FINNISH CENTRE FOR PENSIONS,
REPORTS

04
2019

Total pension in Finland 2019

How are earnings-related pensions, national pensions and taxation determined?

JUHA KNUUTI
SUVI RITOLA

FINNISH CENTRE FOR PENSIONS,
REPORTS

04
2019

Total pension in Finland 2019

How are earnings-related pensions, national pensions and taxation determined?

JUHA KNUUTI
SUVI RITOLA

Finnish Centre for Pensions
FI-00065 ELÄKETURVAKESKUS, FINLAND
Phone +358 29 411 20
E-mail: firstname.surname@etk.fi

Eläketurvakeskus
00065 ELÄKETURVAKESKUS
Puhelin: 029 411 20
Sähköposti: etunimi.sukunimi@etk.fi

Pensionsskyddscentralen
00065 PENSIONSSKYDDSCENTRALEN
Telefon: 029 411 20
E-post: förnamn.efternamn@etk.fi

ISSN 1798-7490 (online)

SUMMARY

The amount of the take-home net pension in Finland is affected by how the earnings-related and national pension benefits and the taxation of pensions are determined. This review outlines how these factors will be determined in 2019. The tables with examples illustrate what the total net pension will consist of in the different income brackets. We have also examined the taxation of pensions in general terms and have compared the tax and contribution burden of Finnish pension recipients and wage earners in different income brackets.

The 2019 national pension has been frozen at the 2018 level. It follows that the amount of the national pension will be the same as in 2018. In 2018, the full monthly national pension for a single person is 628.85 euros and for a married or cohabiting person 557.79 euros. A discretionary increase of 9.27 euros has been made to the guarantee pension. As a result, together with the guarantee pension, the minimum pension amount in 2019 is 784.52 euros per month for both single and married or cohabiting persons.

Finnish earnings-related pensions will rise by 1.45 per cent at the beginning of 2019 due to the earnings-related pension index. The wage coefficient used, for instance, to revalue earnings when determining the pension will rise by 1.86 per cent.

In 2019, those born in 1956 will reach their retirement age of 63 years and 6 months. Starting earnings-related pensions will be adjusted with the life expectancy coefficient. The life expectancy coefficient for those born in 1957 has been confirmed at 0.95722. It will reduce the monthly old-age pensions of that cohort – or any early old-age pensions starting in 2019 – by 4.3 per cent.

The Finnish state income tax rate will be slightly mitigated in 2019 due to increases in the basic, income and pension income deductions. In 2019, the income tax scale will be alleviated by adjusting income limits by 2.6 per cent. The taxation of pensions will be mitigated as the factors of the pension income deduction in both municipal and state taxation have changed. The amount of the full pension income deduction in municipal taxation will rise by 10 euros to 9,050 euros. The amount of the full pension income deduction in state taxation will rise by 30 euros to 11,590 euros. The solidarity tax, that is, the reduced lower limit of the highest income bracket on the tax scale, intended to tighten the taxation of large incomes temporarily, will be kept unchanged in 2019.

The taxation of wage earners will be tempered by a higher income tax relief. The taxation of both pension recipients and wage earners will also be affected by the higher maximum basic tax deduction.

In 2019, the average municipal tax rate in Finland will be 19.88 per cent (19.86% in 2018). The public broadcasting tax will be 2.5 per cent for an annual income that exceeds 14,000 euros. The maximum tax amount is 163 euros.

In 2019, the earnings-related pension contribution rate for wage-earners will be 6.75 per cent (aged 17–52 and 63–67) and 8.25 per cent (aged 53–62). The equivalent rates in 2018 were 6.35 and 7.85 per cent respectively. The unemployment insurance contribution of wage-earners will decrease in 2019 from 1.9 per cent to 1.5 per cent.

In 2018, Finnish wage earners no longer had to pay the medical care insurance contribution. The same applies in 2019. The medical care insurance contribution levied on pension and other benefit income will rise to 1.61 per cent in 2019 (1.53% in 2018). The health insurance contribution will be 1.54 per cent (1.53%) for wage earners with an annual income of at least 14,282 euros (€14,020).

The change in tax and contribution rates of pension and wage income varies at different income levels. Comparing the tax rate in 2018 for the same amount of income, and with average municipal tax rates, the tax rate for pension recipients will be reduced slightly in all income brackets in 2019. The highest reduction (0.5 percentage points) will be for a pension income of 1,000 euros per month.

The net pension of a person in Finland who gets only a national pension from Kela will rise by about 1.2 per cent. The pension amounts in the higher pension brackets will rise by 0.4–1.4 per cent. However, in real terms, pensions will be reduced slightly since the predicted inflation for 2019 is 1.5 per cent. In the last ten years, the pension of those with only a national pension from Kela has grown real-term by about 18 per cent. The pension of those with a monthly pension income of 1,000 to 1,200 euros will grow by approximately two per cent, while the pension of those with a monthly pension income of 1,400 to 3,000 euros will decrease by about two per cent.

CONTENTS

1 Introduction

Pension provision in Finland is based on two statutory schemes: the earnings-related pension scheme and the residence-based national pension scheme and guarantee pension. Earnings-related pensions are intended to ensure that people retiring from work can maintain a reasonable level of consumption compared to their pre-retirement income. The national pension and guarantee pension, then, ensure a minimum level of income for persons who worked for such a short period of time or whose earnings were so low that they have only a small or no earnings-related pension at all. In addition, pensioners may receive a housing allowance and other benefits through the Social Insurance Institution of Finland (Kela). Pensioners may also be eligible to receive compensation under motor liability, accident, patient or military accident insurance (LITA), which takes precedence over earnings-related pensions. These compensations, like statutory pensions, are subject to tax under the same principles as earned income.

The economic welfare of pensioners depends most importantly on their monthly pension income and on how this compares with their pre-retirement earnings. When earnings-related pension legislation was drafted in the 1960s, the target was to peg pensions at 40 per cent of earned income after 40 years' employment. Following the step increase in the 1970s, the target was raised to 60 per cent. At the same time, pensions were capped at 60 per cent of the individual's highest earnings during their working life. Since the 2005 pension reform it has been harder to establish an exact target for the level of earnings-related pension. The reform included the introduction of a life expectancy coefficient, which impacts the amount of monthly pension payable. The most recent pension reform in 2017 included the decision to incrementally raise the statutory retirement age and to harmonize pension accrual rates at different ages.

Because of progressive taxation, the net pension to pre-retirement net earnings ratio is higher than the gross ratio. In other words, pensions attract a lower average tax rate than wage earnings because pensions are lower than wages. Differences in tax deductions and allowances and social security contributions furthermore mean that pensions and wages also differ in terms of their tax and contribution burdens. Persons who have only a national pension pay no tax on their pension income.

The earnings-related pension scheme has been phased in incrementally. The amount of earnings-related pension as a proportion of overall pension income has steadily increased, while the share of national pension has decreased accordingly. Until 1995 the national pension consisted of a universal basic amount and an additional amount dependent on other pension income. Since 1996 persons receiving a specified minimum in earnings-related pension have no longer been eligible to receive a national pension. The guarantee pension was introduced in March 2011 to secure a minimum pension income for persons with a low earnings-related or national pension.

At year-end 2017 almost two-thirds or 61 per cent of Finnish resident recipients of a pension in their own right had only an earnings-related pension (excluding old-age pension, disability pension, special farmers' pension, part-time pension or partial old-age pension).

Just over one-third or 34 per cent had a pension under both the national pension and the earnings-related pension scheme, and five per cent received only a national pension. National pensions were paid to 572,000 persons, 76,000 of whom received the pension in full.

In 2017 there were 102,000 guarantee pension recipients, with an average monthly guarantee pension of 155.61 euros. The total number of Finnish resident recipients of a pension in their own right at year-end 2017 was 1,470,000.

In 2017 the average monthly pension of Finnish resident old-age and disability pension recipients was 1,657 euros, with earnings-related pension accounting for an average 1,511 euros, Kela pension for 128 euros and LITA pension for 18 euros. The average monthly pension income for persons receiving both a Kela pension and an earnings-related pension was 1,039 euros, with earnings-related pension accounting for 762 euros, Kela pension for 269 euros and LITA pension for 8 euros. The total monthly pension income for persons who received only a national pension was 746 euros (including guarantee pension), while the average for persons who had only an earnings-related pension was 2,077 euros. These figures include any survivors' pension paid to the pension recipient. The average earnings-related old-age pension for new retirees in 2017 was 1,826 euros a month.

Statistics Finland figures show that the average monthly earnings of full-time wage and salary earners in 2017 stood at 3,396 euros. The average earnings-related old-age pension for persons retiring in this year was thus around 54 per cent of average wage and salary earnings.

This report examines the effects of different factors on overall pensions and net pension income in 2019. Chapter 2 looks at how earnings-related pensions are determined. Chapter 3 deals with national pensions, national pension supplements and the guarantee pension, and Chapter 4 moves on to compensations from motor liability and accident insurance. Chapter 5 covers the general principles of taxation and compares the taxation of pension recipients and wage earners. Furthermore, it considers situations where earned income includes both pension and employment income, as in the case of partial old-age pensions. Chapter 6 describes the formation of gross and net pensions at different income levels and looks at how net pension income has changed over the past 10 years. The appendices provide time series on sums and contributions that impact on total pension income.

2 Earnings-related pensions

An earnings-related pension is payable in the form of an old-age pension, disability pension, years-of-service pension and survivors' pension as well as a partial old-age pension or part-time pension. New part-time pensions are no longer granted, but existing part-time pensions are still paid out.

Earnings-related pension accrual has been calculated on a calendar year basis since 2005. Pension rights accrued before 2005 are calculated based on legislation in force at the time. Pension entitlements accrued for service under different earnings-related pension acts and for self-employment are added together. The total amount of earnings-related pension earned is finally multiplied by the life expectancy coefficient.

Earnings-related pensions are integrated with statutory benefits paid out under the Occupational Accidents, Injuries and Diseases Act, the Motor Liability Insurance Act and the Patient Injuries Act. These benefits take precedence over earnings-related pension, which is only payable to the extent that it exceeds these benefits.

Statutory earnings-related pension provision for employees and the self-employed is managed by pension insurance companies, industry-wide and company pension funds and special pension institutions. Earnings-related pensions in current payment are primarily funded from insurance contributions paid by employers, employees and the self-employed, and from accumulated pension assets and returns from these assets.

From the beginning of 2019 data on wage and salary earnings, pensions and benefits are centrally compiled in a newly created national Incomes Register. Initially in 2019 the Tax Administration, Kela, earnings-related pension providers and the Employment Fund will have access to information on wage and salary payments made by employers and by the self-employed. Pension and other benefit payments will be reported to the incomes register from the beginning of 2021.

2.1 Old-age pension

The age of eligibility for old-age pension is being progressively raised from 63 to 65 years for persons born in 1955 or later: the retirement age will rise by 3 months for each age cohort. For persons born in 1965 and later, the threshold for old-age pension will be tied to life expectancy. The first increase of no more than two months to the 65-year retirement age for persons born in 1965 will be endorsed in 2027 and take effect in 2030. The upper age limit for insurance obligation and for pension accrual will also rise, but in full years (Table 2.1).

Table 2.1.
Old-age pension: retirement age, age at which insurance obligation ends and pension accrual, by age group.

Year of birth	Retirement age	Age at which incurance obligation ends
1954 or earlier	63 yrs	68 yrs
1955	63 yrs 3 mos.	68 yrs
1956	63 yrs 6 mos.	68 yrs
1957	63 yrs 9 mos.	68 yrs
1958	64 yrs	69 yrs
1959	64 yrs 3 mos.	69 yrs
1960	64 yrs 6 mos.	69 yrs
1961	64 yrs 9 mos.	69 yrs
1962–1964	65 yrs	70 yrs
1965 and younger	to be confirmed later	70 yrs

Long-term unemployed individuals born before 1958 and entitled to additional days of unemployment benefit can claim an earnings-related old-age pension at age 62. Persons born in 1958 and later can claim an earnings-related old-age pension when they reach the retirement age for their age group.

Pension accrual rules were revised from the beginning of 2017. The earnings-related pension accrual rate was set universally at 1.5 per cent of annual earnings, with older employees no longer offered higher accrual rates. Furthermore, the earnings-related pension contribution paid by employees is no longer deducted from their insured income. The pension accrual rate is 1.5 per cent for each year of service from the age of 17, for self-employed persons from the age of 18. For persons aged 53–62 the accrual rate for the transition period (2017–2025) is 1.7 per cent of earnings. Earnings-related pensions are adjusted using a life expectancy coefficient (see chapter 2.5).

The rate of pension accrual for earnings on which social security benefits are based (unsalaried periods) is 1.5 per cent. The same rate of 1.5 per cent applies to earnings from paid employment and self-employment while receiving a pension, up to the upper age limit for insurance obligation. Old-age pensioners may continue to work without restriction: this will not reduce their earnings-related pension.

It is possible to defer the take-up of old-age pension beyond the retirement age for the age group concerned. The pension will be increased by 0.4 per cent for each month of deferral. Persons born in 1949–1953 are eligible to receive an increase for late retirement no earlier than from the beginning of 2017.

When pensions are calculated, career lifetime earnings are adjusted to the level of the first year of pension using a wage coefficient.

2.2 Partial old-age pension

Persons aged 61 or over have the option to take payment of 25 or 50 per cent of their accrued pension funds in the form of a partial old-age pension. The amount of partial old-age pension is calculated based on the pension rights accrued by the end of the year preceding the year the pension commences. Eligibility for a partial old-age pension starts at age 61; there is no upper age limit. The age limit will rise to 62 years for persons born in 1964. The age limit will subsequently be tied to changes in life expectancy and will rise along with old-age retirement age.

The portion of pension taken out early is subject to an early retirement reduction, which is 0.4 per cent for each month that the pension is taken early. For instance, a partial old-age pension taken one year early is permanently reduced by 4.8 per cent. Persons who take payment of a partial old-age pension starting from the calendar month after they have reached their retirement age will receive an increase for deferred retirement, which is 0.4 per cent for each month that the pension is deferred.

Partial old-age pensions are adjusted using a life expectancy coefficient confirmed for the year that the pension starts, if this is before the year the person turns 62. If the partial old-age pension starts during the year the person reaches age 62 or later, the adjustment will be made using the life expectancy coefficient for that age group.

A partial old-age pension awarded at 25 per cent can be exchanged for a 50 per cent pension, but no other changes can be made to the amount of pension payable. The pension cannot be discontinued, but it can be cancelled within three months of pension commencement.

There are no employment or earnings restrictions while drawing a partial old-age pension. Old-age pension accrues at a rate of 1.5 per cent on income from employment while drawing a partial old-age pension, or at a rate of 1.7 per cent during the transition period (2017–2025). The remainder of the pension is granted at the earliest age of retirement without a deduction for early retirement, or later, with an increase for late retirement.

Part-time pensions are no longer granted. Pensions granted before the scheme was discontinued at the start of 2017 are still being paid according to the rules in force before 2017. At the end of November 2018, part-time pensions were paid out to 3,572 persons. Income from employment while receiving a part-time pension accrues old-age pension at a rate of 1.5 per cent, or 1.7 per cent during the transition period. Persons born before 1953 furthermore accrue old-age pension at an annual rate of 0.75 per cent on the reduction of income.

