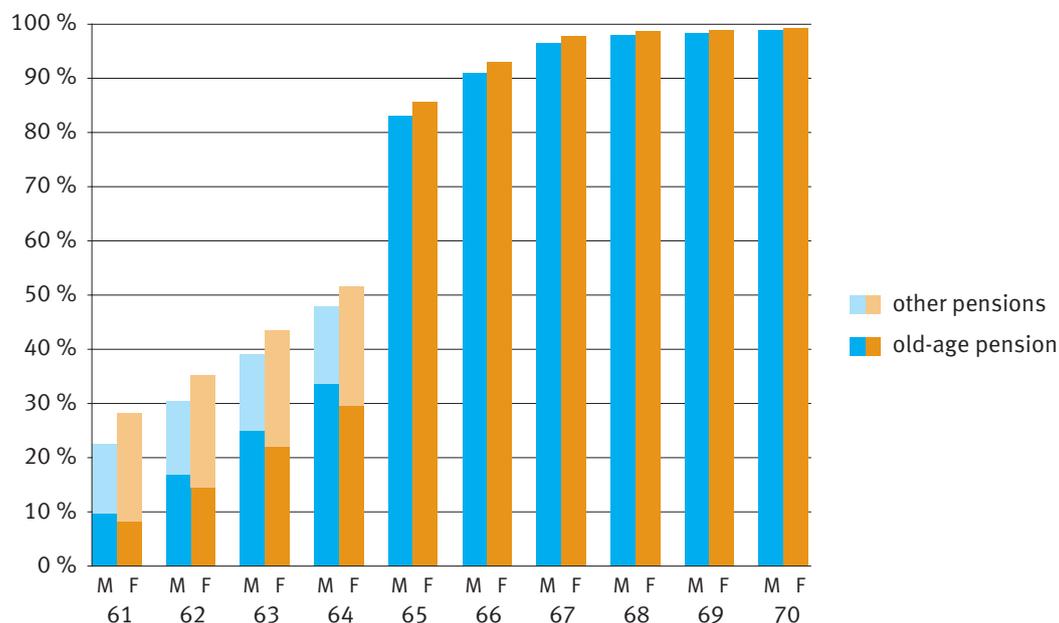


Source: NAV.

According to Hofäcker et al. (2016), Sweden, with its flexible labour market is a persistent late retirement country where only a minority of employees leave work earlier than at the age of 65. This can also be seen in the age-specific comparison of retirees between the countries (Figures 14 and 16; Annexes 1–3). The age of 65 has become a norm for retirement. The guaranteed pension is granted at the age of 65. Social benefits are paid up to 65. For example, it is not possible to get unemployment benefits after the age of 65, and sickness benefits are paid only to a limited extent after the age of 65 (Wadensjö 2006). In addition, age-specific tax credits targeted at workers and pensioners above the age of 65 steer people into this direction (Granbom & Kraft Nilsson 2016; discussed further below).

Figure 14.

Share of people receiving an old-age and other (disability) pensions by gender (M = male, F = female) in relation to the whole age group in Sweden in 2014.



Source: Swedish Pensions Agency.

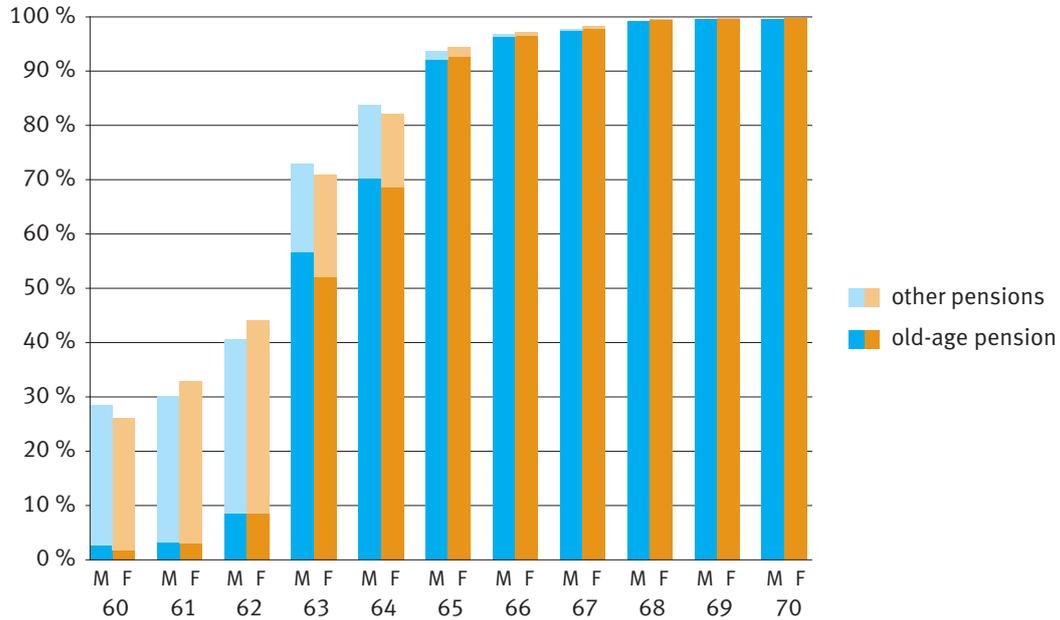
In addition, this "65 norm" is built in even in the occupational pension schemes. Typically, pension rights are only earned until the age of 65. Pension rights can be earned after 65 only under special agreements between the employee and the employer. (SOU 2012; Hagen 2013.)

