THE EMPLOYMENT PENSIONS SCHEME OF FINLAND

THE CENTRAL PENSION SECURITY INSTITUTE

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FOREWORD

Report of Finland for the OECD project on non-governmental pensions was compiled in accordance with the instructions of the OECD in 1990 by a working group at the Central Pension Security Institute (CPSI). The group was headed by Mr Markku *Hänninen* (CPSI), and its members were as follows: Messrs Sakari *Kuikka* (Ilmarinen Pension Insurance Company), Markku *Lehto* (Ministry of Social Affairs and Health), Asko *Tanskanen* (Pension-Varma Mutual Insurance Company), Matti *Toiviainen* (Ministry of Social Affairs and Health), and Jouko *Janhunen* (CPSI), secretary. The following pension experts contributed to the report: Messrs Antero *Ahonen* and Ari *Laine* (CPSI), Ms Synnöve *Hesso* (Pension Service Ltd), Ms Christina *Lindell* (CPSI), and Messrs Erkki *Nokelainen* (Ilmarinen Pension Insurance Company) and Matti *Voivalin* (Sampo Pension Insurance Company).

As the report was seen to include information which may arouse a wider interest, a new version of the report was compiled at the Central Pension Security Institute. In this version items have been somewhat reduced and the order of presentation has been changed to correspond better to the Finnish conditions.

My thanks go to all the persons who contributed to the report. The work of Mr Jouko Janhunen, secretary of the working group, has been of special value for the completion of the report.

Helsinki, 1 August 1991

Markku Hänninen
The Central Pension Security Institute

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1
INTRODUCTION

In Finland the compulsory employment pension cover in the private sector is part of the general social insurance. The statutory pension cover is built around the employment pension and the national pension. The employment pension puts the pension income in relation to the work income. The national pension guarantees a certain minimum income. The national pension is reduced by the employment pension. The requirements for entitlement to a national and an employment pension are almost identical. The employment pension is the total amount of the pensions accrued from different employment relationships or periods of self-employment. The administration of private-sector employment pensions scheme is entrusted to private pension institutions. Statutory pension cover may be implemented by voluntary additional pension arrangements. They are insignificant for the pension cover as a whole due to improvements in statutory pensions.

1.1
The structure of the pension cover

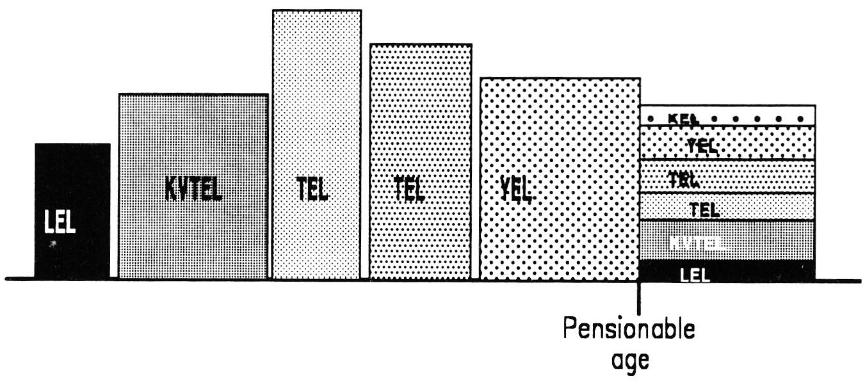
The administration of the employment pensions scheme is decentralized to several pension institutions and the pension cover is implemented by different employment pension laws (see chapter 1.3). There are six pension laws for employed and self-employed persons in the private sector. The State, the communes, the churches and some other public societies have their own employment pension laws.

The rules concerning determination of and entitlement to pensions are co-ordinated in the employment pension legislation in the private and public sector so that the employment pension from different employment and self-employment periods constitutes a uniform totality, the basic employment pension cover.

This co-ordination is most complete in the private sector, where, notwithstanding the decentralized system, the pension is awarded and paid from one single pension institution. This institution is the last one where the employee or the self-employed person was insured before retirement.

Chart 1 shows the basic idea of the determination of an employment pension. The final pension to be paid to the insured person is built up from pensions accrued in employment relationships and periods of self-employment by different pensions laws. The combinations of letters in the figure are abbreviations of the names of the pension laws in Finnish. The abbreviation KEL means the National Pensions Act. The complete names of the employment pension laws in the private and public sector are found in chapter 1.3.

Chart 1. The principle of the determination of the total pension



The benefits under the employment pension laws are co-ordinated mainly according to the following principles, covering the pension laws for both employed and self-employed persons:

- Every employment relationship and all periods of self-employment add to the pension (the earnings principle),
- The accrued pension right is vested, even though the employer changes or the person in question stops working altogether (the vesting principle),
- The employment pension is index-linked; the index adjustments are based on the average changes in the wage and price level; the adjustments are made annually both during the earning of the pension and after retirement,
- The time from the beginning of incapacity for work to retirement age adds fully to the pension (the so-called fully-effective pension) if incapacity occurs when the person in question is employed or within a year after the termination of the employment relationship, and
- The maximum employment pension is limited to a certain level and integrated with other earnings-related pensions and, at the most, with the basic amount of the national pension.

The integration described in the last section covers the basic employment pension. The maximum amount of the employment pension is 60 per cent of the highest pensionable earnings. If the pensionable earnings exceed FIM 6 581,18 a month (in 1991), the maximum amount is decreased by a gradually increasing amount. This deduction cannot, however, be more than the basic amount of the national pension (FIM 412 a month in 1991) and that level is not reached until the pensionable earnings are at least FIM 13 082,18 a month (in 1991).

The maximum amount of the employment pension under some employment pension laws, for instance in the public sector, is 66 per cent instead of 60 per cent. The part exceeding 60 per cent is integrated according to the provisions of the law in question.

The benefits from the employment accident insurance, the motor third party liability insurance and the military injuries legislation are also taken into account in the pension integration. They have priority over the employment pensions because they are financed differently.

1.2
The development of the employment pension cover

The employment pensions scheme was founded and over the years has been developed in co-operation with the labour market organizations. Only in exceptional cases have changes in the legislation been made solely by political decisions.

The employment pensions scheme in the private sector in its present form started with two pension laws, which came into force 1.7.1962. The above-mentioned general principles of co-ordination were regulated in the Employees' Pensions Act TEL. The TEL Pension Act was complemented by the Temporary Employees' Pensions Act LEL, which came into force on the same date. The same principles of co-ordination were gradually implemented also in the other employment pension laws.

Before the compulsory employment pension was created, the pension cover for the employees consisted of flat-rate and means-tested national pensions, employment accident insurance cover, the obligations in the social assistance legislation concerning support to old employees, voluntary personal or collective life assurances financed by the employer, voluntary arrangements in pension foundations and pension funds and pensions directly paid by the employer. Before the coming into force of the compulsory employment pensions scheme the voluntary pension arrangements covered less than 20 per cent of the employees, mostly clericals. In the industry the pensions amounted to 2,2 per cent of the wages and salaries of working hours.

The seamen had got their own employment pension law before the other employees already in 1956. Due to the character of the seamen's work this pension law partly differs from later pension laws.

Most persons employed by the State and the communes already had a statutory pension cover, but partly it did not reflect the development of the society. The pension legislation in the public sector was reformed already in the sixties along the lines of the employment pension legislation in the private sector.

From the year 1970 the self-employed persons were included in the employment pensions scheme by the Farmers' Pensions Act MYEL and the Self-Employed Persons' Pensions Act YEL.

The last of the present six employment pension laws in the private sector came into force in 1986. That is the Freelance Employees' Pensions Act TaEL.

The pension cover for the employees in the private sector has gradually been expanded so that at the moment virtually all kinds of work give right to an employment pension (see chapter 2.1.1.). The employment pension for an employed person starts to accrue already after an employment relationship of one month's duration. In 1962 the corresponding time limit was six months. In the LEL-branches the pension right is not based on the duration of the employment relationship but on the earnings.

There has never been any upper or lower limits in Finland concerning pensionable earnings or the amount of pensions. Until 1966, however, only the income from regular working hours was taken into account.

The time required for a full pension in the private sector is 40 years. Until July 1975 the pension accrued by one per cent of the income a year and the maximum amount of a full pension was 42 per cent of the income. Since that year pensions have accrued by 1,5 per cent of the income a year and the target level now is 60 per cent of the income. For the time when the scheme is coming into force the proportional amount of the pension has been raised so that a pension based on the so-called minimum percentage has been 29 – 38 per cent of the income.

In 1962 there were only old-age and disability pensions. After that the benefits have diversified and their amounts have totally changed. The pensions are described in detail in chapter 3.

The pensionable age is 65 years. Nowadays, however, about four of five insured persons in the private sector retire before the age of 65.

There are three kinds of disability pensions: the normal full disability pension, the partial disability pension, and the early disability pension which is paid to persons 55 – 64 years of age.

A part-time pension and an early old-age pension can be taken from the age of 60. Unemployment pensions are also paid to persons aged 60 – 64 years.

Annex E shows the proportion of pensions based on individual work history at the end of 1990.

Survivors' pensions are paid to widows, widowers and orphans.

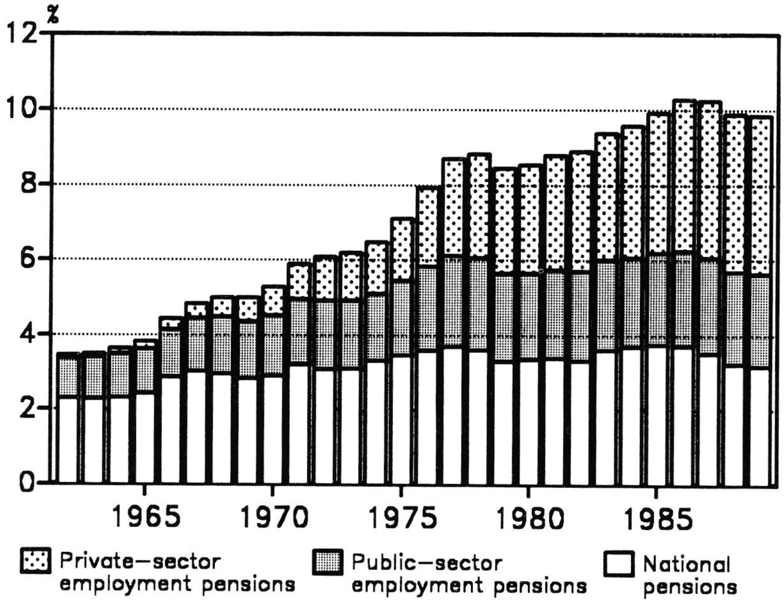
Besides other employment pensions the farmers are also entitled to a change-of-generation pension and a farm closure pension.

Only the employers finance the basic employment pension for employees in the private sector. The insured employees can only take part in the financing of possible voluntary additional pensions together with the employer. The State partly finances the employment pension cover for farmers and other self-employed persons. The financing of the Seamen's Pensions Act differs from the other employment pension laws in that the costs are shared among both employers, insured persons and the State.

The financing of employment pensions for the employees is partly based on the funding system. The contributions in the employment pensions scheme are dealt with in detail in chapter 5 and funding in chapter 6.

Chart 2 shows a time series of the development of the statutory pension security in the years 1962 – 1989. The proportion of the pension expenditure of the Gross Domestic Product has risen from below 4 per cent to about 10 per cent.

Chart 2. Pension expenditure in percentages of GDP in 1962 – 1989



1.3
The administration of the employment pensions scheme

The administration of the employment pensions scheme is decentralized to several pension institutions. Some functions, like maintenance of a central register, interpretation of the legislation, statistics, development of the employment pension cover and division of liability for pension expenditure among the various pension institutions are centralized to the central body for the employment pensions scheme, the Central Pension Security Institute. The highest supervisory authority is the Ministry of Social Affairs and Health.

This administrative solution and the financing by the employers were the central elements in the agreement between the labour market organizations concerning the founding of the employment pensions scheme. It was also included in the said agreement that the contributions shall be returned against safeguarding securities to the economy, either as normal loans or as premium bond loans (see chapter 7.). The employer has an automatic right to premium bond loans provided that certain general conditions are met.

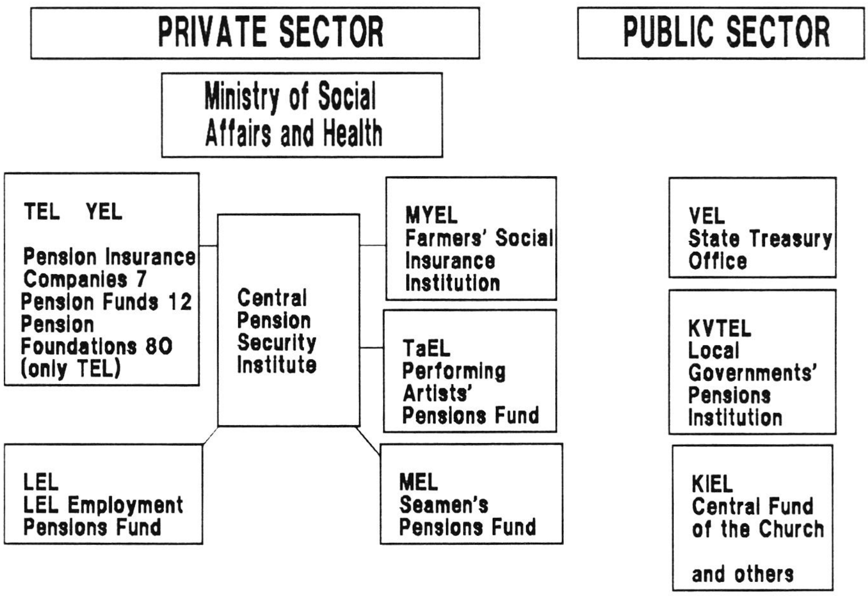
In the TEL Pension Act the employer is free to choose his pension institution. He can arrange the employment pension insurance for his employees in one of the existing seven pension insurance companies which have the Government's authorization for managing compulsory employment pension insurance or in a pension foundation or a pension fund. A pension foundation normally covers only one company. A pension fund usually covers several companies from the same branch. A pension foundation must have at least 300 and a pension fund at least 100 insured members. 81,8 per cent of the TEL insured persons are presently insured in pension insurance companies, 12,6 per cent in pension foundations and 5,6 per cent in pension funds (see annex F.).

The pension cover for employees under the LEL, TaEL and MEL pension laws and for farmers under MYEL is taken care of by central pension institutions for each group. Self-employed persons under the YEL Pension Act arrange their personal employment pension in a pension insurance company or a pension fund. The first mentioned method is clearly the more common one.

Chart 3 describes the administrative organization of the employment pensions scheme separately for the private and the public sector. After the picture there is a list of the employment pension laws.

As was mentioned before the employment pension cover was created in co-operation with the labour market organizations. Therefore the labour market parties are represented in the administrative bodies of the pension institutions and the Central Pension Security Institute.

Chart 3. The administration of the employment pensions in the private and public sector



The private-sector pension laws:
TEL = Employees' Pensions Act
LEL = Temporary Employees' Pensions Act
TaEL = Freelance Employees' Pensions Act
MEL = Seamen's Pensions Act
MYEL = Farmers' Pensions Act
YEL = Self-Employed Persons' Pensions Act
The public-sector pension laws:
VEL = State Employees' Pensions Act
KVTEL= Local Government Employees' Pensions Act
KiEL = Evangelical-Lutheran Church Pensions Act

The private-sector employment pension institutions operate as separate insurance institutions following normal insurance principles; the contributions and the insurance terms and conditions, however, are uniform for all of them. The Ministry of Social Affairs and Health confirms the contributions and the insurance terms and conditions. Furthermore some special features of the insurance will be described later in this text.

In the private sector the pension is granted and paid by the pension institution where the person was last insured (the principle of the last institution). Besides its own register information the pension institution obtains information needed for calculation of pensions from the Central Pension Security Institute. The registers also contain reference information about employment relationships in the public sector. The Central Pension Security Institute annually settles the liability of the different pension institutions for the pensions that have been paid. The possibilities to extend the principle of the last institution even to the pension institutions of the public sector without changing the financing system are now being considered.

The central registers make it possible to serve the insured persons also before the contingency. About every tenth insured person annually gets the information about his registered employment relationships and accrued pensions automatically. This way the insured persons can make sure that the information registered about them is correct. Furthermore the insured person can spontaneously check his registered information anytime he likes to.

1.4
Voluntary pension cover

Besides compulsory pensions this report also contains information about voluntary additional pensions. It is possible to create a voluntary additional pension cover in the employment pensions scheme by a registered additional pension. A registered additional pension arrangement is treated like the compulsory pension cover as far as, for instance, indexation and vesting are concerned.

Voluntary additional pension cover can also be arranged with an unregistered additional pension arrangement outside the employment pensions scheme. These additional pension arrangements have in many cases been introduced before the coming into force of the compulsory employment pensions. They either fall under the Pension Foundations Act or the Benefit Societies Act or they are pension insurances taken out from insurance companies.

There are 257 pension foundations operating under the Pension Foundations Act. Of them, 187 are only concerned with voluntary additional pension insurance, 51 with both voluntary and compulsory pension insurance and the rest 19 with only compulsory pension insurance. There are 28 pension funds operating under the Benefit Societies Act. Of them, 16 are only concerned with voluntary additional pension insurance and 12 with compulsory and voluntary pension insurance or solely compulsory pension insurance.

The pension cover of the employees can also be complemented by a personal pension insurance financed by the insured person himself or his employer. By the end of October 1990 almost 38 000 personal pension insurance contracts were in force.

The companies can also pay pensions directly out of their own assets without any previous pension insurance. The number of such pension arrangements is not known.

Chart 4 shows a summary of the different methods for creating a voluntary additional pension cover.

Chart 4. Methods for creating a voluntary additional pension

Registered additional pension (group)	**Unregistered additional pension (group)**	**Individual additional pension** Employment-based or other
*Pension insurance companies *)*	*Pension foundations* *Pension funds* *Insurance companies*	*Life insurance companies* *Employers*

*) In addition 1 pension foundation and 1 pension fund

The voluntary additional pensions are insignificant for the pension cover as a whole, due, among other things, to the fact that there is no upper limit to the pensionable earnings in the employment pensions scheme. The voluntary additional pensions are mainly used to lower the retirement age and to raise the pension level for the elderly age groups up to the full employment pension cover of 60 per cent. In 1990 the private sector paid FIM 20 000 million as compulsory employment pensions. The expenditure for different voluntary pension arrangements for the same year was estimated to about 5 per cent of the expenditure for compulsory pension cover.

2
THE SCOPE OF THE PRIVATE-SECTOR EMPLOYMENT PENSION COVER

The compulsory employment pension cover in the private sector comprises almost everybody who is, or has been, working in the private employment or self-employment. Pensions laws of employees and self-employed persons cover about 70 per cent of the total labour force. 80 per cent of insured persons are employees and 20 per cent self-employed persons. The scope of voluntary additional pension cover varies depending on the type of arrangement.

2.1
Compulsory pension cover

2.1.1
The qualifying conditions for the coverage of the employment pensions

The compulsory employment pension cover in the private sector comprises almost everybody who is, or has been, working in the private sector. About 1 760 000 persons worked in the private sector in 1989. Only a few per cent of them were not covered by the compulsory employment pensions scheme, because the limits concerning duration of the employment and earnings are very low.

