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Summary

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Partial old-age pension

A picture of claimants in 2017–2020

This report provides an overview of claimants of partial old-age pension, a new type of pension benefit launched in connection with the 2017 pension reform in Finland. Since February 2017, eligible persons have been able to draw 25 or 50 per cent of their accrued earnings-related pension benefits in a monthly partial old-age pension. The partial old-age pension can be claimed early, before reaching the eligibility age for old-age pension; or late, upon or after reaching the age of eligibility. Early claiming is currently possible from age 61, with a reduction applied to the portion of the pension claimed early. The only eligibility criterion is that the claimant does not receive any other earnings-related pension. There are no restrictions on earnings or working hours prior to or after claiming.

Our focus here is to study persons who have decided to start drawing a partial old-age pension, or partial old-age pension claimants. To this end we use register data covering all persons who started drawing a partial old-age pension in 2017–2020 and all eligible persons. We examine a range of background characteristics of partial old-age pension claimants using descriptive analysis and study the shares of claimants among eligible persons. We also model claiming behaviour. Early and late claiming are studied separately. In addition, we examine labour market transitions among

partial old-age pension claimants in the 1956 cohort from age 59 to age 64, i.e. two years before and three years after the earliest age of eligibility for partial old-age pension. Furthermore, we take a first look at those who have transitioned from a partial old-age pension to a full old-age pension.

Majority claims partial old-age pension early and draws 50 per cent of accrued pension

In 2017–2020 a total of 47,337 partial old-age pensions have been put into payment. The majority (90%) of partial old-age pension claimants have claimed the pension early, before the earliest age of eligibility for old-age pension. In all, 42,706 persons have claimed early partial old-age pension during 2017–2020. The share of pensions claimed early has increased towards the end of the period under study, from 86 per cent in 2017 to 93 per cent in 2020. At the same time, the average number of months claimed early has gone up from 22 to 29 months. This is partly explained by the higher eligibility age for old-age pension, which has increased by three months for each cohort while the earliest eligibility age for partial old-age pension has remained at 61. For late claimants, the average number of months claimed late is 12 months. Out of the two options, it is more common to claim 50 per cent of the accrued monthly earnings-related pension. In 2017 about 87 per cent of all claimants claimed 50 per cent of their pension, in 2020 the corresponding share was 82 per cent.

Majority of early claimants are employed, around one-quarter of claims related to unemployment

The most common age of claiming a partial old-age pension is 61; around half of early claimants started to draw their pension at this age. Men accounted for almost 60 per cent of early claimants.

The majority, 80 per cent of early claimants of partial old-age pension were employed before starting to draw the pension. Unemployment is related to one-quarter of all claims for an early partial old-age pension: around 15 per cent were unemployed before the year of claiming the pension, and seven per cent became unemployed during the year that the pension was claimed. Over 80 per cent of early claimants have a background as wage-earners and around 15 per cent are self-employed. Among male claimants the biggest socioeconomic group are manual workers, among female claimants the majority are lower-level employees. The share of public sector employees is around 30 per cent; among women this share is almost one-half.

Early claimants have mostly worked long careers: 40 per cent had careers spanning 35–40 years and a further 30 per cent had worked for 40 years or more. There are early claimants from all income groups: 20 per cent belonged to the lowest and around 25 per cent to the highest income quartiles.

Each year seven per cent of eligible persons claim partial old-age pension early

Claiming rates indicate the relative share of claimants in the group of eligible persons. There is little annual variation in the claiming rates: each year about seven per cent of eligible persons have started to draw a partial old-age pension before the eligibility age for old-age pension. Men have higher claiming rates than women: almost nine per cent of eligible men have claimed the pension each year, compared to less than six per cent of women.

When background characteristics are considered one by one, early claiming rates are higher than average among 61-year-olds, employed persons, those working in the private sector and the self-employed. Lower than average early claiming rates are found, for example, among the higher tertiary educated, public sector employees and upper-level employees. In every group, men have higher claiming rates than women. For example, around 13 per cent of men aged 61 have claimed a partial old-age pension, while the figure for 61-year-old women was just over eight per cent. Likewise, ten per cent of self-employed men have claimed the pension early each year, while among self-employed women the share was around seven per cent.