Unfortunately, the statistics do not reveal the number of individuals who are able to retire early through occupational pensions without a need to take out a statutory old-age pension. This may include severance pensions (*avgångspension*) mentioned earlier in Chapter 2, or occupational pensions in occupations with a lower contractual retirement age than 65 years of age. In addition, occupational pensions do not have to be drawn as annuities, that is, over the whole life course, but can be drawn as a short-term pension (5–20 years) instead. Thus, an individual has the possibility to retire early and finance the first years outside the labour force with the occupational pension.

If Sweden can be seen as a late retirement country, then Finland could be considered an early exit country (see Ebbinghaus & Hofäcker 2013; Hofäcker et al. 2016). For a long time, Finland represented a traditional early exit regime, where early retirement pathways were increasingly used as of the 1980s. However, over the last two decades, the early exit pathways have been reduced or totally abolished, and the employment rates among older workers have improved considerably (see, for example, Eurostat 2017). Still, there is a clear difference compared to Sweden. Figures 15 and 16 reveal that, in Finland, more than 70 per cent of the population aged 63 has already retired whereas the corresponding figure in Sweden is 40 per cent (see also Annexes 1–3). In comparison to Norway, the gap is much smaller. However, in contrast to the Norwegians, Finns are more likely to retire than to continue working.

Figure 15.

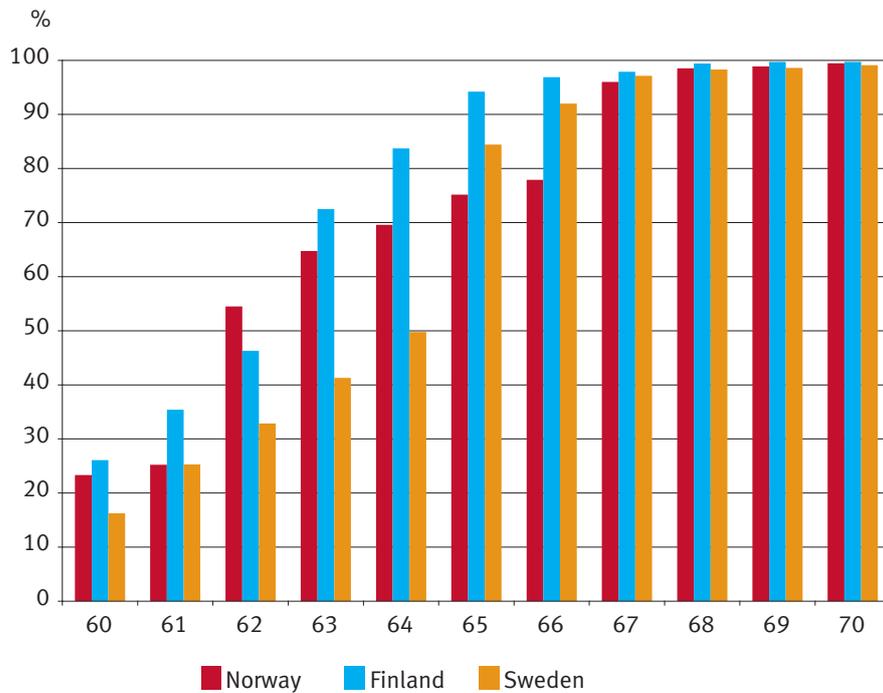
Share of people receiving an old-age and other (disability) pensions by gender (M = male, F = female) in relation to the whole age group in Finland in 2015.



Source: Finnish Centre for Pensions.

Figure 16.

Share of people receiving a pension in relation to the whole age group in Norway, Finland and Sweden in 2014.



Source: NAV; Finnish Centre for Pensions; Swedish Pensions Agency.

4 Flexible retirement: Eroding the cliff-edge between work and retirement?

Seen from an international perspective, the employment rate among Swedish and Norwegian older workers is high and has continued to increase in succeeding years after the reform. Finland lags behind even though the employment rate of the elderly is above the EU-average. It is noticeable that the employment rates of people aged 55–64 have improved over the past decade, not only in the Nordic countries but in most European countries. (Eurostat 2017.)

So far, allowing workers to start drawing their pension at an earlier stage has not affected employment rates negatively. On the contrary, even though the possibility to withdraw a full early pension is intensively exploited in Norway, the employment rate of particularly 62–66 year-olds has increased since 2011. The statistics also show that the share of the population in employment has increased for both men and women. The growth has been particularly strong for employees in the private sector who have a secondary-level education. (see Arbeids- og sosialdepartementet 2016; Nordby & Næsheim 2016; 2017.) Nearly 60 per cent of those 62–66 year-olds drawing an old-age pension continue at work and do so almost as much as before taking up their pension benefits: at 34 hours per week on average. However, as the economy has declined slightly, it appears that the share of those who were at work before drawing a pension (80%) and who still continue to work after retiring (56%) has declined since 2011 (NAV 2016; 2017; Nordby & Næsheim 2017).

There is a clear difference in employment and retirement behaviour when comparing Norway to Finland, where around 10 per cent of the old-age pensioners at 63–67-year-olds (roughly 34,000) worked in 2014. Within a ten year period, as of the year 2007, working in retirement has increased in Finland. However, after 2010, the growth has stalled. (Kannisto 2016.) According to empirical analysis on the employment impact of the 2005 pension reform by Uusitalo & Nivalainen (2013), the flexible retirement age has had a negative impact on employment as it has significantly increased retirement at the ages of 63 to 64 years. After the 2005 reform, the retirement age was lowered from 65 to 63 years, and the incentives for postponing retirement were reduced.

