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Summary

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Pensions and pensioners’ economic wellbeing – Development from 1995 to 2020

This study offers a comprehensive overview of Finnish pensioners’ economic wellbeing at the turn of the 2020s, as well as the development of pensioners’ income over a quarter of a century. Pensioners’ economic wellbeing is reviewed from different angles and using various data sources. We review the number and structure of pensioners, average pension levels and pension levels of different groups, the structure, distribution and level of pensioners’ income. In addition, we look at poverty among pensioners and related development from 1995 to the early 2020s. In our study, we also review the income perceptions and wealth of old-age pensioners and make an international comparison of pensioners’ economic wellbeing.

Number of pensioners risen - an increasing number receive an old-age pension and an earnings-related pension

Great changes have taken place in the number and structure of pensioners over the past 25 years. As of the early 2020s, there are over 1.5 million pensioners in Finland. This is an increase of more than one third since the mid-1990s. The number of pensioners on an early pension has declined from 340,000 to 180,000 persons

as routes to early retirement have been abolished and the number of disability pensioners has dropped. Correspondingly, the number of old-age pensioners has increased from slightly under 800,000 to over 1.3 million. The old-age pension has also become a clearly dominating pension benefit, which is evident also in the rising share (from 29% to 71%) of persons retiring directly on an old-age pension.

The significance of national and earnings-related pensions has also changed significantly: the role of the earnings-related pension has increased markedly and that of the national pensions has decreased. The share of pensioners in Finland receiving only an earnings-related pension has increased from 5 to 64 per cent, while the share of persons receiving only a national pension has decreased from 13 to 5 per cent since the mid-1990s. The share of persons receiving both an earnings-related and a national pension has declined from 82 to 31 per cent. The role of the earnings-related pension has grown particularly among those receiving an old-age pension. The national pension, in turn, has become increasingly common among those receiving a disability pension.

The following key factors affect the number and structure of pensioners: the retirement of the baby boomers after the turn of the 2010s, increasing longevity, the gradual phasing in of the earnings-related pension system, changes made to the age limits of early and old-age pensions, as well as the rising employment rate of those aged 55 and over.

Average total pension risen as the composition of the group of pension recipients has changed

In real terms, the average total pension in Finland has increased by more than 40 per cent from 1995 to 2021. The increase is due to, in particular, structural changes among pensioners: those retiring more recently have worked longer during the period that the earnings-related pension system has been valid than those who retired earlier. The share of the earnings-related pension of the total pension received in one's own right has increased from 66 to nearly 90 per cent. Increases due to indexation have raised pensions by around seven percent in real terms.

The average total pension of new retirees increased until the turn of the 2010s and has remained at the same level after this. As a result of the development, the differences in pension benefits of 65–74- and 75–84-year-old pensioners have levelled out so that the benefits in these age groups were equally high in both groups in the early 2020s. The total pension of disability pensioners has not risen in real terms during the review period. Above all, this development is driven by the fact that, among recipients of the disability pension, fewer than before transfer to a disability pension at the end of their working life. Their pension tends to be higher than average. All-in-all, the pension distribution among retirees has remained similar throughout the review period.

Pensioners' income in relation to that of the rest of the Finnish population has remained unchanged

The average disposable income of pensioners in 2020 was 27,000 euros (around €2,300/month). The income level of pensioners relative to the employed population has varied between 72 and 79 per cent. During an economic boom, when earnings rise faster than pensions, the position of pensioners relative to the employed population weakens. During recessions, the development is the opposite.

Pensioners can be found among both the low- and high-income population. In 2020, the proportion of pensioners in the lowest income decile was equal to the Finnish population average. Forty-two per cent of the pensioners were in the second, third and fourth income deciles. Nearly every fifth pensioner was in the top three income deciles.

Pensioners' income growth slowed down as of the early 2010s

During the review period, pensioners' real income has grown by 59 per cent. Up to the turn of the 2010s, the income grew rapidly, but after that, the increase has been slower. A similar trend can be observed for the employed population.

Of pensioners, those in the best financial position are the 55–64- and 65–74-year-olds with a family. Their income has increased the fastest. Of the low-income pensioners, the under-55-year-olds who live alone stand out. Their income development has been the weakest. Overall, the income differential between pensioners has not changed significantly.

