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Part-time pension  
as an incentive  
to longer participation  
in the labour market

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## Part-time pension as an incentive to longer participation in the labour market

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## Introduction

In Finland, the Act on part-time pension took effect in 1987 in the private sector and in 1989 in the public sector. Its enforcement had been preceded by the introduction of two other early retirement benefits in 1986, i.e. the individual early retirement pension and the early old-age pension. The individual early retirement pension has proved to be by far the most popular of the new retirement benefits and after its introduction there was a marked increase in the numbers seeking early retirement. To begin with, relatively few applications for part-time pension were filed. In the private sector in 1988, for instance, around 28,000 persons between the ages of 55 and 64 entered into retirement and only 57 of them retired on part-time pension.

In the private sector, employees and self-employed persons between the ages of 58 and 64 with a long working career changing over from full-time to part-time employment are eligible for part-time pension. The weekly working hours shall range from 16 to 28 and the earnings shall represent 30-65% of previous earnings. Originally, the Act was applied to persons between the ages of 60 and 64 but as of 1994 the qualifying age was lowered and the age limit set at 58 years. Only then was there an upturn in the number of part-time pensions (see Table 1 in Appendix 1). Still in 1995, however, the beneficiaries of part-time pension accounted for as little as 0.4% of the population aged 55-64 with an employment pension record, whereas the corresponding proportion was 34.0% for disability pension beneficiaries. Nearly half of the population in this age bracket was retired. (see Table 2 in Appendix 1).

The lack of interest in part-time pension has raised many questions. It is easy to establish that part-time pension is a justified alternative for the individual employee and that it corresponds to the demands for an individual and flexible approach to retirement, which are expected to become even more frequent in the future. For instance, the Committee set up to design the early retirement pension plan found justification for the part-time pension in gerontological studies: functional capacity declines slowly and the loss of work capacity does not happen overnight. On these grounds, the Committee finds gradual retirement to be the most reasonable alternative for the individual.

Finnish employees show greater interest in part-time employment than the prevalence of part-time jobs suggests. The interest in temporary part-time employment is particularly great, but the willingness to work part time on a permanent basis grows with age.

Employers are also, in principle, favourably disposed towards part-time pension, and surveys bear witness of a surprising readiness to arrange part-time work for elderly employees. Still, employers also recognize many obstacles to the organization of part-time work but only little resistance in principle.

The lack of interest in part-time pension has also been publicly debated and attempts have been made at evaluating the reasons for it. It has been asked whether the qualifying age is adequate and whether the replacement rate is high enough to work as an incentive. The presumed difficulty in finding part-time employment has been attributed to the structure of the Finnish labour market drawing parallels between part-time employment and lack of full-time employment opportunities rather than acknowledging part-time work as an independent form of employment. Finland is known to have a history of very little part-time employment among both women and men.

Moreover, retirement on part-time pension requires that both the employer and the employee are particularly active in reorganizing work, which may induce problems at the work place. Prejudices, attitudes and ignorance have been identified as the greatest obstacles to part-time pension.

## The reasons for early retirement

The average effective retirement age is presently 59 years in Finland. One target of Finnish pension policy is to postpone retirement. For instance, the 1990 Pension Committee set the goal at raising the effective retirement age with three years by the year 2020. So, what are the reasons underlying this widespread interest in seeking retirement before the general retirement age of 65?

For those having retired on individual early retirement pension, the push factors are more pronounced. In addition to poor health, other factors include the physical and mental strain of the job, changes in the job and automation as well as unemployment and the fear of unemployment. Pull factors (factors pertaining to the family and leisure activities) were rarely among the most important reasons for early retirement. When asked to give reasons for their keenness to retire, those still actively employed reported that they have a feeling of having done their fair share already.

The amount of the projected pension also influences the desire to retire: 81% of the respondents over the age of 50 reported that the amount of pension would have some bearing for their decision whether or not to apply for pension. However, the more serious thoughts of retirement the respondents had been entertaining, the more insignificant was the influence of economic factors. One explanation offered for this was that the pressure on raising the income level eases off with age, after the need for certain basic commodities has been satisfied. In other words, the benefit of consumption drops after a certain phase in life and people lose interest in raising the level of consumption.

