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FINNISH CENTRE FOR PENSIONS, STUDIES

SUMMARY

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How familiar are Finns with pension issues and the 2017 pension reform in Finland?

Questionnaire survey on views relating to pensions

Having enough and accurate knowledge of pensions support the decision making for individuals. Knowledge of what affects one's future pension and how much pension one will get when the time to retire comes helps the individual not only to make decisions concerning their own pensions but also to assess the changes following the 2017 pension reform and related survey statements. In this study we outline the level of Finnish citizens' pension knowledge, possible gaps in that knowledge and how the level of knowledge between different population groups differs.

In this study, we review 25–67-year-old Finnish citizens' knowledge of pensions based on a survey. We approach knowledge both from the point of view of the respondents' individual experiences and how familiar they are with the details of the pension system and the 2017 pension reform. In addition, we examine the respondents' views on how encouraging or discouraging the increment for late retirement and the deduction for early retirement are. The survey was conducted between October and December 2019. A total of 1,757 persons responded to the survey. The response rate was 35 per cent.

A considerable part of the respondents feels they have poor knowledge of pensions

According to the results, more than half of the 25–67-year-olds felt that they had poor or fairly poor knowledge of pensions. Two out of five said they did not have a clear understanding of how much pension they will get when they retire. Of the respondents, every tenth assessed that they know well or fairly well how much pension they will get, and slightly more than every fourth felt that they have a good or fairly good idea of the size of their future pension.

Based on the respondents' answers to the question on how well they know their pensions, men, over 55-year-olds, persons with a higher than basic-level education, persons who belong to the higher income brackets, self-employed persons and already retired persons assessed their pension knowledge better than average. Women, young, those with a basic education and those belonging to the lowest income bracket, on the other hand, assessed their pension knowledge below average.

Varying knowledge of pension system details

Five statements on the details of the pension system were used as objective indicators of pension knowledge. The respondents assessed whether the statements were true or false in their opinion. The statements concerned the retirement age for the old-age pension, the impact of self-employed persons' pension-declared income on earnings-related social security benefits, the role of pension contributions in the financing of pensions, unemployed persons' right to the partial old-age pension and pension accrual for periods of child home care and studies.

The respondents were well aware that the retirement age is not the same for all. Nearly three out of four knew this. More than half of the respondents knew that the pension-declared income affects the amount of not only the future pension but also the parental and sickness allowances. Equally many knew that a main part of the pension contributions paid now are used to finance pensions that are currently in payment. Two fifths of the respondents knew that also unemployed persons can draw a partial old-age pension. The least familiar statement was the one about pension accruing for periods of child home care and studies leading to a degree. This statement also revealed the highest degree of misconceptions. More than half of the respondents incorrectly thought that no pension accrues for such periods.

The statements concerned different areas of pension provision that are current and significant to different degrees to different population groups. Women, the younger and the more educated respondents were better aware than others that pension accrues for periods of child home care and studies. The self-employed were often correctly aware of the impact of their pension-declared income on the parental and sickness allowances. On average, the unemployed were more aware than the others of their right to the partial old-age pension. However, there was also a great lack of knowledge about the issues expressed in these statements. More than one third were unable to assess the impact of the self-employed persons' pension-declared income on social security benefits; nearly half of the respondents did not know whether unemployed persons have a right to draw a partial old-age pension.

On average, the respondents could reply to 2.4 statements out of 5. The young, the highly educated and the self-employed respondents could reply correctly to a higher number of statements than could others. Unmarried and retirees, on the other hand, knew less often than average whether the statements concerning the pension system were true or false.

There is a positive but only a partial connection between the subjective notion of pension knowledge and objectively measured knowledge. Those who assessed that they know pensions well more often also replied correctly to the statements concerning the pension system. However, a comparison of the subjectively and objectively measured data revealed that, considering the indicators, pension knowledge is both under- and overestimated. Particularly the young stand out as a group whose subjective notion of their pension knowledge was poorer than average, but when measured with objective indicators, their knowledge was better than average.

Few knew their pension contribution rate

More than half of the respondents did not provide an estimate of how much the combined workers' and employers' contribution rate is. Almost forty per cent of the respondents gave at least some estimate of the contribution rate. The assessments ranged from one to more than 100 per cent. Of those who provided an estimate, only slightly more than one fourth were able to estimate the pension contribution rate (24.4% in 2019) with a 5-percentage-point accuracy. Underestimating the contribution rate was clearly more common than overestimating it. Three out of five of those providing an estimate thought the pension contribution was at least five percentage points below the actual level. Eleven per cent of those providing an estimate thought the pension contribution was more than five percentage points above the actual level.