Men, 61-year-olds, self-employed persons and the unemployed more likely to claim early

Modelling results allow us to isolate the influence of certain background characteristics on early claiming of the partial old-age pension. They demonstrate which groups have a higher or lower probability of claiming the partial old-age pension early when other factors are controlled for. Separate models were estimated for each of the years from 2017 to 2020.

The modelling results indicated that the likelihood of early claiming is highest among men, 61-year-olds, self-employed persons and the unemployed. Becoming unemployed during the year under study also increases the likelihood of early claiming. If claimants are wage-earners, they are more likely to occupy a lower-level than upper-level employee position and are less likely to be employed in the public sector. Early claimants are more likely to have lower tertiary education than higher tertiary education. Length of working career and income also have a bearing on claiming activity: those with longer careers and a lower income are more likely to claim. Family status is also relevant: persons with a partner are more likely to claim. In addition, the claimants are more likely to live in areas with a higher unemployment rate.

Some differences between men and women who claim early

Separate models for men and women show that age, self-employment, education, employment sector, becoming unemployed and length of working career are significant factors influencing the likelihood of claiming an early partial old-age pension in both genders. Persons aged 61, self-employed persons, private sector

employees, the lower tertiary educated, those who became unemployed during the year under study and persons with longer working careers are more likely to claim the pension early both among men and women.

There are also noticeable differences between male and female early claimants. In general, men are a more distinctive group when it comes to labour market status, socioeconomic status and area of residence. Unemployed men are more likely to claim the pension early. Men working as lower-level employees or manual workers are more likely to claim the pension than upper-level employees. Men with a lower income were more likely to claim in all years except 2020, when income did not emerge as a significant determinant of claiming among men. Men living outside rural areas and in areas with a higher unemployment rate have a higher likelihood of early claiming. By contrast, in most years family situation has no bearing on men's claiming behaviour.

Women's background characteristics are connected with claiming in a slightly different way. Unlike unemployed men, unemployed women are not more likely to claim the pension early. In most years there are no differences between upper- and lower-level employee women in the likelihood of early claiming. A lower income increases the likelihood of early claiming among women in all years. Moreover, in contrast to men, women with a partner are more likely to claim. Area of residence is not a significant determinant of early claiming among women, and in most years the local unemployment rate has no bearing on women's early claiming behaviour.

Each year less than two per cent of eligible persons claim a partial old-age pension late

Late claiming of a partial old-age pension is much less common than early claiming. The number of late claimants as a proportion of all partial old-age pension claimants was 14 per cent in 2017 and seven per cent in 2020. In total, 4,631 late partial old-age pensions have been claimed during 2017–2020.

Late claimants differ from early claimants in terms of demographic and other characteristics. The share of men and women among late claimants is almost the same. The most common age for late claiming is 64: in 2020 around 60 per cent of late claimants were 64 years of age. A very large proportion, 90 per cent were employed before claiming, while the share of the unemployed was quite low (7–11%). Over 90 per cent of late claimants were wage-earners, while only a small minority had a background in self-employment (4–7%). The share of public sector employees is almost 45 per cent. Late claimants have worked long careers: half of them have had careers spanning 40 years or more. Late claimants are concentrated in higher income groups: around 40 per cent belong to the highest and only around six per cent to the lowest income quartiles.

The annual late claiming rate has been less than two per cent. There are no gender differences in late claiming rates. When background characteristics are examined one by one, claiming rates are higher than average for example among the higher tertiary educated, public sector employees and upper-level employees. In these groups the

claiming rate is around two per cent. Lower than average claiming rates are found, for example, among the basic level educated and the unemployed. In these groups the claiming rate is less than one per cent.

The highly educated with long careers and a higher income more likely to claim late

Modelling results indicate which groups have a higher or lower likelihood to claim a partial old-age pension late when other factors are controlled for. There are no large gender differences in the likelihood of late claiming, in contrast to early claiming. The highly educated and single persons are more likely to claim a partial old-age pension late.