In conclusion to these studies, it has often been suggested that interference with the problems in the labour market may act as a disincentive on employees contemplating retirement. Findings show that the inclination to retire may be reduced by focusing attention on measures of rehabilitation and other company health services and by redesigning work to better suit elderly employees, particularly by reducing the physical and mental strain of the job. The promised increase in the amount of pension upon continued participation in the labour market is a further incentive for those who are already committed to continue working. In Finland, attitudes in general are also particularly favourably disposed towards retirement, which is why it is highly important to work at them to encourage continued labour market participation.

If the aim is to keep elderly employees on the labour force for as long as possible, redesign of the working environment and adjustment of working time arrangements are called for. The Act on part-time pension, for instance, allows elderly employees to cut down on working hours. The Finnish legislation on working time arrangements does not contain any restrictions in this respect, provided that the employer and the employee come to an agreement on shorter working hours. For the employee, however, this means lower wages and a smaller pension.

At the level of society, this is a matter of coordinating contradictory pursuits. In recent years, Finland has witnessed an economic downturn, in consequence of which the labour market will be in for massive transformation. First of all, 17% of the labour force is presently unemployed, which is the most critical problem of the Finnish society today. Considering the competition for job opportunities in the labour market, the suggestion that elderly employees should be pensioned off naturally follows. But premature retirement is an expensive business and, the opposite need, therefore, arises: the retirement of elderly employees should be postponed.

Secondly, the current labour market crisis reflects a reevaluation of the importance of skills and training: the most experienced worker no longer possesses the best skills. Company strategies in the uses of labour are being revised. The use of labour is increasingly being adjusted according to demand, which is demonstrated by an increase in fixed-term contracts of employment, hired personnel, and other atypical contracts of employment. It may be asked whether the target of pension policy of encouraging continued labour market participation is reconcilable with the economic depression and the transformation in the labour market.

## The beneficiaries of part-time pension in the light of findings

At the end of 1995 there were 5,500 beneficiaries of part-time pension in Finland, 3,500 in the public sector and 2,000 in the private sector (see Table 1 in Appendix 1). One-third of the beneficiaries of part-time pension who were active in the private sector were self-employed and two-thirds were employees. The proportion of self-employed persons is twice as high as the number of effective contracts of employment and self-employment. 55% of the beneficiaries were men. When payment of part-time pension started, 76% of the beneficiaries were between the ages of 58 and 60 and the rest, 24%, between the ages of 61 and 64.

A study of part-time pension is underway at The Central Pension Security Institute. The purpose of the study is to describe the beneficiaries of part-time pension and to evaluate the adequacy of the part-time pension programme as an early retirement pension plan (researcher Mervi Takala).

The study of The Central Pension Security Institute covers all beneficiaries of part-time pension in the private sector at the end of 1994, all in all around 1,200 persons. Of the men 58% are wage earners and 42% are self-employed, whereas 82% of the women are wage earners.

Most of the self-employed and employees drawing part-time pension are engaged in trade and commerce (24%). In the whole country, 16% of the active population is engaged in the field of trade and commerce in the private sector. 18% of the employees drawing part-time pension are employed by industry (against 30% of all private-sector employees) and 17% of the beneficiaries of part-time pension are engaged in the financing and insurance sector (13% of all active employees in the private sector). The majority of the self-employed persons drawing part-time pension has a small business in the field of trade and commerce, construction, industry, services or transport. (see Table 3 in Appendix 1).

Every fifth male beneficiary of part-time pension is a business manager. The representation of construction engineers, merchants, and chauffeurs is also quite large. Most of the women are shop assistants, this group accounts for 20% of all women drawing part-time pension. Other large groups include bank clerks, office clerks, and merchants. The respondents have a long working career: the women have worked for an average of 38 years and the men 42 years.

Practically all beneficiaries of part-time pension work in the same place and in the same occupation as before retirement. Most reported that the transition to part-time employment and the organization of work had followed smoothly and only one in ten said that they had experienced problems at work subsequent to retiring on part-time pension (work piling up, problems in client relations, etc.).

Beneficiaries of part-time pension enjoy good health and have good work capacity. Merely 9% of the respondents were in poor health. Nearly half of the respondents reported that they still had good work capacity and 40% that their work

capacity was slightly reduced. There were few differences by gender in respect of subjective health and work capacity.