The Employees' Pensions Act (TEL) covers employees aged 14 – 64, whose employment relationship has lasted uninterruptedly for at least a month and who earn at least as much as the amount stated in the Act (FIM 1 010,92 per month in 1991; bound to the TEL index). Even employment relationships under a month come under the TEL, if the employee works for the same employer at least 20 hours a calendar month for three consecutive months and his earnings for each calendar month exceed FIM 1 010,92.

The Temporary Employees' Pensions Act (LEL) applies to employees working in agriculture, forestry, construction or dock work. The LEL does not, however apply to clericals. They are insured under the TEL. There is a minimum limit for the annual pensionable earnings in the LEL and in 1991 it is FIM 3 190. If the annual earnings are below the limit, no LEL pension accrues for that year.

The Seamen's Pensions Act (MEL) covers seamen working on a Finnish merchant vessel in international transport. Seamen in coastal or inland water traffic, however, fall under the LEL.

The Freelance Employees' Pensions Act (TaEL) covers the occupational groups listed in the Act. The employment relationship is required to be intended to last less than a year. There is a minimum limit for the annual pensionable earnings in the TaEL and in 1991 it is FIM 6 065,49. If the annual earnings are below the limit, no TaEL pension accrues for that year. An exception is made for the year when incapacity for work occurred. That year it is sufficient if the earnings before the occurrence of the incapacity are at least FIM 505,46 when calculated per month (in 1991).

The Farmers' Pensions Act (MYEL) covers farmers aged 18 – 64 years residing in Finland as well as their family members working on the farm. The farm must comprise at least two hectares of land suitable for farming. When determining the size of the farm, a proportional part of the forest is taken into account as agricultural land. The proportion varies according to the commune in which the farm is located. Eligibility under the MYEL furthermore requires a minimum four months duration of the farming after the age of 18 years and an annual farming income of at least FIM 4 048 (in 1991). The Farmers' Pensions Act also covers fishermen, who carry on professional fishing without an employment relationship, and reindeer-owners who carry on reindeer husbandry on the account of their own family members or the reindeer-grazing association.

The change-of-generation and farm clossure pensions are paid to support the agriculture. The Change-of-Generation Pensions Act (SPVEL) is a fixed time law. According to the present law the change-of-generation pensions are granted until the end of 1995. The pension can be granted to a 55-year old farmer, who hands his farm capable of surviving over to a younger person. The Farm Closure Act (LUEL) is also in force for a fixed period, until the end of 1992. The Act covers a farmer aged 55 years, who gives up his farm.

The Self-Employed Persons' Pensions Act (YEL) covers other self-employed persons than farmers. Further requirements are 18 – 64 years of age, residence in Finland, a four months minimum duration of the self-employment after the age of 18 years and an annual income of at least FIM 2 021,83 a month (in 1991).

Farmers and other self-employed persons often also work under the LEL Pension Act.

As a summary the following table includes the numbers of private-sector employees and self-employed persons at the end of 1990.

	Pension act	Persons
Employees		
	TEL	1 160 000
	LEL	140 000 *)
	MEL	8 000
	TaEL	7 000 *)
Self employed		
	YEL	165 000
	MYEL	175 000
		*) estimation

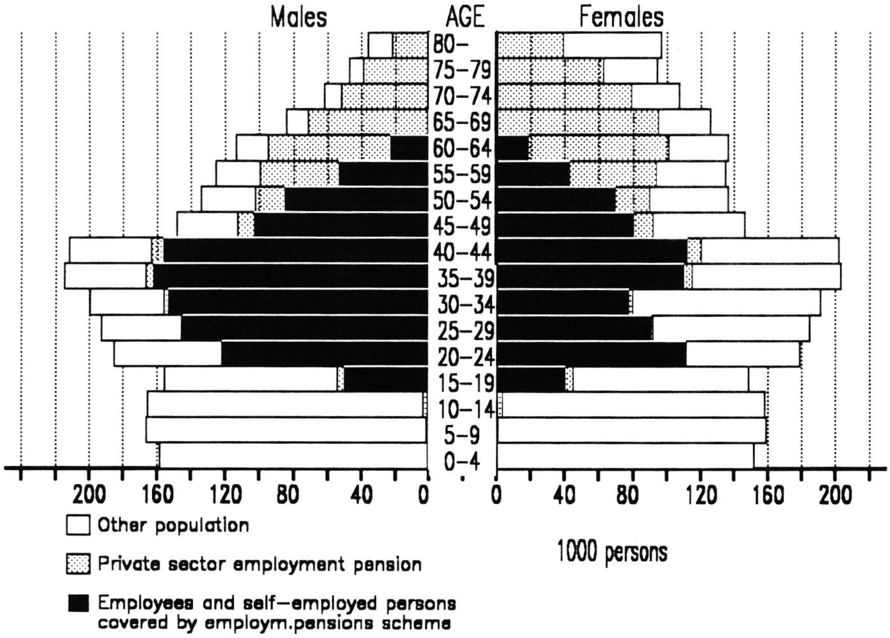
The complete names of the pension laws in the table are listed in chapter 1.3.

2.1.2
Insured employees and self-employed persons

About 70 per cent of the entire workforce are working in the private sector. 80 per cent of them are employed and 20 per cent self-employed. About 550 000 of the persons covered by the pensions scheme do not work in the private sector anymore. They have moved to the public sector or abroad or for some other reason do not belong to the workforce anymore.

Chart 5 contains information about employees, self-employed persons and pensioners covered by the employment pensions scheme in the private sector in 1988, divided according to age and sex. The portion of women is steadily somewhat smaller than that of men, because more women than men work in the public sector and more women than men are outside the workforce. The participation of women in the working life in Finland is, however, above the average in the OECD-countries.

Chart 5. The population and the scope of the compulsory employment pension cover in the private sector in 1988.



Industry, trade and agriculture-forestry are the three largest occupational groupings in the private sector. More than 90 per cent of the total workforce in these occupational groupings are working in the private sector. Table 1 shows the division of the persons insured in the employment pensions scheme in the private sector among different occupational groupings and their portion of the total workforce in 1988.

Table 1. The division of persons insured under the employment pension laws according to occupational groupings in 1988, %

Occupational grouping	Covered by the employment pension laws, %	Portion of the workforce in grouping, %
All groupings	100	71
Agriculture-forestry	13	93
Industry	31	97
Construction	10	83
Trade	20	98
Transport, storage and data communication	6	58
Financing, insurance business etc.	10	92
Social and personal services	10	25

Table 2 contains information about the number of employees in the private sector according to occupational groupings and their portion of all the employees in these occupational groupings. The table also contains information about the self-employed according to occupational groupings. The largest occupational grouping for the self-employed are agriculture-forestry and fishing. They comprise 40 per cent of the self-employed. 76 per cent of all persons working in this occupational grouping are self-employed.

66 per cent of all employees are working in the private sector. According to occupational groupings commercial work, industrial work, machine services, and mining and construction almost entirely fall under the private sector. On the other hand health care and social welfare are mostly handled in the public sector.

Table 2. The employed and self-employed persons in the private sector according to occupational groupings in 1989

Occupational grouping	Employees		Self employed
	number	% of all employees	number
All occupational groupings	1 395 000	66	366 000
Engineering and scientific work, teaching	155 000	50	17 000
Health care and social work	35 000	14	15 000
Administrative and clerical work	257 000	72	40 000
Commerce	198 000	99	39 000
Agriculture, forestry, fishing	36 000	67	167 000
Transports and communication	72 000	58	20 000
Manufacturing industry, machinery operation, mining and construction	495 000	91	48 000
Services etc.	144 000	56	22 000
Unknown	2 000	55	0

2.2
Voluntary pension cover

At the end of 1989, 92 000 insured persons were employed with the registered additional pension cover to the old-age, disability and unemployment pension. 64 500 insured persons enjoyed additional cover to the survivor's pension. Funeral grant had been arranged for 47 500 insured persons. Concerning those who had already terminated their employment relationship, 165 500 persons were entitled to additional cover in the form of a paid-up policy to the first-mentioned pensions and 99 500 persons to the survivors' pensions.

The conditions for eligibility to a voluntary additional pension arranged in pension foundations and pension funds are found in the rules of the foundation or fund. In some of the pension foundations and pension funds the eligibility is determined as in the TEL Pension Act. Normally, however, the rules stipulate a lower and/or upper age limit and a longer waiting period than in the TEL for eligibility to a voluntary additional pension. The waiting period can vary from some months to several years. The scope of functions of many pension foundations and pension funds are closed so that persons who have started working after a certain date are not eligible for the additional pension cover.

A pension foundation covers the personnel of one employer or all employers belonging to the same group of companies. It is a common feature for the pension foundations and pension funds that they do not accept named persons as members, but all those who fulfil the conditions for eligibility.

In 1990, 225 034 persons were insured in pension foundations. Of these persons 123 695 belonged to foundations that only grant additional pension cover. The pension funds had 99 102 members, 19 718 of whom belonged to funds that only grant voluntary additional pension cover. Furthermore there are 13 burial funds and retirement assistance societies, which fall under the Benefit Societies Act and pay their 53 000 members lump-sum benefits.

Eligibility for voluntary additional pension cover insured in an insurance company depends on the agreement between the insurance company and the employer. Generally certain groups are insured, but also named persons can be insured.

Personal pension insurances supplementing compulsory pension cover numbered 37 787 at the end of October 1990. These insurances are insured with private insurance companies.

There are no statistics available on the company pensions which are directly paid out of the company's own assets.

3
THE EMPLOYMENT PENSIONS AND THEIR DETERMINATION

Pensions payable under all the employment pension laws are the old-age, disability, unemployment and survivors′ pensions. Farmers have some special benefits. Employment pension accrues 1,5 per cent of wage per each year of employment, when the maximum pension is 60 per cent of the wage. Pensions in payment as well as all income limits in the laws have been tied to a TEL-index which is adjusted every year. Voluntary, registered additional pension cover is constructed in the same way as compulsory one. In unregistered additional pension arrangements the determination of the pension is more free.

3.1
Compulsory pension cover

3.1.1
Pensions

The employment pension benefits in the private sector are old-age pension, early and deferred old-age pension, part-time pension, unemployment pension, disability pension, partial disability pension, widow(er)′s pension and orphan′s pension, and, concerning farmers, furthermore change-of-generation pension and farm closure pension.

An old-age pension is granted to an employee who has reached the pensionable age of 65 years. Furthermore the TEL requires that the employment relationship is terminated. Since the beginning of 1986 persons aged 60 – 64 years have been able to choose an early old-age pension. An early old-age pension remains constantly smaller than a normal old-age pension. On the other hand it is possible to defer the pension past the pensionable age, which results in a deferment increase to the pension.

A part-time pension can be granted to a person aged 60 – 64 years with a long work history, who is not entitled to an own (means other than survivors′ pensions) pension and moves from full-time to part-time work. The part-time work must be at least 16 and at the most 28 hours a week and the decrease in wages 30 – 65 per cent compared to full-time work. The earnings from part-time work must be at least FIM 1 010,92 a month (in 1991).

An unemployment pension is granted to a 60 years old person who has been unemployed for a long time. When granting the pension it is furthermore required that the insured person has received unemployment benefit for 200 days during the previous

60 weeks or earnings-related unemployment benefit for the maximum period and that he cannot be offered a job from which he could not refuse without losing his right to unemployment benefit.

A disability pension is granted to an insured person with an illness, defect or injury lowering his working capacity, providing that the disability can be estimated to last uninterruptedly for at least a year. Not only medical factors are taken into account but also the insured person's ability to earn his living from such available work which it is reasonable to expect him to manage with, considering his education, earlier activity, age and other comparable circumstances. Depending on the decrease of the working and earning capacity the disability pension is paid either as a full or a partial pension. A full disability pension is granted if the working capacity is considered to have decreased by at least three fifths and a partial disability pension if the working capacity is considered to have decreased by less than three fifths but at least by two fifths.

Since the beginning of 1986 there has also been an early disability pension. This pension pays less attention to medical circumstances than the normal disability pension. The early disability pension is only paid to persons aged 55 years or more.

The survivor's pension has been reformed from July 1990 so that survivor's pension is paid under the same conditions to widows and widowers. The requirements for entitlement to a pension are that the widow or widower was married to the deceased person at the day of the death and that they married before the deceased person was 65 years. Even the former spouse can be entitled to a survivor's pension, if she or he had received continuous maintenance allowance.

The widow or widower gets the pension if she or he and the spouse have or have had a child together. The age of the child does not affect the pension right. If the spouses did not have a child together, the entitlement to a survivor's pension requires that the widow or widower was at least 50 years when the spouse died and that the marriage had lasted for at least five years. If a childless widow was born before 1 July 1950, a lower age limit of 40 years is used instead of the above-mentioned age limit of 50 years. The introductory provisions of the reformed survivors' pensions legislation also give the right to a widow's pension to a woman who had been married to the deceased person, if she was 40 years before 1 July 1990 and the marriage with the deceased person had lasted at least three years.

The aim of the widow's or widower's pension is to compensate the loss of income which the surviving spouse has lost because of the death. The final amount of the surviving spouse's pension is determined with the help of the accrued employment pensions of the spouses.

The survivor's pension is not cancelled because the widow or widower remarries, if she or he is at least 50 years. If a younger widow or widower remarries, the pension is cancelled, but the beneficiary gets a lump-sum payment corresponding to the pension for three years. If the new marriage ends within five years without giving right to any survivor's pension, the payment of the cancelled survivor's pension will begin again upon application. The amount of the lump-sum payment is deducted from the pension.

The child's pension right does not depend on the surviving spouse's pension nor does the income of the child affect the amount of the pension. A child's pension can be granted to the deceased person's children under 18 years. Even the other spouse's children may be entitled to a survivors' pension after their stepfather or -mother, if they lived in the spouses' home at the day of the death of their stepfather or -mother. The child's pension is terminated when the child becomes 18 years or earlier if he is adopted.

A farm closure pension can be granted to a farmer aged at least 55 years, who gives up his farm and farming permanently. A wife, whose husband is entitled to a farm closure pension, may get the farm closure pension at the age of 45 years, as well as a widow.

A change-of-generation pension may be granted to a farmer born before 1936 but younger than 65 years, who hands over his functioning farm to a younger farmer. The receiver must be suitable to continue farming, considering his age, skill and other qualities. He must be capable of work and commit to living on the farm and cultivating it for at least five years. The spouse of the farmer is also entitled to a change-of-generation pension. The pension is not granted to a person who already receives an unemployment, disability, early disability or early old-age pension from the national pensions scheme.

A life annuity or real-estate pension is a benefit based on the transfer of real property. It is mainly used in agriculture, where the price for the firm is partly set off by an agreement on life annuity. Normally the life annuity consists of a housing benefit in kind. Life annuities in cash are rare, because the statutory pensions have made them unnecessary. There are no statistics on the number of life annuities. The importance of life annuity in facilitating changes-of-generation in agriculture is shown by the fact that, for example in 1989, 73 per cent of the 1 442 farm purchases accomplished with the help of the change-of-generation pension included an agreement on life annuity.

If the insured person's employment relationship or self-employment under the employment pension laws ends before the contingency, he maintains his accrued right to an employment pension. This resting pension right is called a paid-up policy. The paid-up policy is granted when the insured person gets a pension according to some employment pension law. With the exception mentioned below, the pensionable age in paid-up policy pensions is 65 years. The paid-up policy in the private sector can be taken before the age of 65 years if the insured person takes an early old-age pension from the employment pension scheme in the public sector.

The pension cover from different employment relationships can vary for example as far as the pensionable age is concerned. When the different paid-up policies are combined into a total employment pension, they are also converted corresponding to the conditions of the last employment relationship. If for instance the pensionable age is then lowered, the paid-up policy pension is lowered correspondingly in order to maintain the capital value of the paid-up policy. If, on the other hand, the pensionable age is raised, the paid-up policy pension is raised correspondingly. The Ministry of Social Affairs and Health has confirmed common conditions concerning paid-up policies to all pension institutions as well as the coefficients with which the pension is converted.

A recipient of an employment pension in the private sector may have worked under several employment pension laws during his work history. In the two tables below the recipients of employment pensions are grouped according to the employment pension law under which they have last worked and according to which the pension has been granted. The Seamen's Pensions Act (MEL) is an exception from this rule. The MEL statistics contain all persons, including also those who because of later employment have been granted a pension under some other employment pension law. Survivors' pensions have been compiled according to the employment of the deceased. Due to the MEL statistics and because a recipient of a survivor's pension may receive an employment pension of her own under some other law than the one relevant for the survivor's pension, the number of recipients of pensions grouped according to the pension laws is not the same as the total number of employment pension recipients in the private sector.

In 1990 the employment pensions were divided according to employment pension laws as follows:

TEL	LEL	MEL	TaEL[1]	YEL	MYEL[2]
478 841	144 074	7 817	127	67 459	219 827

The recipients of employment pensions in the private sector were divided as follows in 1990 according to the pension type:

Old-age pension	475 271
Disability and	273 635
unemployment pension	180 810
Survivors' pensions	160 089
of which widows	20 721
orphans	967
Others[2]	

At the end of 1990, 173 353 full and 8 902 partial disability pensions were paid according to the TEL, LEL, TaEL, YEL and MYEL pensions laws. 2 309 disability pensions were paid according to the MEL Pension Act. At the end of 1990, 35 906 early disability pensions were paid according to the employment pension laws in the private sector.

The total of employment pensioners in the private sector was 70 per cent of all pensioners in Finland and 85 per cent of all pensioners in the private and public sectors. Normally the employment pensioner receives also a national pension and, where the career includes public service, also a pension from the public sector.

The pensions are paid continuosly. Small pensions under FIM 26,07 a month (in 1990) can in some cases be settled with lump-sum payments.

[1] There are only a few TaEL pensions, because this Pension Act only came into force in 1986.

[2] Furthermore 38 959 persons received a farm closure pension or a change-of generation pension. These pensioners are partly included in the other groups. All recipients of farm closure pensions and change-of-generation pensions are included in the total number of recipients of employment pensions in the private sector.

3.1.2
Determination of pensions

The old-age, unemployment, full disability, early disability and front-veterans' early retirement pension (a special pension paid to front-veterans from the employment pensions scheme) as well as the full survivor's pension form a proportion shown by the pension percentage of the pensionable earnings or income. According to the main rule the pension accrues by 1,5 per cent of the wage for each year in work. The maximum pension is 60 per cent of the wage. The growth of the pensions of the elderly age groups has been accelerated by stipulating a minimum amount for the pension. The full minimum amount is 38 per cent of the wages or work income if the contingency has occurred 1 January 1983 or later and 37 per cent if the contingency has occurred earlier. The minimum pension is 25 per cent of the wage if the contingency has occurred before 6 July 1975. The full minimum amount is granted if the insured person has been working continuously after the coming into force of the employment pension law. The pension is calculated separately for each employment relationship and self-employment and the separate pensions are then combined into one pension.

The amount of the early old age pension is determined according to the work periods before the beginning of the pension. Furthermore the pension is reduced by 0,5 per cent for each month which the pensionable age is below 65 years.

The amount of the part-time pension depends on the age of partial retirement and is 44 – 64 per cent of the difference between the earnings from full-time and part-time work, however, not more than 75 per cent of the old-age pension accrued at the time of the beginning of the part-time pension.

