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Summary

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Studies on changes in retirement on old-age and disability pension after the 2017 pension reform

In this study, we present new observations on how retirement on an old-age and a disability pension has changed since the 2017 pension reform. The study consists of three sub-studies that examine the subject from different perspectives.

Retiring at the lowest retirement age and the target retirement age, as well as length of working life between ages 63 and 65 of those born in 1954–1957

Satu Nivalainen

This sub-study examines how the share of persons retiring at the lowest retirement age and at the target retirement age at the earliest has evolved because of the rising retirement age agreed on in the 2017 pension reform. In addition, the development of the length of working life from turning 63 to the month before turning 65 is inspected, with a focus on those born between 1954–1957 who have retired on an old-age pension from work.

Share of persons retiring at the lowest retirement age has remained stable in the private sector but increased in the public sector

For those born in 1954, the lowest retirement age was 63 years, and for those born in 1957, it was 63 years and nine months. In this sub-study, it was observed that, on the whole, the share of persons retiring at the lowest retirement age has changed only little. Of those born in 1954, forty per cent retired as soon as they reached their lowest retirement age. The share was largest (42%) among those born in 1956. Again, forty per cent of those born in 1957 retired at their lowest possible retirement age. It must be noted that the behaviour of particularly those who were born in 1957 may have been affected by the corona pandemic.

In the private sector, the share of those retiring at their lowest retirement age varied only little. Of persons born in the years under review, around 48–50 per cent retired when they reached their lowest retirement age.

In the public sector, the share of persons retiring at their lowest retirement age has increased slightly. Of those working in the public sector who have an individual retirement age that is higher than their lowest retirement age, 18 per cent of those born in 1954 and 24 per cent of those born in 1957 retired at their lowest retirement age. Of those working in the public sector who do not have an individual retirement age, the corresponding shares were 27 and 32 per cent. However, retirement at the lowest retirement age is still clearly less common in the public sector than in the private sector.

Share of persons working until their target retirement age has decreased only little in the private sector but significantly in the public sector

The target retirement age of those born in 1954 was 63 years and nine months, and for those born in 1957, it was 64 years and nine months. The share of persons working until their target retirement age has decreased from 45 per cent of those born in 1954 to 32 per cent of those born in 1957.

In the private sector, the share of persons working until their target retirement age has decreased only little. Of those born in 1954, 33 per cent continued to work at least until their target retirement age, and of those born in 1957, 30 per cent did so. Thus, it would seem that the target retirement age steers retirement at least to some extent in the private sector.

No similar steering effect was observed in the public sector. The share of persons working until at least their target retirement age has clearly declined. It has decreased particularly much for those public-sector employees who have an individual retirement age. Of those born in 1954, 73 per cent and of those born in 1957, 32 per cent continued working at least until their target retirement age. Of those who did not have an individual retirement age, the equivalent shares were 56 and 39 per cent. As a result, working until the target retirement age in the public sector has become more common among those who do not have an individual retirement age. Yet it is still slightly more common for workers in the public sector to work at least until their target retirement age than it is for workers in the private sector.

Working life between ages 63 and 65 extended less than the retirement age has risen

As the retirement age has risen, the largest peak in exiting working life for each cohort has been delayed by three months, in line with the rising retirement age. Working life between the time from turning 63 to the month before turning 65 has been extended less than the retirement age has increased.

The median months of working of those born in 1954 between the ages 63–65 years was 12 months and for those born in 1957, it was 16 months. The higher the lowest retirement age is, the larger the share that exits working life already before reaching their retirement age. The exit from working life is also faster after reaching the lowest retirement age. The exception is the cohort born in 1957. The share of working people of that cohort remained at a higher level throughout the projection period than the share of those born in earlier years.

Working life clearly extended in the private sector but less so in the public sector

Working life between ages 63 and 65 has clearly extended in the private sector. Of those born in 1954, the median of working months between these ages was seven months while it was 14 months for the 1957 cohort.