It remains to be seen whether the pension reform 2017 together with the new partial old-age pension will increase employment after the earliest retirement age or while drawing a pension. According to the first surveys conducted as many as 60 per cent of the wage earners and self-employed who have taken out a partial old-age pension say that they have continued working as before, and 30 per cent has reduced their working hours. (Finnish Centre for Pensions 2017a.) In addition, according to recent study of the retirement intentions it appears that Finns are more increasingly interested in working in retirement. As many as every third person of those approaching retirement age, that is, the 54–62-year-olds considers working while drawing an old-age pension (Tenhunen 2017).

Differences in taxation incentives

Taxation is an important element affecting peoples' behaviour and decisions as to when and how much pension they will take out. Even though taxation is progressive in all three countries under review, it differs in terms of rules concerning earnings thresholds and tax credits. It appears that even though the new old-age pension in Norway is actuarially neutral, interaction with taxation rules means that receiving a full pension of a lower annual amount over a longer period can offer greater tax relief than other take-up patterns as the tax credit is reduced for partial pensions and with increasing pension income (OECD 2013; Skatteetaten 2016). However, the total combined effect of indexation rules, life-expectancy adjustment and taxation is complex. In most cases, drawing a pension at the earliest age is not recommended (see Lien 2012.)

In Sweden, taxation offers strong incentives for people to continue at work rather than to retire. This is because Sweden taxes pension income and earnings at different rates due to the earned income tax credit (Granbom & Kraft Nilsson 2016). In addition, the tax deduction is higher for the over 65s. A new special basic tax deduction for individuals above the age of 65 was introduced in 2009 in order to strengthen the economy of the elderly and, in particular, low-income pensioners. In addition, to make work pay better for everyone, the earned income tax credit was introduced in 2007 and doubled for individuals over 65. This provided a strong incentive for the elderly to extend their working lives. However, the results indicate that, even though the age-targeted tax credits have increased employment in the year following the 65th birthday, the increase in employment was not large enough to offset the implied decrease in tax revenues (Laun 2012; SOU 2013).

In Finland, the taxation of pensions and wages differ somewhat due to the fact that different deductions are allowed and different social security contributions are levied in the taxation of pensions. In theory, if a person were to receive the same amount of money either as a wage or as a pension, or as a combination of a wage and a pension, the last option would be the most advantageous in terms of taxation.

Several similar reasons behind the early retirement

However, even though taxation is one of the most important factors behind the decision-making process, there are several other reasons for applying for a partial and early retirement pension. According to an opinion survey in Finland, the respondents stated that they applied for the partial old-age pension mainly because they felt uncertain about how long they will live and how healthy they will be. Many of them also point out that the partial old-age pension eases their tight economic situation or provides them with extra spending money. Compared to women, the shorter expected life span of men may explain the high ratio of male applicants. (Finnish Centre for Pensions 2017a.)

Similarly, in Norway it was found that those who expected to have a lower than average life expectancy were also more likely to combine work and retirement than do women and those with a higher educational level. The main reason given by 90 per cent of the respondents was that they wanted to enjoy their pension when they are still healthy and in good shape. Over 70 per cent also claimed that it was economically profitable to draw the pension early.

Roughly 40 per cent claimed that drawing an old-age pension allowed them to reduce their weekly working hours. In reality, however, only 25 per cent had actually reduced their working hours, although many plan to do so in the near future. On the other hand, one out of three planned to work until the age of 67. (Galaasen & Dahl 2013; Midsundstad 2014.)

The reasons for pension take-up seem not to differ significantly between the countries under review. In addition to what has already been stated, getting a pension means getting other benefits such as reduced prices on public transport fares and tickets to cultural events. These provide an incentive to draw at least a partial pension as soon as possible. In addition, individuals may want to reinvest the part of the pension they are drawing into different kinds of investment products or into a survivor's pension through private insurance like in Sweden. (SOU 2012.)

Eligibility age is an important signal to retire

The situations in Norway and Sweden teach us important lessons. They reveal that the incentive to retire early with extra money is powerful, but it does not mean that people want to stop working as soon as they reach their retirement age or get the cash. Given that a growing number of people in Norway have chosen to combine employment and retirement since 2011, there is often no longer a correlation between the point at which someone draws a pension and the point at which a person stops working (Midsundstad 2014).

However, the earnings-related pension in both countries relies on workers to respond rationally by working longer as life expectancy increases. But, as Barr emphasizes, uncritical reliance on rational behaviour can be misplaced: "lessons from behavioural economics call into question uncritical adherence to the assumption of rationality" (Barr 2013, 19). On the other hand, the fact that many continue working after the earliest retirement age indicates that, in addition to many other factors, financial incentives do make a difference.

The flexible early retirement option seems to erode the traditional pattern of retirement, with retirement being a one-off change in life, at least in Norway. However, early retirement also has its own risk factors. Partial and early retirement is financed through individual pension entitlements. Early retirement comes at the cost of a lower future pension. From the point of view of the adequacy of the pension system, it is decisive at which age people retire and how long they will continue at work. Life expectancy is increasing and, consequently, life-expectancy adjustments of pensions mean that people must work longer in order to get the same annual pension amounts as before the adjustments.

According to behavioural economics, people tend to retire as early as possible. Indeed, in Norway and Finland there is a clear peak in the number of people who draw their pension as soon as they are allowed to. The eligibility age is very significant due to its signalling effect. These outcomes are in line with international experience and consistent with the findings of behavioural economics. Nevertheless, Sweden is an exception on this point.

Retirement before the age of 65 has become increasingly popular also in Sweden, although the flexible retirement option has not caused a rush into retirement. Despite the positive development of the employment rates for older workers (aged 55–64), the employment

rates of 65-year-olds and older has remained modest compared to the expectations that were once set for the old-age pension reform. (SOU 2012; 2013.)