The respondents with a higher-level education, those belonging to the highest income bracket and the self-employed were able to estimate the pension contribution rate correctly more often than did the others. Incorrect conceptions of the contribution rate were more common than average among men, those with a middle- or high-level education and those in the second highest income bracket. A lack of knowledge of the contribution rate, on the other hand, was more often the case among female respondents, retirees, respondents with a basic-level education and respondents belonging to the lowest income bracket.

Self-employment, educational level and household income clearly seem to impact the knowledge of pension contribution rates. The knowledge of the self-employed is affected by their obligation to take out pension insurance and pay the pension contribution themselves. They most often knew the contribution rate correctly and they also had the least misconceptions about the contribution rate. The educational level was reflected in the responses as follows: those with a basic-level education gave the least often an estimate of the contribution rate. Compared to those with a basic-level education, those with a higher educational level were more often able to assess the pension contribution rate correctly. They also most frequently under- and overestimated the contribution rate.

Little knowledge of 2017 pension reform

The pension reform that came into force three years ago meant that the general retirement age rose, the age-dependent increment in pension accrual was abolished, the pension accrual rate was harmonized (no longer dependent on age), and two new pension benefits were introduced: the years-of-service pension and the partial old-age pension. The latter allows people to take out part of their accrued old-age pension already before reaching their retirement age. In this survey, we examined the respondents' views on whether they already knew that the pension reform had come into force and were familiar with the details of the reform.

Slightly more than one third of the respondents said they knew that the pension system was reformed in 2017. Nearly half said they had heard something about it before. The rising retirement age, the possibility to retire early on a partial old-age pension and the increment to the pension when retiring late were the best-known features of the reform. Slightly less than half of the respondents said they were aware of each of the above.

The harmonized accrual rate was the least known detail of the pension reform. Only around one third of the respondents said they were aware of it or had heard something about it. Two thirds estimated that they had never heard of it before participating in this survey. The increment for late retirement was another unfamiliar feature of the reform. Nearly one third of the respondents stated that they had never heard of it before.

Based on the replies to the questions concerning the coming into force of the 2017 pension reform and the four questions about details of the reform, it appears that people are still fairly unfamiliar with the reform. Only five per cent said they were aware of all five aspects of the reform presented in the survey. Considering the statements concerning the coming into force of the pension reform and the four related statements as a whole, the respondents were familiar with an average of 1.8 out of 5 statements. Age increased the subjective sense of knowledge. Gender, educational level and household income also reflected on the subjective sense of being familiar with the pension reform. Men, those with a basic education and those belonging to the lowest income bracket were less familiar with issues relating to the reform.

Increment for late retirement and reduction for early retirement as incentives

As a result of the 2017 pension reform, the pension amount is affected by the timing of retirement in a different way than before the reform. Deferring retirement past one's retirement age increases the pension via the increment for deferred retirement. The reduction for early retirement indicates that it is possible to retire on a partial old-age pension before reaching one's retirement age, but early retirement permanently reduces one's pension. In the survey, we asked whether the respondents find the financial incentives relating to the increment for deferred retirement and the reduction for early retirement to be significant enough to encourage them to retire late or discourage them to draw a partial old-age pension early.

More than one third of the respondents stated that the increment for deferred retirement of 0.4 per cent per deferred month in no way encourages late retirement.

Nevertheless, nearly one third found that the increment for late retirement provided some kind of incentive to defer retirement, and seven per cent felt that it clearly encouraged them to retire late. Nearly every tenth respondent was unable to assess the incentive role of the increment for late retirement. This was most common among those with a basic-level education, the retirees and those belonging to the lowest income bracket. When the phenomenon was examined by considering the level of encouragement and all background factors, the educational level was the only factor that could explain the level of encouragement.

One quarter of the respondents felt that the reduction for early retirement of 0.4 per cent per month on the pension share drawn early would not prevent them from retiring early. Slightly less than half felt the reduction for early retirement to be somewhat discouraging and more than every tenth respondent felt that it was clearly discouraging. Nearly one fifth of the respondents could not assess whether the reduction for early retirement discourages them from drawing a partial old-age pension before reaching their retirement age. Nearly one third of those with a basic-level education, of retirees and of those belonging to the lowest income brackets were unable to state their view on the matter. Regarding this phenomenon, when taking into account the incentive level and all background factors, men, the under-35-year-old respondents and those belonging to the second-highest income bracket stood out as those finding the reduction for early retirement to be more discouraging.

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