The main rule is that the partial disability pension is half of the full pension. The receiver of a TEL, LEL and TaEL pension born before 1 January 1927, however, gets 52 – 56 per cent of the full pension and the receiver of a YEL and MYEL pension born before 1 January 1935, 52 – 66 per cent of a full pension.

The survivor's pension is based on the deceased person's old-age, early old-age, full disability, early disability or unemployment pension. If the deceased person did not receive a pension, the survivor's pension is based on the pension that he would have got if he had become disabled on the date of his death.

The combined amount of the surviving spouse's pension and the children's pensions are determined from the deceased person's pension as follows:

The number of children	No children	1	2	3	4 – children
Widow(er)'s pension from the deceased person's pension	6/12	6/12	5/12	3/12	2/12
Children's pensions together from the deceased person's pension	–	4/12	7/12	9/12	10/12

The amount of the surviving spouse's pension is also reduced by the widow's or widower's own employment pensions (pension adjustment) if they exceed a certain limit in Finnmarks. The survivors' pension – surviving spouse's and child's pension together – cannot be more than the deceased person's pension.

If the recipient of an old-age, early old-age, unemployment, disability or early disability pension was born before 1939 (recipients of TEL, LEL and TaEL pensions) or before 1947 (recipients of YEL and MYEL pensions) and the beneficiary or his spouse takes care of a child under 18 years who would be entitled to a survivor's pension, a child increase is added to the pension. The maximum child increase is 20 per cent of the pension for one child and 40 per cent for several children.

3.1.3
Index linkage

The employment pension is linked to the TEL index which is confirmed by the Ministry of Social Affairs and Health annually. The pensions are adjusted every year in January according to the changes in the index. Since the beginning of 1977 the index has been calculated from the average changes in the price index and general wage index. The wage and price level is measured by the Central Statistical Office's official index series concerning the development of the employees' wage level and the consumer prices. The TEL index follows the development of the average annual changes of these indeces.

Before 1977 the TEL index followed the average development of the wages. The changes in the structure of the economy and all kinds of wage glides, however, affected the TEL index so that the pensions tended to rise too fast. For this reason the calculation of the TEL index was altered.

The following chart shows the rise of the TEL index confirmed by the Ministry of Social Affairs and Health in the years 1962 – 1990 and for the sake of comparison the corresponding rise of the prices.

Year	The rise of TEL index, %	The average change of prices, %
1962	0,00	0,00
1963	6,00	4,87
1964	9,43	10,35
1965	12,07	4,82
1966	9,23	3,94
1967	7,04	5,63
1968	8,55	9,18
1969	10,30	2,21
1970	8,24	2,73
1971	9,64	6,48
1972	14,35	7,14
1973	10,93	10,70
1974	14,96	16,89
1975	21,59	17,85
1976	20,63	14,36
1977	13,42	12,61
1978	9,35	7,80
1979	6,11	7,51
1980	9,38	11,56
1981	12,03	11,99
1982	12,21	9,60
1983	9,45	8,30
1984	9,95	7,08
1985	8,15	5,90
1986	7,08	2,90
1987	5,15	4,08
1988	5,39	5,14
1989	7,44	6,57
1990	6,78	6,08
1991	7,70	4,2 (prognosis)

In the years 1981 – 1990 the average annual rise of the TEL index has been 8,4 per cent and the average annual rise of the prices 6,8 per cent.

The different fixed sums in the employment pension laws are linked to the TEL index. When granting a pension the wages from earlier years are adjusted by the TEL index to the level of the year when the pension is granted. The paid-up policy from earlier work is also linked to the TEL index.

3.2
Voluntary pension cover

The basic pension cover under the TEL, YEL and MYEL can be complemented by a registered additional pension. The registration concerns old-age, disability and unemployment pensions and separately also survivor's pension. The entitlement to a pension is determined as in the compulsory pension cover. The registered voluntary additional pension cover is defined so that the target percentage – 60 – 66 per cent – is reached in 25 – 40 years. When calculating the target the compulsory pension accrued from the same work and usually also the basic amount of the national pension are taken into account. The voluntary additional pension is integrated with the other employment pensions and furthermore with all other pensions which the employer has declared to be taken into account, so that the total pension cover does not exceed a certain percentage (60 – 66).

The unregistered additional pension arrangements usually cover old-age, disability and survivors' pensions as well as funeral grants. The voluntary pension often includes a lowered pensionable age.

The voluntary pensions granted by pension foundations, pension funds and insurance companies are defined in the rules of the foundations and funds as well as in the insurance contracts. The right to a pension is normally defined as in the compulsory pension cover. The pensions are paid continuously and cannot usually be paid as lump-sum payments.

The additional pension cover from a pension foundation or pension fund is normally determined as a specified target percentage of the wages or salary. Some additional pension arrangements exceptionally know a staggered growth of the pension, meaning that the percentage up to a certain salary is for instance 60, and less for the exceeding part of the salary, for example 50. Furthermore some pension arrangements know an additional pension fixed in Finnmarks. The additional pension cover can be considered good when it comprises an old-age and disability pension of 60 per cent and a surviving spouse's pension of at least 30 per cent. A full additional pension normally accrues in 20 – 30 years.

The compulsory pension from the same employment relationship is reduced from the additional pension. The additional pension is integrated with the other pensions mentioned in the rules so that the total pension does not exceed the target percentage. Since the compulsory survivor's pension does not, after the changes of 1 July 1990, discriminate between the sexes anymore, The Ministry of Social Affairs and Health has instructed the pension foundations and pension funds that the same changes must be made in the voluntary additional pension, if new members are still allowed to join the survivors' pensions cover of the pension foundation or pension fund.

The voluntary pension cover insured in an insurance company is often determined according to the same principles as the above-mentioned pension cover in a pension foundation or pension fund.

The main goal with voluntary personal pension insurance is to lower the pensionable age. At the end of October 1990, of the about 38 000 insurance contracts in force, the pensionable age is lowered in 95 per cent when compared to the pensionable age of 65 years in the private-sector employment pensions scheme. The most common pensionable age is 55 years (40 per cent of the insurance contracts), 58 years (14 per cent) and 60 years (24 per cent). The pensionable age is 65 years in 4,3 per cent of the insurance contracts. Only 0,5 per cent of the insurance contracts know a pensionable age over 65 years.

The rules of the pension foundations and the pension funds contain provisions on the possible right to a paid-up policy. If the right to a paid-up policy is secured in the additional pension arrangement, there are often further conditions concerning for example the duration of the employment relationship. Vesting is always secured in the registered additional pension cover and in the personal pension insurance contracts.

The registered additional pension arrangements are linked to the TEL index according to legislation. In the pension foundations and pension funds it is possible to decide freely on the indexation of the voluntary pension cover. The rules of the pension foundation and fund contain provisions on index adjustments. The TEL index is the most common one, but to some extent pensions are also adjusted by the cost-of-living index or the rise of the wages paid by the employer. The unregistered additional pensions are raised within the limits permitted by the revenue of the funds. An annual additional contribution has to be collected if a better index protection is wanted.

4
THE INTEGRATION OF EMPLOYMENT AND NATIONAL PENSIONS

The compulsory pension cover consists of employment pensions and national pensions. When the contingency occurs, the employment pension is integrated with the national pension. The employment pension is formed as a determined percentage of the wage. The full national pension is decreased by the employment pension. Due to the interdependence of the national and employment pensions the pension payable is heavily degressive.

4.1
National pension benefits

National pensions are paid from the national pensions scheme which is under parliamentary supervision. The aim of the national pensions scheme is to guarantee a minimum pension income to residents with small employment pensions due to a short work history or a low income level.

The national pensions scheme is fully comprehensive as it equally covers elderly age groups, who were already retired when it was established and reformed. Even the full amount of the pension is the same notwithstanding the date of retirement.

The national pensions scheme includes national pensions, paid on the ground of age, invalidity or unemployment, front-veterans′ benefits including the front-veterans′ pension which is paid before pensionable age and the front-veterans′ supplement and large supplement which are paid in addition to the national pension, and survivors′ pensions to widows, widowers and children.

The national pensions scheme includes all the same central types of benefits as the compulsory employment pensions scheme in the private sector, i.e. old-age, disability and unemployment pensions. Even the requirements for entitlement to a pension are to a large extent the same. The front-veterans′ pension is an early pension payable before pensionable age and it mainly complements the disability pension cover. About 95 per cent of the recipients of an own pension from the compulsory employment pensions scheme in the private sector also receive a pension from the national pensions scheme.

In the national pensions scheme the recipient of an old-age, disability and unemployment pension always gets the basic amount, which may be complemented by a basic amount addition, front-veterans′ supplement, housing allowance, spouse increase and child increase. The old-age and disability pension can furthermore include a pensioners' care allowance. The basic amount is FIM 412 a month in 1991.

The full amount of the basic amount addition depends on the marital status and the place of living. At a full rate the basic amount addition of a single pensioner or a pensioner whose spouse does not receive a national pension, was FIM 1 827 – 1 927 a month depending on the municipality of residence. If both spouses receive a national pension, their basic amount addition is 85 per cent of a single pensioner's basic amount addition or FIM 1 480 – 1 561 a month.

Half of the amount exceeding FIM 225 a month of the pensions based on employment relationships are reduced from the basic amount addition. Employment pensions which have begun before 1 July 1975, however, only partly affect the basic amount addition.

The child increase was FIM 242 a month per child. The spouse increase was FIM 375 a month for a pensioner, whose spouse cannot be gainfully employed for example because of taking care of children.

A front-veterans' supplement is payable to persons who have served as soldiers or in other functions at the front during war time. Its amount was FIM 199 a month. In addition pensioners who receive the basic amount addition also get 22,5 per cent of the basic amount addition as an extra front-veterans' supplement.

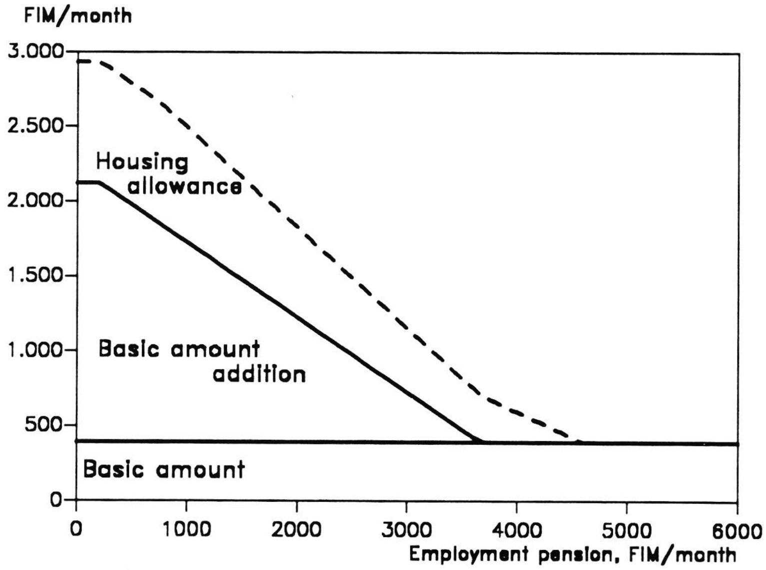
The maximum amount of the housing allowance is FIM 1 275 a month. Its full amount is reduced even by other kinds of income than pension income.

Depending on the need for assistance the pensioner's care allowance is FIM 257 – 1 024 a month.

The amount of national pension is essentially influenced by the amount of pensioner's employment pension and other income. Simplifying one can say that the employment pension and some other income decrease the full basic amount addition of the national pension by 50 per cent.

Chart 6 illustrates the determination of the old-age, disability and unemployment pension in relation to the amount of the employment pension. The chart describes the situation of a childless single pensioner (or married if the spouse is not receiving a national pension), who lives in a commune belonging to the second or cheaper municipal group. A pensioner, who is not receiving any employment pensions or whose employment pension was less than FIM 213 a month, always received a national pension of at least FIM 2 119 a month. If the employment pension was at least FIM 3 670 a month, the pensioner was not entitled to any basic amount addition and he only received the basic amount of the national pension, FIM 390 a month. The chart also shows the amount of the housing allowance from the national pensions scheme, when the dwelling expenses have been supposed to correspond to the highest recognizable amount FIM 1 154 a month. In addition a pensioner can also receive other of the above-mentioned supplements.

Chart 6. The amount of the national pension in relation to the amount of the employment pension.



The full amount of the front-veterans' pension, which is one of the benefits of the national pensions scheme, nearly corresponds to the joint amount of the basic amount and the basic amount addition of the national pension. In the front-veterans' pension even other types of income than employment pension income reduce the full pension. A recipient of a front-veterans' pension can also be paid a housing allowance.

The survivors' pension cover in the national pensions scheme includes the widow(er)'s pension and orphan's pension. (Widowers are entitled to survivors' pensions only as from 1 July 1990.) Widow(er)'s pension is not paid if the person receives a national pension. In other respects the requirements for entitlement to a pension are mainly the same as for the corresponding benefits in the employment pensions scheme. Due to the means testing, a widow(er)'s pension is not always payable. About 8 per cent of the recipients of a widow(er)'s pension in the employment pensions scheme in the private sector also receive a widow(er)'s pension from the national pensions scheme. The corresponding portion of the orphan's pensions is 86 per cent.

The full amount of the widow(er)'s pension may not exceed the joint amount of the basic amount and the basic amount addition. The pension is also reduced by other types of income than the employment pension. The recipient of a widow's pension may be entitled to a housing allowance.

The amount of an orphan's pension to a half-orphan was FIM 566 a month. The amount of a full-orphan's pension is the double.

All benefits and earnings limits of the national pensions scheme are linked to the Cost of Living Index. Index adjustments are made annually in January. For example during the last 10 years the index for national pensions has risen by an annual average of 6,8 per cent. In the same period the employment pension index has risen by 8,3 per cent annually.

Once the benefit of the national pensions scheme has been determined, it is not being recalculated because of index adjustments of the employment pension. The amount in payment is only adjusted by the national pension index.

4.2
The target level of the total pension cover

The compulsory employment pension in the private sector is proportional to the wages of the insured person in question. On one hand this proportion depends on the length of the work history within the scope of the scheme. On the other hand it depends on which phase of the development of the scheme the pension in question has started in, in other words according to what determination rules it has been calculated.

A "target pension" from the point of the insured employee determined according to a full working career amounts to 44 per cent of his wages in 1991. Under the present legislation this personal target pension level will rise to about 60 per cent of the wages within the next 10 years. The full pension is in 40 years. Of the self-employed persons the 60 per cent target pension will be paid to those retiring in 2010.

During recent years the pension level of the national pensions scheme has not gone through any major changes and no such development is foreseen in the present legislation. On the other hand the pension level in relation to the costs of living has been increased considerably within short intervals in the past. The decisions have been taken by Parliament taking into account the total income level of the pensioners and the income level of the country as a whole.

Chart 7 shows the situation as a whole for a pension recipient: the combined effect of the target pension (60 per cent of the wages) in the compulsory employment pensions scheme of the private sector and a pension under the present national pensions scheme.

A voluntary additional pension based on an employment relationship or self-employment is treated as a compulsory employment pension when determining the pension from the national pensions scheme. Therefore the chart also shows the pension of such an employed or self-employed person, whose pension level has been raised to the target by means of a voluntary additional pension.

The national pension benefits in the chart are represented by the basic amount and the basic amount addition as well as the maximum housing allowance. The basic amount addition has been calculated presupposing that the pensioner is single and lives in the second or cheaper municipal group. In the future the typical pension income will consist of the employment pension and the basic amount of the national pension.

Chart 7. The integrated total pension 31.12.1990.

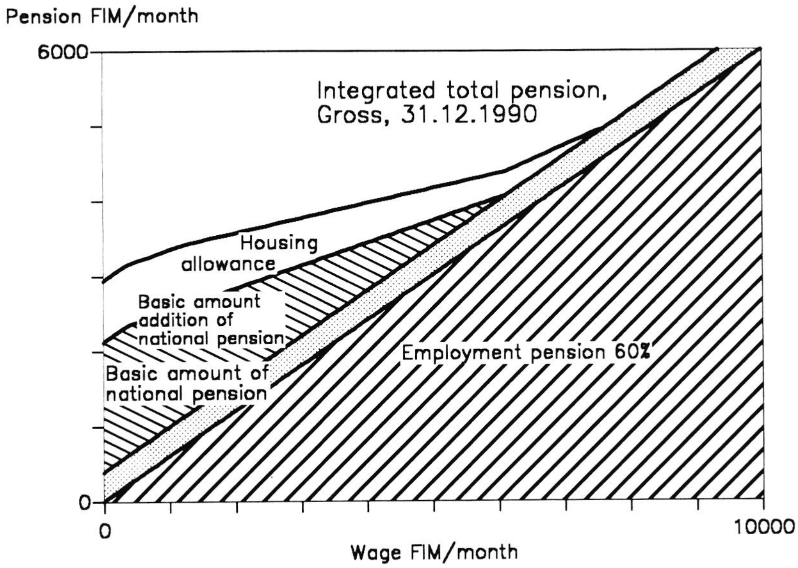
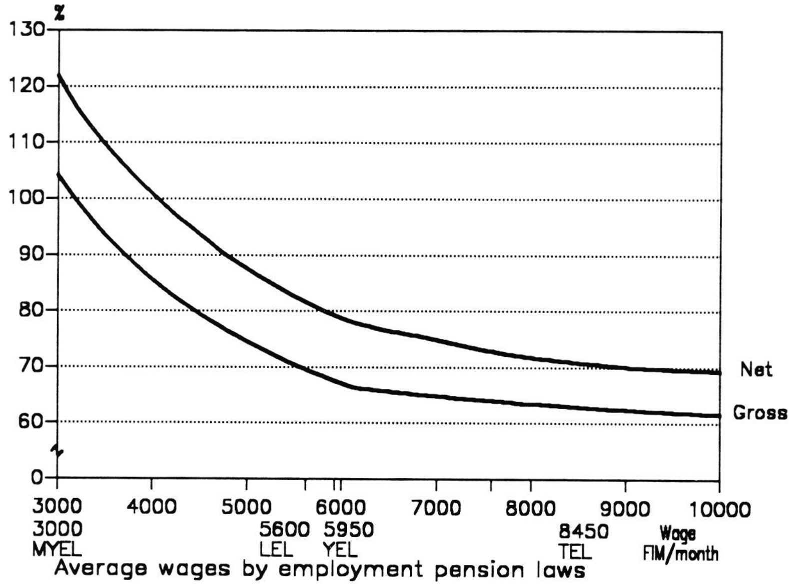


Chart 8 shows the joint amount of the "target pension" (60 per cent of the wages) in the compulsory employment pensions scheme in the private sector and the national pension including the basic amount and the basic amount addition according to the present system in relation to the wage of the person in question. The amount of the pension is the same as in the previous chart, but without the housing allowance. The chart shows both the gross and net amounts of the relation between pension and wages. The chart also shows the average wages of some groups of employees in the private sector.

Chart 8. The proportion of the joint employment and national pension of the wages.



5
THE STRUCTURE OF THE CONTRIBUTIONS

The employment pensions scheme is financed by a partly funding system. Part of contribution is used to pension expenditure in accordance with the pay-as-you-go system and part is funded for future pensions. The contribution contains components for different pensions. Contribution technique of the voluntary additional pension cover is based on the same principles as the basic cover. Most essential differences are in the level of funding.