The extension of the life span and the retirement behaviour has led to discussions in Sweden on the need to first raise the retirement age and later link it to life expectancy. Based on extensive investigation of the obstacles and effects of different institutional pension arrangements on old-age labour supply and opportunities for longer working lives, a special investigator assigned in 2011, together with the Retirement Age Commission, has recommended that the retirement age be raised and linked to life expectancy (SOU 2013; SOU 2012).

According to Barr (2013), the Swedish system is well-designed in terms of the retirement decision: benefits are adjusted actuarially for late retirement and the system provides a flexible choice about whether to draw the whole pension or only part of it. However, if people continue to retire at broadly the same age as at present, the benefits will become less adequate over time due to their adjustment to a rising life expectancy. These arguments suggest that it would be desirable to raise the earliest eligibility age gradually in Sweden (Barr 2013).

In Norway, the consequences of the pension reform are continuously monitored and evaluated. The need to raise the minimum retirement age in order to strengthen the sustainability and adequacy of pensions even further has not been an issue of political discussion.

In Finland, the risks of inadequate pensions are lower than in the neighbouring countries, at least from a technical point of view. The retirement age is indexed to life expectancy. Likewise, the payment period and the amount of the partial pension is more limited. However, unlike Sweden and Norway, Finland faces the challenge of increasing the employment rate of the elderly and postponing retirement even further.

Research on working lives describes the phenomenon of cliff-edge retirement, whereby people adopt an all or nothing approach, believing they either have to work full-time or retire. Measures to eliminate cliff-edge retirement policies, to encourage part-time and flexible working and to defer retirement have been introduced in Sweden, Norway and Finland. Old-age pension systems have been restructured in order to better answer to the demands of changing labour markets. With administratively relaxed rules, schemes provide ample choices for combining work and retirement. Now it is up to the labour market policy and employers to support flexible retirement and dismantle cliff-edge retirement.

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Annexes

Annex 1. Sweden

Figure A1.1.

Share of old-age pensioners in relation to the whole age group in 2011–2015.

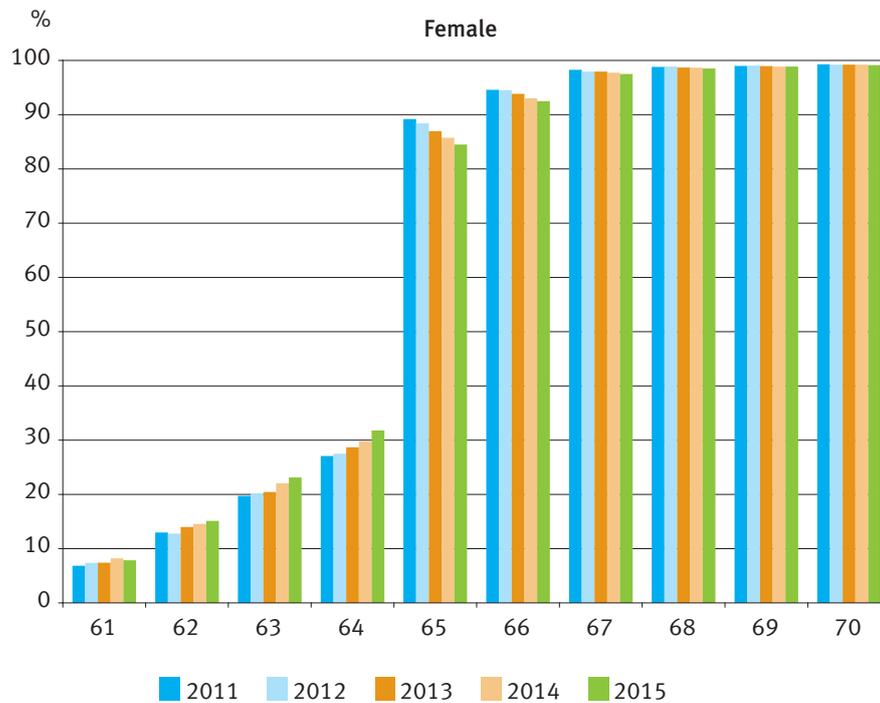


Figure A1.2.

Share of old-age pensioners in relation to the whole age group 2011–2015.

