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SUMMARY

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Using microsimulation to assess incentives to defer retirement

In the earnings-related pension system, the retirement age is flexible. It means that an individual can choose when to retire after reaching their earliest eligibility age for the old-age pension. Pension accrues for work done up to the age after which the insurance obligation ends. In addition, the entire accrued pension will grow by 0.4 per cent for each month of deferral.

In this report we assess the economic incentives relating to retirement between the earliest eligibility age for the old-age pension and the age at which the insurance obligation ends. The report depicts how much the capital value of the income for the rest of the life cycle changes if retirement is deferred. The basic assumption is that the individual continues working throughout the period that they defer retirement.

Income concepts under review include one's own earnings-related pension, total pension (excluding survivors' pensions), gross and net income. The results are presented for those born between 1954 and 1984. The results are shown by birth cohorts, gender and educational level, using three different discount rates. The projections have been made using the ELSI microsimulation model of the Finnish Centre for Pensions.

As a rule, the economic incentives of deferral weaken in line with for how long retirement is deferred. The economic incentives are better for those population groups who live longer – for example, women. The impact of additional working plays a major role for groups who have a short working history in Finland. Incidental factors, such as the timing of the general wage and price development, may affect the incentives to retire in individual years through the index increase mechanism.

In addition to assessing the incentives, the report presents ex post reviews of the effects of deferral in a simulated future. We also analyse the actuarial fairness of the deferral rate.

The Publication is available only in Finnish:

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