

# FINLAND



## DEMOGRAPHICS AND MACROECONOMICS

Nominal GDP (EUR bn)	178.8
GDP per capita (USD)	46 265.6
Population (000s)	5 289.0
Labour force (000s)	2 695.0
Employment rate	93.2
Population over 65 (%)	16.5
Dependency ratio <sup>1</sup>	32.4

Data from 2007 or latest available year.

1. Ratio of over 65-year-olds the labour force.

Source: OECD, various sources.

## COUNTRY PENSION DESIGN

### STRUCTURE OF THE PENSION SYSTEM

Source: OECD Global Pension Statistic.

IOPS Country Profiles – FINLAND, October/November 2008

## PENSION FUNDS DATA OVERVIEW

	2001	2002	2003	2004	2005	2006	2007
<b>Assets</b>							
Total investments (National currency millions)	78,373	80,194	88,860	105,288	120,762	129,979	139,600
Total investments, as a % of GDP	56.03	55.70	60.89	69.11	76.75	77.81	78.09
Of which Assets overseas, as a % of Total investment:							
• Issued by entities located abroad	ND	2.07	2.50	61.08	68.44	ND	ND
• Issued in foreign currencies	0.45	0.20	0.41	28.00	28.30	ND	ND
<b>By financing vehicle (as a % of Total investments)</b>							
• Pension funds	88.30	88.29	88.45	89.48	89.39	91.67	90.97
• Book reserves	ND	ND	ND	ND	ND	ND	ND
• Pension insurance contracts	11.70	11.71	11.55	10.52	10.61	8.33	9.03
• Other financing vehicle	NA	NA	NA	NA	NA	NA	NA
<b>By pension plan type</b>							
• Occupational assets	73,073	74,650	82,587	98,348	112,460	122,759	131,500
• % of DB assets	100.00	100.00	100.00	100.00	100.00	100.00	100.00
• % of DC (protected and unprotected) assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00
• Personal assets	5,300	5,544	6,273	6,940	8,302	7,220	8,100
<b>Structure of Assets (as a % of Total investments)</b>							
Cash and Deposits	0.00	0.00	0.18	0.70	0.54	0.49	ND
Fixed Income	60.12	63.00	59.43	55.72	51.80	47.13	ND
Of which:							
• Bills and Bonds issued by the public and private sector	51.59	55.51	53.48	49.45	48.51	44.16	ND
• Loans	8.53	7.49	5.95	6.26	3.29	2.97	ND
Shares	28.03	24.15	28.96	34.47	37.87	43.14	ND
Land and Buildings	11.85	12.85	11.34	8.62	9.50	9.05	ND
Other Investments	0.00	0.00	0.08	0.48	0.30	0.20	ND
<b>Contributions and Benefits</b>							
Total Contributions, as a % of GDP	9.77	10.07	10.54	10.66	10.71	11.27	11.14
• Employer Contributions, as a % of Total contributions	80.00	80.00	76.51	78.08	77.39	78.50	78.54
• Employee Contributions, as a % of Total contributions	20.00	20.00	23.49	21.92	22.61	21.50	21.46
Total Benefits, as a % of GDP	8.7	9.06	9.36	9.39	9.64	9.18	9.07
• % of benefits paid as a Lump sum	0.00	0.00	0.00	0.00	0.00	0.00	0.00
• % of benefits paid as a Pension	100.00	100.00	100.00	100.00	100.00	100.00	100.00
<b>Membership (in thousands of persons)<sup>1</sup></b>							
Total membership	695	815	936	4,403	5,156	5,206	5,356
• % of Active membership	85.11	85.71	81.26	70.12	63.25	63.45	62.90
Of which: % of Deferred membership	65.98	68.41	64.52	ND	ND	ND	ND
• % of Passive membership	14.89	14.29	18.74	29.88	36.75	36.55	37.10
Other beneficiaries	ND	ND	ND	ND	ND	ND	ND
<b>Number of Pension Funds/Plans</b>							
Total number of funds	144	144	244	175	196	150	153
Total number of plans	ND	ND	ND	ND	ND	ND	ND

Note: Data refer only to pension funds and pension insurance contracts.

1. Membership figures reflect 'membership' rather than 'people'. Therefore a person may be a member of more than one types of plan at any one time, particularly if the person has a number of employments in the year.

ND = data not available

NA = data not applicable

Source: OECD, Global Pension Statistics

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## FINLAND: THE PENSION SYSTEM'S KEY CHARACTERISTICS

### **PUBLIC PENSION**

The universal national pension covers all citizens if they reside in Finland after age 16 for at least three years. For foreigners if they reside in Finland for five years or longer immediately before reaching the pensionable age or before the pension states, they are also eligible. There is no contribution requirement for employee, while employer (the private sector) contributes between 0.801% and 3.901% of payroll, while (local and central government) contributes 1.851%. The benefit is tested against the earnings-related pension. The maximum benefit is Euro 558.46 (single) or Euro 495,35 (married) a month. The maximum will be reduced respectively, if the length of residence in Finland at the age of 16 – 64 years is less than 40 years. The pensionable age is 65, but early and deferred pension is possible, albeit the benefit is adjusted accordingly.