2.3 Disability benefits

Disability benefits under the earnings-related pension scheme are the disability pension, partial disability pension, cash rehabilitation benefit and partial cash rehabilitation benefit. A full disability pension is paid to a person suffering a loss of at least three-fifths of working capacity; the criterion for a partial pension is a loss of at least two-fifths of working capacity. A partial disability pension is half the amount of the full disability pension for the insured person. The cash rehabilitation benefit is always granted for a fixed period, and it is the same amount as the disability pension.

A disability pension consists of the pension that the individual has accrued by the time of disability onset and the projected pension component. The projected pension component is calculated from the beginning of the year of the pension contingency to the end of the month when the individual reaches old-age retirement age. If the retirement age has not yet been set for the age group, the termination age for the projected pension component is the corresponding age specified for the nearest age group. For persons born in 1965 and later, the termination age for the projected pension component is currently 65 years, which is the earliest age of eligibility stipulated in the law for persons born in 1964. As a rule, the projected pension component is calculated based on earnings over five years before the year of the pension contingency. The accrual rate for the projected pension component is 1.5 per cent.

The disability pension is multiplied by the life expectancy coefficient issued for the age group turning 62 during the year of the pension contingency. The coefficient is only applied to the portion of the pension earned by the time that the disability pension begins. The coefficient will therefore have a lesser effect than in determining the amount of old-age pension. The life expectancy coefficient does not change when the disability pension is converted into an old-age pension.

A permanent lump-sum increase is added to the disability pension or cash rehabilitation benefit when five full calendar years have elapsed since the commencement of pension payments. The increase depends on the person's age at the start of the year that the increase is made. For employees aged 23–31 and self-employed persons aged 24–31, the pension increase is 25 per cent, and from age 31 the increase drops by one percentage point per year of age. Persons over 55 at the beginning of the year no longer receive the lump-sum increase.

While drawing a pension, disability pension recipients may earn up to 40 per cent and partial disability pension recipients up to 60 per cent of their average pre-disability earnings. According to the temporary act for the promotion of return to work, both full and partial disability pension recipients may in any case earn at least 784.52 euros a month (2019). The act expires at the end of 2020.

When the disability pension recipient's earned income exceeds the 60 per cent limit or the highest earnings limit, pension payments will be suspended for a minimum of three months and a maximum of two years. Pension accrues for income earned while pension payments are suspended at a rate of 1.5 per cent on annual earnings.

A full disability pension is converted into an old-age pension and a partial disability pension into an old-age pension equivalent to a full disability pension from the beginning of the month after the pension recipient reaches retirement age. If the disability started before 2017, the pension is converted into an old-age pension at the age of termination of the projected pension component for the disability pension concerned.

2.4 Years-of-service pension

The 2017 pension reform included the introduction of a years-of-service pension, which can be claimed by a person born in 1955 or later no earlier than at age 63. The age limit is tied to life expectancy for the 1965 birth cohort. For this and subsequent cohorts the age limit is always two years lower than the full retirement age. The first years-of-service pension payments were made in 2018. Pensions were paid for a maximum of three months, that is until persons in the 1955 birth cohort reached their retirement age of 63 years and 3 months. By the end of November 2018, the number of years-of-service pensions granted stood at 20, but just eight were still in payment. In 2019 a years-of-service pension can be claimed by the 1956 birth cohort, whose retirement age is 63 years and 6 months. The maximum duration of payment for years-of-service pensions in 2019 is thus six months.

A years-of-service pension requires loss of working capacity, but to a lesser extent than in the case of disability pension. Eligibility requires an employment history spanning at least 38 years and involving high physical and mental stress. Furthermore, the individual may have claimed maternity, paternity or parental allowance for no more than three years. The length of employment criterion is verified on the basis of earnings-related pension register data and reliable documentation submitted by the pension applicant.

The amount of years-of-service pension is calculated based on the pension rights accrued by the end of the month before the pension starts. The years-of-service pension is smaller than the disability pension because it does not include a projected pension component. It also does not include a possible registered supplementary pension. Employees may be entitled to a registered supplementary pension when the years-of-service pension is converted into an old-age pension at the earliest age of eligibility.

2.5 Survivors' pensions

The survivors' pensions consist of the surviving spouse's pension and the orphan's pension. A surviving spouse's pension is paid out under certain conditions to the spouse of the deceased person. A partner in a same-sex registered partnership is treated in the same way as a spouse. An orphan's pension can be claimed by the deceased person's children under age 18.

Survivors' pensions are based on the deceased person's old-age or disability pension at the time of death. If the deceased person had not reached their retirement age, the survivors' pensions are determined based on the pension they would have received had they lost their ability to work at the time of death.

The survivors' pension cannot exceed the deceased person's full earnings-related pension. The shares of the deceased person's earnings-related pension received by the surviving spouse and children are shown in Table 2.2. The orphan's pension is paid until the child reaches 18 years of age.

Table 2.2.
Surviving spouse's and children's shares of survivors' pension.

Number of children	0	1	2	3	4–
Surviving spouse's pension	6/12	6/12	5/12	3/12	2/12
Orphan's pension	-	4/12	7/12	9/12	10/12
Total	6/12	10/12	12/12	12/12	12/12

If the surviving spouse has no underage children and is not retired, he or she will be paid a full (6/12) surviving spouse's pension for six months. After these six months, the surviving spouse's own or imputed earnings-related pension income will reduce the amount of surviving spouse's pension paid out.

Any earnings-related pension received in one's own right by the surviving spouse that is over and above 708.50 euros a month (2019) will reduce the amount of survivors' pension payable to the surviving spouse, that is half of the deceased person's pension. This threshold for the reduction of the surviving spouse's pension is adjusted in line with the wage coefficient. If the surviving spouse's own pension income falls below the threshold, the surviving spouse's pension will not be reduced.

The reduced surviving spouse's pension is calculated using the following formula (assuming the surviving spouse's own pension is larger than the reduction threshold):

Reduced surviving spouse's pension = 0.5 × deceased person's pension –
0.5 × (surviving spouse's own pension – 708.50e)

Table 2.3 lists some examples of a reduced surviving spouse's pension.

Table 2.3.
Reduced surviving spouse's pension (€).

Surviving spouse's own pension	Deceased person's pension: 500	1,000	1,500	2,000	2,500	3,000	3,500	4,000
0	250	500	750	1,000	1,250	1,500	1,750	2,000
500	250	500	750	1,000	1,250	1,500	1,750	2,000
1,000	104	354	604	854	1,104	1,354	1,604	1,854
1,500	0	104	354	604	854	1,104	1,354	1,604
2,000	0	0	104	354	604	854	1,104	1,354
2,500	0	0	0	104	354	604	854	1,104
3,000	0	0	0	0	104	354	604	854
3,500	0	0	0	0	0	104	354	604
4,000	0	0	0	0	0	0	104	354

2.6 Unsalaried periods

Sickness and rehabilitation benefits, parental allowances, unemployment benefits and training and education subsidies add to pension entitlements (see Table 2.4). Pension also accrue for periods of caring for a child under three and periods of study, as stipulated in separate provisions of law. Periods on earnings-related social benefits accrue pension rights according to the earnings on which the social benefit concerned is determined. Each social benefit scheme has its own way of determining the earnings used to calculate the amount of social benefit paid out. Calculations of accrued pension and the projected pension component take these earnings into account in different ways.

Benefits specified in separate provisions of law accrue for studies leading to a qualification or degree and for periods of child care based on the same fixed amount. Benefit earnings are counted as double in the projected pension component.

Studies leading to a higher university degree afford entitlement to pension accrual for five years, a polytechnic bachelor's degree for four years and a university bachelor's degree and a vocational upper secondary qualification for three years. However, persons completing more than one qualification or degree can only accrue pension entitlement for a maximum of five years in total.

The pension accrual rate is 1.5 per cent of earnings on which benefits are based. Pension is earned for periods on social security benefits if the person's lifetime career earnings are at least 17,807.01 euros (at 2019 level).

As benefits may be calculated on an annual or monthly basis but are usually paid per diem, the earnings used in determining benefits must be converted into daily earnings for purposes of pension calculation. These daily earnings are multiplied by the number of benefit days to obtain the annual earnings for the benefit scheme concerned.

Table 2.4.
How earnings used in social benefit determination count towards pension entitlement (2019 values).

Benefit	Percentage or amount counted towards earned pension	Percentage or amount counted towards huomioon projected pension component
Maternity, paternity and parental allowance	117%	117%
– For period paid to employer (employer pays maternity pay)	17%	17%
– Minimum	€741.96/month	€741.96/month
Earnings-related unemployment benefit	75%	100%
Rehabilitation allowance (Kela, earnings-related pension acts, LITA)	65%	100%
LITA compensation for loss of income	65%	100%
Adult education allowance	65%	100%
Sickness allowance and special care allowance	65%	100%
Infectious disease allowance	65%	100%
Job alternation compensation	55%	100%
Basic daily allowance and labour market support under the Unemployment Security Act	0%	€1,483.91/month
Sickness allowance after basic daily allowance	0%	€1,483.91/month
Home care allowance	€741.96/month	€1,483.91/month
Qualification or degree	€741.96/month	€1,483.91/month

2.7 Indices

When pensions are calculated, career lifetime earnings are adjusted to the level of the first year of pension using a wage coefficient. The wage coefficient in 2019 is 1.417, up 1.86 per cent from the year before. Changes in employees' earnings have an 80 per cent weighting and changes in consumer prices a 20 per cent weighting in the coefficient. The wage coefficient is also used to annually adjust the monetary amounts specified in earnings-related pension acts, which among other things determine the terms and conditions for pension insurance and accrual.

Pensions in payment are adjusted at the start of each year using an earnings-related pension index, in which changes in earnings level have a 20 per cent weighting and changes in consumer prices an 80 per cent weighting. In 2019 the earnings-related pension index increased by 1.45 per cent from the previous year to 2,585 points.

The wage coefficient and the earnings-related pension index are determined based on official Statistics Finland time series of wage and salary indices and consumer price indices. The index of wage and salary earnings measures the development of all employees' earnings from regular working hours. Prices are monitored using the national consumer price index. The development of earnings and consumer prices is measured by annual third quarter change. The wage coefficient and the earnings-related pension index are set by the Ministry of Social Affairs and Health each year by the end of October.

2.8 Life expectancy coefficient

Since 2010 all new old-age pensions have been adjusted using a life expectancy coefficient to automatically account for changes in life expectancy.

In times of rising life expectancy, the coefficient will reduce the monthly pension payout, but not the lifetime amount of old-age pension received by the beneficiary if they live out the new projected life expectancy.

A life expectancy coefficient is set for each birth cohort at age 62. In 2019 the life expectancy coefficient is fixed at 0.95722, which applies to old-age pensions for persons born in 1957. The coefficient also applies to younger age groups who are granted an old-age pension before full retirement age, a disability pension or a partial old-age pension in 2019.

Pensions granted to persons retiring in 2019 at age 63 or over are adjusted by a coefficient that was calculated for the age group (Table 2.5).

The 2017 pension reform also brought changes to the rules for setting the life expectancy coefficient. The method used to calculate the coefficient changes when the retirement age is tied to life expectancy: at this point the life expectancy coefficient reduces the amount of old-age pension to a lesser extent than under previous legislation.

Table 2.5.
Life expectancy coefficient for persons retiring in 2019, by age.

Effective retirement age	Year of birth	Life expectancy coefficient	Reduction to monthly pension, %
62	1957	0.95722	4.3
63	1956	0.96102	3.9
64	1955	0.96344	3.7
65	1954	0.96800	3.2
66	1953	0.97200	2.8
67	1952	0.97552	2.4
68	1951	0.97914	2.1
69	1950	0.98351	1.6
70	1949	0.98689	1.3
71	1948	0.99170	0.8
72	1947	1.00000	0.0

3 National pension benefits

Administered by the Social Insurance Institution of Finland (Kela), the national pension scheme offers national pension and guarantee pension benefits to provide a basic income for persons with limited or no earnings-related pension security. Funding for national pension benefits and the operating costs of the National Pension Fund comes from the state budget.

The National Pensions Act provides for three types of pension benefit that are paid out by Kela: the old-age pension, the disability pension and survivors' pensions. The old-age pension and disability pension are subject to the same rules of determination. These pensions are supplemented by a guarantee pension for individuals with inadequate overall pension income. The determination of survivors' pensions is covered in a separate chapter below.

Pension recipients may furthermore qualify for a housing allowance, pensioners' care allowance, a child increase or a front-veteran's supplement.

3.1 National pension

3.1.1 Entitlement to national pension

Entitlement to a full **old-age pension** under the National Pensions Act begins at age 65 and entitlement to an early old-age pension at age 63. For persons born in 1965 or later the age limit for national old-age pension will be tied to the age group's retirement age as set out in the relevant earnings-related pension act. Persons born in 1958–1961 are eligible to receive an early old-age pension at age 64. Persons born in 1962 or later cannot take early payment of a national pension.

Long-term unemployed individuals born before 1958 who receive additional days of unemployment benefit are entitled to a national old-age pension under the National Pensions Act with no reduction for early retirement at age 62. For long-term unemployed individuals born in 1958–1961, the age limit is 64 years. Long-term unemployed persons born in 1962 or later are not entitled to receive an unreduced old-age pension before reaching full retirement age.

Persons with an illness, handicap or injury that prevents them from earning a reasonable income may be eligible to receive a **disability pension** under the National Pensions Act. A reasonable income is defined as monthly earnings of over 784.52 euros.

Persons with only a partial (earnings-related) old-age pension or years-of-service pension do not qualify for a national pension if they have not reached the national old-age pension retirement age.

3.1.2 Amount of national pension

The amount of national pension depends on the person's pensionable earnings, family status and length of residence in Finland. The full national pension in 2019 is unchanged from the previous year, following the decision to freeze the national pension index. The index was also frozen the year before. The full pension for a single person living alone is 628.85 euros a month and for a married or cohabiting person 557.79 euros a month. The amount of national pension decreases with increasing pension income, as one-half of the beneficiary's earnings-related pension is deducted from the full national pension. However, deductions from the national pension are only made when other pension income exceeds the threshold income of 55.54 euros a month (2019). The minimum national pension paid out in 2019 is 6.68 euros a month.

National pension =
Full national pension – 0.5 × (other pension income – threshold income)

Table 3.1.
Full national pension in 2019 (€/month).

	Full national pension	Earnings-related pension income ceiling for national pension eligibility
Single person	628.85	1,299.88
Married or co-habiting	557.79	1,157.71

An old-age pension that is taken early is permanently reduced by 0.4 per cent for each month the pension is claimed before retirement age. A deferred national pension is increased by 0.6 per cent for each month that the pension is postponed beyond retirement age. For persons born in 1962 or later, the national pension is increased by 0.4 per cent for each month that the pension is postponed beyond retirement age.

Kela calculates the amount of national pension payable based on annual euro values. The monthly earnings-related pension is multiplied by 12 and rounded to the nearest euro. Threshold incomes are included in the calculations on an annual basis. The final monthly national pension is rounded to the nearest cent. The national pension is reviewed in the event of a change in marital status or other than an indexation change in the beneficiary's earnings-related pension.