The beneficiaries of part-time pension enjoy much the same health as persons working full time and liking it. The health of those active employees who wish to retire was clearly worse and that of disability pension beneficiaries by far the worst (see Table 4 in Appendix 1). Merely 15% of the beneficiaries of part-time pension had applied for some other early retirement benefit before retiring on part-time pension.

## Conclusions

In the light of the study of The Central Pension Security Institute, the current beneficiaries of part-time pension appear to be the "well-to-do" in the labour market. They have all had a full-time job from which they could retire. They have been able to reach an agreement with their employer or at their work place about the conditions of retirement. Nearly all of them have been able to cut down on working hours smoothly. Most of them enjoy good or fair health and are able to enjoy their additional leisure time. This group seems to think of part-time pension as an alternative to a full-time job, not to total withdrawal from the labour market.

The structure of the Finnish labour market has long been based on one pattern of employment: the full-time gainful employment of both women and men. Retirement means total withdrawal from the labour market, for good or bad. Postponed retirement and versatile approaches to retirement call for both concrete changes and a change of attitude. It is not easy to give a definite answer to the question in which way part-time pension could be used as an incentive to continued participation in the labour market. At least the following questions need first to be answered:

- why do the favourable attitudes of employees and employers towards part-time pension not generate an increase in the number of beneficiaries of part-time pension
- what changes need to be made at the work place to increase part-time employment (especially that of elderly employees)
- does part-time employment involve particular problems in certain lines of businesses or occupational groups and what are the reasons for such problems
- does the present restructuring of the labour market permit an increase in the number of beneficiaries of part-time pension
- what measures are needed to interest employees with poor health who want to retire completely from the labour market in part-time retirement.
- are the eligibility criteria for part-time pension such that part-time pension is a serious alternative to a full early retirement pension?

## Appendix 1

Table 1 Number of part-time pensions in current payment in the years 1987-1995 (private sector) and in the years 1989-1995 (public sector)

	Private	Public
1987	143	
1988	172	
1989	199	57
1990	218	208
1991	256	432
1992	284	764
1993	328	1875
1994	1284	3109
1995	1916	3445

Table 2 Proportion of 55-64-year-old beneficiaries in the population of corresponding age with an employment pension record, at the end of 1995, %

	Male	Female	All
Ordinary old-age pension	0.4	1.1	0.8
Early old-age pension	1.8	2.0	1.9
Disability pensions (disability pension and individual early retirement pension)	36.1	31.7	34.0
Unemployment pension	7.7	8.1	7.9
Part-time pension	0.4	0.4	0.4
Farmers' special pension	2.9	4.7	3.8
All			
Share of population	49.4	48.1	48.7
Number	116 820	108 220	225 040

Table 3

## Part-time pension beneficiaries by line of business or production

Line of business	Wage	Self-	All
	earners	employed	
	%	%	%
Agriculture, forestry and fishing	1	2	1
Mining	1	.	1
Industry	18	11	16
Electricity, gas and water supply	3	3	3
Construction	3	14	6
Wholesale and retail trade	25	22	24
Repair of motor vehicles, personal effects and household appliances	1	5	2
Hotel and restaurant business	2	1	2
Transport and storage, data communications	10	10	10
Finance and insurance	17	.	12
Real-estate business and rental services	1	2	1
Research and data processing, business services	6	13	8
Cleaning	2	0	1
Education, health care and social welfare services	5	8	6
Organizational activities, recreational, cultural and sports services, personal services	4	7	5
Laundry	1	1	1
Other services	.	1	0
All	100 N=769	100 N=331	100 N=1100

Table 4 Perceived subjective health of the 58-64-year-olds, %

	Health			total
	good	fair	poor	
Beneficiaries of part-time pension (N=1 033)	51	40	9	100
In gainful employment (N=182)	43	42	15	100
-motivated to continue working	59	35	6	100
-motivated to retire	31	47	22	100
Beneficiaries of disability pension (N=89)	3	53	44	100

## Appendix 2

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The Central Pension Security Institute is the statutory central body of the Finnish employment pension scheme. Its research activities mainly cover the fields of social security and pension schemes. The studies aim to paint a comprehensive picture of the sociopolitical, sociological and financial aspects involved.