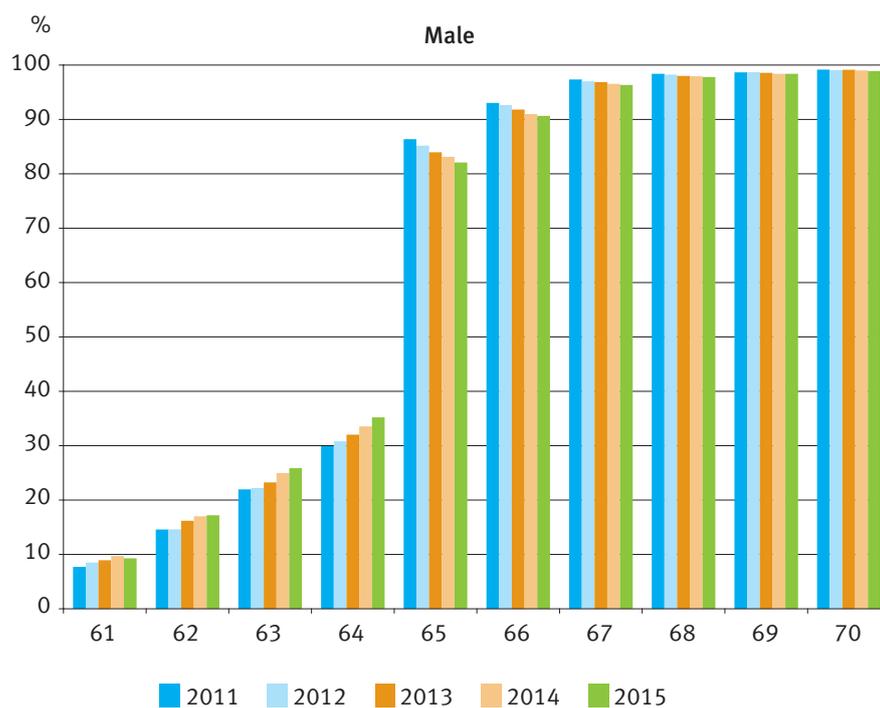
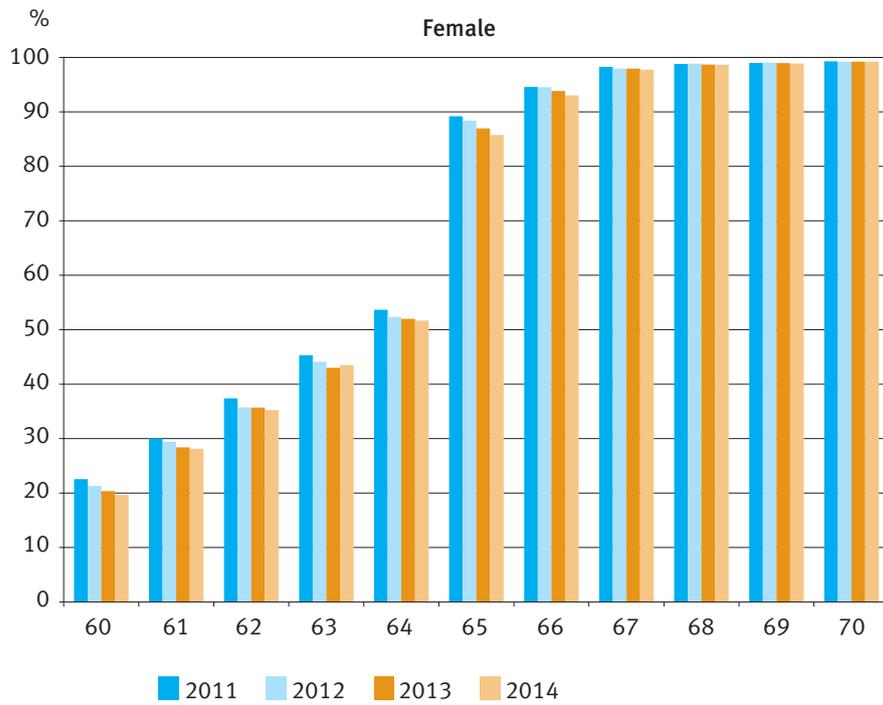
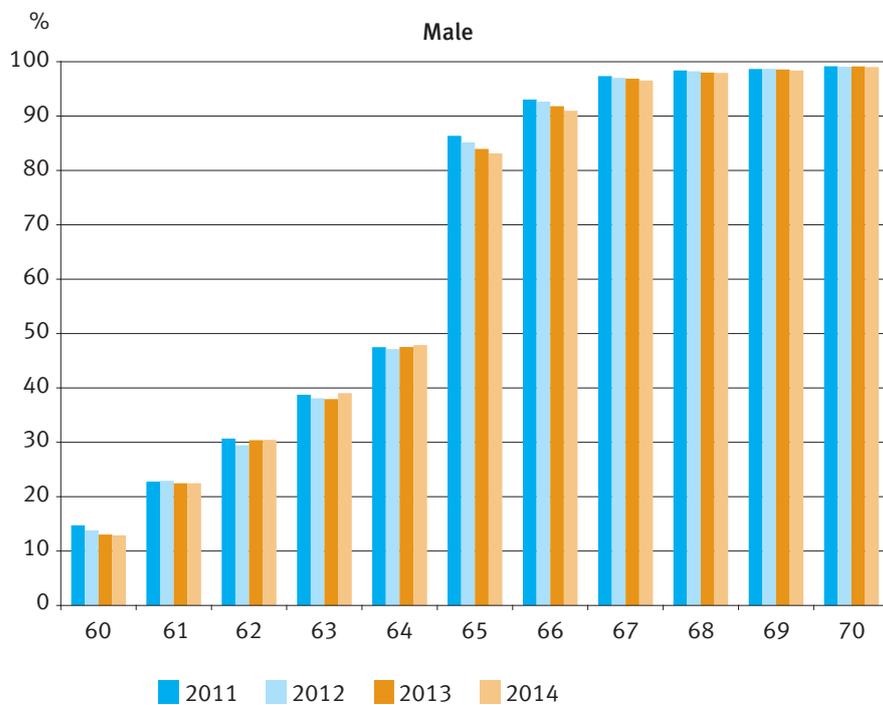


Figure A1.3.

Share of old-age and other pensioners in relation to the whole age group 2011–2014.

**Figure A1.4.**

Share of old-age and other pensioners in relation to the whole age group 2011–2014.



Source: Swedish Pensions Agency.

Other pensions include disability pensions (*sjukersättning* and *aktivitetsersättning*).

Annex 2. Norway

Figure A2.1.

Share of old-age pensioners in relation to the whole age group 2011–2015.