3.1.3 Earnings considered for the calculation of national pension

The following sources of pension income are considered for purposes of calculating the individual's national pension:

- statutory earnings-related pensions
- voluntary pension arrangements provided by the employer
- reduction for early retirement on earnings-related old-age pension (for survivors' pensions the deceased person's reduction for early retirement is not included)
- the MYEL component of farmers' early retirement aid
- compensation paid out under the Occupational Accidents, Injuries and Diseases Act, the Motor Liability Insurance Act and the Military Accidents Act, excluding any lump-sum increases to these compensations

- partial old-age pension including any reduction for early retirement and excluding any increase for deferred retirement.

The following are excluded from earnings-related pension income when calculating the amount of national pension payable.

- the portion of earnings-related pension accrued from employment in 2005–2016 after age 63
- the increase for deferred retirement on earnings-related pension for periods after reaching full retirement age
- child increase to earnings-related pension
- rehabilitation increase to earnings-related pension
- portion of pension accrued for studies and for periods of caring for a child under three (also applies to portion included in survivors' pension)
- lump-sum increase to disability pension after five years (also applies to portion included in survivors' pension).

The national pension is reduced by the full amount of survivors' pension paid out under the earnings-related pension scheme. In other words, the 4.5 per cent accrual rate earned by the deceased person for employment at age 63–67 and included in the survivors' pension will also reduce the amount of national pension payable. An earnings-related old-age pension and partial old-age pension taken early are counted as income without deduction for early retirement.

Pensions and compensation received from abroad will under certain conditions reduce the amount of national pension. An earnings-related pension paid from another EU country will reduce the amount of national pension in the same way as a Finnish earnings-related pension where EU Social Security Regulation 883/2004 is applicable.

The following pension income from abroad will affect the amount of national pension payable:

- statutory and voluntary earnings-related pensions based on wage or salaried employment and self-employment
- own pensions and survivors' pensions based on employment accidents
- own pensions and survivors' pensions based on traffic accidents
- survivor's pensions based on military injuries
- benefits corresponding to farmers' early retirement benefits
- pensions corresponding to national pension and survivors' pensions under the National Pensions Act.

3.2 Guarantee pension

The guarantee pension is a benefit provided by Kela for low-income pensioners. However the benefit is not paid to persons who receive only a part-time pension, partial disability pension, survivors' pension or partial old-age pension. The guarantee pension is a taxable benefit and paid only to persons resident in Finland.

In 2019 a step increase of 9.27 euros was made to the guarantee pension, bringing the full amount to 784.52 euros. The guarantee pension is adjusted annually and linked with the national pension index, but no changes were made in 2018 and 2019 following the decision to freeze the index. Married or cohabiting persons who receive only a national pension are paid a maximum of 226.73 euros a month in guarantee pension. The lowest amount of guarantee pension paid out is 6.68 euros a month.

The guarantee pension is not increased when taken out late, but the early retirement reduction rules are the same as for the national pension. Therefore, the earliest age at which old-age pension recipients can claim a guarantee pension is the same as for the national pension, that is, 63 years.

The amount of guarantee pension payable depends on the beneficiary's other pension income, including pension payments from abroad. It is not affected by receipt of a pensioner's care allowance, front-veterans' supplement or child increase, nor by earnings from employment, capital income or property, or by receipt of an informal care allowance. However, the amount of guarantee pension is considered when calculating the pensioner's housing allowance. A partial old-age pension does not give its recipients the right to a guarantee pension. If the beneficiary has a partial old-age pension and additionally another pension that qualifies them for a guarantee pension, the partial old-age pension in payment will reduce the amount of guarantee pension payable.

The following will be considered as pension income for purposes of calculating the amount of guarantee pension payable:

- national pension
- statutory earnings-related pensions
- voluntary pension arrangements provided by the employer
- all pensions and compensation received from abroad that, if paid in Finland, would be considered as income
- the MYEL component of farmers' early retirement aid
- compensation paid out under the Occupational Accidents, Injuries and Diseases Act, the Motor Liability Insurance Act and the Military Accidents Act, excluding any lump-sum increases to these compensations
- partial old-age pension including any reduction for early retirement and excluding any increase for deferred retirement
- other pensions and compensation (journalist pensions, athlete and artist pensions and survivors' pensions, pensions and survivors' pensions for Artist Professors and artist grant recipients, special compensation paid to spouses of officials in foreign representative offices, survivors' pensions under the Act on Compensation for Crime Damage, survivors' pension under the Patient Injuries Act).

Immigrants aged 65 or over and immigrants over 16 and disabled under the National Pensions Act are also entitled to receive a guarantee pension if they meet the length of residence requirements.

Guarantee pension = €784.52 – other pension income

3.3 Survivors’ pensions

3.3.1 Surviving spouse’s pension

Entitlement to a surviving spouse’s pension under the National Pensions Act is restricted to surviving spouses aged under 65. A surviving spouse’s pension can be claimed if the surviving spouse and the deceased person were married and if they married before the deceased person turned 65. The surviving spouse is not eligible to receive a surviving spouse’s pension after the death of an unmarried partner, but the unmarried partner’s children may be eligible to receive an orphan’s pension from Kela.

The surviving spouse’s pension consists of an initial pension and a continuing pension if applicable. Surviving spouses can claim an initial pension for six months after the death of their spouse. The initial pension is a fixed amount unaffected by the surviving spouse’s income or property assets. In 2019 the initial pension is 324.33 euros a month. Surviving spouse’s pensions are unchanged from 2017 and 2018 due to indexation freezes.

If the surviving spouse has a dependant child under the age of 18, the surviving spouse’s continuing pension will include the basic amount (€101.59/month) and, depending on income, an additional amount. The additional amount will not be paid if the surviving spouse’s income is more than 1,110.05 euros a month (€967.88 for married or cohabiting persons).

If the surviving spouse does not have a dependent child under the age of 18, the continuing pension may consist only of the additional amount, which is dependent on the claimant’s income. If the surviving spouse has a monthly income of over 55.54 euros, half the amount of excess income will be deducted from the full additional amount. No surviving spouse’s pension will be paid if the claimant’s monthly income exceeds 1.096,71 euros (€954.55 for married or cohabiting persons).

Other income reduces the surviving spouse’s continuing pension. The calculation will consider 60 per cent of earned income, unemployment security, sickness daily allowance and children's home care allowance; and 100 per cent of the surviving spouse’s own pension income, survivors’ pensions paid to the surviving spouse after the spouse’s death, interests and dividends received, other capital income, and confirmed income under YEL and MYEL (Self-Employed Persons’ Pension Act and Farmers’ Pensions Act). The same earnings-related pension components are considered as income as in the calculation of the claimant’s own national pension.

Table 3.2.
Amount of surviving spouse’s pension in 2019 (€/month).

Initial pension (6 months)	324.33
Full continuing pension when claimant has dependant under 18	
– living alone	628.85
– married or cohabiting	557.79
Full continuing pension when claimant has no dependant under 18	
– living alone	527.26
– married or cohabiting	456.20

3.3.2 Orphan's pension

Orphan's pensions are paid out by Kela to children under the age of 18: the deceased person's own child, the deceased person's adopted child, or a child who at the time of death was the deceased person's dependant. Kela may also grant a so-called student's pension to full-time students aged over 18 until they turn 21. This benefit only includes the basic amount of the orphan's pension. If both the child's parents or guardians have died, the orphan's pension is paid separately after each of them.

Orphan's pensions include a basic amount that is independent of earnings, plus an additional amount that is paid if survivors' or assistance pensions paid from other than Kela sources come to less than 236.05 euros a month. Orphan's pensions are unchanged from 2018 due to indexation freezes.

Orphan's pension = basic amount + (full additional amount – 0.5 × (other survivor's pensions – threshold income))

Table 3.3.
Orphan's pension in 2019 (€/month).

Basic amount	59.68
Child's additional amount	90.26
Full orphan's pension	149.94
Threshold income = earnings ceiling for full pension eligibility	55.54

3.4 Pension assistance

Pension assistance is a one-off arrangement intended to provide income security for long-term unemployed persons ahead of their retirement on old-age pension. The act entered into force on 1 June 2017. As of 1 October 2019, this scheme for the long-term unemployed will be rolled out to apply to clients born before 1 September 1958 and who have been out of work almost without interruption for five years. Furthermore, it is required that the claimant has been eligible to receive labour market support on 31 August 2018. The pension assistance scheme previously covered persons born before 1 September 1956.

Pension assistance is equal to the amount of guarantee pension (€784.52/month). It is not an actual pension benefit, but for tax legislation purposes it is subject to the same rules as pensions. Pension assistance beneficiaries are entitled to a child increase, pensioners' housing allowance and pensioner's care allowance under the National Pensions Act.

The number of pension assistance recipients was previously around 3,500. Kela estimates the number of new pension assistance recipients at around 2,800.

3.5 National pension index

Benefits under the national pension scheme are adjusted annually based on the national pension index. The 2019 national pension index is 1617 points, unchanged from the previous two years based on emergency legislation. Under the general government fiscal plan for 2017–2019 the government has decided that no increases shall be made to benefits tied to the national pension index. In 2017 the national pension index was lowered by 0.85 per cent.

In normal circumstances the national pension index is adjusted annually based on the cost-of-living index. The index point figure for the following year is calculated by dividing the mean whole-number cost-of-living index for the previous year's third-quarter months (July, August and September) by 1.192. Kela confirms the national pension index for the next calendar year by the end of October each year, and benefits under the new index are paid out from the beginning of January the following year.

The 2019 national pension index freeze is intended as permanent and therefore the divider used in calculating the national pension index will have to be revised. In order to make the revision of the national pension index permanent, the current divider 1.192 specified in law must be changed to 1.206. This change will take effect from the beginning of 2020.

3.6 Length of residence requirements and adjustment of Kela pensions to length of residence

All persons resident in Finland and who have lived in the country for at least three years after reaching age 16 may be eligible to receive a national pension and a guarantee pension. Disability pensions granted to young persons and guarantee pensions granted based on disability pensions are not subject to this length of residence requirement.

Eligibility for a survivors' pension requires that the deceased person had lived in Finland for at least three years after reaching age 16. Furthermore, eligibility for a surviving spouse's pension requires that the surviving spouse has lived in Finland for at least three years before the death of the deceased person and after reaching age 16, and furthermore that the surviving spouse has moved to Finland within one year of the death of the deceased person. As for orphan's pensions, it is required that the child has lived in Finland at the time of the death of the deceased person or moved to Finland within one year of the deceased person's death.

Where EU Social Security Regulation 883/2004 is applicable, the accrual of pension rights in another EU country will be considered for the determination of pension rights and the calculation of pensions. Claimants who have not accumulated a one-year insurance period in any country are nonetheless entitled to a national pension if they were last insured in Finland and if their insurance period from all countries is at least three years in total.

If the claimant meets the length of residence requirements but if either the claimant or the deceased person has spent less than 80 per cent of their time between age 16 and the start of the pension or age 65 in Finland, the national pension and the surviving spouse's pension will be adjusted to the length of time lived in Finland. The orphan's pension and guarantee pension are not adjusted according to length of residence.

3.7 Pensioners' housing allowance

Pensioners' housing allowance can be claimed by low-income pensioners who are permanently resident in Finland in rented or owner-occupied accommodation. If both spouses have pensions that qualify them for housing allowance, they are to file their application jointly and the allowance will be shared between them. If the claimant shares accommodation with children under age 18 or people other than their spouse or partner, they may qualify for general housing allowance.

Pensioners' housing allowance is not granted to persons in receipt of a partial disability pension, partial old-age pension or part-time pension, nor to those with voluntary pension insurance. These persons may be eligible to claim general housing allowance.

A pensioners' housing allowance may be granted if the claimant's annual housing costs are at least 705 euros. The minimum allowance is 6.68 euros a month. The pensioners' housing allowance is 85 per cent of acceptable housing costs exceeding the deductible. The basic deductible for all pensioners is 617.97 euros a year. Depending on the pensioner's and his or her spouse's income there may be an additional deductible, which is 40 per cent of the household income exceeding the income limits that are determined according to family status. The amount of pensioners' housing allowance is affected by virtually all regular income received by the claimant and the claimant's spouse. The amount of housing allowance is not adjusted according to length of residence in Finland.

Housing allowance = 0.85 × (acceptable housing costs – (basic deductible + additional deductible if applicable))

The maximum acceptable housing costs are determined according to municipality of residence. In 2019 the maximum amount of acceptable housing costs will rise by 1.8 per cent to reflect the increase in housing expenditure.

Table 3.4.
Maximum acceptable housing costs in 2019 (€/year).

Cost-of-living category I	Cost-of-living category II	Cost-of-living category III
8,243	7,581	6,651

Cost-of-living category I Espoo, Helsinki, Kauniainen and Vantaa.
Cost-of-living category II Hyvinkää, Hämeenlinna, Joensuu, Jyväskylä, Järvenpää, Kerava, Kirkkonummi, Kouvola, Kuopio, Lahti, Lappeenranta, Lohja, Nurmijärvi, Oulu, Pori, Porvoo, Raisio, Riihimäki, Rovaniemi, Seinäjoki, Sipoo, Tampere, Turku, Tuusula, Vaasa and Vihti.
Cost-of-living category III other municipalities.

Table 3.5.
Income limits for additional deductible in 2019.

	€/year	€/month
Single person living alone	8,676	723.00
Spouse not eligible for housing allowance	12,717	1,059.75
Spouse eligible for housing allowance	13,936	1,161.33

Table 3.6.
Maximum housing allowance in 2019 (€/month).

	Cost-of-living category I	Cost-of-living category II	Cost-of-living category III
Single person living alone	540.64	493.75	427.87
Spouse eligible for housing allowance	270.32	246.88	213.94

3.8 Other supplements

Table 3.7 lists the amounts of pensioners' care allowances, child increases, front-veterans' supplements and veteran's supplements in 2019. Provisions concerning the pensioners' care allowance are laid down in the Disability Allowances Act. The allowance is intended to offset the costs from living at home and special costs incurred by pensioners with illnesses and disabilities. Pensioners' care allowances are granted at three rates – basic, middle and highest – based on the claimants' need for assistance, guidance and supervision and the amount of special costs. In 2018 the basic care allowance was increased to 70.52 euros a month, and it will remain at that level in 2019.

Pensioners can claim a child increase for children under age 16. War veterans may be eligible to receive a front-veteran's supplement and an additional front-veteran's supplement. Persons receiving an additional front-veteran's supplement and a middle-rate or the highest care allowance are furthermore paid a special veteran's supplement.

A government proposal to increase the front-veteran's supplement, the front-veteran's supplement paid abroad and the special veteran's supplement will be issued in 2019. It is expected that the step increase will at least match the increase that would have been made to the national pension index without the emergency procedure.

Taulukko 3.7.
Amounts of other supplements in 2019 (€/month).

Pensioner's disability benefits adjusted to length of residence		Pension benefit components unadjusted to length of residence	
Basic care allowance	70.52	Child increase	21.93
Middle-rate care allowance	153.63	Front-veteran's supplement	49.56*
Highest care allowance	324.85	Additional front-veteran's supplement	Full amount 239.32* (at least 6.36)
		Special veteran's supplement	105.13*

* Expected increases to front-veterans' benefits during 2019.