5.1
Compulsory TEL pension cover

The employers alone finance the TEL basic cover. There are no employees' contributions.

5.1.1
The main principles of the contributions

The financing of the TEL basic cover is based on a partly funding system as it was mentioned above. This technique has made it possible to keep the contributions at a reasonable level in the phase of coming into force of the pension system compared to a fully funding system.

The contribution is divided into two main parts: the pooled component which is used to finance the pension expenditure according to the pay-as-you-go system and the funding parts determined according to insurance principles. The pay-as-you-go system also includes a buffer fund called the clearing reserve.

The average TEL contribution in 1991 is about 16,9 per cent of the wages. The contribution is determined according to the so called small-employer technique if there are less than 50 employees in the company. The contribution of these employers is independent of the age and sex of the employees, except for the reduction for young employees under 24 years. The contribution of small employers nearly corresponds to the average contribution. The average employee-fixed contribution of big employers (more than 50 employees) varied from 13,3 to 23,3 per cent in 1991, depending on the age and sex of the insured person (see chart 9 in chapter 5.1.9.).

During the last 20 years the contribution has raised with an average 0,6 per cent a year. The contribution for employees under 24 years has been reduced for the recent years due to labour policy reasons, but the reduction is gradually going to be deleted. In 1991 the contribution for persons under 24 years was 13,3 per cent of the wages.

The contribution is determined from the funding principles and the estimated disability frequency etc. The pooled component of the contribution is determined so that the clearing reserve remains steady in relation to the clearing expenditure.

5.1.2
The TEL method for distribution of liability and the pooled component

The employment pension usually includes both a funded part to be financed from the reserves and a part to be financed from the pay-as-you-go system. The funded part of the pension is the responsibility of one or several pension institutions – a pension insurance company, pension foundation or pension fund – depending on which pension institutions the employee in question has been insured in when he was working.

The institutions jointly finance the part according to the pay-as-you-go system with the help of the method for distribution of liability between the institutions. For this purpose the Central Pension Security Institute settles the liability of each pension institution and makes an account of the money transfer between them. The costs for the old-age pensions are divided among the pension institutions according to the joint amount of the pooled component income and the clearing reserves. The costs for other pensions are divided according to the total premium income. Besides the TEL pension institutions the LEL and TaEL pension institutions use the same method for distribution of liability. The Seamen's Pensions Fund, which is responsible for the seamen's employment pensions, uses the same method from the beginning of 1991. The percentage financed by the TEL method for distribution of liability of different pensions and of the whole pension expenditure in 1989 was as follows:

Old-age pensions	96 %
Disability pensions	38 %
Unemployment pensions	100 %
Part-time pensions	100 %
Survivors' pensions	78 %
The total basic cover	75 %

The table shows that about three fourths of the employment pension expenditure is financed by the pay-as-you-go system. But even of this part one third is obtained from the interest yield from the technical reserves of the funding system. As far as the old-age pensions are concerned, the proportion of funded pensions is expected to grow to some extent in the future. Furthermore a partial funding of the unemployment pensions was started in 1989. On the other hand the portion of the old-age pension expenditure will grow in the future and therefore the average proportion of the funded pension will not grow considerably. Of course the development depends on how inflation and the wages will turn out in the future.

All pension benefits that are not directly defined as the responsibility of a certain pension institution are financed by the pooled component and the interest yield. Such benefits are, for example, all index adjustments, paid-up policy pensions, old-age pensions accrued at the age of 55 – 64 years and half of the starting amounts of the unemployment pensions.

The average pooled component in 1991 is about 7,8 per cent of the wages. The contribution depends on age, sex and the size of the employer. The pooled component of the contribution smooths out the rather strong dependance of age of the other parts of the contribution so that even the total contribution for elderly employees remains reasonable (see chart 9 in chapter 5.1.9.). The contribution for employers with less than 50 employees, which is independent of the age-factor, is created precisely with the help of the pooled component.

Besides the pooled component, the jointly paid pensions are also financed by the interest yield from the technical reserves as far as it exceeds 5 per cent. As the calculated interest in the beginning of 1991 is 9,5 per cent, 4,5 per cent of the interest yield can be used for liability equalization, which calculated from the wages corresponds to a pooled component of about 2,8 per cent. The changes of the interest rate inversely affect the need for the pooled component. With the help of the clearing reserve the fluctuations of the component can be dampened.

Due to the gradual coming into force of the TEL Pension Act the pooled component is estimated to rise by 0,3 – 0,5 per cent annually. In 1990 there was a bigger adjustment than usually (1,6 per cent). It was used to compensate the decrease of the clearing reserve during earlier years.

5.1.3
The old-age pension component

Old-age pensions are funded and old-age pension contribution is collected for insured persons aged 23 – 54 years. This means that the funding period covers about three fourths of the full working career. The funded pension, which the pension institution commits to pay, is 1,5 per cent of the earnings for the year in question. The funded pensions are not index-adjusted. Due to inflation the portion of the total pension for which the pension institution is responsible, therefore remains quite small even in the future when the employment pensions scheme is fully in force. If the average inflation in the future is the same 8 per cent as the average inflation during the existence of the scheme, the funded old-age pension will not be more than a short 10 per cent of the total pension.

The annual increase of the old-age pension and the corresponding contribution are measured so that the sum in question on the average is sufficient for the payment of the accrued pension (1,5 per cent of the wages) from the age of 65 years on when an interest rate of 5 per cent and the calculated expected mortality are taken into account. In a way the future interest yield of the reserve is deducted from the contribution in advance and that explains why the contribution for the younger age groups is considerably lower than for the elderly. The old-age pension contribution for a woman of 23 years is for example 2,44 per cent of the wages in 1991, as the contribution for a woman of 54 years is 10,52 per cent.

Since the mortality of women is lower than that of the men, the old-age contributions for men are on the average about 26 per cent lower than those of the women. The average contribution for men in 1991 is about 3,4 per cent and for women 4,5 per cent, which gives a total average contribution of 3,8 per cent. Besides age and sex the mortality basis also takes into consideration the decreasing trend of the mortality, which means that the contributions will increase a little annually.

5.1.4
The disability pension component

The disability pensions are only funded in the year of the contingency if the disability occurs when an employment relationship is in force or within a year of the termination of it. The funded pension covers the initial pension, but not future index adjustments, which are financed from equalization. The funded amount is on the average sufficient for payment of the disability pension, considering an interest rate of 5 per cent, the level of recovery, mortality and the fact that the disability pension ends at the age of 65 years.

The pension institution, where the last employment relationship was insured, takes care of the funding also for earlier employment relationships and is responsible for the funded pensions. If the insured employee was working for a so-called big employer, this employer is the final payer, charged by the pension institution for the actual disability pension costs. This retention technique is fully applied to companies with more than 1 000 employees. Furthermore companies with 300 – 1 000 employees are partly responsible for the disability pensions. In companies with less than 300 employees the disability pensions are financed jointly from the equalization. The retention technique also applies tȯ pension foundations and pension funds.

The disability contributions are measured according to age and sex so that they approximately correspond to the disability risk of the group in question and the amount transferred to the fund. The contribution increases quite considerably with the age but decreases near the pensionable age. The average contribution in 1991 is about 4 per cent of the wages. The early disability pension is financed from the same disability component and according to the same principles as the ordinary disability pension. Because of the introduction of this pension in 1986 and the increase of the disability cases, it has been necessary to raise the disability contribution with 2,4 per cent in the years 1984 – 1989. In 1990 – 1991 the contribution is of the equal size.

5.1.5
The unemployment pension component

Funding of unemployment pensions was introduced in 1989 with the corresponding technique as in the disability pensions. The funded pension is, however, only half of the initial pension and no funding at all takes place if the last employment relationship has lasted less than 5 years. The partial responsibility of the employers begins already from companies with 50 employees and reaches its full range in companies with at least 300 employees. The aim of the reform was to allocate more than earlier the burden of costs to those employers, whose employees most frequently applied for unemployment pensions.

The unemployment pension contribution is 0,3 per cent of the wages. The contribution is allocated to elderly age groups, which mean insured persons over 55 years. Employment relationships which have ended at a younger age cannot under the present provisions cause funding of the unemployment pension.

5.1.6
The survivors' pension component

The survivors' pensions are also funded in the year of the contingency and the funded amount corresponds to the initial pension. In the case of a widow or widower the funding ends when the deceased person would have been 65 years. From July 1990 even widowers have been entitled to a survivor's pension under the same conditions as widows, but the widow's or widower's own employment pension is taken into account as a factor which reduces the survivor's pension.

Besides the average pension percentage and the 5 per cent interest factor, the survivors' pension contribution depends on the mortality of the widow or widower and of the deceased person, marriage frequency, the number of children and the pension adjustment caused by the beneficiary's own pension. In recent years the average contribution has been about 0,4 per cent of the wages. The growth of pension expenditure caused by widowers will be compensated by pension adjustment in the future.

5.1.7
The component for administrative costs etc.

The average contributions to cover administrative costs and premium losses are 0,8 per cent in 1991. The contribution decreases as the size of the employer grows.

5.1.8
Credits

The amounts, based on the surplus of the insurance activity, which are credited to the policyholders, are taken into account as a factor lowering the contribution. In recent years surplus has mainly been created by the fact that the investments have yielded more than the calculated interest (9,5 per cent). The average credits in 1991 are 0,2 per cent of the wages. The credits do not cocern pension foundations and pension funds.

5.1.9
The components of the TEL contribution in 1991

The premium income of the compulsory TEL employment pension was FIM 17 520 million in 1989, which amounted to 14,85 per cent of the total wage bill of FIM 118 000 million in the TEL fields.

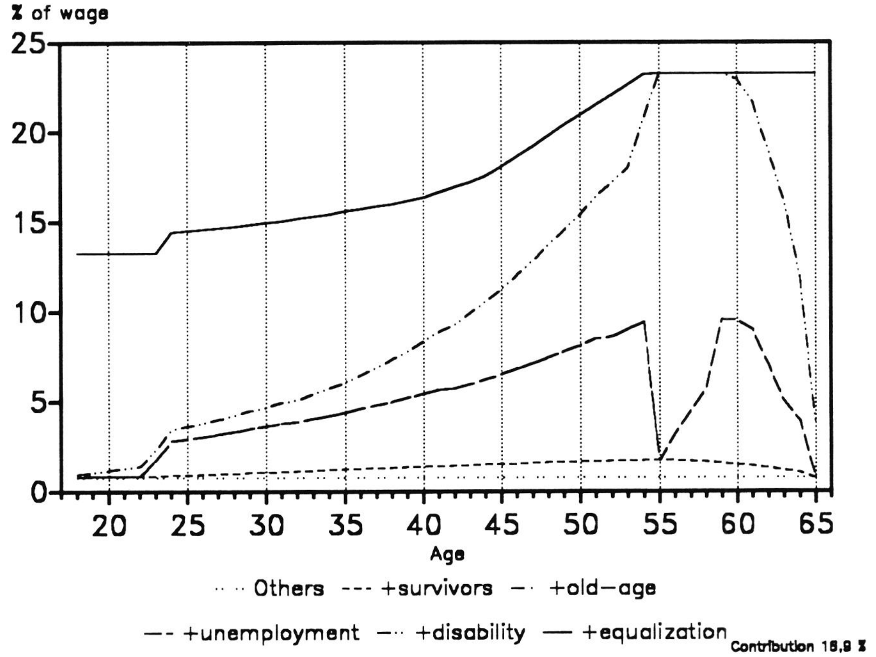
The average components of the contribution in 1991 are:

The old-age pension component	3.8 %
The disability component	4.0 %
The unemployment component	0.3 %
The survivors' pension component	0.4 %
The pooled component	7.8 %
The administrative costs etc.	0.8 %
The credits	−0.2 %
The total contribution	16.9 %

The contributions to pension foundations and pension funds are determined approximately like the contributions of big employers.

Chart 9 shows the contribution components of big employers for male employees in 1991. The result does not differ very much for women.

Chart 9. Big employers' (more than 50 employees) average contribution components for male employees in the basic cover of the TEL Pension Act in 1991



5.2 The contributions of other compulsory employment pensions laws

The contributions in the LEL and TaEL Pensions Acts are in principle determined as in the TEL and these pensions laws participate in the same equalization system as the TEL. In 1991 the LEL contribution for employees under 24 years of age is 13,3 and for older employees 19,0 per cent of the wages. Otherwise the contribution is independent of age and sex. The TaEL contribution for persons under 24 years is 13,3 and for older persons 14,0 per cent of the wages. In 1989 the LEL premium income was FIM 2 087 million and the TaEL premium income FIM 62 million.

The average contribution in the Seamen's Pensions Act (MEL) is higher (on the average 25 per cent of the wages in 1991) than the contribution in the rest of the private sector due to better pension benefits and the more unfavorable age structure of the insured persons. As distinct from other employment pension laws for employees, in the MEL Pension Act even insured persons participate in the pension costs. In 1991 their part of the contribution is 8 per cent of the wages as is the employers' too. The State pays a third of the pension costs or a short 9 per cent of the wages.

The contribution for self-employed persons in the Self-Employed Persons' Pensions act (YEL) is prescribed to be the same as the average TEL contribution, and therefore it is 16,9 per cent of the earnings in 1991. The contribution, however, gradually dec- reases for self-employed persons with small income (less than FIM 64 770 a year). The contribution does not depend on age or sex. The YEL premium income in 1989 was FIM 1 466 million meaning on the average 13,2 per cent of the total income from self-employment.

Due to the age structure of the self-employed persons pension expenditure has normally exceeded the premium income and therefore no funds have accrued. Because of raised contributions and the establishment of new enterprises, the premium income has, however, quite recently, grown so that funds will possibly accrue again. The State pays the difference for years when premium income is below pension expenditure.

In the Farmers' Pensions Act (MYEL) the contribution in 1991 is the same as for other self-employed persons (16,9 per cent) for earnings exceeding about FIM 64 770 a year, but only 40 per cent of the full contribution (6,9 per cent in 1991) for lower earnings. The average contribution is then quite small. The State pays the main part of the costs for farmers' pensions. The MYEL premium income in 1989 was about FIM 382 million, which was only 6,4 per cent of the pensionable earnings.

The State's participation in the financing of the employment pensions of farmers and other self-employed persons has been justified by the fact that because of the unfavourable age structure the contributions would have become unreasonably high compared to the TEL contributions.

5.3
The contributions of the voluntary pension cover

The funding and payment technique of the additional pensions registered at the Central Pension Security Institute is partly based on the same principles as the basic cover, but there are also differences. The most essential principal difference is that the funding level in the registered additional cover is higher than in the basic cover. As distinct from the basic cover, the disability and survivors′ pensions in the registered additional cover are funded already during the active period and the funded survivor′s pension continues even after 65 years has elapsed from the birth of the deceased person. The old-age pension is also funded after the age of 54 years. Index adjustments and unemployment pensions are not funded but financed jointly from the equalization.

In addition to age and sex, the additional pension contribution also depends on the amount of the additional pension, pensionable age, work periods etc. Therefore a closer analysis of the contribution can only be done separately for each case taking the insurance terms and conditions into consideration. In principle the contribution, however, consists of the same components as in the basic cover.

The pensions in the registered additional pension cover enjoy the same index cover as the pensions in the basic cover. Therefore the level of the benefits does not depend on the interest yield from the funds, which means that the scheme is a purely defined benefits scheme. For the financing of index adjustments and other jointly financed pension components, the contribution contains a pooled component and also the interest yield from the funds exceeding 5 per cent is used to finance these pensions.

The jointly financed registered TEL pensions are paid from the same pool as the corresponding pensions in the basic cover. In practice the additional cover is to a considerable extent compensated from the basic cover, which is due to the index adjustments caused by high inflation in the seventies. For new insurance the pooled component will be sufficient even in the future, if the inflation stays at a reasonable level.

Self-employed persons very seldom use registered additional cover. Even in the TEL it has become more insignificant with the development of the basic cover. The premium income of the registered TEL additional cover in 1989 was about FIM 353 million, which was only 2 per cent of the corresponding premium income of the basic cover. For self-employed persons the premium income of the additional cover was only FIM 10 million, which was 0,5 per cent of the premium income of the basic cover.

Contributions for unregistered additional pensions are determined according to the same principles as contributions for registered additional pensions, but the first-mentioned do not belong to the same equalization system as the registered additional cover and the basic cover. For this reason a full index security cannot be guaranteed (without annual additional contributions), but pensions are increased within the limits permitted by the income from the funds. The system is generally a defined benefits one.

The pension costs for additional pensions arranged in pension foundations are paid by the employer who has arranged the benefits. Because the pension liability of the foundations does not have to be fully covered, the employer is to a certain limit able to regulate his payments to the foundation and for example level the result of his company.

The personal pension insurance contributions as well as the contributions for voluntary pension insurances insured in insurance companies are determined by the traditional fully funding contribution technique.

6
ACTUARIAL METHODS AND FUNDING

Actuarial technique of the private-sector employment pensions scheme follows the practice and principles prescribed under the general insurance legislation, unless there are any special regulations under the employment pension legislation. The Ministry of Social Affairs and Health perform the actuarial inspections of insurance establishments. TEL Pension Act prescribes the detailed priciples of funding of the employment pension. Voluntary additional pension cover follows largely the same funding rules as the compulsory basic cover.

6.1
Actuarial methods

6.1.1
General actuarial requirements

The Insurance Companies Act contains provisions on the central principles of actuarial and funding methods. The employment pension legislation contains further provisions on the methods for realization of the actuarial arrangements in the statutory employment pension insurance. The legislation on pension foundations and benefit societies has, as far as possible, connected the pension cover in these pension institutions to the same actuarial arrangements. The Ministry on Social Affairs and Health gives and confirms more detailed provisions concerning the implementation of the law as well as detailed directives and bases as far as compulsory and voluntary pension cover is concerned. The Insurance Companies Act contains a number of provisions with the aim of securing the solvency of insurance companies. They include provisions on investing and booking of assets, as well as provisions on underwriting reserves, audit, merger of insurance companies, transfer of portfolio and safeguarding of insured interests.

The working capital must exceed a certain amount stipulated in the law. For the sake of solvency the capital must be sufficient to cover possible losses. In order to safeguard the insured interests, there are special requirements concerning the securities covering certain insurance reserves. Furthermore there are special provisions concerning the keeping of these securities. The Ministry can take hold of the securities as deposited security to safeguard the credits of the insured persons from the insurance company, if they are endangered, for example in a situation of bankruptcy.

In addition to the principle of safeguarding the insured interests, the principle of equity is the other important principle in the Insurance Companies Act. According to the principle of equity, the compensation for insurance must be reasonable when compared to the benefits from the insurance.

The realization of the principle of equity can be arranged flexibly and without jeopardizing the principle of safeguarding the insured interests by confirming the insurance premiums mainly paying attention to their sufficiency and repaying the possible profit annually to the policyholders so that the net price of the insurance is reasonable.

The contributions must be confirmed annually by the Ministry of Social Affairs and Health. The insurance companies are obliged to compile statistics, on the basis of which the contributions can be determined and to follow the profitability of their business.