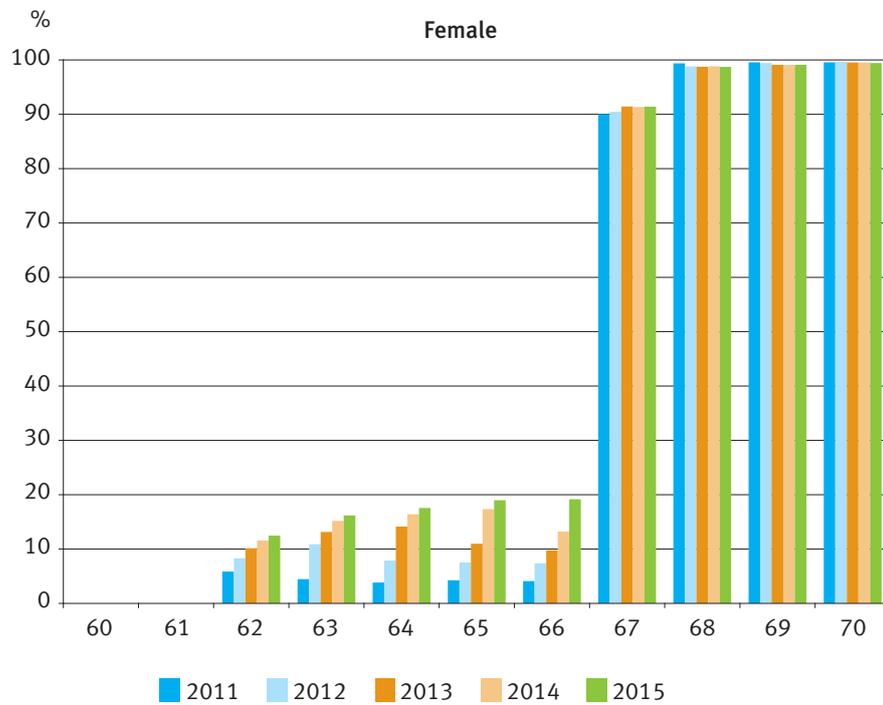


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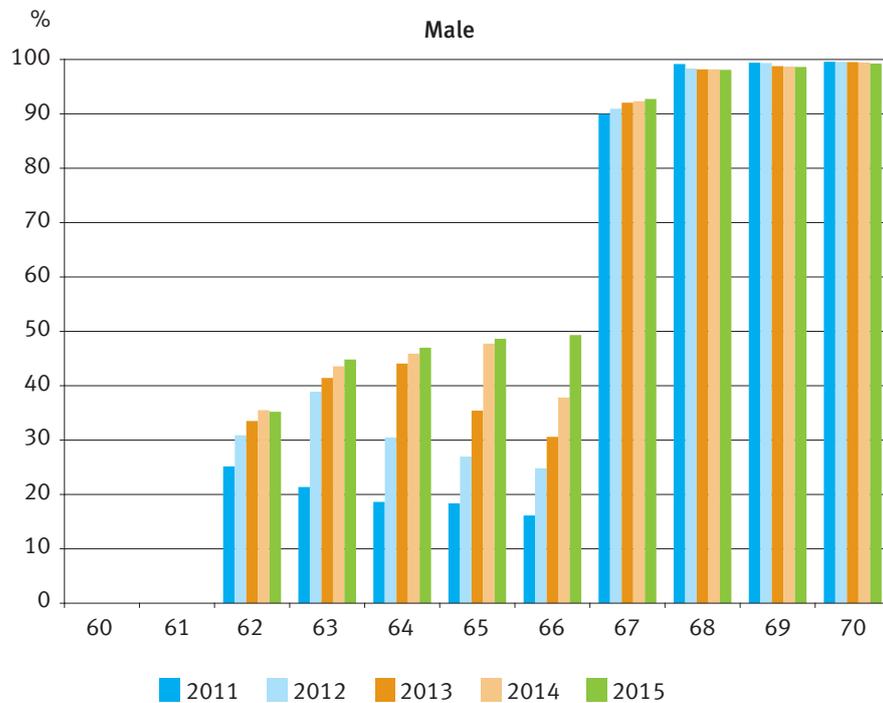


Figure A2.3.

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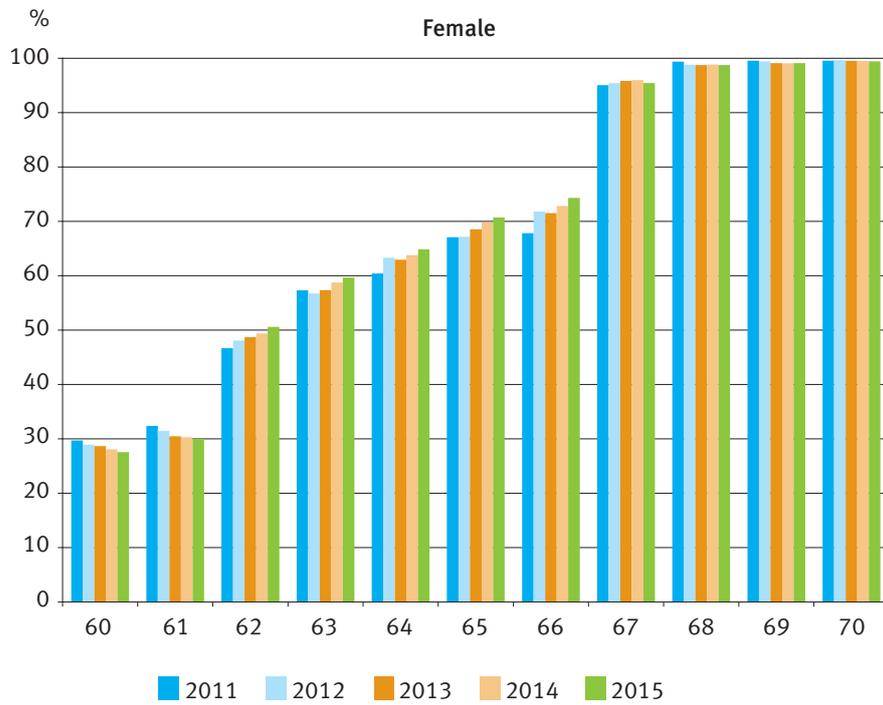
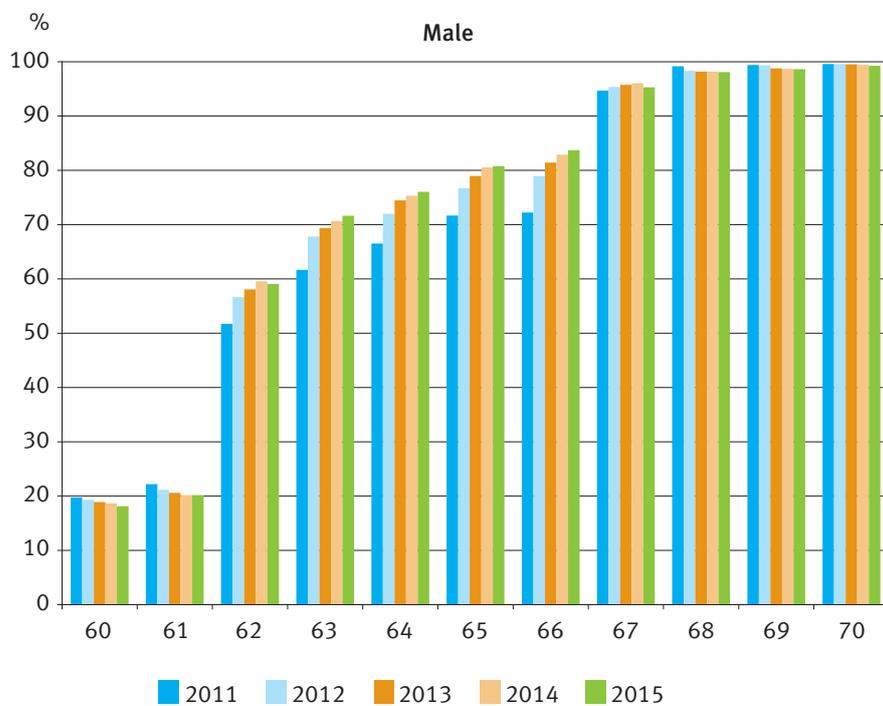