4 Primary benefits

Compensation paid under accident and motor liability insurance takes precedence over earnings-related pensions. The same applies to compensation paid under the Patient Injuries Act for insurance contingencies occurring on or after 1 January 2017. In other words, earnings-related pension payments will be made only to the extent that the pension exceeds the amount of primary benefit. However primary benefits do not reduce the amount of earnings-related pension accrued for employment after the calendar year of the accident. New earnings-related pension is also accrued for periods of daily allowance under accident insurance and periods of compensation for loss of earnings equivalent to daily allowance under motor liability insurance based on the benefit concerned.

Loss of earnings is compensated out of primary benefits at the actual amount that the injured party would have earned had the accident not occurred. Primary benefits include compensation for loss of earnings or, with certain exceptions, pensions under the following acts:

- Occupational Accidents, Injuries and Diseases Act
- Farmers' Occupational Accidents, Injuries and Diseases Act
- Motor Liability Insurance Act
- Act on Compensation for Military Accidents and Service-related Illnesses
- Act on Compensation for Accidents and Service-related Illnesses in Crisis Management Duties
- Patient Injuries Act.

Statutory accident insurance takes precedence over motor liability insurance. Furthermore, compensation for road traffic accidents and accidents at work takes precedence over patient insurance.

The Occupational Accidents, Injuries and Diseases Act provides for compensation of loss of earnings and medical expenses due to accidents at work and occupational diseases. Daily allowance under statutory accident insurance is paid out for a maximum of one year. In the event of continued incapacity to work the beneficiary will receive a workers' compensation pension. A rehabilitation allowance may be paid at the same rate as the daily allowance and worker's compensation pension. The insurance also covers medical examination and treatment costs, compensation for permanent harm, the costs of vocational and medical rehabilitation, and a funeral grant and survivors' pension to family members in the case of death.

For the first four weeks after the date of the accident, the amount of daily allowance payable under occupational accidents insurance is the same as the amount of sick pay for employees; alternatively, it is determined based on the earnings during the four weeks before the accident. After the first four weeks, the daily allowance is 1/360 of the injured person's annual earnings. The daily allowance can also be paid out in the form of a partial compensation if the individual's incapacity and loss of earnings is partial. The person's ability to work must be reduced by at least 10 per cent.

The full workers' compensation pension is 85 per cent of annual earnings for persons under 65 and 70 per cent of annual earnings for those over 65. The workers' compensation pension can also be paid out in the form of a partial compensation if the person's capacity for work and loss of earnings is at least 10 per cent.

If the accident occurs in employment while receiving an old-age pension, the daily allowance and workers' compensation pension will be paid for a maximum of three years, but not beyond age 68. In this case the daily allowance and workers' compensation pension are not deducted from the earnings-related pension.

Persons injured in a road accident receive compensation under the **Motor Liability Insurance Act**. Insurance coverage includes medical expenses, loss of earnings, temporary and permanent harm and loss of maintenance to the surviving spouse and children. There is no ceiling for compensation paid for personal injuries; instead the compensation shall reflect the true loss.

Compensation for personal injury can also be paid under the **Patient Injuries Act**. The primary benefit is a loss of earnings compensation or pension granted to the injured party based on an injury sustained. Compensation for loss of maintenance to persons entitled to maintenance is a primary benefit that takes precedence over a survivors' pension. Compensations paid to a close relative for the care of the injured party are not primary benefits.

5 Taxation

Earnings-related pensions, national pensions and guarantee pensions are all taxable income. However, the national pension child increase, pensioners' care allowance, front-veteran's supplement, special veteran's supplement and housing allowance are exempt from tax.

Pensions paid under occupational accidents, motor liability and patient injury insurance are taxed as earned income. However daily allowances paid under these insurances or compensation received based on temporary incapacity for work are not treated as pension income.

A collective supplementary pension and a lump-sum pension provided by the employer are both taxed as earned income.

A pension based on voluntary personal pension insurance is taxed as capital income under legislation that took effect from the beginning of 2005. Previously this pension was taxed as earned income. A pension paid out based on a voluntary pension scheme is taxed as either earned income or capital income depending on the tax deductions made for the respective insurance premiums.

5.1 Deductions in earned income taxation

Expenses incurred from acquiring or managing income are deductible for purposes of income tax. There are separate deductions, allowances and credits for income subject to state taxation and municipal taxation.

In addition to deductions which reduce the amount of taxable income, there are various tax allowances and credits that are subtracted from the individual's tax liability. These include the earned income credit, disability credit in state taxation, child maintenance credit, domestic help credit, credit for deficit in capital income, and special deficit credit. The following only covers some of the most important deductions and allowances available to pensioners and employees. Tax deductions are explained in more detail in Appendix 1.

For purposes of municipal taxation, **pensioners** may qualify for a pension income allowance and a basic allowance; for purposes of state taxation, they may qualify for a pension income allowance and a disability credit. In municipal taxation the disabled person's allowance is granted only if the taxpayer has other sources of earned income besides pension income. The maximum basic allowance was increased by 205 euros to 3,305 euros from the beginning of 2019.

In municipal taxation the amount of pension income allowance is determined based on the full amount of national pension. The allowance therefore varies following indexed and discretionary increases to the national pension. In 2019 the national pension index was frozen at the 2018 level, but exceptionally the coefficient used for determining the municipal pension income allowance was raised. The full amount of pension income allowance in municipal taxation will rise by 10 euros to 9,050 euros as the coefficient is increased from 1.393 to 1.395 in 2019. The pension income allowance and basic allowance mean that low-income pensioners pay no municipal tax on annual pension earnings of less than

11,238 euros (€936/month). Eligibility for pension income allowance extends to annual earnings of 26,795 euros (€2,233/month).

In state taxation, the amount of pension income allowance is affected by the lower limit for state income tax as well as the national pension index. The full amount of pension income allowance is calculated by first multiplying the full amount of national pension by 3.867 (formerly 3.81) and then deducting from the product the lowest taxable income in the progressive income tax scale and rounding the remainder to the nearest 10 euros. The full amount of pension income allowance in state taxation will rise from 11,560 euros in 2018 to 11,590 euros in 2019. Because of this allowance the threshold for state taxation of pensions in 2019 will be 24,344 euros per annum (€2,028/month).

Table 5.1.
Full amount of pension income allowance in 2019, minimum threshold for the taxation of pensions and ceiling for pension income allowance (€).

	Full deduction	Threshold for taxes	No deduction
Municipal taxation	9,050	11,238	26,795
State taxation	11,590	24,344	42,090

Employees can claim a deduction for work-related expenses and for purposes of municipal taxation a basic allowance and an earned income allowance. In state taxation employees are eligible to receive earned income tax credit. Earnings-related pension contributions, unemployment insurance contributions and health insurance daily allowance contributions paid by employees are all tax deductible.

In 2019 the earned income credit in state taxation is 12.2 per cent for the portion of income exceeding 2,500 euros. The maximum tax credit is 1,630 euros, and it can be claimed on annual earnings up to around 128,500 euros.

5.2 Taxes on earned income and statutory social insurance contributions

State income tax is payable on taxable earned income in accordance with the progressive income tax scale. In 2019 the tax bracket thresholds were raised by 2.6 per cent, which will have the effect of lowering tax rates compared to 2018.

Income taxation was tightened in 2016 by lowering the threshold for the highest income bracket from 90,000 to 72,300 euros, effectively combining the two highest income brackets. Although intended as a temporary measure for 2016 and 2017, the reduced threshold remains in place. In 2019 the threshold for the highest income bracket is 76,100 euros.

Table 5.2.
State income tax scale 2019.

Taxable earned income (€)	Tax at lower limit (€)	Tax rate for portion of income exceeding lower limit (%)
17,600–26,400	8.00	6.00
26,400–43,500	536.00	17.25
43,500–76,100	3,485.75	21.25
76,100–	10,413.25	31.25

The rate of **additional tax on pension income** is unchanged from 2018 at 5.85 per cent for annual pensions of 47,000 euros (€3,917/month) and over.

Public broadcasting tax is levied at the same rate as in 2018, that is, at 2.5 per cent on annual earnings of over 14,000 euros. The maximum tax amount is 163 euros. In 2019 pensioners have to pay public broadcasting tax starting from earnings of 1,167 euros. The maximum amount is payable on a monthly pension of 1,710 euros and over. These thresholds are unchanged from the year before.

Municipal tax is paid on earned income to the taxpayer's municipality of residence based on the local income tax rate. The average municipal tax rate is 19.88, or 0.02 percentage points higher than the year before. Table 5.3 shows the tax rates for selected municipalities.

Table 5.3.
Income tax rates in selected municipalities and medical care contribution in 2019.

	Municipal income tax rate
Helsinki	18.00
Espoo	18.00
Vantaa	19.00
Tampere	19.75
Oulu	20.00
Turku	19.50
Kuopio	20.50
National average	19.88
Employee's medical care contribution	0
Pensioner's medical care contribution	1.54

The amount of **church tax** payable is calculated based on taxable earned income in municipal taxation according to the local church income tax rate. The average church tax rate is 1.39 per cent and is payable by members of the Evangelical Lutheran Church. The church tax is not included in the calculations presented below.

The medical care contribution is determined based on taxable earned income in municipal taxation. Employees were exempted from payment of the medical care contribution in 2017, and the same applies in 2019. The medical care contribution payable on pension and benefit income is 1.61 per cent (1.53% in 2018). Employees pay a **daily allowance**

contribution at a rate of 1.54 per cent if their annual income is at least 14,282 euros (last year 1.53% on income exceeding 14,020 euros). If they earn less than 14,282 euros, they pay no daily allowance contribution. Self-employed persons insured under YEL are liable to pay an additional contribution of 0.23 per cent (0.17% in 2018), bringing their daily allowance contribution rate in 2019 to 1.77 per cent. The daily allowance contribution is not payable on pension and benefit income.

In 2019 the employee's **earnings-related pension contribution** for persons aged 17–52 and 63–67 is 6.75 per cent, and for persons aged 53–62 it is 8.25 per cent (6.35% and 7.85%, respectively, in 2018). The employee's **unemployment insurance contribution** fell from 1.9 per cent in 2018 to 1.5 per cent in 2019.

The employee's tax and contribution rate varies by age because statutory contributions differ in different age groups (Table 5.4). Earnings-related pension contributions and unemployment insurance contributions are payable from age 17 and the health insurance daily allowance contribution from age 16.

Table 5.4.
Employee contributions in different age groups.

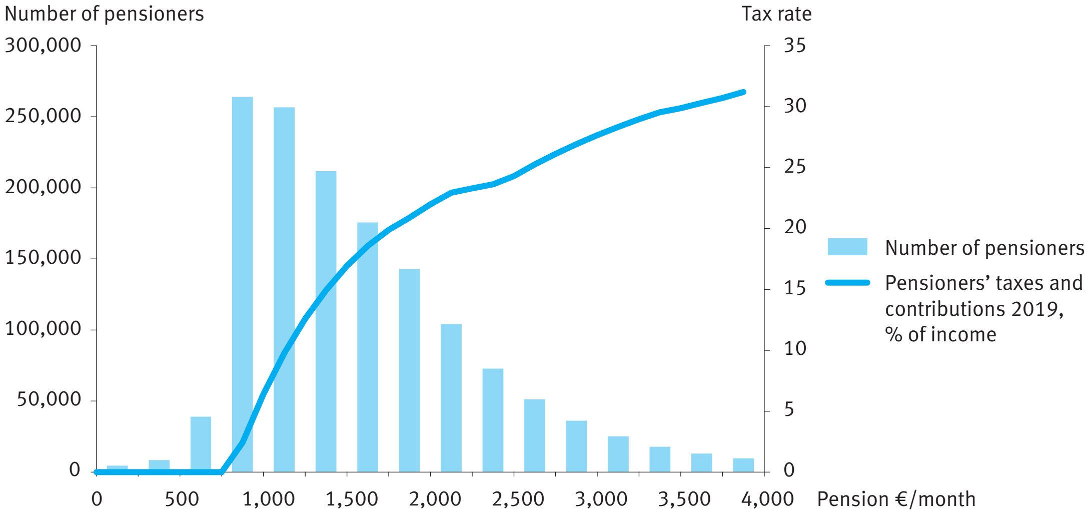
	Earnings-related pension contribution	Unemployment insurance contribution	Health insurance daily allowance contribution	Total
under 53	6.75%	1.5%	1.54%	9.79%
53–62 yrs	8.25%	1.5%	1.54%	11.29%
63–64 yrs	6.75%	1.5%	1.54%	9.79%
65–67 yrs	6.75%	0%	1.54%	8.29%
68 yrs	0%	0%	0%	0.00%

5.3 Differences in the taxation of pensioners and employees

Statutory pensions are taxed in basically the same way as other earned income. However, the tax and contribution burden on pension and wage income is different because of differences in tax deductions and social insurance contributions.

As shown in Figure 5.1, the number of pension recipients is highest in income brackets with low or zero tax rates. Some 39 per cent of pensioners have a monthly pension of less than 1,250 euros and therefore pay less than 10 per cent in tax. Around 12 per cent have a pension of over 2,500 euros, which attracts a tax rate of over 24 per cent. Just over one per cent of pensioners have a pension of over 4,000 euros, on which they pay over 31 per cent in tax. Pensioners' other sources of income are not considered in Figure 5.1.

Figure 5.1.
Pension income distribution for Finnish-resident recipients of pensions in their own right (excluding part-time pension) at 31 December 2017, and pensioner's tax and contribution rate in 2019.



The following figures and tables compare the taxes paid by pensioners and wage earners in different income brackets. As a rule, the pensioner's tax rate in 2008–2012 was lower than the employee's tax and contribution rate, which also considers the employee's pension contribution (53–67 yrs) and unemployment insurance contribution. In 2013 an additional tax was introduced to bring the taxation of large pensions in line with the tax and contribution rate for employees aged over 53.

The change in the tax and contribution rate for pension and earned income from 2018 varies in different income brackets. When tax rates for the same level of income are compared to the previous year using average municipal tax rates, the pensioner's tax and contribution rate is slightly reduced in all income brackets. The biggest reduction (–0.5 percentage points) is seen in the tax rate on pensions of around 1,000 euros. The tax rate on pensions of around 2,600–4,900 euros is reduced by some 0.2 percentage points. For pensions of around 2,000–2,500 euros a month the tax rate is unchanged from 2018.

The tax rate on wage income will be lowered by 0.1–0.8 percentage points depending on income bracket. At low income levels the tax and contribution rate will remain unchanged from the year before. For monthly earnings of 1,300–2,000 euros, the tax and contribution rate will fall by around 0.7 percentage points.

Figure 5.2 shows the tax and contribution rates for pensioners and wage-earning employees in different income brackets. The employee's tax and contribution rate varies by age because statutory contributions differ in different age groups. Employees aged over 68 no longer pay employee contributions.

Figure 5.2.
Employee's and pensioner's taxes and contributions in 2019 (% of income) (Monthly income is annual income/12).