In addition, longer careers and higher incomes increase the likelihood of late claiming. When other factors are controlled for, there are practically no differences between employment sectors in the likelihood of late claiming. With regard to labour market status, in most years there are no differences between employed and unemployed persons in the likelihood of late claiming. Unlike early claimants, self-employed persons are less likely to claim a partial old-age pension late, and there are no differences in claiming likelihood between upper- and lower-level employees. Hence, late claimants of partial old-age pension differ very clearly from early claimants.

Late career labour market transitions among claimants in the 1956 cohort

We also applied sequence analysis to study trajectories of labour market transitions among partial old-age pension claimants. The first cohort eligible to claim the partial old-age pension at age 61 was that born in 1956. Observing the partial old-age pension claimants born in 1956 from the month of turning 59 until the month of turning 64, three phases can be distinguished. From ages 59 to 61 most individuals were employed, unemployed or outside the labour market. Between the time of turning 61 and age 63.5, the vast majority claimed a partial old-age pension, most of them earlier rather than later. At age 63.5 this cohort became eligible for a statutory old-age pension and most of the partial old-age pension claimants switched to an old-age pension, although a substantial minority continued to work while receiving a pension. Throughout these three phases we identified four typical trajectories: 1: “Employed and partial old-age pension, immediate”, 2: “Employed and partial old-age pension, postponed”, 3: “Unemployment benefits and partial old-age pension”, and 4: “Partial old-age pension only”.

Majority of claimants continue to work, those who claim while unemployed remain unemployed

Partial old-age pension claimants who continued to work were grouped into two clusters. The main difference between these clusters 1 (comprising 44% of partial old-age pension claimants) and 2 (31% of the claimants) is that in the former, the pension

was claimed almost immediately after becoming eligible while in the latter, the moment of claiming was postponed. Yet the outcome is rather the same: these people continued to work, often beyond the minimum old-age retirement age of 63.5. The partial old-age pension might provide a supplement to their income or a possibility to work shorter hours. This might have helped them to extend their working lives, although this study does not show what they would have done in the absence of a partial old-age pension.

A somewhat smaller cluster (18% of the claimants) consisted of people who were unemployed and claimed a partial old-age pension in addition to receiving unemployment benefits. Many in this cluster were already unemployed before the age of 61 and claimed the pension as soon as possible, yet there were also those who waited longer until claiming and those who only became unemployed after 61. The majority remained unemployed until and even beyond the earliest old-age retirement age. For them the partial old-age pension seems to serve as a supplement to unemployment benefits.

Finally, there is a small group (8% of claimants) of those who claimed the partial old-age pension but who had no other (registered or pension-insured) source of income. Hence, it seems that they relied entirely on the partial old-age pension for their income. Before age 61, some of them were still employed. For them, the partial old-age pension might have offered a way to withdraw early from the labour market. A second group in this cluster was not employed before age 61 and seems to remain outside the labour market after claiming. The partial old-age pension provided them with an income when previously they might have had none.

Average duration of ended partial old-age pensions 19 months

By the end of 2020, about 38 per cent of all partial old-age pension claimants had transitioned from a partial old-age pension to an old-age pension. A considerable part of these persons are from older cohorts who claimed the pension at later ages. If they are from younger cohorts, they are mainly persons who have transitioned to an old-age pension quite soon after reaching eligibility age. Therefore, the results are not representative of all partial old-age pension claimants but only offer a first glimpse of ended partial old-age pensions.

The results show that the average duration of ended partial old-age pensions was 19 months. The average duration of pensions claimed early was 20 months and pensions claimed late about 15 months. The ratio of final old-age pension to partial old-age pension was 4.6 for those who claimed 25 per cent of their earnings-related pension in a partial old-age pension and 2.5 for those who drew 50 per cent of their pension. This indicates that the partial old-age pension is less than 25 or 50 per cent of the final old-age pension. For early claimants this is partly due to the early retirement reduction to the partial old-age pension. For late claimants, part of the explanation is the increase for late retirement in the final pension. Furthermore, the difference is explained by pension accrual after claiming a partial old-age pension. No large differences emerged in this ratio between early and late claimants.

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