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Summary

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Three layers of the disability pension

Income and income structure of new disability pensioners in 2020

The purpose of the disability pension is to secure an individual's income in situations where working is impossible due to illness, injury or disability. The disability pension is granted both within the earnings-related and the national pension system (the latter as a Kela pension). Of these, the objective of the earnings-related pension is to secure a reasonable income in retirement relative to the pre-retirement income level. The purpose of Kela pensions – the national and the guarantee pension – is to supplement a small or non-existent earnings-related pension.

This study outlines the income level and income structure of new disability pensioners as well as their retirement income level relative to the pre-retirement income level. The new disability pensioners are reviewed in three groups depending on whether they have been granted a partial or a full earnings-related disability pension or a Kela disability pension only. The aim is to produce a general view of, on the one hand, how the income objectives set for disability pensions are met and, on the other, what role the earnings-related and the national pension systems play in this. The question concerns a large number of people because a total of 180,000 persons received a disability pension in Finland in 2023. Their average monthly pension was 1,200 euros, while it was 2,000 euros for pensioners drawing a full old-age pension.

The significance of statutory pensions for income in retirement is important, but the pension is not necessarily the only source of income. In this study, we measure income based on net income. In addition to pensions, net income consists of the individual's gross income, such as wage and capital income, from which taxes have been withheld. The focus group of the study are those who retired with a disability pension in 2019. Their income is reviewed for 2020. The data includes ample detailed individual-level background information from the registers of Statistics Finland and the Finnish Centre for Pensions for 2017–2020.

The incentive for the study is the observation that the group of new disability pensioners includes an increasingly higher share of younger people. For their part, Kela's pension and other minimum income security is often crucial. At the same time, the partial disability pension has gained in popularity. For partial disability pensioners, income from work alongside the earnings-related pension is important.

The division into three groups of disability pensioners revealed their differences both in terms of profile, income and income structure. There were also discrepancies within the groups. At the same time, the study revealed the importance of reviewing the income and the realisation of income objectives as a whole, not just via earnings-related pensions.

Differences in disability pension recipients' profiles

In 2019, 25 per cent of the new disability pensioners drew a partial and 66 per cent a full earnings-related disability pension. 9 per cent drew only a full disability pension paid by Kela.

The new partial disability pensioners were most often women and aged 55–64 years. As many men as women retired with a full earnings-related disability pension. Most of them were aged 55–64 years, but quite a few were younger than that. Among those who retired only with a full disability pension paid by Kela, there were slightly more men than women, and most of the recipients started to draw their disability pension before turning 35 years.

More than 90 per cent of partial disability pensioners received earnings from work

Working while drawing a partial disability pension was common in 2020 as 92 per cent of all new partial disability pensioners had received at least some earnings from work alongside their pension that year. The equivalent share among those who retired on a full disability pension was 23 per cent. In practice, those who received a pension from Kela only had no income from work.

Most (91%) of the partial disability pensioners retired from employment. Among those who retired with a full disability pension, working before retirement was less common: only 36 per cent of them retired from employment. New retirees with a partial disability pension were often white-collar employees who had worked in the public sector. New retirees with a full disability pension, on the other hand, tended to be white- or blue-collar employees who had worked in the private sector. Those who retired with a pension from Kela only have hardly ever been in employment.

Net income of new partial disability pensioners is around one third higher than that of new full disability pensioners

New pensioners with a partial disability pension had the highest income level: €26,000 per year on average. This was about one third higher than of those who retired with a full disability pension. Their average annual net income was 20,100 euros (or €1,680/month). The clearly lowest income level was among those who retired with a Kela pension only. Their average annual net income was slightly more than 15,300 euros, which is about one quarter less than the average annual net income of those who retired with a full disability pension.

The sources of income vary between the pension groups. Of the gross income for those who retired with a partial disability pension, the earnings-related pension accounted for 31 and the income from work for 56 per cent on average. For those who retired with a full disability pension, the equivalent ratios were 65 and 8 per cent. In practice, the higher income level of those who retired with a partial disability pension compared to the other disability pensioners is explained by earnings from work. Most new partial disability pensioners earned an income from work that was at least as high as the partial disability pension they received.

For those who retired with a Kela pension only, the ratio of the Kela pension made up 66 per cent and the ratio of other income transfers 28 per cent of their total income. The other income transfers, such as the housing and care allowances for pensioners, were hence important for those who received a Kela pension only.

Highest net income among working pensioners and pensioners retiring from work

The income gaps between disability pensioners are visible also when looking at background factors. Regardless of the type of disability pension, the net income of those pensioners who received an income from work in retirement was nearly 70 per cent higher than the net income of pensioners who received no income from work. The connection between working and income level was evident also in the fact that the income level of partial disability pensioners who retired from work was 66 per cent higher and 40 per cent higher for those who retired with a full disability pension than for those who retired from outside the labour force.

Among those who retired from work, upper white-collar employees and self-employed persons had a higher-than-average income level. Upper white-collar employees had a higher income level than others due to a higher earnings-related pension, while capital income boosted the income level of the self-employed.

There were no significant gender or age gaps. The income level of men on a partial or full disability pension was slightly higher than that of women, and the income level of under-35-year-olds was lower than that of other age groups. Among partial disability pensioners, the 35–44-year-olds had a higher income level than pensioners of other age groups. There was no age or gender gap in income level among those who received a Kela pension only.

Income structure varies by income level among full disability pensioners

Internal income gaps between new partial and full disability pensioners were also reviewed by dividing them into income deciles based on their net income. The gross income of pensioners in the middle of the income distribution was nearly twice as high among partial disability pensioners as among those in the lowest decile and less than half of those in the highest decile. The gross income of full disability pensioners in the middle of the income distribution was also twice as high as the gross income of those in the lowest decile but less than one third of those in the highest decile. Taxation evens out income gaps, so measured in net income, the income gaps were smaller.

Among the new partial disability pensioners, the share of income from work and earnings-related pension of their gross income was the same as average in nearly all income deciles. Among the new full disability pensioners, however, the income structure varied: as the income level increased, the share of Kela pensions of the gross income decreased and the share of the earnings-related pension increased. At its lowest, the earnings-related pension accounted for 56 per cent of their gross income and, at its highest, for 76 per cent. Those who belonged to the highest income decile stood out from the others particularly in that they had a considerably higher capital income than others.

It is also noteworthy that, of the combined income from work of those receiving a full disability pension, more than half was earned in the highest income decile. Although pensioners with a full disability pension work to some extent while drawing the pension, the significance of the earnings from work in terms of income is minor for most. In the lowest income decile of the new partial disability pensioners, those with no income from work stand out.

Income gaps even out slightly at retirement with a disability pension

In this study, we also reviewed the income ratios of new retirees with a disability pension, that is, how much their income changed at retirement relative to their income before receiving the pension. The change in income was the smaller at retirement the more extensively the income was measured. Among those who retired with a partial disability pension, the gross income decreased by, on average, 14 per cent and the net income by 6 per cent. The changes among the new full disability pensioners were of the same magnitude.

The clearly lowest income level was among those who retired with a Kela pension only. Their gross income grew by 20 per cent and their net income by 33 per cent on average. All in all, high income ratios were typical for low-income disability pensioners. This is also evident in that the income ratios were the higher the lower the pre-retirement income level had been.

However, the individual variation in income ratios was considerable. For example, half of the net income ratios of the new partial disability pensioners were between 86 and 100 per cent, of the new full disability pensioners between 72 and 122 per cent, and of the new disability pensioners on a Kela pension only between 110 and 182 per cent.

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