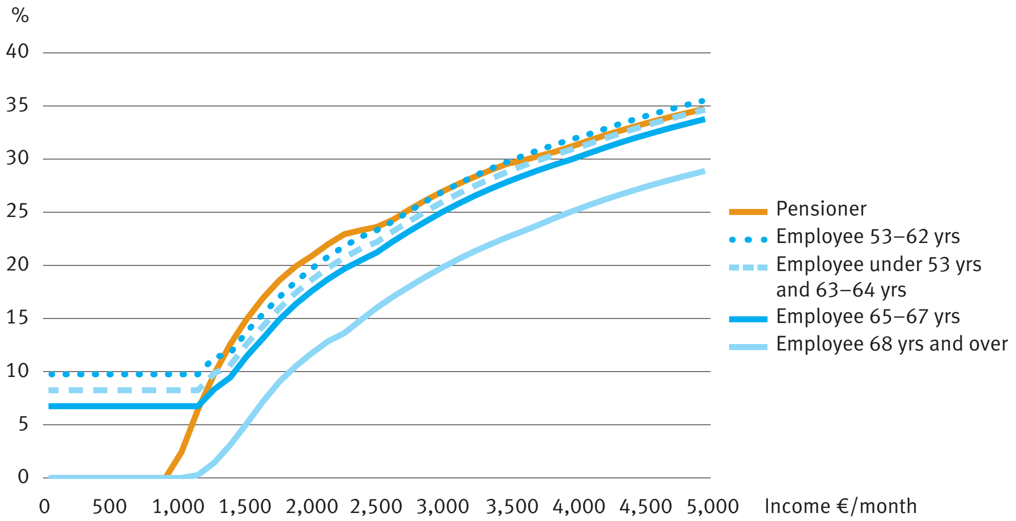


Table 5.5.
Taxes and contributions in 2019 (% of income).

Income €/month (annual income/12)	Pensioner	Employee under 53 yrs and 63–64 yrs	Employee 53–62 yrs	Employee 65–67 yrs	Employee 68 yrs
500	0.0	8.3	9.8	6.8	0.0
750	0.0	8.3	9.8	6.8	0.0
1,000	2.4	8.3	9.8	6.8	0.0
1,250	9.8	9.8	11.3	8.3	1.4
1,500	14.9	12.6	13.7	11.5	5.1
1,750	18.6	15.9	17.0	14.9	9.0
2,000	20.9	18.7	19.7	17.6	11.7
2,250	22.9	20.7	21.8	19.7	13.6
2,500	23.6	22.2	23.3	21.2	16.0
2,750	25.3	24.2	25.1	23.2	18.0
3,000	26.9	25.9	26.9	25.0	19.8
3,500	29.5	28.8	29.7	27.8	22.6
4,000	31.2	30.9	31.9	30.0	25.1
5,000	34.7	34.6	35.5	33.7	28.8
6,000	37.0	37.1	38.0	36.2	31.3
7,000	39.6	38.8	39.7	38.0	33.9
8,000	42.0	41.2	41.9	40.4	36.4
10,000	45.3	44.5	45.2	43.7	39.7
15,000	49.7	48.4	49.1	47.6	43.6

Figure 5.3 shows the structure of pensioners' and employees' taxes and contributions in different income brackets. Employees pay an earnings-related pension contribution, unemployment insurance contribution and daily allowance contribution on income that falls below the taxable income threshold. At higher income levels the overall tax rate for pensioners and employees is almost the same, but for employees this also includes earnings-related pension contributions and unemployment insurance contributions, so the share of municipal and state taxes is lower than for pensioners.

Figure 5.3.

Structure of pensioner's and employee's (53–62 yrs) taxes and contributions in different income brackets in 2019 (% of gross income).

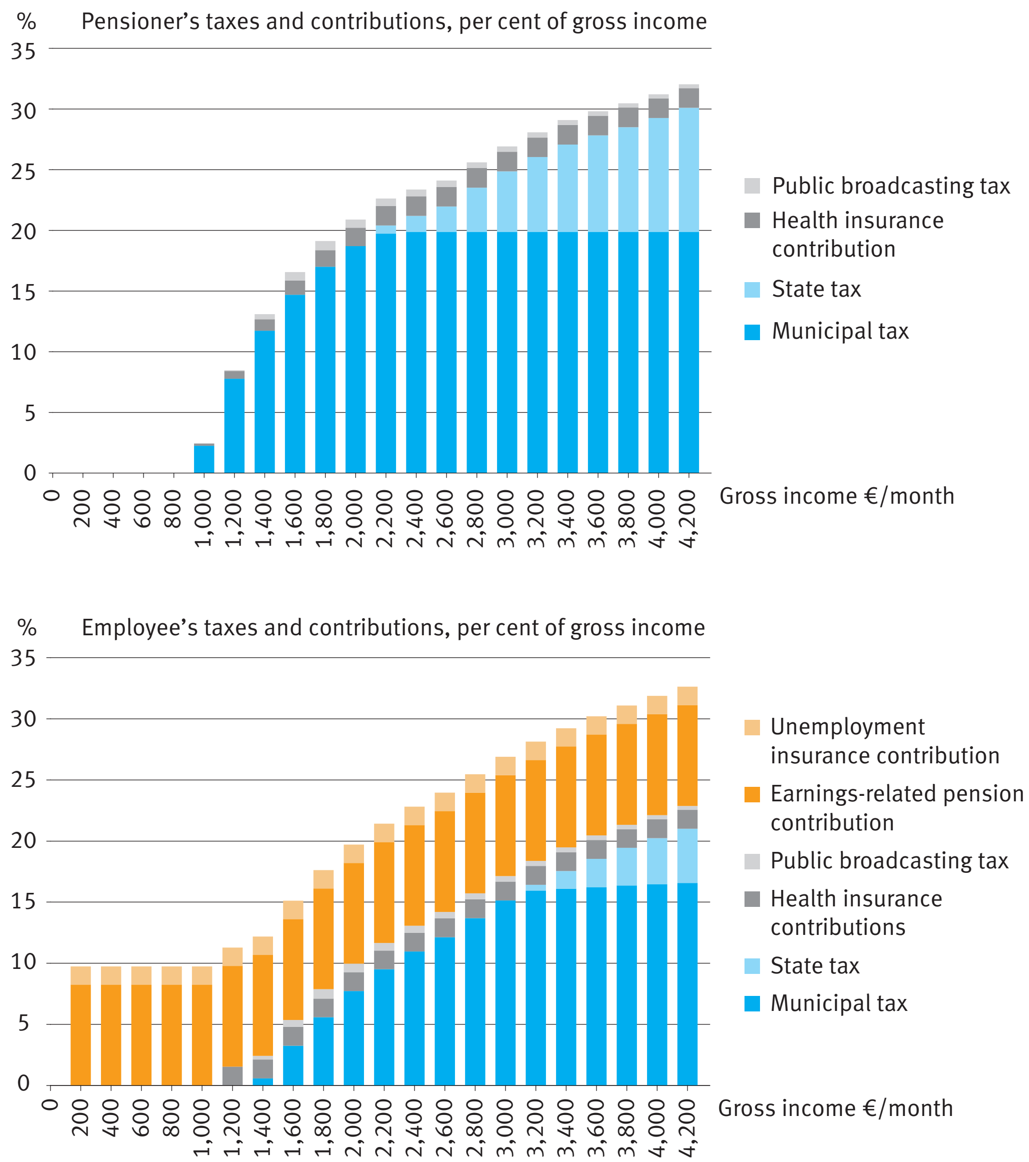
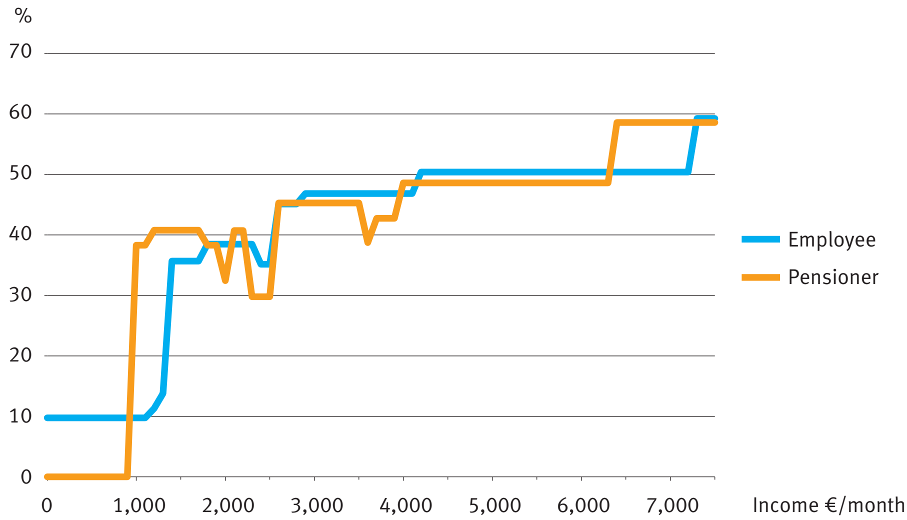


Figure 5.4 shows how large a share of employees' and pensioners' increased earnings goes to taxes and contributions in different income brackets. Pensioners' marginal taxation is essentially unchanged from the year before. In municipal taxation the pension income allowance and basic allowance decrease with increasing income, so the pension tax rate rises sharply for monthly incomes of 1,000–1,800 euros. In this income range the pensioner's marginal tax rate for additional income is around 40 per cent.

The marginal tax rate increases to over 45 per cent for a monthly pension of 2,600 euros, which pushes the taxpayer across another threshold in the state income tax scale (after deductions). Additional income attracts a high tax rate in this income bracket, too, because the pension income allowance in state taxation decreases with increasing earnings and is no longer granted at a monthly income of around 3,500 euros.

Monthly earnings of over 4,000 euros attract a marginal tax rate of around 49 per cent. In the highest income bracket – over 6,000 euros for pensioners and over 7,000 euros for employees – the marginal tax rate is 59 per cent.

Figure 5.4.
Pensioner's and employee's (53–62 yrs) marginal tax rate in 2019 in different income brackets.



5.4 Taxation of earnings consisting of both pension and wage income

Pensioners' wage income is taxed on the same basis as any other wage income. Other earned income reduces the pension income allowance: a decreased allowance will increase the tax rate. On the other hand, wage earners receive a deduction for work-related expenses as well as an earned income allowance and an earned income tax credit. Taken together, these deductions mean that the tax rate for a combination of pension and wage income is generally lower than the same amount of income comprising only a pension income or a wage income.

Employee contributions are withheld normally from pensioners' wages. However, unemployment insurance contributions are no longer payable after age 65. Earnings-related pension contributions are paid through to the highest age of insurance obligation for the age group. The health insurance daily allowance contribution is not withheld from wages after age 68.

5.4.1 Wage income alongside old-age or disability pension income

Gainful employment while on old-age pension does not affect the amount of earnings-related or Kela pension payable. Table 5.6 shows the tax and contribution rates for pension recipients who in addition have a wage income. It also shows how large a share of the income from employment is lost to taxes and contributions. For example, the tax rate for a monthly pension of 1,500 euros is 14.9 per cent. If the pensioner additionally earns 6,000 euros a year in wages, the tax rate for this additional income is 26.2 per cent. The tax and contribution rate for total income is 17.8 per cent. The taxes and contributions are calculated for pensioners aged 63 who have a reduced earnings-related pension contribution (6.75%) and who also pay an unemployment insurance contribution and health insurance daily allowance contribution.

Persons on a disability pension or whose disability pension has been converted into an old-age pension may be eligible for a disabled person's tax allowance. If the degree of disability is 100 per cent, the overall tax rates are 0.3–0.6 percentage points lower than indicated in the table. Persons on a disability pension are allowed to earn up to 40 per cent and those on a partial disability pension up to 60 per cent of their pre-disability earnings, but always at least 784.52 euros a month. The same monthly earnings limit of 784.52 euros applies to disability pensions under the national pension scheme. Pension payment is suspended when the 60 per cent or 784.52 euro limit is exceeded for at least three months.

Table 5.6.
Taxes and contributions on pensioner's (63–64 yrs) wage income in 2019.

Pension	Wage income €/year	Total income €/year	Taxes and contributions on wages, %	Tax and contribution rate	Tax rate if total income consisted only of	
					pension	wage income
€1,000/month (€12,000/year)	0	12,000		2.4	2.4	8.3
	6,000	18,000	25.4	10.1	14.9	12.6
	12,000	24,000	25.5	14.0	20.9	18.7
	18,000	30,000	29.5	18.7	23.6	22.2
€1,500/month (€18,000/year)	0	18,000		14.9	14.9	12.6
	6,000	24,000	26.2	17.8	20.9	18.7
	12,000	30,000	24.3	18.7	23.6	22.2
	18,000	36,000	29.4	22.2	26.9	25.9
€2,000/month (€24,000/year)	0	24,000		20.9	20.9	18.7
	6,000	30,000	24.1	21.5	23.6	22.2
	12,000	36,000	25.6	22.5	26.9	25.9
	18,000	42,000	32.5	25.9	29.5	28.8
€2,500/month (€30,000/year)	0	30,000		23.6	23.6	22.2
	6,000	36,000	31.8	25.0	26.9	25.9
	12,000	42,000	32.3	26.1	29.5	28.8
	18,000	48,000	35.6	28.1	31.2	30.9
€3,000/month (€36,000/year)	0	36,000		26.9	26.9	25.9
	6,000	42,000	36.3	28.3	29.5	28.8
	12,000	48,000	32.7	28.4	31.2	30.9
	18,000	54,000	36.2	30.0	33.1	32.9

As shown in the table, an annual income of 24,000 euros that consists half and half of pension and wage income attracts a tax rate of 14.0 per cent. The tax rate increases to 17.8 per cent for the same total income when pension earnings account for three-quarters, and further to 20.9 per cent when pension earnings account for all of the income.

5.4.2 Partial old-age pension and wage income

Taxes and contributions are determined in the same manner as above in situations where an employee decides to take a partial old-age pension early and to remain in gainful employment. The progressive tax scale eases the impact of a decline in employment income on the reduction in total income. Accordingly, taxes will rise if a partial old-age pension is taken early on top of existing earnings.

The amount of partial early old-age pension is calculated based on pension rights earned by the end of the calendar year preceding the start of the pension (see chapter 2.2 above). For the purposes of the example in Table 5.7, the accrued amount of monthly pension is

1,500, 2,000 or 3,000 euros, and early payment of the pension is taken at 50 per cent rate. The earliest full retirement age for the 1958 birth cohort is 64 years, and the pension is taken out 36 months early, bringing the total reduction for early retirement to 14.4 per cent. The partial old-age pension is still multiplied by the life expectancy coefficient confirmed for the first year of the pension. The table describes different scenarios in which the individual does no work while on a partial old-age pension; does 50 per cent reduced working hours; and continues to work at the same wage level as before. As the partial old-age pension in the example starts at age 61, the individual will pay an increased earnings-related pension contribution at 8.25 per cent of wages.

The last column of the table also shows the corresponding tax and contribution rate for wage income only, without a partial old-age pension. Progression increases the overall tax rate when earned income includes not only wages but also a pension. At the income levels shown in the example, the additional income from the partial old-age pension means that the overall tax rate is 1.3–4.2 percentage points higher than the tax and contributions rate for wage income alone.

Table 5.7.
Partial old-age pension and wage income, euros. Person born in 1958.