Figure A2.4.

Share of old-age and other pensioners in relation to the whole age group 2011–2015.



Source: NAV.

Other pensions include AFP and disability pensions.

Annex 3. Finland

Figure A3.1.

Share of old-age pensioners in relation to the whole age group 2011–2015.

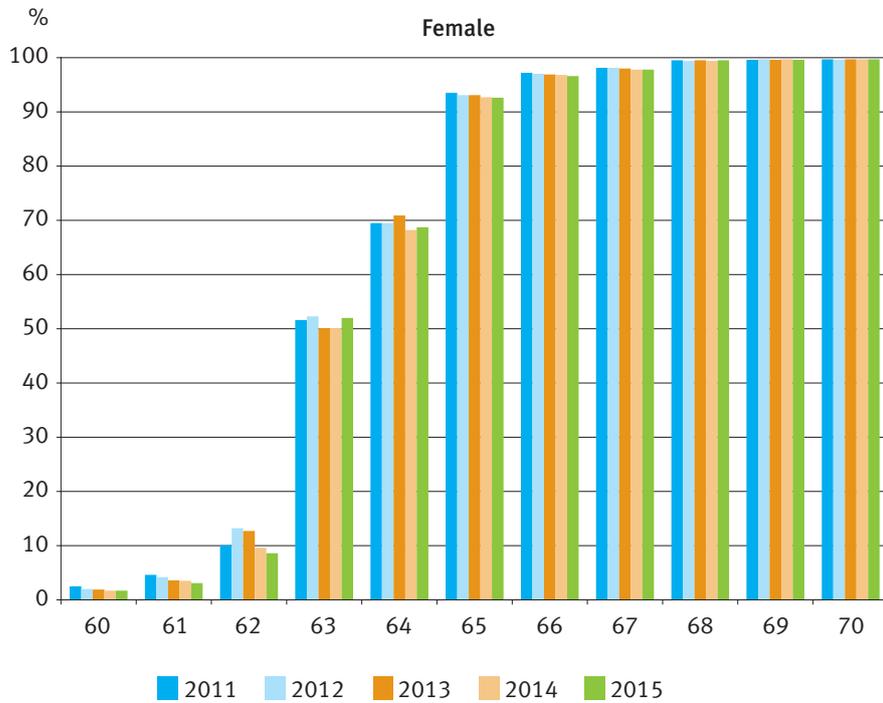


Figure A3.2.

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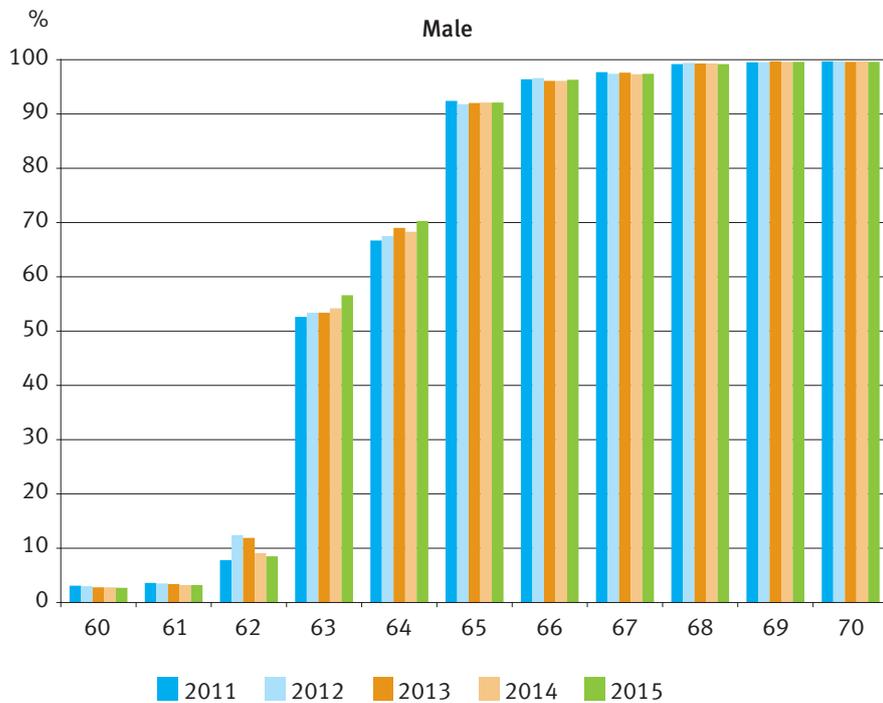


