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Summary

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Wage income before and after taking out a partial old-age pension

In this study we examine how the wage income of people who are working changes when they begin to draw the partial old-age pension. We assume that changes in the wage income compared to the wage level before drawing the pension are associated with changes in the number of hours worked. This way we can assess to what extent the partial old-age pension has been used to combine work and retirement. In this study we examine what the typical wage income trajectories of those taking out the partial old-age pension are, and how various sociodemographic characteristics are linked to different wage income trajectories. In addition, we show how receiving unemployment benefits and sickness allowances are associated with different wage income trajectories.

Study based on monthly wage income data

In this study we make use of the Finnish Centre for Pensions' register data which include data on wage income per calendar month. Our focus is on persons who did not reach their retirement age during the review period and whose wage income data we could monitor for 14 months before and 12 months after taking out a partial old-age pension. The study population consisted of persons who were born between June 1957 and December 1960 and who took out the partial old-age pension between March 2020 and January 2022.

We compare the level of their wage income just before and right after they took out a partial old-age pension to their stabilised wage income level before taking out the pension. Using sequence analysis, we then classify various wage income trajectories. Finally, we examine characteristics relating to the wage income trajectories.

Most wage earners perceive no change in wage income

As a rule, wage earners continue working after taking out a partial old-age pension. Around 40 per cent of the wage earners were on a trajectory in which the wage income remained at the same level as before the partial old-age pension. In addition, just over 20 per cent were on a trajectory characterised by fluctuations in wage income over the follow-up period. Most likely, this trajectory reflected the situation that existed already before they took out the partial old-age pension. In other words, when measuring in the amount of wage income, a significant share of wage-earners made no changes to their working hours after taking out the partial old-age pension.

Around 20 per cent of those who were wage-earners before taking out the partial old-age pension were on a trajectory in which their earnings level decreased after they took out the partial old-age pension. In other words, only a fairly small share of wage-earners continues working and receive a lower wage.

Around 15 per cent of wage-earners who took out a partial old-age pension were on a trajectory in which their wage income ceased during the follow-up period. Nearly half of those on this trajectory received unemployment benefits at some point during the follow-up period. Since unemployment usually begins close to taking out the partial old-age pension, these two are likely to be related. A small share of wage-earners seems to exit working life completely after taking out the old-age pension since not all on this trajectory received unemployment benefits or a sickness allowance during the follow-up period.

The 25 and 50 per cent partial old-age pensions utilised partly in different ways

Three out of four wage-earners who started taking out a partial old-age pension took out half of their accrued pension. The size of the share taken out was related to which wage income trajectory a person ends up on. The 50-per-cent pension was taken out particularly by those who stopped receiving a wage income during the follow-up period. Those who took out 25 per cent of their accrued pension more often continued working with a lower income level than before.

Sociodemographic factors linked to ending up on different wage income trajectories; gaps between sectors of work particularly large

The study observed considerable gaps between private and public sector wage earners. Public sector wage earners were more likely to continue working at the same or a lower wage income level as before taking out the partial old-age pension. Private sector wage earners were more often on trajectories in which the wage income ceased or varied.

More often than men, women continued working at a lower wage income level. On the other hand, more often than women, men were on a wage income trajectory that involved varied wage income levels. A higher wage income level was connected to a greater likelihood of continued working without changes to the wage level and a smaller likelihood of continued working on a lower wage after taking out the partial

old-age pension. Compared to those with a higher education, those with only a basic education experienced more often a fluctuation of wage income and continued working slightly less often at a lower wage level.

The findings of this study on sociodemographic characteristics are likely to be partly related to differences in occupational or industrial structure or working conditions. For example, shift or weekend work may explain the likelihood of experiencing fluctuations in wage income. Differences in access to part-time work may explain the prevalence of working at lower wages. Differences in occupational structure and working conditions should be explored in more detail in the future.

The partial old-age pension unlikely to significantly extend working lives

The aim of the partial old-age pension was to extend working lives by offering flexible ways to combine retirement with working. If a combination of taking out the partial old-age pension and working extends working lives, it can be assumed to do so by reducing the number of working hours. However, this is not the case for most wage earners. At the same time, there are persons whose working life may be cut short because they take out the partial old-age pension. This may happen if they exit working life when they take out the partial old-age pension or if combining the partial old-age pension with unemployment benefits extends their period of unemployment. A more detailed examination of the employment effects is outside the scope of this study but, based on the results, the partial old-age pension seems not to significantly extend working lives.

The versatile use of the partial old-age pension suggests that the reasons for taking out this pension benefit vary. It is also likely that the reasons vary between different population groups. We need more information on which factors affect people's decision to take out a partial old-age pension and how these factors differ between wage earners, self-employed persons, unemployed persons and persons outside the labour force.

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