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FINNISH CENTRE FOR PENSIONS, STUDIES

# SUMMARY

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## **Pension knowledge, impact of economic incentives and retirement intentions**

From the point of view of a sustainable pension system and economy, people should retire later since they live longer. The economic incentives of the pension system aim to steer people in this direction. The incentives are the life expectancy coefficient, an increment for late retirement and a reduction for early retirement.

The economic incentives affect retirement intentions only if people know about them. If retirement is postponed although the incentives are unknown, the factors contributing to the postponement are likely to be other than the incentives. In this study, we investigate how well Finnish citizens who are approaching retirement age know the incentives of our pension system. In addition, we look at how they assess the effects of the incentives and how their knowledge of incentives is linked to the effects of the incentives. The third issue we focus on are the retirement intentions, in particular from the point of view of the incentives. We have based our research on the questionnaire survey conducted at the brink of the 2017 pension reform. The survey was directed at Finnish citizens born between 1954 and 1962 who were approaching their retirement age but had not yet retired.

### **Pension knowledge measured with three indicators**

We have used three indicators to measure how familiar people are with pension issues. The first indicator is an assessment of one's own pension amount. We focus on whether the respondents could estimate how much pension they will get, not on whether their estimates

were correct. From the point of view of incentives and retirement intentions, the subjective assessment plays an important role. Slightly less than half of the respondents estimated how much pension they will get when they retire. People may have chosen not to estimate their future pension because they do not know how to assess the pension accrual for the years they have left in working life, or because they feel confident that their pension provider will give them information on their pension amount closer to their retirement.

Another indicator used to measure pension knowledge relates to the life expectancy coefficient. The questionnaire came with a table of the estimated effect of the life expectancy coefficient for each age cohort that the survey was sent to. Nearly 60 per cent of the respondents stated that they were unaware of the impact of the life expectancy coefficient. Of those who were aware of the coefficient, more than half had underestimated its impact. Those with a higher education and a higher income were more familiar with the impact of the life expectancy coefficient.

The respondents were fairly familiar with how working longer affects the pension amount. Approximately two out of three felt that they know well how their own pension will be affected if they continue working. The over-60-year-old respondents, those with at least an upper secondary level education and those with higher earnings were more familiar with the effects of working longer. The unemployed and those with a basic-level degree were less familiar with how working longer affects the pension amount.

Overall, there is great variation in pension knowledge. The three indicators used in this study give a multidimensional picture of pension knowledge and how it varies. The three indicators are partially interconnected. Every fifth respondent knew how to estimate their own pension and were familiar with the effects of the life expectancy coefficient and with how working longer affects their pension. On the other hand, equally many could not estimate their pension and were unfamiliar with the effects of the life expectancy coefficient and with how working longer affects their pension.

### **Increment for late retirement and reduction for early retirement reflected in retirement intentions**

As a rule, the increment for late retirement and the reduction for early retirement motivated the respondents to plan to work past their retirement age. Slightly more than half (57%) of them stated that the increment for late retirement would encourage them to retire late, while somewhat fewer (46%) found the reduction for early retirement to be an incentive to postpone retirement. In particular, those with at least an upper secondary level education and the self-employed were motivated by the increment for late retirement to continue working past their retirement age. The reduction for early retirement was found to be an incentive for late retirement particularly among those with an upper secondary level education and those with a lowest level tertiary education. The professional or managerial employees, those who were confident about their working ability and those who were familiar with the effects that

working longer has on their pension were encouraged to postpone their retirement more often than average because of the increment for late retirement and the reduction for early retirement.

Both the life expectancy coefficient and the increment for late retirement aim to encourage people to work longer. The majority of the respondents (85%) stated that neither affect their intended retirement age. Only 15 per cent felt that they would continue working past their retirement age because of the pension cutting factor. This was the sentiment in particular of those respondents who believed that their state of health would allow them to work until their retirement age, those who were unmarried and those who estimated that their retirement income would be fair or worse. Pension knowledge did not stand out as a significant factor for late retirement intentions.

In this study, we have reviewed how the respondent's retirement intentions were in relation to their retirement age (or individual retirement age, if the respondent had one). The majority (56%) of the respondents estimated to retire at their retirement age. 17 per cent estimated to retire early and 27 per cent late. The gender or educational background of the respondents made no difference. The oldest respondents, the 60–62-year-olds, estimated more often than the younger ones that they would retire late.

Public sector employees, those concerned about their work ability and those who estimated that their retirement income would be at least reasonable planned to retire early more often than average. Particularly the self-employed and the professional and managerial employees, as well as the lower-level office workers, planned to retire late. Public sector employees intended to retire late more often than private sector employees. Health issues also affected the intentions to retire late. Those who felt that their health would allow them to work until their retirement age also planned to continue working more often than did those who doubted their health.

The life expectancy coefficient and the increment for late retirement considerably contributed to their late retirement intentions. The respondents who found the life expectancy coefficient and the increment for late retirement to be significant incentives for late retirement also planned to retire before their retirement age less often than average. The reduction for early retirement was not reflected as an incentive in the retirement intentions. Those who found the increment for late retirement to be incentive planned slightly more often to retire late.

The Finns approaching their retirement age were only partly familiar with the incentives of the pension system. This makes it difficult to influence people's retirement intentions via the incentives. In connection with the questionnaire, the respondents were informed of how the life expectancy coefficient, the increment for late retirement and the reduction for early retirement affects their pension. Despite this additional information, only half of the respondents found the reduction for early retirement and the increment for late retirement as incentives to postpone retirement. Of these, only the increment for late retirement was

reflected in the intentions to retire late. Many were unaware of the effects of the life expectancy coefficient, yet they felt that it would affect their retirement intentions. The results of this study concur with the results of previous studies on the incentives of the retirement system: the incentives seem to make a difference for some people, but overall, they have little impact on retirement intentions.

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