6.1.2
The frequency of actuarial inspection

Insurance inspection is handled by the Insurance Department of the Ministry of Social Affairs and Health. Supervision is normally carried out in connection with the annual audit and otherwise on the basis of statistical reports which must be submitted to the Ministry.

As far as closing of the books is concerned, a pension institution must comply with the provisions of the Insurance Companies Act and the directives, due to the special character of the insurance business, given by the Ministry of Social Affairs and Health. In connection with the closing of the books, a report of the pension institution's activity and accounts is submitted to the Ministry on a form approved by it. A life assurance and pension insurance company must furthermore submit to the Ministry a report on the calculation of the underwriting reserves and a study of its insurance business as well as other information which is necessary for supervision.

The Ministry of Social Affairs and Health may inspect the business and other activities of the pension institution anytime it chooses and also participate in meetings, where decision power in insurance matters is used.

6.2
Funding

6.2.1
General principles of funding

The calculation of the fund in the employment pension insurance under the TEL and LEL is done on the individual level. The Ministry of Social Affairs and Health confirms all the bases for the calculation of the pension cover. In the compulsory pension cover they are identical for all pension institutions.

The Finnish insurance legislation also requires preparations for years with great losses. The reserve calculated for this purpose is called the equalization reserve.

The YEL and MYEL employment pensions are not funded nowadays but financed according to the pay-as-you-go system. Part of the costs are collected from the insured persons. The State is in charge of the costs for which the collected contributions are not sufficient. In the pension laws for self-employed persons the aim has been that the contributions on the average would be the same as in the TEL Pension Act. The premium discount for self-employed farmers with a small business covers all income classes according to a special scale.

The amount of the fund for the employment pensions scheme in the private sector at the end of 1989 is found in annex F, which contains statistics on the activity of employment pension institutions.

6.2.2
Funding by different insurance classes

The principles concerning funding and determination of contributions for basic cover pensions are stipulated in the TEL Pension Act.

When the TEL came into force on 1 July 1962, 1 per cent of the annual earnings of a person under 50 years of age was funded for old-age pension. The full target pension at that time was 42 per cent of the pensionable earnings. Even employment before the coming into force of the TEL was funded as far as it entitled to an old-age pension. Later the bases were altered so that funding of old-age pensions ends at the age of 54 years. The change prevented the old-age pension contribution from rising too much close to the pensionable age. On the other hand the introduction of an equivalent pooled component instead of the old-age pension contribution created assets for financing jointly financed pensions. Since 1977, 1,5 per cent of the annual earnings have been funded for old-age pension purposes. The full target pension was raised in 1975 to 60 per cent of the wage.

Disability pensions are fully funded up to the amount of the initial pension. Funding is done after the occurrence of the contingency. If the pension is granted solely on the basis of paid-up policies, no funding occures.

Since 1989 at maximum one half of the amount of initial unemployment pensions granted on the basis of employment relationships over 5 years has been funded.

Survivors' pensions were included in the employment pension benefits from the beginning of 1967. Funding is done after the contingency at the level of the initial pension until the time when the deceased person would have reached pensionable age. The pension paid after that is solely an equalization pension. Pensions granted according to paid-up policies are entirely equalization pensions.

Apart from funded parts pensions are financed jointly through the method for distribution of liability. The pooled component is collected for this purpose. The equalized pension expenditure has risen strongly and this had led to frequent raising of the pooled component. In order to ease the pressure on the pooled component, the calculated interest was raised close to the then market interest at the beginning of 1971. The interest yield corresponding to the difference between the old and the new calculated interest is used for financing jointly paid pensions.

In addition a reserve is made for future survivors' pensions to disability pension recipients. There is a collective reserve in the disability and survivors' pensions for occurred but yet unknown contingencies.

The insurance companies must separately prepare to meet their expenses even in years with a high loss frequency. The equalization reserve, which is a separate reserve included in the insurance technical underwriting reserves is created for this purpose. The equalization reserve is also important for the solvency of a single company. It eases the need to provide for bad years in other ways, for example through the equity.

The task of the equalization reserve is to:

- function as a buffer and be available and strengthen the company's solvency in years with a high loss frequency,
- level out random fluctuations of pension expenditure so that random losses can be covered by random surplus from earlier years and

– smooth the sudden need to raise contributions.

The equalization reserve grows in years when insurance business is profitable and is used in years with losses. Its amount is, however, not determined according to the actuarial principles presupposed by the underwriting reserves of a single company. Over the years the equalization reserve has grown mainly in the disability and survivors' pension business.

If contributions prove insufficient or a pension institution is unable to meet its obligations, the pension institutions are, according to the TEL, jointly responsible for the costs through the method for distribution of liability. This provision has been applied for the disability and mortality bases. The last time the funds of the pension institutions had to be jointly complemented through the method for distribution of liability was in 1986 and the amount was FIM 2 000 million.

6.3
Factors affecting the funded contributions

The contributions for old-age pensions, determined according to the age factor vary considerrably for men and women, due to the different mortality of the sexes. This difference is shown by the fact that the mortality of women is at the same level as for a man nine years younger. Another important feature is that mortality has decreased very much during the last decades. Old-age pensions are funded annually during the active period from the age of 23 years. The contribution level should be accurate even when the payment of the pension begins. Therefore the decrease of mortality is taken into account in the contributions.

In the basic cover under the TEL, where old-age insurance is most important, the contribution base for old-age pension has, since 1987, been divided into four different classes by the year of birth in addition to the above-mentioned age and sex. The contribution base is lowest for the oldest age group and rises when moving towards younger age groups. The funding of unemployment insurance is done according to the old-age pension insurance base.

In disability pensions the funded contributions depend on age and, concerning started pensions, the duration of the pension, but not on the sex factor. The big fluctuations of the annual result of the business cause difficulties in determining the risk contribution.

6.4
Use of the surplus

TEL pension surplus may accumulate mainly as follows:

- The interest yield from investments is higher than the calculated interest.
- The calculation bases gain surplus so that all of the net contribution is not needed for corresponding payments. Payments also include reserves for occurred contingencies and transfer to the equalization amount for years with a high loss frequency.
- Savings accrue from the administrative component of the contribution.

An insurance company can grant a reasonable interest to the guarantee capital or share capital. It may not exceed the interest which is credited to the funds. The actual surplus is repaid to the policyholders as a reduction of contributions. This proceeding is based on the Insurance Companies Act and there is a provision concerning it in the Articles of Association of the companies.

In the closing of the books, the surplus of the calculation bases is transferred to the so-called supplementary insurance fund, which is divided among existing insurance. Contributions calculated according to the normal bases are annually credited from the supplementary insurance fund. It must be remembered, that in addition to bonus, the supplementary insurance fund cannot, according to the TEL Pension Act, be used for other purposes than to strengthen the insurance fund, for instance not to cover losses caused by changed bases.

Concerning pension foundations and pension funds the interest yield exceeding the calculated interest, which is credited to the funds, is directly available to cover the pension institution's costs and in that way reduces the employer's costs, the so-called subsidy payments.

6.5
The discount rate

The calculated interest of the TEL follows the development of the general interest rate. In practice it has, however, been lower than the interest rate of the investment loans. In the first half of 1991 the difference is 2–4 per cent when the calculated interest is 9,5 per cent.

The yield from the investments corresponding to the underwriting reserves should on the average be at least on the level of the calculated interest. The interest yield exceeding the calculated interest is credited to those policyholders from which it emanates. The calculated interest is used for contributions. That is also the case with reborrowing loans (premium bond loans).

In determining capital values in connection with calculation of the reserve or the contribution, a 5 per cent interest rate is always used. The interest yield corresponding to the difference between the calculated interest and the interest of 5 per cent is annually used to cover the costs of the system for distribution of liability.

The calculated interest was about 5 per cent until 1971. After this the procedure described above was adopted. That procedure enables flexible changes of the calculated interest without the need to complement single funds.

6.6
Unfunded reserves

As a rule there is no statutory deficit in the compulsory basic cover. In a pension foundation there may, however, be a statutory deficit of 30 per cent at the highest even for the compulsory pension cover. In these cases credit insurance is required as a guarantee for the statutory deficit. The Central Pension Security Institute handles credit insurance for the needs of the employment pensions scheme as a separate form of insurance. Credit insurance is described in chapter 7.2.

6.7
Voluntary pension cover

With some exceptions the calculation of the reserves of the voluntary additional pension cover follows the principles of basic insurance. Future disability and survivors' pensions reserves are also calculated for active persons.

In the registered, voluntary additional pension cover the pension institution is in charge of the pension as far as it corresponds to the contributions paid to the pension institution according to the bases. The funded part of the pension is determined directly by the premium technique. According to the method for distribution of liability, the part of the pension which is due to the rise of the TEL index is financed through the premium technique and otherwise the contribution is determined according to the insured benefits.

In the unregistered additional pension arrangements no equalization reserve is calculated. They do not belong to the system for distribution of liability. The financing of the index adjustments of the pensions is based on the surplus from the basis of calculation. This surplus mainly consists of the yield of the assets corresponding to the underwriting reserves exceeding the interest rate of 4,25 or 4,5 per cent used for the calculation of the reserve. Calculated losses are tried to avoid by determining the level of funding so that a sufficient safeguarding security marginal is established.

The additional pension foundations can have a statutory deficit. The aim is often to cover the liabilities at least concerning started pensions. Changes of the legislation are planned with the aim to improve the solvency of the pension foundations especially concerning additional pensions by limiting the amount of the allowed statutory deficit.

7
INVESTMENTS IN THE EMPLOYMENT PENSIONS SCHEME

The employment pension assets are lent to the same sectors of economy which also finance the pensions. Loans to other sectors are more minor. Investments are made as premium bond loans and normal investment loans. Present loan portfolio is divided into half between them. Employers can use the credit insurance of the Central Pension Security Institute as a guarantee to loans from employment pension institutions. In addition, credit insurance is used to secure the whole pension liabilities of pension foundations and pension funds.

7.1
Investments

The profit requirements of investments in the employment pensions scheme are to a large extent affected by the interest yield which is credited to the underwriting reserves. In 1990 an interest yield of 9,5 per cent was required. The Ministry of Social Affairs and Health annually confirms the interest rate on joint application of the insurance companies. In practice the interest has been a bit lower than the market rate for general long term loans.

Apart from the very smallest ones, all policyholders are entitled to premium bod loans or may reborrow the underwriting reserves accrued from their contributions at an interest rate of 9,5 per cent. Practically this works so that the policyholder pays one third of the contributions in cash and submits a promissory note for the rest, which is the premium bond loan. Sufficient securities are required. Premium bond loans are repaid so that the annual amortization is 7 per cent of the average loan. The system is constructed so that normally all the underwriting reserves will be reborrowed.

If the policyholder pays part or all of the contribution in cash the insurance company invests these assets as normal investment loans on the general market. The interest of such loans is 11 – 13 per cent in the first half of 1991. Alternatively the insurance company may invest the assets in real estate, bonds and debentures or shares of stock. The interest yield exceeding 9,5 per cent is repaid in arrear as a reduction of the contributions to those policyholders whose reserves have not been reborrowed.

The labour market organizations agreed on introducing the reborrowing system when the employment pensions scheme was established in 1962. One of the aims of the reborrowing system is to secure the reinvestment of the assets into the Finnish economy. The idea behind is also that the companies are best suited to invest the assets for productive purposes and thus be able to meet the rising costs of the employment pensions in the future.

The aim of other investments than reborrowing is also mainly to invest the assets to serve the Finnish economy. For this reason financing of investments has been considered as the most preferable object. Earlier priority was also to be given to objects which affected the employment situation. Since that the money market has been liberated and the State does not give investment directives anymore. The profit from the investments now enjoys highest priority.

The investment assets of the insurance companies at the end of 1989 were divided so that premium bond loans covered 60 per cent, investment loans 25 per cent and bonds and debentures, shares of stock and real estate about 5 per cent each.

In the whole employment pensions scheme for the private sector, contributions amounting to FIM 8,1 billion were reborrowed in 1989. The investment loans amounted to FIM 8,3 billion. The rest was divided among different sectors and uses in the economy as shown by table 3.

The investment loans of the employment pension insurance institutions was the biggest external source of financing of investments (about 28 per cent of the total financing).

Table 3. Loans granted from the employment pensions scheme in the private sector in 1989, FIM million.

	Reborrowing FIM mill.	Reborrowing %	Investment loans FIM mill.	Investment loans %
Amount	8 100	100	8 300	100
Division				
- industry	4 100	50	2 000	25
- trade	1 700	21	1 400	16
- construction	300	4	1 500	18
- housing	700	9	1 700	20
- others	1 300	16	1 700	21
Usage				
- machines and equipment	4 600	57	2 300	27
- factory buildings	1 200	15	900	11
- apartments	100	1	500	6
- other buildings	600	7	1 900	23
- investments in shares of stock	-	-	500	6
- building financing	-	-	900	11
- working capital	1 600	19	1 100	14
- other	-	-	200	2
Average interest %	9,5		10,3	
Securities				
- bank guarantee	4 500	56	4 000	49
- credit insurance from CPSI	2 100	26	700	9
- other credit insurance	400	5	900	11
- mortgage	900	11	1 800	21
- other	200	2	900	10
Average loan period	..		8 years	

7.2
The credit insurance of the Central Pension Security Institute

As the central body for the employment pensions scheme the Central Pension Security Institute handles credit insurance for the scheme's own needs. This kind of insurance is needed for two reasons.

Firstly, the administration of the compulsory employment pensions scheme in the private sector is decentralized. Payment of pensions, funding and investing the assets is up to more than one hundred private pension institutions.

Secondly, the whole scheme is financed by employers' contributions. In order to avoid unbearable burdens for the economy of the employers, the funded assets are reborrowed by the employers in the form of loans against safeguarding securities, as was mentioned in the previous chapter.

From the point of view of the employer the credit insurance can be separated into compulsory and voluntary credit insurance.

The employer can arrange employment pension cover for his employees alone or together with other employers in a pension foundation or pension fund established by him. The solvency of such a small pension institution is closely linked to the financial situation of the employer or the group of employers. In order to safeguard the assets for the financing of the pension cover from the risk of bankruptcy, the pension foundations and pension funds must insure their pension assets with a credit insurance from the Central Pension Security Institute. Three types of credit insurance are used for this purpose.

The employer has to use credit insurance as security when borrowing funds from his pension foundation or pension fund. If the employer is found to be insolvent, the credit insurance indemnifies the outstanding capital and the interest of the loan.

Credit insurance covers any possible gaps between the book value and the realized value of the tangible assets of a pension foundation or pension fund that is being dissolved when these assets are used for the financing of the correspondent pension cover in a functioning pension institution.

The credit insurance of statutory deficits covers the statutory deficits of a pension institution when dissolving it, if the employer has deferred payment of part of his pension liability.

Credit insurance is compulsory security when lending to pension foundations and pension funds. Voluntarily credit insurance can be used as an alternative to other securities when a pension insurance company grants the loan.

The Central Pension Security Institute debits an annual credit insurance premium for the insurance in force. The premium is 0,3 – 4,0 per cent of the liability. The contingency being bankruptcy or insolvency of the policyholder, the aim is to determine the credit insurance premium and the possible need for guarantees in a specific case according to the financial position of the policy-holder. A successful company gets a credit insurance with a small premium and without guarantees. On the other hand a company considered as a financial risk must hand over guarantees to the Central Pension Security Institute and has to pay a high credit insurance premium.

In order to be able to estimate the company risk and the credit insurance risk deriving from it, the Central Pension Security Institute has developed its own tariff, based on statistical research. The credit insurance customers have been classified by a rough sector division and according to the information of the closing of the books compared to the comparison material. This material again contains a statistically significant sample of both healthy and bankrupt companies from the sector of the classified company.

Table 4 shows premium income, income from investments, indemnities, business costs, underwriting reserves and the development of damages in the credit insurance of the Central Pension Security Institute in the years 1986 – 1990.

Table 4. The development of the credit insurance in the years 1986 – 1990, FIM 1 000.

			Year		
	1986	**1987**	**1988**	**1989**	**1990**
Premiums	51,2	53,4	56,9	63,5	91,0
Investment yield tuotot	42,0	46,8	52,2	50,2	39,9
Indemnities	30,9	26,1	27,1	230,9	– 19,9
Change of the liability for indemnities	41,6	53,0	61,5	– 28,6	56,9
Business costs	7,9	8,2	8,6	10,0	10,9
Underwriting reserves at the end of the year	396,8	450,9	514,1	488,7	559,4
Number of damages	77	63	45	104	119

At the end of 1990 the credit insurance reserves of the Central Pension Security Institute were about FIM 33 billion in all and there were 9 316 insurance contracts in force.

8
TAX TREATMENT OF ASSETS, CONTRIBUTIONS AND PENSIONS

Pension institutions are liable to pay income tax to the State and the Communes. In practice domestic insurance companies, pension foundations and pension funds do not pay property tax. The employer may deduct as business costs the contributions he has paid. By main rule the pensions are taxable income to the beneficiary.

8.1
The main features of the Finnish tax system

Income tax is paid to the State and the Communes. Furthermore tax-like charges are paid to the state church and the Social Insurance Institution. The national income tax for natural persons is progressive, but all other taxes paid by natural persons and all taxes paid by juristic persons are relative. The income tax per cent of juristic persons is 25.

Property tax is only paid to the State. The property tax for natural persons is progressive but the tax for juristic persons is relative at the rate of 1 per cent.

Table 5. Income and property tax debited in 1988, FIM million.

	Income tax	Property tax	Total
Natural persons	79 776	116	79 942
Associations	7 532	29	7 561
Total	87 308	195	87 530

In 1988 the portion of the national income and property tax was 33,5 per cent of the State's tax revenue and 20,7 per cent of all tax revenue. Concerning the municipal income tax the corresponding figures were 99,0 and 23,6 per cent. The tax-like charges paid to the Social Insurance Institution were 12,5 per cent of all taxes and the portion of the church taxes was 1,8 per cent.

Taxes and premiums are also collected to the State on the basis of turnover. The main tax of this type is the turnover tax, which amounts to 17 per cent of the taxation value of the sales. In 1988 the taxes and premiums based on turnover made 23,4 per cent of the total tax revenue and 37,9 per cent of the State's revenue from taxes and premiums.

A premium tax equivalent to the turnover tax is collected from the non-life insurance companies. This tax is not collected from life assurance and pension insurance business.

8.2
The taxation of insurance and pension institutions

Domestic insurance companies are taxed like other joint stock companies. Hence they pay both national and municipal income tax. With some exceptions the pension foundations and pension funds are taxated in the same way.

The taxable income is the result obtained by reducing the costs for acquiring of income from the total income. The appreciations on the investments assets made by the insurance institutions (except pension foundations) in their books are therefore to be treated as taxable business income. Deductible costs are on the other hand among others statutory transfers to the claims and premium reserves as well as the amounts which are calculated according to insurance technical bases in order to cover the liability from the pension foundations' pension commitments.

For different reasons domestic insurance companies, pension foundations and pension funds do not pay property tax. Due to municipal presumptive taxation of real estate, pension institutions owning such property are liable to pay property tax for them.

A foreign insurance company is in Finland liable to taxation for its income from this country. The company's income from Finland is considered to be 10 per cent of the premiums which the company has collected from insurance business in this country. Foreign pension insurance companies are furthermore liable to pay property tax on their assets in Finland. For the moment no foreign pension insurance companies are operating in Finland.