Pension earned by the start of partial old-age pension	Partial old-age pension	Wages during partial old-age pension	Gross income total	Net income	Tax rate	Tax rate on wages without partial old-age pension
1,500	614	0	614	614	0.0	0.0
	614	1,500	2,114	1,772	16.2	13.7
	614	3,000	3,614	2,563	29.1	26.9
2,000	819	0	819	819	0.0	0.0
	819	2,000	2,819	2,200	22.0	19.7
	819	4,000	4,819	3,189	33.8	31.9
3,000	1,228	0	1,228	1,115	9.2	0.0
	1,228	3,000	4,228	2,915	31.1	26.9
	1,228	6,000	7,228	4,392	39.2	38.0

5.5 International situations

Pensions paid abroad are taxed in the same way as pensions paid to Finnish residents. The tax rate, deductions and tax return procedure are all the same. All taxes paid by pensioners who reside abroad, including imputed municipal tax calculated based on the average municipal tax rate, go to the state.

In some situations tax treaties mean that pensions are not taxed in Finland at all but only in the pensioner's country of residence. The tax treatment of pensions depends on the tax treaty signed between Finland and the country in question to avoid double taxation. Finland has entered into double tax agreements with more than 60 countries.

For example, Finland was previously unable to impose taxes on pensions paid to Portugal, apart from pensions paid to former public sector employees. From the beginning of 2019, however, taxpayers resident in Portugal are subject to Finnish tax on pensions paid from Finland. In 2018 Finland terminated the tax treaty it agreed with Portugal in 1970, and the treaty provisions expired on 31 December 2018. Finland has adopted the new treaty that was negotiated in 2016, but Portugal has failed to do so in the agreed period. Therefore, as of 1 January 2019, there is no tax treaty in place between Finland and Portugal. In the absence of a double tax treaty, Finland will in 2019 exercise its right to extensively tax income paid from Finnish sources to individuals resident in Portugal.

Finland has also negotiated a new tax treaty with Spain, which took effect from the beginning of 2019. Under the new treaty pensions received in Spain from Finland are subject to Finnish tax. However, pensions based on motor liability insurance or other comparable risk insurance policies will continue to be taxed only in Spain. For private sector pensions there will be a three-year transition period during which no taxes will be payable in Finland. This is on the condition that the pension received from Finland is taxable income in Spain.

The new tax treaty with Germany has been applied from the beginning of 2018. Under the agreement Finland has the right to tax all pension income received from Germany.

Pensions paid from abroad are often taxed in the source country. In this case no income tax will be imposed on the pension in Finland, but the pension will increase the amount of tax payable on income received from Finland. Pensions from some countries are not taxed in the country of origin, and in these cases Finland will levy tax on pension income as per normal provisions. The medical care contribution is usually payable on pensions received from other countries.

EU officials' pensions are not taxed in Finland. If EU pension rights are transferred to the Finnish earnings-related pension scheme, the pension will be treated in full as taxable earned income in the same way as other pensions under the earnings-related pension scheme.

5.6 Capital income taxation – voluntary personal pension insurance and long-term saving

The capital income tax rate is 30 per cent, rising to 34 per cent for annual income exceeding 30,000 euros. Since 2006 voluntary personal pension insurance payments have also been subject in full to capital income tax. Voluntary personal pension insurance premiums are deductible from taxable capital income in the year the premiums are paid. Pension income from such insurance will be subject to capital income tax in due course.

Voluntary personal pension insurance and long-term savings premiums have been eligible for tax deductions only on condition that pension payments start after age 68, the age of eligibility for deferred retirement under TyEL (Employees Pensions Act). The age limit was raised from 63 to 68 years from the beginning of 2013. The 2017 pension reform also introduced new rules for the tax deductibility of premiums paid: eligibility for tax deductions now required that pension payments can only start after the age that the age group's obligation to insure ends. This age limit is 68 years for persons born in 1957 or earlier, 69 years for those born in 1958–1961 and 70 years for those born later. Premiums on voluntary personal pension insurance and long-term savings contracts taken out before 2013 are deductible under previous rules.

The higher age limit also applies to collective additional pension insurance insofar as the employee pays part of the insurance premiums. If the premiums are paid in full by the employer, the pension can be claimed at an earlier age. Pension income through additional pension insurance cover provided by the employer is taxed as earned income.

An annual deduction of up to 5,000 euros can be claimed against capital income for premiums paid on voluntary pension insurance and long-term savings schemes. If the employer has taken out a voluntary pension insurance for the employee, the maximum tax deduction for premiums paid by the employee on their own insurance or long-term savings scheme is 2,500 euros.

Returns earned on savings are not taxed during the saving period. Payments received after retirement age are treated as capital income. Pension insurance policies cannot be repurchased nor can assets in long-term savings be withdrawn before retirement age except in the case of unemployment lasting at least one year, permanent or partial disability, spousal death or divorce.

Pensions paid out from voluntary personal pension schemes are taxed as earned income or capital income depending on how the corresponding premiums were deducted. In old pension insurance policies taken out before 6 May 2004, the share of pension that accumulated on premiums paid before 2006 is taxed as earned income, and the share accumulated on premiums since 2006 is taxed as capital income.

6 Total pension income

Statutory pension provision in Finland consists of the earnings-related pension, national pension and guarantee pension. Individuals may also be eligible to receive benefits that take precedence over an earnings-related pension, for instance under occupational accidents or motor liability insurance. In this instance earnings-related pension is paid only to the extent that it exceeds the primary benefit.

Earnings-related pensions are intended to ensure that in retirement, people can maintain a reasonable level of consumption compared to their pre-retirement income. The national pension and guarantee pension, then, ensure a minimum level of income for persons who worked for such a short period of time or who earned so little that they have only a small or no earnings-related pension at all.

The amount of national pension payable decreases with increasing pension income, as one-half of the amount of earnings-related pension is deducted from the full national pension (see chapter 3.1). No national pension is paid to single living persons with an earnings-related pension of over 1,299 euros, or to persons living with a spouse or partner and receiving an earnings-related pension of over 1,157 euros.

Figure 6.1 shows how earnings-related pension, national pension and guarantee pension income contribute to total pension income according to career wage earnings. Pensioners may also receive a means-tested housing allowance, which is included in Figure 6.2.

The amount of housing allowance is calculated based on assumed monthly housing costs of 519 euros (estimated average housing costs in 2019). At the end of November 2018 a total of 208,838 persons received a pensioner's housing allowance at an average of 233 euros a month.

In Figures 6.1 and 6.2 the earnings-related pension is 50 per cent of wage income and payable to a pensioner living alone. The national pension and guarantee pension are payable from age 65. The Figures are based on the assumption that the full amount of earnings-related pension is taken into account in calculating the amount of national pension.

The earnings-related and the national pension schemes are mutually complementary even with respect to survivors' pensions. A child and a surviving spouse under 65 may simultaneously receive a survivors' pension through both systems. A surviving spouse and a child may also be eligible to receive a survivors' pension or assistance pension under an accident or motor liability insurance. If these survivors' pensions provide adequate income security, Kela will not pay the additional amount to the survivors' pension (see chapter 3.2).

Figure 6.1.
Total pension income in 2019.

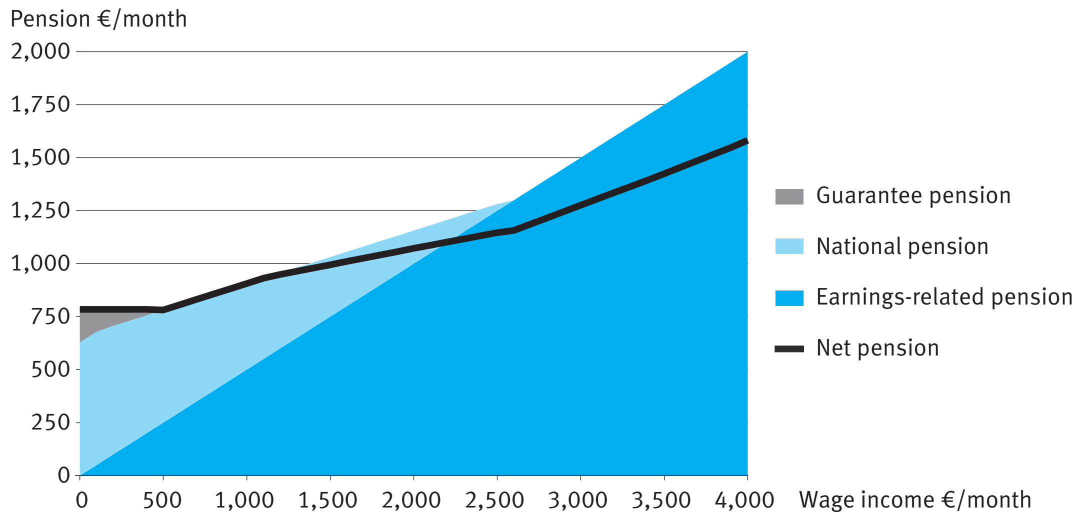
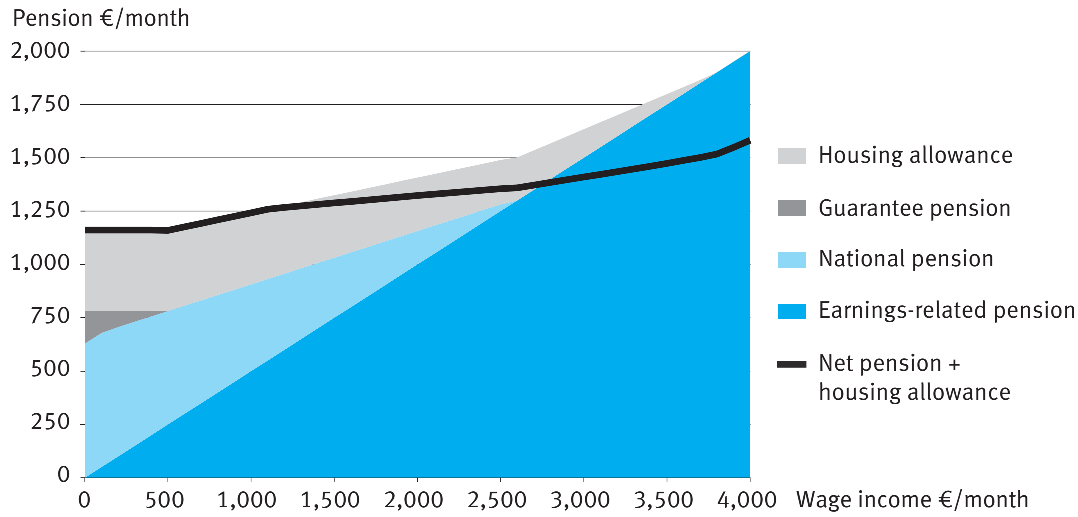


Figure 6.2.
Earnings-related pension, national pension, guarantee pension and housing allowance in 2019.



6.1 Determination of total pension: some examples

The following tables provide some examples of private sector employees' earnings-related pensions, national pensions and guarantee pensions and how they add up in their gross and net total pension income. It is assumed that the earnings-related pension is 50 per cent of the individual's earnings prior to adjustment with the life expectancy coefficient. Net earnings and net pension amounts are calculated based on 2019 tax returns, assuming that earnings are the same for the whole year and that annual income is 12 times monthly income. The municipal tax rate is set at 19.88 per cent, that is, the national average.

Employee contributions are calculated based on the rates payable by persons aged 63–64. Housing allowance calculations are based on assumed housing costs of 519 euros a month, the estimated average for housing allowance recipients in 2019.

Table 6.1 illustrates a simplified situation where the national pension is reduced by the full amount of earnings-related pension, and the national pension is a full pension payable at age 65 without a reduction for early retirement. Earnings-related pensions will typically also include components that do not reduce the amount of national pension, such as the increase for deferred retirement that has been awarded since 2017 for employment beyond the age cohort's full retirement age and the 4.5 per cent accrual rate earned before 2017.

Table 6.1.
Total pension income and net pension in 2019, pensioner aged 65, living alone. National pension is reduced by full amount of earnings-related pension. Life expectancy coefficient 0.96800. Housing costs €519/month.

Gross wage (GW) €/month	Net wage (NW) €/month	Earnings-related pension €/month	National pension + guarantee pension	Total pension income/month					
				Gross	% of GW	Net	% of NW	+ housing allowance	% of NW
0	0	0	629+156	785	-	785	-	1,162	-
250	229	121	596+67	785	314	785	342	1,162	506
500	459	242	536	785	157	785	171	1,162	253
750	688	363	475	838	112	838	122	1,197	174
1,000	918	484	415	899	90	899	98	1,237	135
1,250	1,127	605	354	959	77	950	84	1,268	113
1,500	1,311	726	294	1,020	68	988	75	1,285	98
1,750	1,471	847	233	1,080	62	1,025	70	1,302	88
2,000	1,627	968	173	1,141	57	1,062	65	1,318	81
2,500	1,945	1,210	52	1,262	50	1,135	58	1,350	69
3,000	2,222	1,452	0	1,452	48	1,248	56	1,398	63
3,500	2,492	1,694	0	1,694	48	1,391	56	1,459	59
4,000	2,763	1,936	0	1,936	48	1,540	56	1,540	56
4,500	3,018	2,178	0	2,178	48	1,689	56	1,689	56
5,000	3,271	2,420	0	2,420	48	1,853	57	1,853	57
5,500	3,523	2,662	0	2,662	48	2,007	57	2,007	57
6,000	3,776	2,904	0	2,904	48	2,140	57	2,140	57
7,000	4,281	3,388	0	3,388	48	2,405	56	2,405	56
8,000	4,706	3,872	0	3,872	48	2,683	57	2,683	57
9,000	5,129	4,356	0	4,356	48	2,935	57	2,935	57
10,000	5,553	4,840	0	4,840	48	3,184	57	3,184	57

For those who have only an earnings-related pension, the gross pension ratio (gross pension/ gross earnings) is just under 50 per cent because of the life expectancy coefficient. Persons receiving a national pension have had a low income and therefore have a high pension-to-wage ratio. Because of progressive taxation the net pension to pre-retirement net earnings ratio is higher than the gross ratio. For those who have only an earnings-related pension the ratio in the example is 56–58 per cent in net terms. The last columns include housing allowance based on average housing costs.

Table 6.2 shows the calculated total pension income for a person born in 1956 who is retiring at the age cohort's earliest age of eligibility. A national pension taken before age 65 is subject to a monthly reduction of 0.4 per cent for early retirement: in the example the pension is taken 18 months early, which adds up to a reduction of 7.2 per cent.

Table 6.2.
Total pension income and net pension in 2019 at the age cohort's earliest age of eligibility for old-age pension (63 years 6 months), person born in 1956, living alone. Life expectancy coefficient 0.96102. Housing costs €519/month.

