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# SUMMARY

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## How does net income change at retirement?

### A review of changes in net income ratio from 2002 to 2017

The aim of pension policy is to guarantee a reasonable economic wellbeing for all pensioners and to prevent poverty. In this study, we assess individuals' income after retirement relative to their pre-retirement income. This is particularly important for the earnings-related pension system as one of its key goals is that a reasonable income level is maintained after retirement. The income level is determined not only by earnings-related pensions but also by earnings from work, property income, other income transfers and taxation. They not only affect the income level but also dampen the change in income at retirement.

In this study, the net income ratio depicts the change in income at retirement. It is calculated as a ratio of net income of the new retiree's first full year in retirement to his established pre-retirement net income. The research is based on individual-level panel data of the population of mainland Finland for the years from 1998 to 2018. We analysed individuals who retired in 2002, 2007, 2012 and 2017. The changes in income are measured relative to several different background factors. Special attention is paid to stability of pre-retirement labour market status. Based on labour market statuses two, three and four years before retirement, individuals are classified as: (1) stably working, (2) stably non-working and (3) both working and non-working.

## **The majority retired directly from working life, but every fourth from outside working life**

In general, retirement may be perceived as an event where full-time working directly changes into retirement on an old-age pension. However, retirement may also take other routes. In 2017, approximately 73,000 persons retired. Around 61 per cent of them were stably working before retirement while 24 per cent were stably non-working. Around 15 per cent were both working and non-working before retirement. The most common reason for non-working was unemployment.

## **Net income either reduced or increased by retirement**

Those retiring from the statuses of stably working and stably non-working differ from each other both in terms of income development and income level. In all cohorts, the median net income of those stably working was fairly stable until retirement, after which it clearly decreased. The income of the unemployed or those outside the labour force for other reasons was also stable before retirement, after which it increased. On average, retirement reduced the net income of the stably working and increased the net income of the stably non-working. The gap in the retirement income level between the stably working and stably non-working remains considerable as the average net income of the retired stably non-working was 40–50 per cent of the average net income of the retired stably working people.

## **No significant changes in the median net income ratio since 2002**

In 2017, the median of the net income ratio of new retirees was 87 per cent. That means that, at retirement, their net income dropped by 13 per cent on average. The individual variation is considerable and there were particularly many high net income ratios. The pre-retirement labour market status partly explains the variation in net income ratios since the median of the net income ratio of the stably working is 79 per cent and that of the stably non-working 113 per cent. The net income ratios of those retiring from a stably non-working state also varied clearly more than that of those retiring from a stably working state. There are no large differences in the distributions of net income ratios of previous years. Despite changes in the labour markets, the pension system and the population's socioeconomic and demographic position, the change in income upon retirement has remained similar since the early 2000s.

## **High net income ratios typical for low-income individuals**

Regardless of the year of retirement, the clearly-higher-than-average medians (around 100–110 per cent) are found particularly among the following groups: those who retire from unemployment or from outside the labour force for other reasons, the under 50-year-olds, the self-employed and those retiring from a full disability pension. In these groups, the income level is lower than average. On the other hand, median net income ratios that are lower than average (around 76–78 per cent) are found among those who have retired from gainful work.

## On average, earnings 82 per cent and earnings-related pension 80 per cent of gross income before retirement

When examined the stability of pre-retirement labour market status, the income structure clearly deviates between those retiring from a working status and those from a non-working status. Those retiring from work, earnings from work are prominent. After retirement, the earnings are replaced mainly by earnings-related pensions. Also other income – earnings, capital income and other income transfers – and taxation make a difference. The pre-retirement income of the non-working group mainly consists of income transfers which are nearly completely replaced by earnings-related pensions and other income transfers (such as the national pension) upon retirement. In 2017, for those who retired from work, the average tax rate was 26 per cent before retirement. After retirement, the tax rate was 20 per cent. For the non-working, the tax rates were 14 and 8 per cent respectively.

### The Publication is available only in Finnish:

Miten nettotulot muuttuvat eläkkeelle siirryttäessä? Tarkastelu nettotulosuhteen muutoksesta vuosina 2002–2017.

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