In 1989 pension institutions paid a total of FIM 102 million in direct taxes. Of that amount insurance companies paid FIM 68,8 million, pension funds FIM 17,7 million and pension foundations FIM 15,5 million.

8.3
Tax treatment of contributions

An employer is entitled to deduct his pension insurance contributions as costs for acquiring of income both in national and municipal taxation. The compulsory pension insurance contributions paid by a self-employed person for himself and his spouse are also deductible both in national and municipal taxation.

In 1991 a person submitted to taxation could deduct voluntary pension insurance contributions for himself and his spouse up to 12 per cent of his earnings. Voluntary pension insurance here means an insurance where the benefits will be paid continuously every half year or in shorter intervals for the rest of the person's life or at least for two years. The deduction right does not, however, apply to lump-sum contributions or contributions for a separate disability pension insurance.

The national pension contributions are considered as tax-like charges and they are in no respect deductible in taxation.

8.4
Taxation of pensions

All income in cash and all benefits with a money value are considered as taxable income in Finland if they are not explicitly tax-free.

The main rule for social security benefits is that compensations for loss of earnings are taxable income and social assistance benefits as well as expenses compensations are usually tax-free. The most important exceptions from this main rule are small pensions, which although normally are taxable income in practice are tax-free because of the pension income deductions.

Some of the supplements in the national pensions scheme as well as the general survivor's pension and the widow's training allowance under the general survivors' pensions scheme are not taxable income. Even the front-veterans' benefits of a pension character are tax-free income. Other statutory pensions and pensions based on voluntary pension insurance are as a rule taxable income.

When determining the taxable total income it is possible to make some constructive deductions from the total income both in national and municipal taxation. These deductions reduce the amount of the taxable income. Pension income deductions in national and municipal taxation secure that minimum pensions remain tax-free. Due to these deductions the lower limit for a taxable pension income in 1990 was FIM 43 300 in national taxation and about FIM 33 000 in municipal taxation, except for spouses who both receive a pension. In that case the limit was usually FIM 27 300 for both.

9
PUBLIC REGULATION OF PENSIONS SCHEMES

The contents of the compulsory schemes are determined by legislation. The labour market parties have taken part in the preparation of the legislation and even the changes in the legislation are made in co-operation between them and the public authorities. The contents of voluntary insurance are regulated in the bases of calculation and other bases confirmed by the Ministry of Social Affairs and Health. In addition to laws and decrees, pension insurance and the activities of the pension institutions are regulated by the decisions of the Ministry of Social Affairs and Health as well as by instructions communicated by the Ministry.

9.1
The establishment of an insurance institution and supervision of its functions

9.1.1
A domestic insurance company

The promoter of a Finnish insurance company must be a Finnish citizen resident in Finland or a Finnish corporation or foundation. A partnership or a limited partnership may be a promoter, provided that the partners personally responsible for the company's debts are Finnish citizens resident in Finland. With the consent of the Ministry of Social Affairs and Health, some other person, corporation or foundation may be the promoter of an insurance company. An insurance company can function either as a mutual company or a joint stock company.

An insurance company must have a licence from the Council of State to transact insurance business in Finland. A domestic pension insurance company must be granted a licence, if the basic capital of the company is at least FIM 12 million and the intended insurance activity cannot be deemed to hamper the sound development of the insurance business. A licence can also be granted to a company whose basic capital amounts to at least half of the above-mentioned amount. The licence of an insurance company transacting pension insurance must be limited to the insurance of persons and reinsurance thereof. Therefore one and the same company may not transact both personal insurance and non-life insurance.

The Articles of Association of an insurance company and the amendments thereto require the approval of the Ministry of Social Affairs and Health.

The managing director of an insurance company transacting compulsory pension insurance may not be in the employ of a bank or another insurance company or a company belonging to the same group of companies as this company. Furthermore the majority of the members of the board of directors or the supervisory board of an insurance company transacting compulsory pension insurance must be persons who are not employed by or members of the board of directors or supervisory board of the same bank or insurance company or a company belonging to the same group of companies. The same rules also concern the deputy members of the above-mentioned persons. The Ministry of Social Affairs and Health may, however, exceptionally grant exceptions from the provisions described above.

There are also special provisions about the closing of the books of an insurance company contracting compulsory pension insurance. Such a company is not included in the annual accounts of another insurance company or the consolidated closing of the accounts of a group of companies. Correspondingly an insurance company contracting non-life insurance is not included in the consolidated closing of the accounts of such a company.

In addition to the confirmation of premium bases and some other bases, the most important methods for the Ministry of Social Affairs and Health to carry out the supervision of already established insurance companies are the confirmation of the calculation bases for the underwriting reserves and the supervision of the provisions on solidity and compliance with good insurance practice. Like other insurance companies the pension insurance companies must annually submit their annual accounts to the Ministry of Social Affairs and Health. A pension insurance company must furthermore submit a report on the calculation of the underwriting reserves to the Ministry as well as, within the time prescribed by the Ministry, an analysis of its insurance business. The supervision is concentrated on this information, which the insurance companies are obliged to submit to the Ministry. In addition the Ministry has the right to obtain every other kind of information which it considers necessary for the supervision. The Ministry has the power to inspect the business and other activities of an insurance company or its subordinated companies at any time, as well as participate in meetings where the right of decision in an insurance company is being exercised, but not to participate in the decision making.

If an insurance company fails to observe the law, its licence, its articles of association, the bases confirmed for the insurance business or the directives issued by the Ministry of Social Affairs and Health according to the Insurance Companies Act, The Ministry shall instruct the company to correct the matter within a prescribed time, which may not without compelling reasons exceed six months. The procedure is same if the bases for the company's business no longer are in accordance with the law or if the company despite the Ministry's warnings has acted against good insurance practice. If the company does not adhere to the requests, the Ministry may prohibit the company from issuing new insurance policies until the matter is corrected and the Council of State may restrict or revoke the licence of the company.

9.1.2
A pension fund

A pension fund can be established by at least three Finnish citizens or a domestic company, a cooperative society, an association or some other corporation, foundation or institution. The purpose of the fund is to pay benefits to its members or the dependents of its deceased members. A pension fund requires 30 – 300 members depending on the nature, amount and term of payment of the benefits to be granted.

A licence is not required for a pension fund, but the rules of the fund must be confirmed by the Ministry of Social Affairs and Health. The raising of a sufficient guarantee capital or guarantee fund may be required as a condition for the confirmation of the rules, if it is considered necessary because of the small number of members in the fund or some other circumstance affecting the solvency. Furthermore a pension fund must be registered.

A pension fund must have a premium reserve corresponding to the capitalized value of the pension liabilities reduced by the capitalized value of future premiums. Furthermore the fund must have a claims reserve corresponding to the total amount of outstanding benefits at the end of the year. The pension fund must draft bases for the calculation of these reserves and obtain the confirmation of the Ministry of Social Affairs and Health for them. The prescriptions concerning investing of the assets for the cover of the reserves and keeping of the securities for the investments must be observed. In addition the pension fund must have a contingency fund. A certain part of the surplus shown in the closing of the books must be transferred to this fund, until the fund amounts to at least 5 per cent of the premium reserve. Without the permission of the Ministry of Social Affairs and Health the assets of the contingency fund may not be used for other purposes than to cover deficits for which other assets reserved for future needs are not sufficient.

A pension fund must submit an annual report of its activities to the Ministry of Social Affairs and Health. Furthermore the Ministry may at any time inspect the business of the pension fund, like the cash, securities, accounts and other documents as well as participate in the inspections made by the auditors of the pension fund.

If a pension fund fails to observe the provisions of the law or its rules, or other properly issued prescriptions, the Ministry of Social Affairs and Health shall instruct the pension fund to correct the matter in a specified time not exceeding six months. For compelling reasons a new specified time of the same length, at most, may be granted. The procedure described above is also followed when the Ministry finds that the cover for the premium and claims reserve is not sufficient. If the request of the Ministry is not adhered to, the Ministry can prohibit the function of the fund until the matter is corrected.

The Central Pension Security Institute handles the registration of pension funds operating solely according to the employment pension laws. The Central Pension Security Institute also is responsible for the inspection and supervision of pension funds operating solely or partly according to the employment pension laws.

9.1.3
A pension foundation

A pension foundation is a foundation established and financed by one or several employers for the purpose of granting pensions and other corresponding benefits based on an employment relationship to the employees and their dependents. A licence is not needed for the establishing of a pension foundation, but the Ministry of Social Affairs and Health must confirm the rules of the foundation and furthermore the foundation must be registered.

The pension foundation must invest its assets profitably and in a safeguarding way. The special feature of a pension foundation is that it may lend its assets without securities to the employer who has established the foundation. The employer must pay the foundation an interest at least corresponding to the rate approved by the Ministry of Social Affairs and Health. The Pension Foundations Act will, however, be altered so that in the future a security would be required from the employer for the loan. The securities of the pension foundations transacting compulsory employment pension cover have been discussed above in chapter 7.2.

The amount of the pension liabilities calculated according to the prescriptions of the Ministry of Social Affairs and Health must be disclosed in the balance sheet of the pension foundation. This concerns the amount due to pensions and other benefits which have started before the closing of the books, insofar as the liabilities must be considered to belong to the service of the employees before the closing of the books. If the assets of the pension foundation are insufficient to cover the pension liabilities and other liabilities, the difference must be disclosed in the balance sheet as statutory deficit. According to a pending change of legislation concerning voluntary additional benefits (meaning other than pension benefits under the basic cover of the employment pension laws), the pension foundations would have to cover at least 75 per cent of the pension liabilities due to started and future pensions of retired persons, future pensions of their dependents and other benefits.

A pension foundation must submit an annual report of its activities and accounts to the Ministry of Social Affairs and Health. Furthermore an insurance analysis must be made of the business of the pension foundation every fifth year and also at other time if the Ministry considers it necessary. In addition a pension foundation shall, within a reasonable time specified by the Ministry, submit to it such other information as is necessary for the supervision. The Ministry also has the power to inspect the business of the pension foundation in other ways, if it considers it to be necessary.

The Ministry of Social Affairs and Health supervises the functions of the administrative bodies of a pension foundation and may if necessary take action to correct the situation and to claim for damages and punishment. If a pension foundation does not take action to dissolve the foundation although it should be done according to the law or the rules of the foundation, the Ministry declares that the foundation shall be dissolved. If the Ministry considers that a pension foundation is in, or is getting into such a state that it should be dissolved, it can prohibit the foundation from giving up, pledging or mortgage the foundation's assets.

The Central Pension Security Institute handles the registration of pension foundations operating solely under the employment pension laws. The Central Pension Security Institute also is responsible for the inspection and supervision of pension foundations operating solely or partly under the employment pension laws.

9.1.4
A foreign insurance company

A foreign insurance company may not transact insurance business in Finland without a licence from the Council of State. A licence is granted if the planned insurance business is not considered to hamper the sound development of the insurance business and there are no other reasons against it. The concession can be granted for 10 years at most or for an indefinite time. The concession can only concern insurance business of the same size as the company legally transacts in its country of origin. A foreign insurance company may not, however, transact statutory, compulsory pension insurance in Finland. The requirement for separation of personal and other insurance also concerns foreign companies.

The insurance company must establish a representation for its activities in Finland, managed by a general agent approved by the Ministry of Social Affairs and Health. Even a Finnish insurance company can act as general agent.

A foreign insurance company transacting voluntary pension insurance must deposit a guarantee of at least FIM 12 million in a Finnish bank. During the time when the company is operating, the value of the guarantee must always amount to at least 40 per cent of the company's annual premium income from its direct insurance business in Finland.

For its direct insurance business in Finland a foreign insurance company must calculate the underwriting reserves, consisting of the premium reserve and the claims reserve. The underwriting reserves must be covered and the cover recorded. The recorded cover must consist of assets approved by the Ministry, which are kept in Finland. These assets may only be used for the payment of debts based on insurance contracts regarding the company's direct insurance business in Finland.

A foreign insurance company must draft an annual report of its activities and accounts in Finland and a report concerning the calculation of the underwriting reserves and an analysis of its insurance business. In addition to this the Ministry of Social Affairs and Health has the power to inspect the business and other activities of a foreign insurance company and its subordinated companies.

Like a domestic insurance company a foreign insurance company must comply to good insurance practice in its Finnish insurance business.

If the company fails to observe the law, the scope of its licence, its Articles of Association or rules, or to conform to the bases approved for the insurance business, or regulations or prescriptions issued on the basis of the legislation on foreign insurance companies in Finland, the Ministry of Social Affairs and Health may issue a complaint to the foreign insurance company, instruct it to correct the matter in a specified time or prohibit the company from continuing the activity considered wrong by the Ministry. The same considers a situation where the company's guarantee or cover or some other basis for its business no longer complies to the above-mentioned legislation or if abuse has been detected in the company's operations. The prohibition or instruction can be made more effective by a penalty. If the instruction or prohibition is not followed, the Ministry can prohibit the company from issuing new insurance policies until the matter is corrected and the Council of State may restrict or revoke the licence of the company.

9.2 The contents of the insurance cover

The contents of the statutory, compulsory pension cover is defined in the pension laws in question. Therefore there are no differences between pension institutions as concerns the contents of the pension cover. In addition the conditions and bases for the pension cover must be confirmed by the Ministry of Social Affairs and Health. The bases describe how the contributions and underwriting reserves shall be calculated, paid-up policies and surrender values, consequences of failure to pay contributions and the rights of the policyholder where a policy ceases to be in effect for some reason other than surrender before the expiration of the period of insurance agreed on, or in case the company for another reason is relieved from its liability. In determining the bases for the calculation of the contributions and the underwriting reserves primary consideration shall be given to securing the benefits insured, which means safeguarding that the company is able to meet its future pension requirements (the principle of solidity). In determining the other bases primary consideration shall be given to the equity of the bases (the principle of equity).

The bases for the contributions can take into account factors regarding the insured persons affecting the liability of the insurance company, like for instance the difference between the average life span of men and women. The bases are confirmed separately for each company, but they may not, without special reasons, contain differences which may create difficulties in handling the pension institutions' joint affairs according to the employment pension laws. The variations in the price of the insurance between different companies are to be found in the size of the additional benefits. The accrued surplus is credited to the policyholders through the supplementary insurance fund. For big employers the excess technique is used. Their contribution is based on the company's own realized pension expenditure and independent of which insurance company has been chosen or whether the pension cover is arranged in a pension foundation or pension fund (see chapter 5.1.4.).

Regarding pension insurance companies the conditions and bases are confirmed separately. As concerns pension foundations and pension funds, the nature, entitlement, amount or determination of their pensions and other benefits must be stated in the rules of the pension institution, which are confirmed by the Ministry of Social Affairs and Health.

The bases for voluntary pension insurance issued by a domestic insurance company must be submitted to the Ministry of Social Affairs and Health for confirmation. In other respects the contents of the conditions for voluntary pension insurance from a pension insurance company is not regulated.

A foreign insurance institution must enclose a plan of action to its application for a licence. The plan of action must contain a description of the general and specific insurance conditions concerning insurance on standard conditions and of the tariffs of this kind of insurance. In addition the provisions of the Insurance Companies Act regarding bases confirmed by the Ministry of Social Affairs and Health are as a rule applicable to a foreign company.

The possible voluntary additional benefits granted by a pension foundation and pension fund are stated in the confirmed rules just like the statutory, compulsory benefits.

10
PROSPECTS OF THE EMPLOYMENT PENSION COVER

As concerns the volume and coverage of the pension cover in the private sector in Finland, it is realized so comprehensively through the compulsory pension schemes that the compulsory pension cover determines the outlines of the future development of the whole pension cover.

Of course there might also be slight changes in the voluntary pension cover. During the few last years there have for example been signs of a fairly strong growth of the number of voluntary, personal pension insurance bought from insurance companies. The real income at the disposition of the people has grown and the tax treatment of pension savings has offered a favorable method of saving. The high marginal tax rate has intensified this development.

However, the continued growth of the number of personal pension insurance is uncertain, if the compulsory pension cover remains on the level prescribed by the present legislation. Assessment of the development of the pension cover in the following is only limited to the compulsory pension cover.

10.1
The structure and administration of the employment pension cover

The structure of the Finnish pension insurance differs from many other countries. Already now and especially in the future the employment pension will be the primary pension. The employment pension maintains a pension related to the insured person's previous earnings. Under certain conditions other types of social insurance benefits like the employment accident insurance and the motor third party liability insurance, replace the compulsory employment pension.

The present structure of the pension scheme is based on a double social contract. Firstly the employment pension cover has been decided by the labour market parties. Furthermore the Finnish Parliament has enacted the employment pension laws and thus confirmmed the employment pension cover on the political level.

The contractual basis for the scheme is therefore very strong, which supports its continuity. The Finnish labour market organizations have played an exceptionally important role in developing the pension cover when regarded internationally. The labour market organizations even actively participate in implementing the scheme.

When the Finnish compulsory employment pension cover is assessed solely along domestic development lines, there are no such clear trends, which would indicate probable changes in the structure of the pension scheme in the private sector. The possible effects of the European integration on the pension and social security of different countries may, however, also affect Finland. At the moment it is, however, impossible to assess these trends, because the harmonization of social insurance is just beginning even within the European Communities.

In principle the structure of the Finnish pension cover is excellent regarding for instance the financing of the pension cover for persons who are working in several countries. The employment pension cover is automatically and without special provisions distributed among different countries according to the working periods and furthermore in accordance with the pension level in each country. The pro rata calculation of pensions from different countries will only affect the so-called future period entitlement of the Finnish employment pensions.

The administrative model of the employment pensions scheme in the private sector has proved to be functioning. The number of pension institutions has decreased by half as compared with the situation in the beginning. The same development may to some extent continue even in the future. All the original types of pension institutions for example, however, still exist.

Following international trends the Finnish insurance and banking business is also being concentrated. At least the opinion of the trade union movement and probably of others too is that the compulsory employment pension scheme should not be too concentrated.

Despite the decentralized administration of the employment pensions scheme, the insured person's last pension institution grants and pays the whole employment pension. At the moment the question of extending the principle of the last institution even to the public sector is being studied. It is possible to extend the concentration because of the efficient and co-ordinated register administration. The Central Pension Security Institute handles the central register and the co-ordination of the data communication.

It is already sufficient for the insured person to fill in one application form for the employment pension (a separate application is necessary for the national pension). The Central Pension Security Institute distributes this application to all the pension institutions in the private and public sector where the person has been insured. The employment pension information is automatically transferred to the Social Insurance

Institution for determination of the amount of the national pension (which depends on the employment pension).

10.2
Growth of the employment pension expenditure

The employment pension expenditure in the private sector was about FIM 20,5 billion in 1990. This amount was 39 per cent of the nation's total pension expenditure, 59 per cent of all employment pension expenditure, 13 per cent of the wage bill and 3,9 per cent of the GNP. Here the nation's total pension expenditure includes the compulsory employment pension expenditure in the private sector, the employeemnt pension expenditure in the public sector and the pension expenditure of the national pensions scheme.

The future growth of the pension expenditure will be very strong. The pension expenditure in the private sector will be three times bigger than the present level and reach the level of roughly 40 per cent by the year 2030. The volume of the compulsory employment pension cover therefore puts many demands to the scheme, mainly regarding economy and the efficiency of the administration.