The growth in months of working has increased less in the public sector. In the group with an individual retirement age, the median of working months has increased from 16 to 19 months. In the group without an individual retirement age, the median of working months has increased slightly more, from 17 to 21 months. However, people in the public sector still work clearly longer than those in the private sector.

Associations between a three-month increase in the lowest retirement age and timing of retirement on an old-age pension and earnings

Ilari Ilmakunnas

Following the 2017 pension reform, retirement age increases by three months per birth year cohort as of those born in 1955. This sub-study examines what a single three-month increase in the lowest retirement age means for the timing of retirement and earnings. This is done by comparing those born at the end of the year to those born at the beginning of the following year. The dates of birth, although close to each other, occur in different years. The study focuses on birth cohorts who have different lowest retirement ages. The assumption is that the lowest retirement age is the most important factor that differentiates these persons. This sub-study focuses on private sector wage earners.

Rising retirement age has delayed retirement on an old-age pension

The results of this sub-study show that the rising retirement age has delayed retirement on an old-age pension. However, raising the retirement age by three months does not seem to significantly accelerate retirement. For this reason, the difference in the share of retirees on an old-age pension between those born at the end of the year and at the beginning of the following year fades gradually by age. The gap in the share of retirees on an old-age pension narrows by age, but it is still visible a couple of years after the lower retirement age.

In this study, the timing of retirement on an old-age pension is examined also by gender and educational level. The results indicate that, for women and the more highly educated, the share of retirees on an old-age pension catches up slightly faster with those whose retirement age is three months lower than for men or those with a lower education (particularly for those with only a primary education). In other words, women and the more highly educated seem to retire slightly sooner after reaching their retirement age than before when the retirement age rises.

Delayed retirement translates into higher average earnings

The sub-study shows that delayed retirement is associated with higher average earnings after the retirement age. Since people tend to retire on an old-age pension close to their retirement age, the gaps in earnings between those born at the end of the year and at the beginning of the following year are larger the closer to the retirement age the comparison is performed.

Did the pension reform affect the transition to disability pension?

Mikko Laaksonen

This sub-study examines changes in retirement on a disability pension of those approaching their retirement age. Although the regulations concerning retirement on a disability pension did not directly change as a result of the pension reform, the reform affected also retirement on a disability pension since the age limit for retirement on a disability pension is linked to the lowest retirement age for an old-age pension. As the lowest retirement age for an old-age pension rises, the latest possible retirement age for the disability pension also rises.

Among the 60–62-year-olds, the number of retirees on partial disability pension has increased but the number of retirees on a full disability pension has not

After the reform, it became possible to retire on a disability pension also after turning 63 years. Since the age limit increases cohort by cohort, the number of people retiring on a disability pension at age 63 rises gradually. Among the cohorts targeted by the pension reform, the number of retirees on a disability pension also increased among the 60–62-year-olds. However, this increase concerned only those who retired on a

partial disability pension. The number of people taking partial disability retirement has continued to increase at an older age than before and has started to decline only at a slightly later age than in the older cohorts. However, part of the increase in the number of people retiring on a partial disability pension is due to the fact that the number of people retiring on a partial disability pension has been increasing for longer among those aged 60 and over.

The number of new retirees on a full disability pension aged 60 or over has remained virtually unchanged. The corona pandemic beginning in the early 2020 may also have reduced the number of new retirees on a disability pension among those approaching their old-age retirement age. In addition, many other changes to social security benefits for the older age cohorts have taken place since 2017, which makes it difficult to separate the effects of the pension reform on disability pension retirement. The strong peak in the transition to full disability retirement at exactly age 60 due to the change in the definition of disability in the private sector may also make it difficult to detect the effect of the pension reform.

Retirement on partial disability pension increased both in the private and the public sector

Generally speaking, the changes in retirement on a disability pension have been similar in the private and the public sector. No significant changes have occurred in either sector in the number of persons who retire on a disability pension after age 60, but the number of persons retiring on a partial disability pension has increased clearly. In the public sector, retirement on both full and partial disability pension seems to increase into slightly higher ages than in the private sector.

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