Figure A3.3.

Share of old-age and other pensioners in relation to the whole age group 2011–2015.

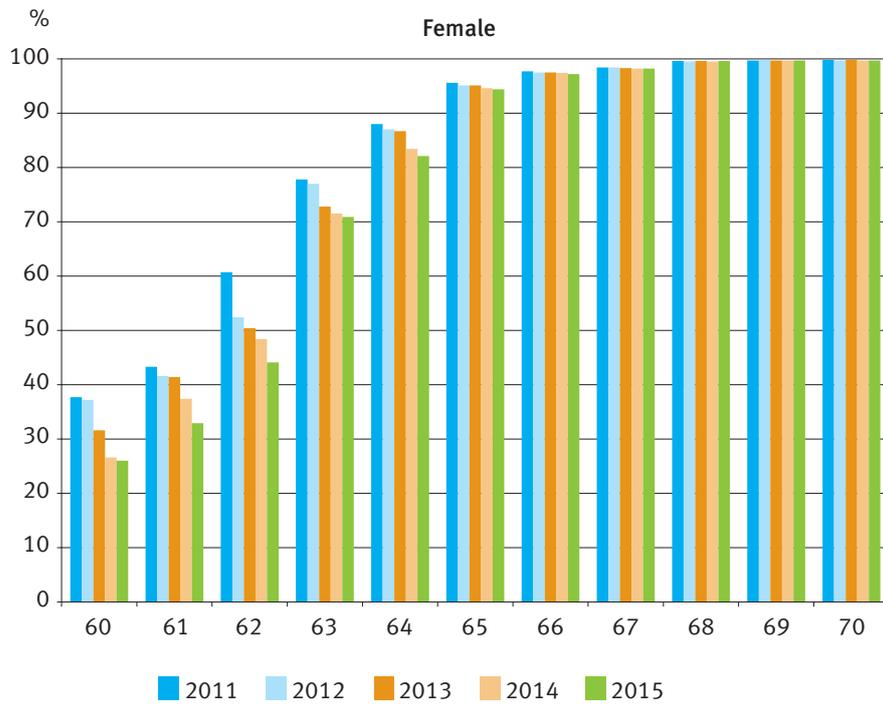
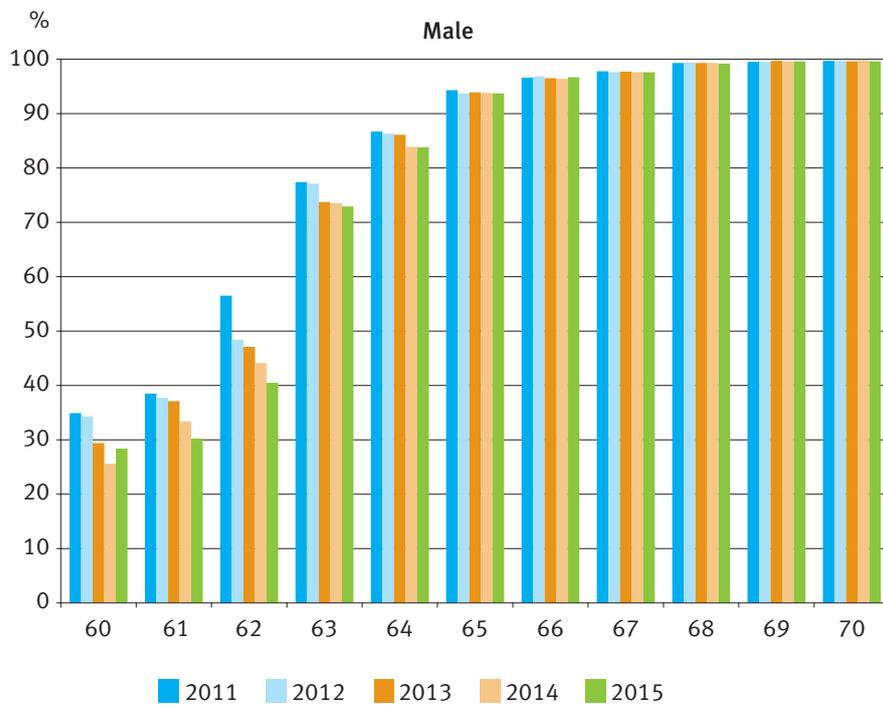


Figure A3.4.

Share of old-age and other pensioners in relation to the whole age group 2011–2015.



Source: Finnish Centre for Pensions.
Other pensions include disability pensions.



FINNISH CENTRE FOR PENSIONS,
REPORTS

Flexible retirement – a model for the future?

Lessons from Sweden, Norway and Finland

This report reviews the change in retirement behaviour in Sweden, Norway and Finland after recent old-age pension reforms and, particularly, how flexible retirement together with the establishment of early old-age pensions has affected pension take-up and at what age do people draw their pensions.

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