Table 6 contains an assessment of the development of the pension cover until the year 2030, based on present legislation.

Table 6. Compulsory pensions as % of the wages in the years 1990, 2010 and 2030

Pension scheme	1990	2010	2030
Employment pension	14,7%	26%	41%
Private sector	12,9%	25,5%	39%
Public sector	18,8%	26,5%	45%
Accident insurance and other such pensions	1,7%	1%	1%
National pensions	7,6%	6%	6%
All pensions	24,4%	33%	48%

In the table the pension expenditure of each pension scheme has been compared to the wage bill of the same scheme. In the assessment it has been presupposed that the real growth of the income level will be 1,5 per cent annually from the year 1990. The anticipations concerning the wage bill lead to an average annual growth of the wage bill by 1,1 per cent during the prognosis period. In the assessment the personal scope of the public sector grows a little faster than the personal scope of the public sector.

The amount of the compulsory pension cover is still different in the private and public sector, which for example is shown by the figures of table 16 where the pension expenditure in the public sector in relation to the corresponding wage bill still in 2030 is higher than in the private sector. If there are difficulties in financing the pension cover in the future and the pension cover has to be reduced, the public sector will probably come into consideration.

Even if the improvement of the pension cover has been the aim of the development of the employment pension cover from the sixties, there has also been some material impairments. Almost without exceptions the measures which have reduced the pension expenditure have, however, been adjustment measures in order to reach previous goals and not actual changes. Such adjustments were the change of the TEL index in 1977 and the change of the TEL pensionable earnings in 1979 as well as the survivors' pension change in 1989.

For example, as a result of the two first-mentioned adjustments, 10 – 20 per cent of the employment pension expenditure is saved in the long run, which is very much. It is difficult to see possibilities for corresponding measures in the future. If it is necessary to take future measures in order to obtain savings in the pension cover, they will have to be considered bearing in mind that they are not only adjustments, but measures which also principally reduce the pension cover.

Internationally seen the Finnish pension cover is relatively high. From the viewpoint of social security the pension targets have not been too oversized. On the other hand it is generally considered that the economic situation does not give room for large amendments in pensions. Quite often demands for reduction of pension costs are presented.

It is very difficult to enforce actual impairments of the employment pension cover in Finland, because the employment pension cover is considered as part of the wages earned while in the working life. Most probably it is impossible to find a sufficient majority in the Finnish Parliament for a reduction of the pension cover.

Within the nearest 10 – 20 years the most central problem even for the employment pension cover might be the shortage of manpower. A partial reason for this is that the structural change of the economy from the end of the seventies led to a vast retirement of the elderly workforce. This trend was strengthened by some simultaneous changes of the pension laws. As a result of the development 70 per cent of the population aged for instance 60 – 62 years was retired in 1989. At the beginning of the eighties the corresponding portion was 54 per cent. Efforts are made to change the trend. Even the pension schemes are trying to find ways to increase the average retirement age.

10.3
Financial outlooks

Already since the beginning of the seventies there have from time to time been doubts about the possibilities to pay the promised pensions so that the income distribution between different population groups would be appropriate. Several studies have, however, shown that if there is at least a little real growth of the Finnish gross domestic product, there can also be a growing income development of different population groups. The calculated minimum annual real growth of the gross domestic product is about 1 per cent. In that case the risk for problems depends on how different population groups, especially persons who are working, settle with the real speed of the development of their income level and what is the development of the population basis in Finland. Generally the Finnish long range pension scenarios have shown that a balanced distribution of income between the active population and the pensioners would require a 2 per cent growth of the GDP.

The economy is financing the entire employment pensions scheme for the employees in the private sector by contributions partly based on funding. Roughly estimated only 20 – 30 per cent of the annually accruing benefits are funded. The range is caused by inflation. The major part of the pension expenditure is jointly financed. A certain part of the funds from the funded contributions are, however, used for these costs.

The premium income of the private sector was about FIM 27,4 billion in 1990. This was 16,9 per cent of the wage bill and 5,2 per cent of the GDP. The private-sector employment pension reserves including the registered additional pension cover amounted to FIM 113,7 billion at the end of 1990. This is 90,4 per cent of all the nation's compulsory pension reserves. The private sector's proportion of all the reserves for the compulsory pension cover will be smaller in the future because the public sector started to gather employment pension funds some years ago.

In Finland the partial funding has been one way to accomplish a reasonable but not exaggerated employment pension cover (in the beginning the full pension was 42 per cent and now 60 per cent of the wages) so that the pension cover causes as little disturbance as possible to the developing economy. In addition to the partial funding other methods to reach this goal have been reborrowing (see chapter 7.1.) and interest rates below the maximum rate (see chapter 6.5.).

Even more important may, however, be how the pooled component of the pension costs for the employment pension cover based on joint liability is taken into account in advance. The legislation provides insurance technical possibilities for a preparation in advance. They have, however, not been used. From this point of view it is essential to see how the principle ″the employment pension is wage transferred to the pensionable age″ has worked in the past and how it will affect the wage level in the future.

Instead of by actual contributions each sector (the private, the State and the rest of the public sector) can prepare for future pensions if the insured persons save part of their wages for the future. In practice this requires that when deciding about wage increases the growth of the pension costs are taken into account without distraining the ″pension wages″ during the active period. The compulsory pension scheme gives better possibilities than the voluntary ones to implement this idea. Under Finnish circumstances the support of the labour market organizations has therefore been an even more efficient method than legislation to take care of the matter.

The Finnish administratively decentralized pension system has made the close co-operation between the labour market organizations and the pension institutions possible. This co-operation has not been restricted to the development of the legislation, but has also covered granting of benefits and determination of the level of contributions. This concerns especially the private sector.

There are no exact figures available of how the employment pensions scheme has slowed down the growth of the income level. Some studies show, however, that the employment pension cover also has reduced the development of the income level.

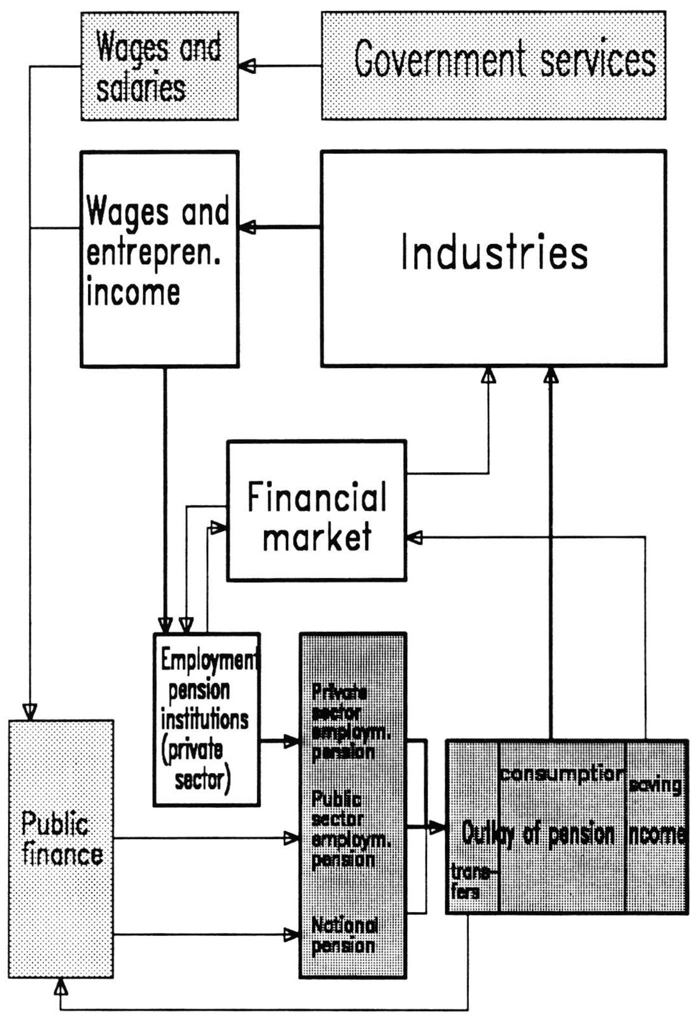
Several quarters in Finland have wished that the benefits promised in the legislation be secured by increased funding through raised contributions. Besides the pension institutions wishes of this kind have come from labour market organizations representing the employees and also from the sector of political economy.

One sign of the future development might be that in 1990 funds were for the first time transferred for index adjustments of pensions. This means increased funding.

From time to time the idea of a separate employees′ employment pension contribution has been discussed. As concerns the solvency of the employment pensions scheme, the insured persons′ contribution would clearly have a positive effect by stressing the responsibility of the insured persons for the saving of the growing pension costs.

10.4
The position of the employment pension cover in the national economy

The previous chapter showed that the employment pensions scheme in the private sector influences the national economy in different ways. The effects can be presented in the form of the following chart.



The chart shows that the employment pensions scheme if so wished can be used in many ways to influence the Finnish national economy. This has also been the case in practice.

The employment pension is one method for distribution of income. This is always actualized when the legislation is changed in a way which affects pensions already in payment. The most essential influence of the employment pension cover on the national economy, however, occurs before the actual pension phase.

The Finnish statutory pension cover relieves the individual from saving up his personal pension, but at the same time forces the employer to take out a pension insurance. The pension funds emphasize the importance of the pension institutions as financing institutions and offer a channel for economic influence, essentially when determining the contribution level and the interest policy.

One of the principles of the employment pensions scheme in the private sector is that the part of the contribution which is not used for payment of pensions is returned to the private sector, where it has been collected from in the first place. The determination of the amount of the contribution aims at enabling the economy to adapt flexibly to the costs of the employment pensions.

The employees' pensions scheme in the private sector is economically self-sufficient and independent of the State. The only exception is the small Seamen's Pensions Act, which is partly financed by the State. The Finnish legislation has, however, provided for the possibility of the State to express its opinion on matters of importance for the national economy. Therefore the Ministry of Social Affairs and Health has already since the seventies asked the opinion of the Finance Committee of the Council of State before the confirmation of the employment pension contribution.

As the pension expenditure and the funds accrued from the contributions have grown, the interest in the importance of the compulsory employment pension cover for the national economy has increased all the time. Since the end of the seventies the portion of the employment pension saving of the net saving of the whole national economy has changed between 20 – 30 per cent. This is a very large portion, despite the fact that the funding has not been too extensive. When, at least in principle, it is possible to influence the direction of the economic policy with the help of the employment pension contributions, the State will most probably also in the future try to use the financing of the employment pension cover as one means of developing the national economy at least to the same extent as presently.

The permanent funding of the employment pensions is justified, because the pension benefits reduce the need for private saving. During the next 10 − 20 years it would furthermore be justified to increase the employment pension funding because there are going to be considerable changes in the age structure of the population. With the help of the funds it is possible to raise the productivity of work and thus ease the growing pension burden.

On the other hand the increasing contributions might slow down the yield. For the payer the employment pension contributions are production costs and therefore the contribution burden affects the competitiveness and the settling decisions of the companies. With the internationalization of the economy the importance of these facts is emphasized especially in countries with a developed social security. If pension contributions and other contributions connected to the production factors and the yield are lower in some countries because of lower wages, the production can under certain circumstances move to such a country.

Annex A. Some general data on Finland

1. Gross domestic product in 1990

	FIM million
Wages	231 255
Employers' social expenditure	59 709
Incomes from properties and self-employment, net	76 849
Indirect taxes, less subsidies	63 323
National income	431 136
Factor income to the rest of the world, net, plus consumption of fixed capital	95 667
Gross domestic product in purchasers' values	526 803

2. Population by age at year-end 1987

Age	Number	Per cent
0 – 6	445 420	9,0
7 – 15	566 216	11,5
16 – 18	189 300	3,8
19 – 64	3 098 399	62,7
65 – 74	372 628	7,5
75 –	266 639	5,4
	4 938 602	100,0

3. Population 1970 – 2000, at year-end

	Total population		Over 65 years		20 – 64 years	
	1000	Index 1970 = 100	1000	Index 1970 = 100	1000	Index 1970 = 100
31.12.1970	4 598	100	427	100	2 631	100
31.12.1975	4 720	103	509	119	2 786	106
31.12.1980	4 788	104	577	135	2 865	109
31.12.1985	4 911	107	618	145	2 996	114
31.12.1990	4 997	109	673	158	3 055	116
31.12.1995	5 041	110	723	169	3 054	116
31.12.2000	5 051	110	747	175	3 089	117

4. Inflation: 4,8% (March 1990 – 1991)

5. Approximate average wage: FIM 105 700 (in 1990)

6. Unemployment rate: 7,2 % (March 1991)

Annex B. Statistics on the employment pensions in payment

The statistics of this chapter cover the compulsory employment pensions in the private sector or the pension cover under the TEL, LEL, TaEL, YEL, MYEL and MEL pension laws.

The compulsory employment pension cover in the private sector is part of the whole compulsory pension cover, which also includes the employment pension in the public sector and the national pension. For that reason the figures below of the amount of the pension do not give an altogether accurate picture of the total amount of the pensioner's compulsory pensions. About 15 per cent of the recipients of an own pension in the private sector also receive an own pension in the public sector. The average pension is about FIM 1 800 a month.

The amount of a specific pension is naturally greatly dependent on, among other things, the length of the working period and the income level. There are, however, no statistics, which would show the amount of pensions by income level or length of the working period.

For the above-mentioned reasons the following statistics do not add very much to the picture given by the information on the determination of pensions in chapter 3. The statistics contain many types of pensions and their portions vary for many reasons. For example fully-effective pensions or pensions where the time from contingency to pensionable age has been taken into account are considerably bigger than pensions where this time is not included. The pension level of elderly age groups, who have worked their whole life in the private sector and now are retiring, is about one third below that of the younger age groups. This is due to the gradual coming into force of the pensions scheme. This fact can especially be seen in the statistics on pensions in payment, as well as the fact that pensions granted earlier have only been partly compensated for the rise of the income level through index adjustments and are also for this reason smaller than pensions which are granted now.

The average own pension at the end of 1990 was FIM 2 016 a month, which was 28 per cent of the average wages or work income of the persons insured in the scheme at the same time. The average amount of the own pensions which started in 1990 was FIM 2 311 a month. The average amount of the fully-effective pensions was FIM 2 866 a month, which was 39 per cent of the mentioned average wages or work income.

The tables B1 and B2 show the number and average amounts of pensions in force at the end of 1990 as well as the proportion of the pensions compared to average wages and work income distributed by pension law and pension type. The tables B3 and B4 contain the same information concerning pensions granted in 1990.

Table B1. The number of pensions and the average pension by pension laws and types of pensions, at year-end 1990

	TEL	LEL	YEL	MYEL	MEL	Total
Old-age pensions	235648	55100	34962	146110	3410	475271
- FIM/month	2324	1271	2441	709	3801	1724
Disability pensions[1)]	164902	51550	16707	37580	2823	273635
- FIM/month	3074	1854	255	966	3086	2523
Total	400550	106650	51669	183690	6233	748906
- FIM/month	2633	1553	2478	762	3477	2016
Widow's pensions	73553	35771	15195	35564	1225	161315
-FIM/month	1704	773	1434	480	2229	1206

1) Disability pensions also include unemployment pensions

Table B2. The average pension in payment at year-end 1990 in percentages of the average wages or work income

	TEL	LEL	YEL	MYEL	MEL	Total
Old-age pension	27,5	22,7	41,0	23,6	46,9	23,6
Disability pension	36,4	33,1	43,0	32,2	38,1	34,6
Total	31,2	27,7	41,6	25,4	42,9	27,6

Table B3. The number of pensions and the average pension by pension laws and types of pensions for pensions started in 1990

	TEL	LEL	YEL	MYEL	MEL	Total
Old-age pensions	21365	5808	3088	9817	145	40242
- FIM/month	2757	1461	2371	868	3681	2082
Disability pensions*)[1)]	20715	6135	2490	3505	480	33365
- FIM/month	3091	1734	2656	1079	2539	2587
Total	42080	11943	5578	13322	625	73607
- FIM/month	2921	1601	2498	924	2804	2311
Widow's pensions	4985	2107	1102	2679	92	10968
- FIM/month	1779	816	1465	522	2265	1260

1) The disability pensions also include the unemployment pensions

Table B4. Pensions started in 1990. The average pension in percentages of the average wages or work income.

	TEL	LEL	YEL	MYEL	MEL	Total
Old-age pension	32,6	26,1	39,8	28,9	45,4	28,5
Disability pension	36,6	31,0	44,6	36,0	31,3	35,5
Total	34,6	28,6	42,0	30,8	34,6	31,7

In the tables above the pension law means the employment pension law under which the pensioner was last insured. The figures include the pensioner's whole compulsory employment pension from the private sector. When calculating the tables B2 and B4 wages mean the average wages of the persons presently insured under each law. For many different reasons this average wage does not necessarily correspond to the wage earned by the retired persons in table B2.

The seamen's MEL pensions are not included in the following statistics on the size of pensions.

Table B5. The size distribution of the own pensions at year-end 1990, %

FIM/month	Old-age pension	Disability and un-employment pension	Total
– 0	0,2	1,0	0,5
1 – 249	10,7	9,2	10,1
250 – 499	15,2	7,3	12,4
500 – 749	10,5	6,6	9,1
750 – 999	7,6	5,1	6,6
1000 – 1249	7,0	4,6	6,1
1250 – 1499	6,4	4,4	5,7
1500 – 1999	10,9	8,6	10,1
2000 – 2499	8,9	8,7	8,8
2500 – 2999	6,6	8,8	7,4
3000 – 3499	4,6	7,8	5,8
3500 – 3999	3,5	6,8	4,7
4000 – 4499	2,2	5,7	3,5
4500 – 4999	1,6	4,6	2,7
5000 – 7499	2,6	8,7	4,9
7500 –	1,4	2,1	1,6
Total	100,0	100,0	100,0
Number	471861	270812	742673

Table B6. The size distribution of widow's pensions at year-end 1990, %

FIM/month	%
– 0	0,9
1 – 249	12,1
250 – 499	14,8
500 – 749	13,2
750 – 999	11,9
1000 – 1249	10,8
1250 – 1499	8,6
1500 – 1999	11,9
2000 – 2499	6,8
2500 – 2999	3,6
3000 – 3499	1,9
3500 – 3999	1,1
4000 – 4999	1,1
5000 –	1,3
Total	100,0
Number	160 090

Table B7. The average old-age pension by age and sex at year-end 1990, FIM/month

Age	Men		Women		Total	
	number	FIM/month	number	FIM/month	number	FIM/month
55–59	30	11171	22	4417	52	8314
60–64	3342	4688	6170	1963	9512	2920
65–69	77976	2695	94280	1277	172256	1919
70–74	52459	2403	73581	1122	126040	1655
75–79	38712	2225	57468	1031	96180	1512
80–84	21590	1892	32524	956	54114	1329
85–	5684	2137	8023	1207	13707	1593
Total	199793	2459	272068	1159	471861	1709

Table B8. The average unemployment and disability pension by age and sex at year-end 1990, FIM/month

Age	Men		Women		Total	
	number	FIM/month	number	FIM/month	number	FIM/month
–29	1063	2383	409	1978	1472	2271
30–34	2039	2516	963	1884	3002	2313
35–39	4158	2555	2398	1835	6556	2292
40–44	7910	2773	4812	1850	12722	2424
45–49	10258	3046	6881	1896	17139	2585
50–54	17485	3070	12671	1833	30156	2550
55–59	37550	3348	31265	1899	68815	2690
60–64	66665	3160	64285	1690	130950	2438
Total	147128	3136	123684	1780	270812	2517

Table B9. The average widow's pension according to age at year-end 1990, FIM/month

Age	Number	FIM/month
– 29	617	1 105
30 – 34	614	1 492
35 – 39	1 558	1 624
40 – 44	3 805	1 808
45 – 49	4 905	1 876
50 – 54	7 786	1 735
55 – 59	12 651	1 520
60 – 64	20 764	1 314
65 – 69	28 864	1 137
70 – 74	29 696	1 034
75 – 79	27 528	981
80 – 84	16 376	983
85 –	4 925	1 025
Total	160 090	1 199

Table B10. Average own pension by age and sex at year-end 1990, FIM/month

Age	Men		Women		Total	
	Number	FIM/month	Number	FIM/month	Number	FIM/month
– 29	1063	2383	409	1978	1472	2271
30 – 34	2039	2516	963	1884	3002	2313
35 – 39	4158	2555	2398	1835	6556	2292
40 – 44	7910	2773	4812	1850	12722	2424
45 – 49	10258	3046	6881	1896	17139	2585
50 – 54	17485	3070	12671	1833	30156	2550
55 – 59	37580	3354	31287	1901	68867	2694
60 – 64	70007	3233	70455	1714	140462	2471
65 – 69	77976	2695	94280	1277	172256	1991
70 – 74	52459	2403	73581	1122	126040	1655
75 – 79	38712	2225	57468	1031	96180	1512
80 – 84	21590	1892	32524	956	54114	1329
85 –	5684	2137	8023	1207	13707	1593
Total	346921	2746	395752	1353	742673	2004

Annex C. Statistics on voluntary pensions

At the end of 1990, 39 244 pensioners or about 5 per cent of the recipients of a compulsory pension received a registered additional pension from the employment pensions scheme. The average additional pension was FIM 1 493 a month. When the registered additional pension is included, the average amount corresponding to an average own pension in table B1 is FIM 2 081 a month. The average portion of the additional pension is about FIM 65 a month.