Gross wage (GW) €/month	Net wage (NW) €/month	Earnings-related pension €/month	National pension + guarantee pension	Total pension income/month					
				Gross	% of GW	Net	% of NW	+ housing allowance	% of NW
0	0	0	584+144	728	-	728	-	1,124	-
250	229	120	554+54	728	291	728	317	1,124	490
500	459	240	498	738	148	738	161	1,131	247
750	688	360	442	803	107	803	117	1,173	171
1,000	918	481	386	867	87	867	94	1,216	133
1,250	1,127	601	331	931	75	931	83	1,258	112
1,500	1,311	721	275	996	66	973	74	1,278	98
1,750	1,471	841	219	1,060	61	1,013	69	1,296	88
2,000	1,627	961	163	1,124	56	1,053	65	1,314	81
2,500	1,945	1,201	52	1,253	50	1,130	58	1,347	69
3,000	2,222	1,442	0	1,442	48	1,241	56	1,395	63
3,500	2,492	1,682	0	1,682	48	1,384	56	1,455	58
4,000	2,763	1,922	0	1,922	48	1,531	55	1,531	55
4,500	3,018	2,162	0	2,162	48	1,680	56	1,680	56
5,000	3,271	2,403	0	2,403	48	1,841	56	1,841	56
5,500	3,523	2,643	0	2,643	48	1,997	57	1,997	57
6,000	3,776	2,883	0	2,883	48	2,128	56	2,128	56
7,000	4,281	3,364	0	3,364	48	2,391	56	2,391	56
8,000	4,706	3,844	0	3,844	48	2,667	57	2,667	57
9,000	5,129	4,325	0	4,325	48	2,919	57	2,919	57
10,000	5,553	4,805	0	4,805	48	3,166	57	3,166	57

Table 6.3 shows the total pension income for a person aged 65 retiring in 2019. This person has continued to work beyond full retirement age, and the 4.5 per cent accrual rate earned since age 63 and the deferral increment earned since the beginning of 2017 do not reduce the amount of national pension. The example assumes that the earnings-related pension accrued by the age of 63 is 50 per cent of earnings before adjustment with the life expectancy coefficient. The accrual rate after age 63 is also calculated based on the same pay level.

Table 6.3.

Total pension income and net pension at age 65 in 2019, person born in 1954, living alone. Life expectancy coefficient 0.96800. Housing costs €519/month.

Gross wage (GW) €/month	Net wage (NW) €/month	Earnings-related pension which		National pension + guarantee pension	Total pension income/month					
		reduces national pension	does not reduce national pension		Gross	% of GW	Net	% of NW	+ housing allowance	% of NW
0	0	0	0	629+156	785	-	785	-	1,162	-
250	229	125	17	594+48	785	314	785	342	1,162	506
500	459	249	35	532	816	163	816	178	1,182	258
750	688	374	52	470	896	119	896	130	1,235	179
1,000	918	499	70	407	975	98	961	105	1,273	139
1,250	1,127	623	87	345	1,055	84	1,010	90	1,295	115
1,500	1,311	748	104	283	1,135	76	1,059	81	1,317	100
1,750	1,471	872	122	220	1,215	69	1,107	75	1,338	91
2,000	1,627	997	139	158	1,294	65	1,154	71	1,358	83
2,500	1,945	1,246	174	33	1,454	58	1,249	64	1,398	72
3,000	2,222	1,496	209	0	1,704	57	1,397	63	1,461	66
3,500	2,492	1,745	244	0	1,988	57	1,574	63	1,574	63
4,000	2,763	1,994	278	0	2,272	57	1,750	63	1,750	63
4,500	3,018	2,243	313	0	2,556	57	1,949	65	1,949	65
5,000	3,271	2,493	348	0	2,840	57	2,105	64	2,105	64
5,500	3,523	2,742	383	0	3,125	57	2,260	64	2,260	64
6,000	3,776	2,991	417	0	3,409	57	2,416	64	2,416	64
7,000	4,281	3,490	487	0	3,977	57	2,740	64	2,740	64
8,000	4,706	3,988	557	0	4,545	57	3,032	64	3,032	64
9,000	5,129	4,487	626	0	5,113	57	3,324	65	3,324	65
10,000	5,553	4,985	696	0	5,681	57	3,616	65	3,616	65

6.2 Change in net pension income

Table 6.4 describes how a pension that started in 2009 has developed through to 2019. The national pension has increased in accordance with the national pension index and the earnings-related pension in accordance with the earnings-related pension index. The minimum pension consists of a national pension and a guarantee pension.

In 2019 the net pension income of persons who have only a national pension will increase by 1.2 per cent from the year before. At higher pension levels the increase will be around 0.4–1.4 per cent. This change reflects the combined effect of indexations, the step increase in the guarantee pension and changes in tax rules. In real terms, pensions will fall slightly from 2018 with the exception of the guarantee pension, with inflation expected to come in at 1.5 per cent in 2019.

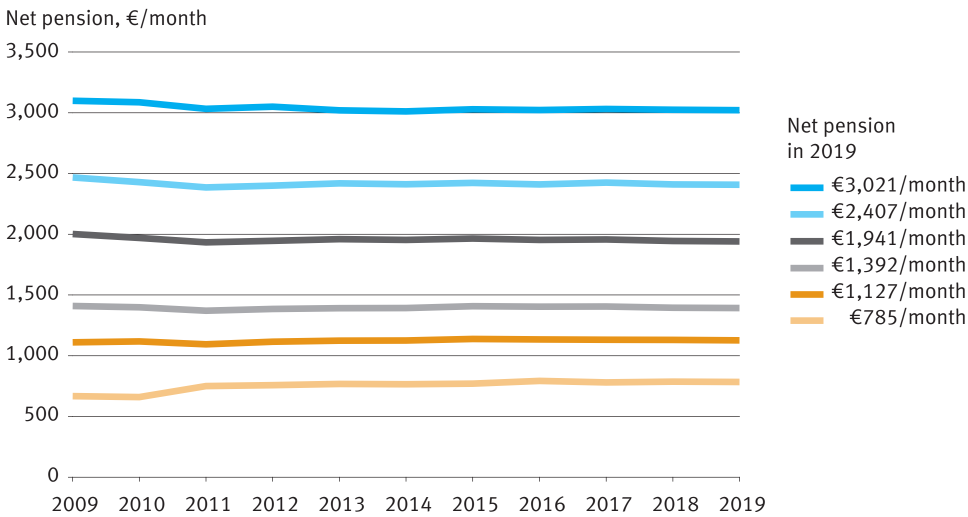
Table 6.4.
Change in nominal pensions that started in 2009, from 2009 to 2019.

Gross pension €/month	Net pension €/month	Annual change in net pension, %						Net pension €/month
2009		2015	2016	2017	2018	2019	2009–2019	2019
584	584	0.4	3.4	-0.9	2.0	1.2	34.3	785
735	735	0.4	0.4	-0.4	0.2	0.4	9.3	804
860	818	1.1	-0.1	0.0	1.0	1.0	15.6	946
985	895	1.0	0.0	0.3	1.1	1.1	16.0	1,038
1,110	971	1.0	0.1	0.5	1.0	1.2	16.1	1,127
1,250	1,064	0.9	0.1	0.7	0.8	1.3	15.1	1,225
1,500	1,233	0.9	0.2	0.8	0.4	1.3	12.9	1,392
1,750	1,402	0.7	-0.1	0.9	0.3	1.1	11.8	1,568
2,000	1,577	0.3	-0.1	0.8	0.3	1.3	10.5	1,742
2,250	1,751	0.3	-0.2	0.9	0.4	1.3	10.8	1,941
2,500	1,890	0.3	-0.1	1.2	0.4	1.4	11.0	2,098
2,750	2,024	0.3	-0.1	1.3	0.4	1.4	11.3	2,253
3,000	2,159	0.3	-0.1	1.4	0.5	1.4	11.5	2,407
3,250	2,281	0.5	0.2	0.7	0.9	1.5	12.7	2,571
3,500	2,421	0.4	0.2	1.0	0.9	1.4	12.8	2,730
3,750	2,566	0.4	0.2	1.0	0.9	1.4	12.1	2,876
4,000	2,711	0.4	0.2	1.0	0.9	1.4	11.4	3,021

Figure 6.3 shows the development of a pension that started in 2009 through to 2019. The sums given are adjusted to account for changes in consumer prices until 2019, that is, the figure shows how the purchasing power of pensions has developed over the past 10 years.

In the past 10 years the pension income of persons who have only a national pension has increased in real terms by some 18 per cent. Persons with a pension income of 1,000–1,200 euros have seen their pensions rise in real terms by around 1.5 per cent, while the pensions of those earning 1,400–3,000 euros a month have fallen by a couple of per cent.

Figure 6.3.
Net pension income in 2009–2019, at 2019 prices.



APPENDICES

Appendix 1 Deductions in earned income taxation

MUNICIPAL TAXATION	STATE TAXATION
TOTAL EARNED INCOME	TOTAL EARNED INCOME
– Production-of-income expenses	– Production-of-income expenses
NET EARNED INCOME	NET EARNED INCOME
– Statutory insurance contributions	– Statutory insurance contributions
– Collective additional pension insurance contributions	– Collective additional pension insurance contributions
– Deduction for reduced capacity to pay taxes	– Deduction for reduced capacity to pay taxes
– Pension income allowance	– Pension income allowance
– Seafarer's deduction	– Seafarer's deduction
– Disabled person's allowance	
– Student grant allowance	
– Earned income allowance	
– Basic allowance	
EARNED INCOME FOR TAX YEAR	EARNED INCOME FOR TAX YEAR
– Old losses	– Old losses
= TAXABLE INCOME IN MUNICIPAL TAXATION	= TAXABLE INCOME IN STATE TAXATION

Deductions and allowances on earned income in state and municipal taxation

Expenses incurred in acquiring and maintaining income

- Standard deduction for work-related expenses 750 euros for all wage earners, but not exceeding the amount of wage income
- Commuting expenses over 750 euros up to a maximum of 7,000 euros
- Trade union membership fees and unemployment fund contributions
- Other expenses insofar as they exceed the standard deduction for work-related expenses (e.g. expenses for professional literature, office running expenses, work clothes expenses).

Deductions on net earned income in state and municipal taxation

Statutory insurance contributions

- Employee's statutory earnings-related pension contribution (6.75% / 8.25%)
- Unemployment insurance contribution (1.5%)
- Health insurance daily allowance contribution (1.54% of total earned income if annual earnings exceed 14,282 euros; no contribution is payable if annual earnings are less than 14,282 euros).

Collective supplementary pension insurance contributions
Contributions by taxpayers for collective additional pension insurance provided through a company pension fund, industry-wide pension fund or insurance company to the amount of five per cent of wages up to a maximum of 5,000 euros a year but not exceeding the amount paid by the employer. A further requirement is that the pension shall not commence before the age of eligibility for deferred old-age retirement under the Employees Pensions Act (TyEL).

Seafarer's tax deduction
The deduction is 20 per cent of annual earnings from maritime employment up to a maximum of 7,000 euros. When total earnings exceed 50,000 euros, the seafarer's tax deduction is reduced by 5 per cent for the portion exceeding 50,000 euros.

Deduction for reduced capacity to pay taxes
A discretionary allowance that is granted in the event of a substantial reduction in the individual's capacity to pay taxes for reasons of unemployment, illness or child maintenance obligations, for instance. In the event of illness, the capacity to pay taxes is considered substantially reduced if the individual's and their family members' combined medical expenses during the tax year are 700 euros or more and at least 10 per cent of the sum total of the individual's net capital and earned income. The maximum deduction is 1,400 euros.

Deductions on net earned income in state taxation only

Pension income allowance in state taxation
The full amount of pension income allowance is calculated by multiplying the full amount of national pension for a single person by 3.867 and deducting from the product the lowest taxable income in the progressive tax scale and rounding the difference up to the next 10 euros. The allowance cannot be more than the amount of pension income. In 2019 the maximum pension income allowance is 11,590 euros or a lower amount of pension income. The pension income allowance is reduced by 38 per cent of the amount by which net earned income exceeds the full pension income allowance.

$$11{,}590 - 0.38 \times (\text{net earned income} - 11{,}590)$$

Deductions on net earned income in municipal taxation only

Pension income allowance in municipal taxation
The full amount of pension income allowance is calculated by multiplying the full amount of national pension by 1.395 and deducting from the product 1,480 euros and rounding the difference up to the next 10 euros. The allowance cannot be more than the amount of pension income. In 2019 the maximum pension income allowance is 9,050 euros or a lower amount of pension income. If the taxpayer's net earned income exceeds the full pension income allowance, the deduction is reduced by 51 per cent of the excess.

$$9{,}050 - 0.51 \times (\text{net earned income} - 9{,}050)$$

Disabled person’s allowance in municipal taxation

A deduction of 440 euros is made on a disabled person’s net earned income other than pension if their degree of disability is 100 per cent. If the person’s degree of disability is less than 100 but at least 30 per cent, the deduction is adjusted accordingly as a percentage of 440 euros. However, the minimum deduction may not be less than that to which the individual was entitled in 1982.

Persons in receipt of a full disability pension during the tax year are considered to have a 100 per cent disability rating without need for a separate certificate; recipients of a partial disability pension will be given a 50 per cent rating. Taxpayers retain their right to a disabled person’s allowance in accordance with their disability pension status even after the disability pension is converted into an old-age pension.

Student grant allowance

The maximum student grant allowance is 2,600 euros but no more than the amount of the grant. No allowance is granted if net annual earned income exceeds 7,800 euros.

Earned income allowance in municipal taxation

The earned income allowance is calculated based on taxable wages or other earned income from work done for another person and a partner’s earned income share of business profits or agricultural income, but not on pension income or daily unemployment benefits.

The earned income allowance is 51 per cent of earnings exceeding 2,500 euros up to 7,230 euros, and 28 per cent for the portion exceeding 7,230 euros. The maximum allowance is 3,570 euros. If the taxpayer’s net earned income exceeds 14,000 euros the amount of the allowance is reduced by 4.5 per cent of the excess. Net earned income includes any pension income and other benefits.

Earned income allowance = 0.51 × (Earned income – 2,500), up to 7,230 euros +
0.28 × (Earned income – 7,230) for earnings exceeding 7,230 euros, maximum 3,570

If net earned income > 14,000 euros:
Earned income allowance – 0.045 × (Net earned income – 14,000)

Basic allowance

The basic allowance is calculated on net earned income after natural deductions in municipal taxation. If the taxpayer’s net earned income after these deductions does not exceed 3,305 euros, this full amount will be deducted from net earned income. If the amount of net earned income exceeds the full amount of the basic allowance, the allowance is reduced by 18 per cent of the excess.

3,305 – 0.18 × (Net earned income – 3,305)

Tax credits against state income tax

Earned income credit

The earned income credit is calculated based on the same earnings as the earned income allowance in municipal taxation. The credit is 12.2 per cent of total income exceeding 2,500 euros. The maximum credit is 1,630 euros. If the taxpayer's net earned income exceeds 33,000 euros the credit is reduced by 1.72 per cent of the excess. The earned income credit is given before the deficit credit and special deficit credit. If the credit exceeds the amount of tax on earned income, it is deducted proportionally from municipal tax, the medical care contribution and church tax.

If net earned income < 33,000 euros:
$0.122 \times (\text{Earned income} - 2{,}500)$

If net earned income > 33,000 euros:
$0.122 \times (\text{Earned income} - 2{,}500) - 0.0172 \times (\text{Net earned income} - 33{,}000)$

Disability credit

The disability credit is calculated by multiplying the individual's degree of disability (30–100%) by 115 euros. Taxpayers who during the tax year have received a disability pension under statutory pension insurance will be considered to have a 100 per cent disability rating without need for a separate certificate; those in receipt of a partial disability pension will be given a 50 per cent rating. Taxpayers retain their right to a disability credit in accordance with their disability pension status even after the disability pension is converted into an old-age pension.

Child maintenance credit

The child maintenance credit is 1/8 of the amount of maintenance allowance paid, subject to a maximum of 80 euros per child.