Income gaps level out slightly in retirement, own pension most important source of income

At retirement, the income gaps levelled out slightly. For those retiring from work, the income decreased somewhat while it rose for the non-working. The income gaps between pensioners levelled out somewhat also during the first years in retirement. Underlying the levelling out of income gaps was, first and foremost, the reduced earnings and capital income of those with a higher income.

In 2020, the share of earnings-related pension received in one's own right of the gross income of pensioners was 62 per cent. The equivalent share of the national pension and the survivors' pension was eight per cent. The share of earnings and capital income of pensioners' gross income was around 25 per cent. A considerable part of earnings comprised the earnings of other family members. In the lowest income decile, the national pension received in one's own right was emphasised. In the middle decile, the emphasis was on the earnings-related pension received in one's own right, and in the top decile, on the earnings-related pension received in one's own right, capital income and earnings.

Pensioners' poverty at the same level as the population average, lowest income level among the under-55-year-old pensioners who live alone

In 2020, pensioners' poverty rate based on a the 60-per-cent poverty limit was 13 per cent, that is, nearly the same as the population average. Compared to 1995, the poverty rate of pensioners and the total population has increased by an ample four percentage points. The poverty rate of pensioners peaked in Finland in 2007, after which it has mainly declined. Based on the lower, 50-per-cent poverty limit, the poverty rate of pensioners is nearly four times smaller than the poverty rate based on the 60-per-cent limit. The poverty rate of pensioners is lower than that of the total population.

Poverty is more common than average among pensioners living alone, particularly among pensioners under the age of 55 or 85 or older. Under the review period, poverty among the under-55-year-old pensioners and male pensioners has become increasingly common. In terms of numbers, the largest single group of low-income persons live alone. Most of them are women on an old-age pension.

The wealthiest households are high-income owner-occupiers; one third of households on an old-age pension are in debt

In addition to income, economic wellbeing depends on wealth and debt. The amount of wealth and income level are clearly linked to each other in households on the old-age pension: a low net wealth is linked to low income while a high net wealth to high income. Net wealth was the highest among pensioners in Helsinki and Uusimaa and those who live in owner-occupied houses and the lowest among low-income pensioners and those who live in rental housing.

Around one third of households on an old-age pension were in debt in 2020. In households with a lower-than-average income, debt repayment was often perceived as financially burdensome. The amount of income and net wealth was reflected in the financial satisfaction of households. Financial satisfaction was the highest among those households on an old-age pension with high net wealth or income and, correspondingly, lowest in those with low net wealth and income.

Economic wellbeing of Finnish population of pensionable age slightly better than the EU average

All-in-all, Finnish pensioners (65+) are slightly better off than average when compared to other EU countries. The purchasing power of pensions is slightly higher than EU average and the income inequality of pensioners lower, but pensioners income relative to the income of the working population is lower in Finland than EU average.

Compared to EU countries, fewer than average persons of pensionable age live below the poverty threshold in Finland, and serious material deprivation is also rare. However, the comparison highlights the higher-than-average risk of poverty of Finnish persons living alone and aged 75 or older. The perceived income is higher in Finland and the other Nordic countries than in the EU on average: In the Nordic countries,

pensioners face less often problems with meeting usual expenses and covering larger unexpected expenses, and their financial satisfaction is higher than in the EU on average.

Health, social relations and housing important factors for overall economic wellbeing

Pensioners' economic wellbeing is a multidimensional phenomenon, affected by income and wealth but also by health, social relations and issues relating to housing, and general attitudes toward economic wellbeing. When examined in terms of pensioners' perceptions, good health and help received from the spouse, relatives or friends tended to make it easier to make ends meet. Poor health and costs relating to housing and transportation were emphasized as factors causing financial strain.

In addition, various situations in life, such as those relating to family relationships and the possibility to adjust one's consumption to one's economic situation, form pensioners' perception of their economic wellbeing. Pensioners often also emphasise worries relating to the future. All-in-all, pensioners' life situations are varied, which is why economic wellbeing must be reviewed from different angles and using different methods.

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