Registered additional pensions are mainly received by elderly age groups, whose compulsory pension is smaller than the target level of the employment pension and groups for whom a lower pension age than 65 years has been arranged.

At the end of 1988 unregistered voluntary pensions were paid as follows:

	Old-age pensions	Disability pensions	Survivors' pensions	Other pensions	All pensions
Pension foundations	24 221	6 430	9 048	1 276	40 975
Pension funds	15 028	2 957	3 709	593	22 287
Insurance companies*)	5 544	418	2 235	–	8 197
Total	44 793	9 805	14 992	1 869	71 459

*) Includes the personal pension insurance contracts

Annex D. Statistics on national pensions

The following statistics on the national pensions scheme cover all pensioners under the scheme including those who do not receive any employment pension.

Table D1. Recipients of national pensions by different pensions and the average pension at year-end 1990

Pension	Number	Average FIM/month
National pensions		
Old-age pension	682 110	1 422
Disability pension	282 868	1 178
Unemployment pension	54 598	968
Total	1 019 576	
Survivors' pension	38 890	
Whereof widow's pension	13 582	850
Front-veterans' pension	970	1 115
Grand total	1 059 436	

The total population was 4 998 000, of which 674 000 persons were 65 years or older and 3 058 000 were 20 – 64 years old.

Table D2. Pensions paid from the national pensions scheme by different pensions in 1990, FIM million

National pensions	
Old-age pension	10 809,1
Disability pension	4 090,3
Unemployment pension	673,9
Total	15 573,3
Survivors' pensions	229,4
Front-veterans' benefits	
Front-veterans' pension	25,8
Front-veterans' supplement	618,6
Extra front-veterans' supplement	237,6
Grand total	16 684,7

In 1990, FIM 55 430 million were paid in pensions, which was 24 per cent of the country's total wage bill.

Table D3. National pensions by pension components in 1990, FIM million 1990, milj. mk

Basic amounts	4 775,4
Basic amount additions	9 454,4
Housing allowances	545,0
Spouse increases	3,1
Child increases	92,9
Care allowances	702,5
Total	15 573,3

Table D4. Recipients of national pensions by the basic amount addition, at year-end 1990

No basic amount addition	294 649
Reduced basic amount addition	547 946
Full basic amount addition	176 981
Total	1 019 576

Table D5. Distribution of pensioners by the amount of the employment pension and reception of a national pension and the average national pension at year-end 1990

Employment pension FIM/month	Only employment pension Number	Pension from the national pension scheme Number	Average FIM/month
No employment pension	–	167 215	1 930
0	1 406	4 215	570
1 – 249	5 317	41 122	2 002
250 – 499	4 119	62 312	1 962
500 – 749	3 520	58 216	1 882
750 – 999	3 312	53 643	1 811
1000 – 1249	3 182	52 898	1 692
1250 – 1499	3 615	48 437	1 594
1500 – 1749	5 434	44 060	1 483
1750 – 1999	3 996	41 981	1 363
2000 – 2249	4 362	38 837	1 239
2250 – 2499	6 858	38 424	1 128
2500 – 2749	6 070	35 333	1 015
2750 – 2999	4 968	33 280	900
3000 – 3499	6 190	58 532	746
3500 – 3999	3 833	50 860	605
4000 – 4499	3 232	42 489	526
4500 – 4999	4 008	41 047	506
5000 – 7499	16 228	98 767	507
7500 – 9999	7 900	28 228	523
10000 – 2499	2 569	9 806	536
12500 – 4999	801	4 379	553
15000 –	739	5 243	573
Total	101 659	1 059 324	1 299

Table D5 includes all pensioners, who receive a pension from the national pensions scheme or the private or public employment pensions scheme. The table does not, however, include the "old pensions" in the municipal sector based on the pension rule preceding the present pension law. There are about 14 700 pensions of this kind and their average amount is about FIM 4 000 a month.

Table D6. The number of recipients of pensions from the national pensions scheme by different pensions and according to the reception of an employment pension at year-end 1990

	All	Employment pension from private sector	Some employment pension
Old-age pension	682 110	461 236	536 277
Disability pension	282 868	204 729	229 340
Unemployment pension	54 598	52 517	53 246
Front-veterans' pension	968	531	562
Survivors' pensions	38 883	29 280	32 327
whereof widow's pensions	13 581	11 405	12 343
Total	1 059 324	787 358	892 109

The table shows that for example 682 110 pensioners received an old-age pension from the national pensions scheme, of whom 461 236 also received an employment pension from the private sector and 536 277 an employment pension either from the private or public sector.

Annex E. Total pensioner population by age and sex at year-end 1990

Age	All pensioners Number	All pensioners Share of population	National pensioners	Employment pensioners	National and employment pensioners
Both sexes					
All	1 076 351	27,1	1 019 576	874 441	817 666
16-19	1 980	0,8	1 979	20	19
20-24	4 178	1,2	4 156	403	381
25-29	6 299	1,7	6 195	1 438	1 334
30-34	9 113	2,4	8 831	3 672	3 390
35-39	14 207	3,5	13 597	7 549	6 939
40-44	20 584	4,7	19 094	14 219	12 729
45-49	24 691	7,6	21 331	20 044	16 684
50-54	39 388	14,3	34 275	34 347	29 234
55-59	87 401	34,6	78 375	80 989	71 961
60-62	106 329	67,7	92 155	99 255	85 081
63-64	80 551	79,3	65 183	74 150	58 782
65-69	222 462	99,9	218 119	199 855	195 512
70-74	170 118	100,0	168 914	145 386	144 182
75-79	141 899	100,0	141 102	111 045	110 248
80-	147 151	100,0	146 272	82 069	81 190
Males					
All	445 421	23,4	413 769	401 689	370 037
16-19	1 159	1,0	1 158	14	13
20-24	2 418	1,4	2 401	267	250
25-29	3 725	1,9	3 652	944	871
30-34	5 344	2,7	5 158	2 303	2 117
35-39	8 200	4,0	7 819	4 593	4 212
40-44	11 804	5,2	10 860	8 564	7 620
45-49	14 338	8,7	11 867	12 164	9 693
50-54	22 221	16,3	18 627	20 083	16 489
55-59	46 058	37,5	40 137	43 730	37 809
60-62	50 172	68,5	43 374	48 328	41 530
63-64	36 769	79,9	29 538	35 231	28 000
65-69	91 998	100,0	89 400	88 366	85 768
70-74	62 848	100,0	62 283	59 966	59 401
75-79	47 653	100,0	47 281	44 544	44 172
80-	40 714	100,0	40 214	32 592	32 092
Females					
All	630 930	30,5	605 807	472 752	447 629
16-19	821	0,7	821	6	6
20-24	1 760	1,0	1 755	136	131
25-29	2 574	1,4	2 543	494	463
30-34	3 769	2,0	3 673	1 369	1 273
35-39	6 007	3,0	5 778	2 956	2 727
40-44	8 780	4,1	8 234	5 655	5 109
45-49	10 353	6,5	9 464	7 880	6 991
50-54	17 167	12,4	15 648	14 264	12 745
55-59	41 343	31,9	38 236	37 259	34 152
60-62	56 157	67,0	48 781	50 927	43 551
63-64	43 782	78,8	35 645	38 919	30 782
65-69	130 464	99,8	128 719	111 489	109 744
70-74	107 270	100,0	106 631	85 420	84 781
75-79	94 246	100,0	93 821	66 501	66 076
80-	106 437	100,0	106 058	49 477	49 098

The table contains pensioners with an old-age, disability or unemployment pension.

Annex F. Statistics on the statutory activities of the employment pension institutions in 1990

The Ministry of Social Affairs and Health

A. Statistics on TEL, LEL and TaEL activities (employees) in 1990

	Insurance companies	Pension foundations	Pension funds	LEL-fund	TaEL-fund	Total
I TEL, LEL, TaEL scope at year-end 1990						
1 Number of pension institutions	7	65	12	1	1	86
2 Number of employers	99 897	212	3 867			
3 Number of employees	976 615	150 774	67 337	140 000	7 000	
4 Wage bill of 1990, FIM mill.	101 109	19 332	7 480	13 681	470	142 072
II Contribution income in 1990						
1 Contributions, FIM mill.	18 231,9	3 511,2	1 248,7	2 512,8	79,0	25 583,6
1a Basic pension cover	17 467,8	3 448,8	1 233,1	2 512,8	79,0	24 741,5
1b Additional pension cover	764,1	62,4	15,6			842,1
III Pension expenditure in 1990						
1 Pensions paid, FIM 1000	11 757 404	2 418 386	634 854	2 345 132	1 758	17 157 534
1a Old-age pensions	4 991 253	1 080 362	300 893	817 113	421	7 190 042
1b Disability pensions	3 666 916	701 375	219 742	949 601	1 035	5 538 669
1c Unemployment pensions	1 256 418	236 844	28 293	212 487	113	1 734 155
1d Survivors' pensions	1 271 145	310 082	64 078	364 988	182	2 010 475
1e Part-time pensions	4 036	239	90	33	-	4 398
1f Registered additional pensions	567 652	89 484	21 758	911	7	679 812
IV Pensions awarded in 1990						
1 Number of pensions	39 683	5 753	2 254	14 296	70	62 056
1a Old-age pensions	17 593	2 710	1 062	5 802	25	27 192
1b Disability pensions	16 078	2 035	898	5 874	35	24 920
1c Unemployment pensions	1 458	140	106	261	5	1 970
1d Survivors' pensions	4 503	860	187	2 358	5	7 913
1e Part-time pensions	51	8	1	1	-	61
2 Pensions paid, FIM 1000	1 257 815	259 579	89 564	255 197	1 174	1 863 329
2a Old-age pensions	539 760	126 640	40 337	101 708	390	808 835
2b Disability pensions	563 948	102 225	39 633	121 300	664	827 770
2c Unemployment pensions	50 580	7 989	3 490	6 322	80	68 461
2d Survivors' pensions	101 921	22 483	6 094	25 836	40	156 374
2e Part-time pensions	1 606	242	10	30	-	1 888
3 Number of funeral grants	244	0	19	0	0	263
4 Funeral grants, FIM 1000	1 516	0	307	0	0	1 823
V Pensions in payment, at year-end 1990						
1 Number of pensions	398 109	61 320	18 900	143 973	126	622 428
1a Old-age pensions	196 844	28 716	10 088	55 100	41	290 789
1b Disability pensions	106 518	14 912	5 320	42 450	66	169 266
1c Unemployment pensions	32 722	4 468	962	9 100	7	47 259
1d Survivors' pensions	61 901	13 214	2 525	37 322	12	114 974
1e Part-time pensions	124	10	5	1	-	140
2 Pension portfolio, FIM 1000 a year	11 331 162	2 364 721	632 345	2 354 102	2 057	16 684 387
2a Old-age pensions	5 139 175	1 118 294	314 558	840 162	507	7 412 696
2b Disability pensions	3 711 324	707 768	225 198	947 562	1 197	5 593 049
2c Unemployment pensions	1 187 358	224 621	27 288	199 556	148	1 638 971
2d Survivors' pensions	1 289 224	313 757	65 230	366 791	205	2 035 207
2e Part-time pensions	4 081	281	72	30	-	4 464
VI Underwriting reserves, at year-end 1990						
1 Premium reserve, FIM mill.	48 147,2	15 058,4	5 563,0	11 260,2	137,7	80 166,5
1a Basic pension cover	46 199,0	14 749,9	5 385,1	11 260,2	137,7	77 731,9
1b Additional pension cover	1 948,2	308,5	177,9			2 434,6
2 Claims reserve, FIM mill.	31 435,1		1,6			31 436,7
2a Basic pension cover	29 459,4		1,6			29 461,0
2b Additional pension cover	1 975,7					1 975,7
3 Liabilities deficit, FIM mill.	9,1	157,2				166,3

B. Statistics on YEL and MYEL activities (the self-employed) and on all employment pensions in 1990

	Insurance companies	Pension funds	Farmers' Social Insurance Institution	Total	TEL,LEL,TaEL, YEL and MYEL in total
I YEL and MYEL scope at year-end 1990					
1 Number of pension institutions	7	5	1	13	87
2 Number of the insured	165 007	4 201	177 450	346 658	
3 Earnings/wages, FIM mill. a year	11 827	351	7 042	19 220	161 292
II Contribution income in 1990					
1 Contributions, FIM mill.	1 830,7	57,6	468,5[1)]	2 356,8	27 940,4
1a Basic pension cover	1 817,7	57,6	468,5	2 343,8	27 085,3
1b Additional pension cover	13,0			13,0	855,1
III Pension expenditure in 1990					
1 Pensions paid, FIM 1000	1 739 687	76 406	1 887 242	3 703 335	20 860 870
1a Old-age pensions	954 540	50 912	1 217 058	2 222 510	9 412 552
1b Disability pensions	464 933	15 505	397 984	878 422	6 417 091
1c Unemployment pensions	37 152	1 198	56 597	94 947	1 829 102
1d Survivors' pensions	270 650	8 041	214 428	493 119	2 503 594
1e Part-time pensions	2 030	62	57	2 149	6 547
1f Registered additional pensions	10 349	688	1 113	12 150	691 962
IV Pensions awarded in 1990					
1 Number of pensions	6 503	275	16 045	22 823	84 879
1a Old-age pensions	2 954	134	9 817	12 905	40 097
1b Disability pensions	2 252	96	3 350	5 698	30 618
1c Unemployment pensions	128	14	155	297	2 267
1d Survivors' pensions	1 154	31	2 722	3 907	11 820
1e Part-time pensions	15	-	1	16	77
2 Pensions paid, FIM 1000	181 737	9 459	166 103	357 299	2 220 627
2a Old-age pensions	82 360	5 510	102 232	190 102	998 937
2b Disability pensions	73 371	2 966	43 685	120 022	947 792
2c Unemployment pensions	2 724	309	1 667	4 700	73 161
2d Survivors' pensions	22 720	675	18 511	41 906	198 280
2e Part-time pensions	562	-	570 8	2 458	
V Pensions in payment, at year-end 1990					
1 Number of pensions	65 092	2 297	219 762	287 151	909 579
1a Old-age pensions	33 625	1 337	146 110	181 072	471 861
1b Disability pensions	14 621	515	33 536	48 672	217 938
1c Unemployment pensions	1 517	54	4 044	5 615	52 874
1d Survivors' pensions	15 256	390	36 068	51 714	166 688
1e Part-time pensions	73	1	4	78	218
2 Pension portfolio, FIM 1000 a year	1 744 596	76 579	1 895 346	3 716 521	20 400 908
2a Old-age pensions	971 851	52 140	1 242 305	2 266 296	9 678 992
2b Disability pensions	460 605	15 209	382 856	858 670	6 451 719
2c Unemployment pensions	35 537	1 154	53 030	89 721	1 728 692
2d Survivors' pensions	274 570	8 047	217 107	499 724	2 534 931
2e Part-time pensions	2 033	30	49	2 112	6 576
VI Underwriting reserves, at year-end 1990					
1 Premium reserve, FIM mill.	518,3	4,3	89,1	611,7	80 778,2
1a Basic pension cover	463,9	4,3	88,8	557,0	78 288,9
1b Additional pension cover	54,4		0,3	54,7	2 489,3
2 Claims reserve, FIM mill.	22,1		0,2	22,3	31 459,0
2a Basic pension cover					29 461,0
2b Additional pension cover	22,1		0,2	22,3	1 998,0
3 Liabilities deficit, FIM mill.					166,3

1) Excluding the share of payments in pensions by the State: FIM 1 687,9 mill

Annex G. A calculation of the rates of return across generations

The report on employment pensions by the Central Pension Security Institute for the OECD study contained a calculation of the rates on return across generations. The calculation is here as an annex.

In the employment pensions scheme the contributions and benefits are determined as a portion of the total wages and according to the provisions the rates of return do not therefore vary by earnings classes. The pension laws of the self-employed make an exception from this rule, since they know a reduction of the contribution in cases of low income.

In the calculation the premium income and pension expenditure compiled from 1962 and predicted until 2050 was divided into cohorts upon estimation. Thereafter their value was made equivalent to a single date by using on the other hand the earnings index and on the other hand the growth index of the GDP as discount factors. The survivors' pensions expenditure was allocated to the deceased person's cohort. The real growth of the income level in the future was estimated to 1,5 per cent annually. The real growth of the GDP was estimated to be on the average 2,4 per cent annually in the years 1989 – 2000 and 1,3 per cent annually after the year 2000. The return coefficient shown in the following table illustrates the relation between pension expenditure and premium income calculated in this way.

Year of birth	Return coefficient when the discount factor is Income level	GDP
1900	38	31
1910	17	13
1920	7,2	6,0
1930	4,7	4,2
1940	3,3	3,1
1950	2,2	2,2
1960	1,7	1,8
1970	1,3	1,4
1980	1,2	1,3

The contribution level of the employment pensions scheme should be 30 – 35 per cent in order to reach the rate of return of 1. The contribution is estimated to rise to that level by the years 2020 – 2030. When the scheme started, the contribution level was only about 5 per cent. The pensions accrue more than 1,5 per cent in the oldest age groups. Therefore the rates of return are also rather high in the oldest age groups.

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