### **OCCUPATIONAL MANDATORY**

#### Coverage

Statutory earnings-related pension plans (TyEL and other schemes) cover employees aged 18 or older, people caring for children under three years old, and students attending degree courses of up to five years.

#### Contributions

The TyEL plan is funded by contributions from employees at rates (in 2008) of 4.1% of earnings for those under 53, and 5.2% for those aged 53 and older. Under the terms of the Employee Pensions Act, the aggregate employer-employee contribution rate for private-sector companies with wage bills of less than EUR 1.5 million is 21.4%. For larger firms it varies between 21.26% and 22.26%, while for occasional employers it is 22.4%.

For both employees and employers, the minimum earnings requirement for contribution purposes is EUR 47.08 a month, while there is no upper limit. The state covers the cost of contributions for students and people with children under three for those periods when they do not earn.

#### Benefits

The TyEL plan is of the career average type. It is usually funded through insurance schemes, although some large employers sponsor company-specific pension funds. The retirement age in the TyEL plan ranges from 63 to 68.

Benefit accrues at the rate of 1.5% of annual earnings between age the ages of 18 and 52, at 1.9% between 53 and 62, and at 4.5% from 63 and over. Pensionable earnings are adjusted for inflation with a 20% weighting and changes in earnings with an 80% weighting. Early and deferred pensions are allowed, but also adjusted accordingly. Benefits, too, are indexed to earnings and inflation – changes in earnings are weighted at 20% and inflation at 80%. TyEL pension benefits are paid out in the form of a life annuity, but may be adjusted to increases in longevity.

## **OCCUPATIONAL VOLUNTARY**

### Coverage

The current coverage rate is 8% of the labour force.

### Contributions

As a rule, employee contributions represent 5% of earnings, though in some cases only employer contributions are required. Employer contributions are tax-deductible up to a ceiling of 5% of employee earnings, or EUR 5 000 per year.

## **MARKET INFORMATION**

In 2007 the aggregate assets in all mandatory and voluntary occupational pension plans were worth approximately EUR 127 billion (USD 174 billion), of which TyEL plans alone accounted for EUR 77 billion (USD 113 billion). Pension plans had a total number of 4.4 million members (2.5 million active participants and 1.9 million retired beneficiaries). The number of registered pension funds was 120.

## **POTENTIAL REFORM**

1. Less tax paid on pensions: Beginning 1 January 2008, the tax rate on pension benefits from Euro 15,000 to Euro 30,000 will drop from 19-30% to 17-28%.
2. Replacement of the former TEL, LEL and TaEL by the Employees Pensions Act (TyEL) in the early 2007

<http://www.etk.fi/Page.aspx?Section=57946>

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## **REFERENCE INFORMATION**

### **KEY LEGISLATION**

2007

- The Employees Pensions Act (TyEL): the principal pension act covering employees in the private sector
- The Self-Employed Persons' Pensions Act (YEL)
- The Farmers' Pensions Act (MYEL) covers farmers, fishermen and reindeer herders
- The Seamen's Pensions Act (MEL)
- The State Employees' Pensions Act (VEL)
- The Local Government Pensions Act (KuEL): covers local government employees
- The Evangelical-Lutheran Church has its own pensions act: the Evangelical-Lutheran Church Pensions Act (KiEL).

**KEY REGULATORY AND SUPERVISORY AUTHORITIES**

Ministry of Social Affairs and Health

[www.stm.fi/Resource.phx/eng/index.htx](http://www.stm.fi/Resource.phx/eng/index.htx).

Finnish Center for Pensions

[www.etk.fi/Default.aspx?Lang=2](http://www.etk.fi/Default.aspx?Lang=2) , [www.tyoelake.fi/Default.aspx?Lang=2](http://www.tyoelake.fi/Default.aspx?Lang=2)

The Social Insurance Institution of Finland

[www.kela.fi/in/internet/english.nsf](http://www.kela.fi/in/internet/english.nsf).

**KEY OFFICIAL STATISTICAL REFERENCE AND SOURCES ON PRIVATE PENSIONS**

Vakuutusvalvonta (2008), *Key Figures Summary*, [www.vakuutusvalvonta.fi/en/statistics/pension-insurance/key-figures-summary/key-figures-summary](http://www.vakuutusvalvonta.fi/en/statistics/pension-insurance/key-figures-summary/key-figures-summary).

OECD, Global Pension Statistics project, [www.oecd.org/daf/pensions/gps](http://www.oecd.org/daf/pensions/gps).

## OECD Est. Gross Replacement Rate Mandatory Pensions, Average Earner 2007







