

02/2020

FINNISH CENTRE FOR PENSIONS, REPORTS

SUMMARY

Suvi Ritola and Juha Knuuti

Total pension in Finland 2020

How are earnings-related pensions, national pensions and taxation determined?

The amount of the take-home net pension is affected by how the earnings-related and national pension benefits and the taxation of pensions are determined. This review outlines how these factors have been determined for the year 2020. The tables with examples illustrate what the total net pension consists of in the different income brackets. We have also examined the taxation of pensions in general terms and have compared the tax and contribution burden of pension recipients and wage earners in different income brackets.

At the beginning of 2020, the monthly amount of the full national pension increased by 34 euros and the full guarantee pension by 50 euros. The index adjustments are included in these amounts. In 2020, the full monthly national pension for a single person is 662.86 euros and for a married or cohabiting person 591.97 euros. Together with the guarantee pension, the minimum pension amount in 2020 is 834.52 euros per month for both single and married or cohabiting persons. The housing benefit are adjusted so that the increases in national pensions do not reduce the housing benefit correspondingly.

Earnings-related pensions rose by 1.23 per cent at the beginning of 2020. The wage coefficient used, for instance, to revalue earnings when determining the pension rose by 2.04 per cent.

Those born in July – December 1956 and those born in January – March 1957 will reach their retirement age of 63 years and 6 months and 63 years and 9 months respectively in 2020. Starting earnings-related pensions are adjusted with the life expectancy coefficient. The life expectancy coefficient for those born in 1958 has been confirmed at 0.95404. It reduces the cohort's monthly pensions starting in 2020 by 4.6 per cent.

The municipal taxation of earnings has been slightly mitigated in 2020 due to increases in the basic, income and pension income deductions. The change in the basic deduction affects the taxation of both wage earners and pension recipients.

The discretionary increases of the amount of the full national pension have been taken into account in the amendments of the pension income deductions in 2020 so that they do not affect the amount of the pension income in taxation. In 2020, the amount of the full pension income deduction in municipal taxation rises by 180 euros to 9,230 euros. The amount of the full pension income deduction in state taxation decreases from 11,590 euros in 2019 to 11,540 euros in 2020.

The income tax scale for 2020 has been mitigated by adjusting the income limits by approximately 3.1 per cent. The highest income bracket added to the income tax scale in 2013, also called the solidarity tax, is kept unchanged in 2020. According to the Government programme, the so-called solidarity tax will be in force throughout the term of government.

In 2020, the average municipal tax rate is 19.97 per cent (19.88% in 2019). The public broadcasting tax is 2.5 per cent for an annual income that exceeds 14,000 euros. However, the maximum broadcasting tax amount is 163 euros.

In 2020, the earnings-related pension contribution rate for wage-earners aged 17–52 and 63–67 is 7.15 per cent and for those aged 53–62 years, 8.65 per cent (6.75% and 8.25% in 2019 respectively). The unemployment insurance contribution decreases from 1.5 per cent in 2019 to 1.25 per cent in 2020.

In 2020, the medical care insurance contribution for wage earners is 0.68 per cent. No medical care insurance contribution was levied from wage earners in 2017, 2018 and 2019. The medical care insurance contribution levied on pension and other benefit income is 1.65 per cent in 2020 (1.61% in 2019). The health insurance contribution is 1.18 per cent for wage earners with an annual income of at least 14,574 euros (1.54% in 2019 for an annual income of 14,282 euros).

The changes in tax and contribution rates of pension and wage income compared to 2019 are minor. Comparing the tax rate in 2020 for the same amount of income and with average municipal tax rates, the tax rate for pension recipients is reduced slightly in 2020, in particular in the lower income brackets. The highest reduction (0.6–1.1 percentage points) will be for a pension income of 1,000–1,500 euros per month.

The net pension of a person who gets only a national pension from Kela will rise by about 6.4 per cent compared to 2019 because of the discretionary increases of the national and the guarantee pensions. The net pension in the income level at which national pensions are no longer paid will rise by 1.3–1.8 per cent. As inflation is assumed at 1.2 per cent in 2020, the real growth of a person receiving a guarantee pension will be around 5 per cent. The increase in net pension of pensions that amount to more than 1,000 euros roughly equals the price development, which means that there is no change in the purchasing power of the pension compared to in 2019.

The Publication is available only in Finnish:

Kokonaiseläke 2020. Katsaus työeläkkeen, kansaneläkkeen ja verotuksen määräytymiseen. Eläketurvakeskuksen raportteja 02/2020

www.etk.fi > Publications > Reports > Total pension in Finland: How are earnings-related pensions, national pensions and taxation determined?

ISSN 1798-7490 (online)

Subscribe to our [Newsletter in English](#)



Finnish Centre for Pensions
ELÄKETURVAKESKUS

Finnish Centre for Pensions
FI-00065 Eläketurvakeskus
Finland
Phone +358 29 41120
Fax +358 9 148 1172

Eläketurvakeskus
00065 ELÄKETURVAKESKUS
Puhelin 029 41120
Faksi 09 148 1172

Pensionsskyddscentralen
00065 PENSIONSSKYDDSCENTRALEN
Telefon 029 41120
Fax 09 148 1172

www.etk.fi/en
> Publications