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Finnish Centre for Pensions, Reports

Summary

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Total pension in Finland 2023

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

The amount of net take-home pension is affected by how earnings-related and national pension benefits and the taxation of pensions are determined. This report provides an overview of how these factors have been determined for 2023. Tables are included to illustrate the composition of net pension income in different income brackets. The taxation of pensions is also examined in more general terms, and comparisons are provided of the tax and contribution burden of pensioners and wage earners at different income levels.

Earnings-related pensions rose by 6.8 per cent at the beginning of 2023. The wage coefficient, which is used among other things to revalue earnings for purposes of determining pension benefits, was up 3.8 per cent.

In 2023 persons born in 1959 will reach their earliest retirement age of 64 years and 3 months. Starting earnings-related pensions are adjusted using the life expectancy coefficient. The 2023 coefficient for pensions awarded to persons born in 1961 or for starting pensions awarded to persons before they reach age 62, has been confirmed at 0.94419. This will have the effect of reducing the cohort's monthly pensions by 5.6 per cent.

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The amounts of national pension and guarantee pension were raised by 4.2 per cent from the beginning of 2023. National pensions were also raised in August 2022 by 3.5 per cent, bringing the overall increase in pensions to 7.8 per cent compared to the beginning of 2022. In 2023 the full amount of monthly national pension for a single person is 732.67 euros and for a married or cohabiting person 654.13 euros. Together with the guarantee pension, the minimum pension in 2023 is 922.42 euros per month for both single and married or cohabiting persons.

The social and health care reform has also brought changes to state and municipal taxation in 2023. The state tax rate increased, but accordingly the average municipal tax rate for 2023 dropped to just 7.38 (compared to 20.01 in 2022). For the individual taxpayer, these changes will not have any overall significant effects. Income limits in the state income tax scale were raised by 3.5 per cent in line with projected earnings growth.

The tax reform also brought changes to deductions in taxation as the tax bases for state taxation and municipal taxation and at the same time the deductions were combined. The structure of the new pension income deduction is based on the corresponding earlier deduction in municipal taxation, but the deduction rate will be lowered in two stages. Structural changes were also made to the percentage that decreases the earned income deduction for wage earners, with two tiers introduced instead of one.

Furthermore, the maximum amount of earned income deduction will be raised for three age groups: the maximum deduction will increase by 200 euros for the age group 60–61, by 400 euros for the age group 62–64 and by 600 euros for the age group over 65. This will reduce the tax burden for persons over 60 compared to the previous year. Increases to the basic deduction, earned income deduction and pension income deduction will also slightly ease the taxation of earnings in 2023. The deduction called disability credit was discontinued in connection with the tax reform.

In 2023 the employee's earnings-related pension contribution for persons aged 17–52 and 63–67 is 7.15 per cent, and for persons aged 53–62 it is 8.65 per cent; both figures are unchanged from 2022. Employees' unemployment insurance contribution is also unchanged at 1.5 per cent.

The employee's medical care insurance contribution will rise from 0.53 per cent in 2022 to 0.6 per cent in 2023, and the medical care insurance contribution levied on pension and other benefit income from 1.5 per cent to 1.57 per cent. Employees with annual earnings of at least 15,703 euros pay a health insurance daily allowance contribution of 1.36 per cent. In 2022 the contribution was 1.18 per cent if earnings exceeded 15,128 euros.

The change in the tax and contribution rates for pension and earned income from 2022 varies in different income brackets. When tax rates for the same income are compared to the previous year using average municipal tax rates, the pensioner's tax rate is reduced by 0.1–2.3 percentage points. When the tax rate for earned income is compared to the rate for the previous year, the reduction is less than one percentage point.

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In 2023 the net pension income of persons who receive only a national pension will rise by 6.3 per cent compared to 2022 because of increases in the national and guarantee pension indexes. At higher income levels the net pension will rise by 5.3–8.5 per cent. As inflation is expected to come in at 4.2 per cent in 2023, the purchasing power of pensions will increase nominally for guarantee pension earners by 2.0 per cent. For other income cohorts, the purchasing power of pensions will increase nominally by 1-4 per cent. However, it is noteworthy that the real level of pensions was significantly affected by 2022 inflation, which caused the purchasing power of pensions to decline in 2022 by approximately 3–4 per cent.

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