Domestic help credit

The maximum annual credit is 2,400 euros. Taxpayers are entitled to deduct the employer's social security contributions, statutory pension contributions, accident insurance contributions, group life assurance contributions and unemployment insurance contributions (but not the employee's share of these contributions) paid on housekeeping work, care and nursing provision, and maintenance and renovation work on their home or holiday home as well as 20 per cent of wage remuneration paid. In 2019 domestic help credit can be claimed on 50 per cent of wage payments totalling over 100 euros to a person registered in the prepayment register.

The credit is deducted primarily from state income tax. If the credit exceeds the amount of state income tax, the excess can also be deducted from municipal tax, the medical care contribution and church tax in proportion. The excess can also be transferred to the other spouse. In the case of tax on earned income the credit is deducted after other deductions and before the credit for deficit in capital income.

Credit for deficit in capital income

Credit for deficit in capital income can be claimed on interest payments on housing loans, student loans and debt incurred in acquiring or maintaining income. A deficit is created if the taxpayer has no capital income or if deductible expenses against capital income are higher than the capital income itself. The deficit credit can be deducted from earned income tax at the capital tax rate. The maximum amount of deficit credit is 1,400 euros. The maximum child increment is 400 euros for one and 800 euros for two or more children.

In 2019 interest paid on a housing loan is 25 per cent tax deductible (35 per cent in 2018). Taxpayers can claim 30 per cent of deductible housing loan interest payments as deficit credit, first-time home buyers two percentage points more.

Special deficit credit

A special deficit in capital income may also be created based on voluntary pension insurance premiums that are deductible from capital income. If the sum total of deductible insurance premiums exceeds the total of taxable capital income, 30 per cent of the excess will be deducted from the tax payable on earned income. The amount of special deficit credit is not included in the calculation of the maximum amount of credit for deficit in capital income.

Tax allowance for entrepreneurial and self-employment income

Five per cent of net income from business, agriculture and reindeer farming is deductible for tax purposes when that income is declared in the tax returns of a natural person or an estate of a deceased person. The corresponding allowance is granted in forestry taxation.

Appendix 2 Time series

Appendix Table 2.1.
Full pension income allowance in municipal and state taxation in 1990–2019 (€).

	Pension income allowance in municipal taxation		Pension income allowance in state taxation
	Single person	Spouse	
1990	4,692.44	3,733.77	3,528.70
1991	4,995.18	4,204.70	3,767.40
1992	5,197.01	4,372.89	4,087.00
1993	5,382.01	4,541.07	4,389.70
1994	5,382.01	4,541.07	4,221.50
1995	5,516.56	4,641.99	4,255.20
1996	5,533.38	4,658.81	4,120.60
1997	5,567.02	4,709.26	3,851.50
1998	5,684.75	4,810.17	3,885.10
1999	5,785.66	4,894.27	3,868.30
2000	5,869.76	4,961.54	3,902.00
2001	6,273.41	5,331.56	1,463.20
2002	6,540	5,580	1,500
2003	6,640	5,660	1,550
2004	6,690	5,710	1,530
2005	6,810	5,830	1,430
2006	6,950	5,960	1,460
2007	7,150	6,140	1,590
2008	7,710	6,670	11,060
2009	8,130		12,490
2010	8,130		11,300
2011	8,170		11,150
2012	8,530		11,660
2013	8,880		12,630
2014	8,950		12,610
2015	9,140		12,540
2016	9,110		12,230
2017	9,040		11,860
2018	9,040		11,560
2019	9,050		11,590

Appendix Table 2.2.
State income tax threshold in 1990–2019.

	Euros
1990	6,391
1991	6,728
1992	6,728
1993	6,728
1994	6,896
1995	7,064
1996	7,232
1997	7,568
1998	7,737
1999	7,905
2000	8,006
2001	11,100
2002	11,500
2003	11,600
2004	11,700
2005	12,000
2006	12,200
2007	12,400
2008	12,600
2009	13,100
2010	15,200
2011	15,600
2012	16,100
2013	16,100
2014	16,300
2015	16,500
2016	16,700
2017	16,900
2018	17,200
2019	17,600

Appendix Table 2.3.

Average municipal and church tax rate in 1991–2019.

	Average municipal tax rate	Average church tax rate
1991	16.62	1.28
1992	16.88	1.28
1993	17.20	1.3
1994	17.52	1.3
1995	17.53	1.3
1996	17.51	1.3
1997	17.43	1.3
1998	17.54	1.3
1999	17.62	1.3
2000	17.67	1.3
2001	17.67	1.3
2002	17.78	1.3
2003	18.03	1.3
2004	18.12	1.3
2005	18.29	1.33
2006	18.40	1.33
2007	18.46	1.33
2008	18.55	1.33
2009	18.59	1.32
2010	18.98	1.33
2011	19.17	1.34
2012	19.25	1.4
2013	19.38	1.4
2014	19.74	1.42
2015	19.82	1.43
2016	19.86	1.43
2017	19.91	1.37*
2018	19.86	1.39
2019	19.88	1.39

* The 0.6 percentage point drop is due to technical changes in the calculation method; in reality, the church tax rate is unchanged from the year before.

Appendix Table 2.4.
Pensioner's and employee's national pension contribution and health insurance contribution in 1990–2019.

	National pension contribution		Medical care contribution under national health insurance (Health insurance contribution until 2005)			Daily allowance contribution under national health insurance
	Pensioner	Employee	Pensioner	Employee	Increase for earnings of over FIM 80,000 (13,455 euros)	Employee
1990	0	1.55	1.7	1.7		
1991	0	1.55	1.7	1.7	1	
1992	3.05	3.05	2.2	2.2	1.5	
1993	2.8	1.8	3.9	1.9	1.5	
1994	2.55	1.55	4.9	1.9	1.9	
1995	1.55	0.55	4.9	1.9	1.9	
1996			4.9	1.9	1.45	
1997			4.9	1.9	0.45	
1998			4.2	1.5	0.45	
1999			3.9	1.5		
2000			3.2	1.5		
2001			2.7	1.5		
2002			1.9	1.5		
2003			1.5	1.5		
2004			1.5	1.5		
2005			1.5	1.5		
2006			1.5	1.33		0.77
2007			1.45	1.28		0.75
2008			1.41	1.24		0.67
2009			1.45	1.28		0.7
2010			1.64	1.47		0.93
2011			1.36	1.19		0.82
2012			1.39	1.22		0.82
2013			1.47	1.3		0.74
2014			1.49	1.32		0.84
2015			1.49	1.32		0.78
2016			1.47	1.3		0.82
2017			1.45	0		1.58
2018			1.53	0		1.53
2019			1.61	0		1.54

Appendix Table 2.5.

Employee's earnings-related pension insurance contribution and unemployment insurance contribution in 1993–2019.

	Employee's earnings-related pension insurance contribution, %		Unemployment insurance contribution, %
	under 53 yrs	53 yrs →	
1993	3.0	3.0	0.20
1994	3.0	3.0	1.87
1995	4.0	4.0	1.87
1996	4.3	4.3	1.50
1997	4.5	4.5	1.50
1998	4.7	4.7	1.40
1999	4.7	4.7	1.35
2000	4.7	4.7	1.00
2001	4.5	4.5	0.70
2002	4.4	4.4	0.40
2003	4.6	4.6	0.20
2004	4.6	4.6	0.25
2005	4.6	5.8	0.50
2006	4.3	5.4	0.58
2007	4.3	5.4	0.58
2008	4.1	5.2	0.34
2009	4.3	5.4	0.20
2010	4.5	5.7	0.40
2011	4.7	6.0	0.60
2012	5.15	6.50	0.60
2013	5.15	6.50	0.60
2014	5.55	7.05	0.50
2015	5.70	7.20	0.65
2016	5.70	7.20	1.15
2017*	6.15	7.65	1.60
2018	6.35	7.85	1.90
2019	6.75	8.25	1.50

* Since 2017 persons aged 17–52 and 63–67 have had a reduced earnings-related pension contribution rate and persons aged 53–62 an increased contribution rate.

Appendix Table 2.6.
National pension index, TEL halfway index, earnings-related pension index and wage coefficient in 1990–2019.

	National pension index		TEL halfway index (50/50)		Earnings-related pension index (20/80)		Wage coefficient	
	Point figure	Change %	Point figure	Change %	Point figure	Change %	Point figure	Change %
1990	1045	7.1	1481	6.8				
1991	1104	5.6	1595	7.7				
1992	1139	3.2	1682	5.5				
1993	1170	2.7	1688	0.4				
1994	1170	0.0	1688	0.0				
1995	1192	1.9	1712	1.4	1712			
1996	1195	0.3	1760	2.8	1737	1.5		
1997	1202	0.6	1791	1.8	1754	1.0		
1998	1223	1.7	1825	1.9	1783	1.7		
1999	1239	1.3	1868	2.4	1812	1.6		
2000	1253	1.1	1903	1.9	1838	1.4		
2001	1302	3.9	1981	4.1	1912	4.0		
2002	1333	2.4	2054	3.7	1968	2.9		
2003	1349	1.2	2103	2.4	2002	1.7		
2004	1357	0.6	2151	2.3	2028	1.3	1000	
2005	1362	0.4	2191	1.9	2047	0.9	1028	2.8
2006	1377	1.1	2246	2.5	2081	1.7	1063	3.4
2007	1401	1.7	2311	2.9	2127	2.2	1100	3.5
2008	1436	2.5	2363	2.3	2178	2.4	1124	2.2
2009	1502	4.6	2494	5.5	2286	5.0	1192	6.0
2010	1502	0.0	2538	1.76	2292	0.26	1231	3.27
2011	1508	0.4	2578	1.57	2323	1.35	1253	1.78
2012	1565	3.8	2663	3.29	2407	3.61	1291	3.03
2013	1609	2.8	2738	2.81	2475	2.82	1327	2.78
2014	1630	1.3			2509	1.37	1350	1.73
2015	1637	0.4			2519	0.4	1363	0.96
2016	1631	-0.4			2519	0.0	1373	0.73
2017	1617	-0.85			2534	0.59	1389	1.16
2018	1617	0.0			2548	0.55	1391	0.14
2019	1617	0.0			2585	1.45	1417	1.86

Appendix Table 2.7.

Full amount of national pension, income limits and step increases to national pension in 1990–2019 (€).

	Full national pension	Annual income limits (euros) for		Step increase
		full national pension eligibility	minimum national pension	
1990	372.36	428.90		
1991	393.39	454.10		
1992	405.84	467.60		
1993	416.94	481.00		
1994	416.94	481.00		
1995	424.84	489.40		
1996	425.85	491.10	8,907.20	
1997	428.37	494.50	10,533.60	
1998	435.77	502.90	10,718.60	
1999	441.49	509.60	10,858.20	
2000	446.54	514.70	10,979.30	
2001	464.03	534.80	11,409.90	€12.28/month
2002	487.60	549	11,987	
2003	493.45	555	12,130	
2004	496.38	559	12,203	
2005	505.24	561	12,247	approx. €7/month
2006	515.86	567	12,553	€5/month
2007	524.85	577	12,895	
2008	558.46	591	13,851	€20/month
2009	584.13	618	14,488	
2010	584.13	618	14,488	
2011	586.46	621	14,546	
2012	608.63	644	15,095	
2013	630.02	667	15,628	
2014	633.91	671	15,723	
2015	636.63	674	15,790	
2016	634.30	671	15,732	
2017	628.85	666	15,598	
2018	628.85	666	15,598	
2019	628.85	666	15,598	

The figures given apply to a person living alone in a municipality ranked in the highest (I) cost-of-living category. The municipal cost-of-living classification was discontinued from the beginning of 2008. Since 1996 all sources of pension income have affected the amount of national pension payable. Previously the national pension consisted of a basic amount and an additional amount, and only the latter affected the amount of national pension payable.

Appendix Table 2.8.
Full guarantee pension and minimum pension in 2011–2019 (€).

	Full guarantee pension		Minimum pension	Step increases
	Lives alone	Lives with a partner		
2011	101.28	167.55	687.74	
2012	105.10	173.88	713.73	
2013	108.80	179.99	738.82	
2014	109.47	181.11	743.38	
2015	109.94	181.88	746.57	
2016	132.55	204.23	766.85	€23.27/month
2017	131.41	202.47	760.26	
2018	146.42	217.48	775.27	€15.01/month
2019	155.67	226.73	784.52	€9.25/month

The full amounts of guarantee pension shown in the Table are for persons in receipt of a full national pension.

SOURCES

HE 124/2018 vp. Hallituksen esitys eduskunnalle laiksi vuoden 2019 tuloveroasteikosta ja laeiksi tuloverolain sekä perintö- ja lahjaverolain 7 a §:n muuttamisesta [Government proposal to Parliament for an act on the 2019 income tax scale and acts amending the Income Tax Act and section 7 a of the Act on Inheritance and Gift Tax.]

HE 160/2018. Hallituksen esitys eduskunnalle laeiksi kansaneläkkeen ja eräiden muiden etuuksien indeksitarkistuksista vuonna 2019 sekä kansaneläkeindeksistä annetun lain 2 §:n ja toimeentulotuesta annetun lain 9 §:n muuttamisesta. [Government proposal to Parliament for acts on the indexation of the national pension and selected other benefits in 2019 and amendments to section 2 of the Act on the National Pension Index and section 9 of the Act on Social Assistance.]

Kansaneläkelaitos – The Social Insurance Institution. http://www.kela.fi

Kansaneläkelaki 568/2007. [National Pensions Act.]
https://www.finlex.fi/fi/laki/ajantasa/2007/20070568

Laki takuueläkkeestä 20.8.2010/703. [Act on Guarantee Pensions.]
https://www.finlex.fi/fi/laki/ajantasa/2010/20100703

Työeläkelakipalvelu – ohjeistot. [Earnings-related pension legislation – guidance and advice.] Finnish Centre for Pensions. http://www.tyoelakelakipalvelu.fi

Verohallinto. Eläketulon verotus. [Tax Administration. Taxation of pension income.]
https://www.vero.fi/syventavat-vero-ohjeet/ohje-hakusivu/48865/eläketulon-verotus/

Verohallinto. Verotettavan tulon laskeminen henkilöverotuksessa. [Tax Administration. Calculation of taxable income in personal taxation.]
https://www.vero.fi/syventavat-vero-ohjeet/ohje-hakusivu/49038/verotettavan_tulon_laskeminen_henkilove4/

04
2017
FINNISH CENTRE FOR PENSIONS,
REPORTS

Total pension in Finland 2019
How are earnings-related pensions, national pensions and taxation determined?

In this review, we bring together the components which affect the determination of the total pension in Finland in 2019. The amount of the take-home net pension is affected by how the earnings-related and national pension benefits and the taxation of pensions are determined. The examples and figures illustrate what the Finnish total net pension will consist of in the different income brackets. The taxation of pensions is different from that of wage income due to various tax deductions and contributions. This review compares the tax and contribution burden of Finnish pension recipients and wage earners. It also looks at the taxation of pension recipients' wage income.

FINNISH CENTRE FOR PENSIONS, REPORTS

The Finnish Centre for Pensions, an expert on earnings-related pensions, is a statutory body that develops pension provision and produces joint services for all parties to the scheme. In the Reports series, we publish reviews, surveys and projections that serve the assessment and development of the pension provision.

Finnish Centre for Pensions
ELÄKETURVAKESKUS