COUNTRY SPOTLIGHT | FINLAND

Assessing the system

Following the recent regular evaluation of Finland's earnings-related pension system, Tom Dunstan **examines what the conclusions of the evaluation were, and the system's perceived strengths and weaknesses**

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The variety of pensions systems around the world can be characterised by their similarities and their differences, each striving to supply the fairest and most comfortable lives for their working population as they move into their later years. However, each does so in their own way, and Finland no exception.

Finland's system is based on the operations of two complementary pension schemes: The national pension scheme and the compulsory occupational earnings-related pensions scheme.

Combined, this system covers a large variety of benefits within the country, such as the old-age pension, the disability pension, the part-time pension and the survivor's pension.

This system comes with a number

of aspects that make it similar to other pension systems around the world and others that set it apart, such as the relatively unique level of stability.

Steady as she goes

Following a recent regular evaluation of the pension system in Finland, it was found to be more stable than after the previous evaluation. Finnish Pension Alliance (Tela) public advocacy, Janne Pelkonen, explains more in depth, specifying: “It seems that our system is more stable this year than it was three years ago.”

The reasons behind this increase in stability might be a bit “counter-intuitive”, according to Pelkonen, due to the recent events that have had a negative effect on economic matters, such as the Russian invasion of Ukraine, the energy crisis, and high price inflation.

However, Pelkonen explains that there were other factors that contributed positively to the increase in stability, such as the “increased length of working careers for working-age Finns compared to the last evaluation” and “long-term returns on investments” – a factor that he identifies as having the biggest positive effect.

Although Pelkonen went on to state that the most recent evaluation also discovered that a sustainability gap is present within the earnings-related pension system, he says that this gap was smaller than the projections that were made three years ago.

Despite the positives, Finnish earnings-related pension contributions were outpaced by growth in earnings-related pensions expenditure in 2021, according to a study by Tela.

It found that earnings-related pension contributions and the state’s shares in the private sector totalled

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€18.6 billion in 2021, up from €16.8 billion in 2020, with €15.1 billion of this used to pay earnings-related pensions.

This increase in contributions was more than offset by growth in the total earnings-related pensions paid in 2021, which rose from €18.9 billion in 2020, to €19.4 billion in 2021, requiring an additional €4.2 billion to be withdrawn from investment funds.

Furthermore, whilst its reported stability is not something that every pension system around the world can boast, the rise in inflation has still been affecting the Finnish earnings-related pension system.

The average solvency ratio of Finnish earnings-related pension providers fell by 2.1 percentage points in Q3 2022 to 128.2 per cent, according to the Financial Supervisory Authority, which Tela primarily attributed to the poor performance of exchange-traded shares and fixed-income investments.

Priced out

The recent increase in inflation, which materialised as a 7.1 per cent rise over 2022 according to Elo director of public relations, Katja Veirto, has caused an increase in prices in Finland, affecting those purchasing a pension. Inflation and earnings-related pensions are linked in Finland, as Veirto explains: “The earnings-related pensions index is set based on 80 per cent from prices and 20 per cent from salaries.”

However, Veirto makes clear that, whilst Finnish pensioners may be in a worse position than they were before the increased inflation, they have also experienced an increase in their pension recently.

While this pension increase is not as much as the rise in inflation, it is still to the pensioners’ benefit and, as a result, “the situation is not as alarming as it could be”.

Pelkonen explains the situation in more detail: “Pensions rose by 6.8 per cent starting from January and the national pension indexation was even higher at 7.2 per cent due to the price inflation being so high between

2021 and 2022."

However, this was not an issue that affected all Finnish pensioners universally.

Varma senior vice-president of actuaries, Pasi Mustonen, notes that people who retired in 2022 got a higher index increment than a person who retired after the turn of the year, in 2023.

This is a sentiment that Veirto echoes, commenting: "It led to an unusual situation in which earlier retirement led to a better pension."

Another Finnish-specific recent trend in the earnings-related pension system concerns the provision of a disability pension.

Veirto explains that, in Finland, disability pensions have started to increase because of mental health reasons that especially affect younger people.

Veirto says that "this is something that a lot of people are concerned about and are asking what we should do about these mental issues".

Going it alone

Whilst some countries around Europe have a pension gap for the self-employed, the Finnish government has recently approved an amendment to the Self-employed Persons' Pensions Act (YEL) [see page opposite]. The reform aims to clarify the determination of self-employed workers' earned income and improve the pension security of self-employed workers.

The reform was brought in to address the issue that too few self-employed workers in Finland pay enough into their pension insurance. Pelkonen comments that "it is very difficult for the self-employed, as the current system is not based on actual taxable income" and, instead, it is a "evaluation of the work effort of the self-employed".

He continues: "The argument for this reform was that many self-employed people underinsure themselves in the Finnish pensions system and, to remedy this, the new legislation would make an anchor for their insurable income."

Pelkonen predicts that YEL would, in all likelihood, mean that the self-employed will pay more in pension contributions, and have better accrued pension levels, whilst having the additional benefit of providing better social security for the self-employed, because almost all social security of self-employed workers is tied into the sum that they pay into the pension system.

Whilst it is likely to benefit the self-employed, Pelkonen warns that YEL is not the perfect solution as "it's not a silver bullet, it's not going to change the landscape or anything like that".

Moving forward

Looking ahead to the future, Mustonen identifies two issues that could be pressing for the earnings-related pension system. He highlights these as the improvement of investment returns and, in the longer term, low fertility rates.

Expanding on this, Veirto comments: "The next reform will be something to do with the solvency regulation because, as we can see now, we have problems with the birth rate.

"Whilst we have solved the problem of the retirement age by having it rise automatically, we have to do something to get more returns from our investments."

Finland's earnings-related pension system would therefore seem to be in an interesting position at the moment, struggling with issues that have plagued many countries, along with some unique challenges for the country itself.

Whilst it has had to deal with problems in the past and will no doubt have to deal with more in the future, its achievements, such as its stability, bring hope that it will be able to deal with the issues it may face. ■