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COLLOQUIUM 2017
DEFINING AMBITION

Adapting to Changes in Life Expectancy in the Finnish Earnings- related Pension Scheme

Mikko Sankala – Finnish Centre for Pensions – mikko.sankala@etk.fi

Kaarlo Reipas – Finnish Centre for Pensions – kaarlo.reipas@etk.fi



Finnish Centre for Pensions
ELÄKETURVAKESKUS

Statutory pensions in Finland

- Earnings-related pension
 - Practically universal coverage
 - 90 % of all pension expenditure
- National pension
 - Residence based
- Guarantee pension
 - Minimum security



The earnings-related scheme

- Defined benefit
- Partially funded, mostly PAYG
- Main pension benefits
 - Old-age pension, also partial
 - Disability pension, also partial
 - Survivors' pension
- Retirement age 63 since 2005



Countering rapidly rising life expectancy

- Link the retirement age to life expectancy...
 - Denmark, Greece, Netherlands,...
- ...or link pension size to life expectancy
 - DC/NDC schemes
- ...or both
 - Italy, Finland



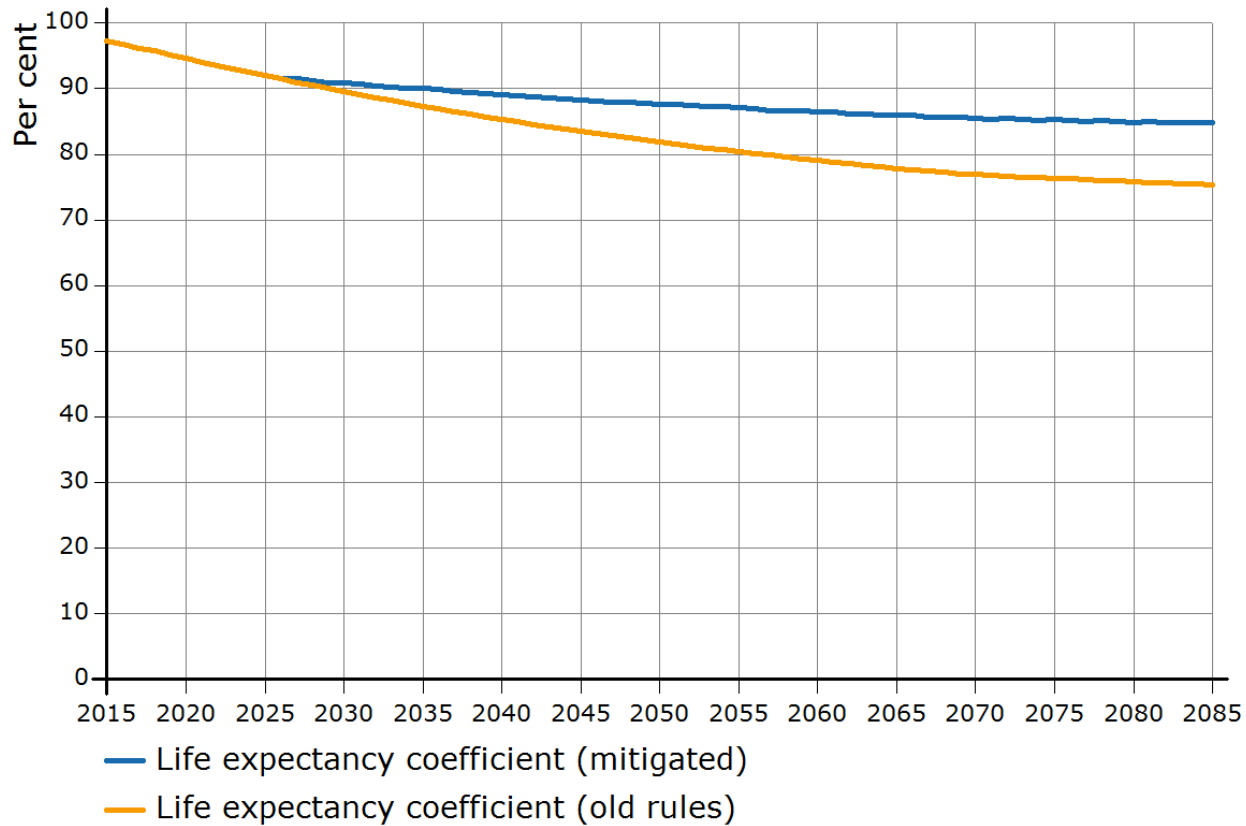
The reform of 2005

- Major reform on many aspects of the earnings-related system
- Life expectancy coefficient
 - As life expectancy increases, the replacement ratio decrease
 - The capital value is kept fixed
 - Affects new pensions

The reform of 2017

- Retirement age incrementally raised to 65 during 2018-2027
- Then linked to life expectancy
 - The ratio of the time spent at retirement and at work stays unchanged
- Life expectancy coefficient is kept but mitigated
 - Effect of mortality is not taken into account twice
- Life expectancy affects both the replacement ratio and the retirement age!

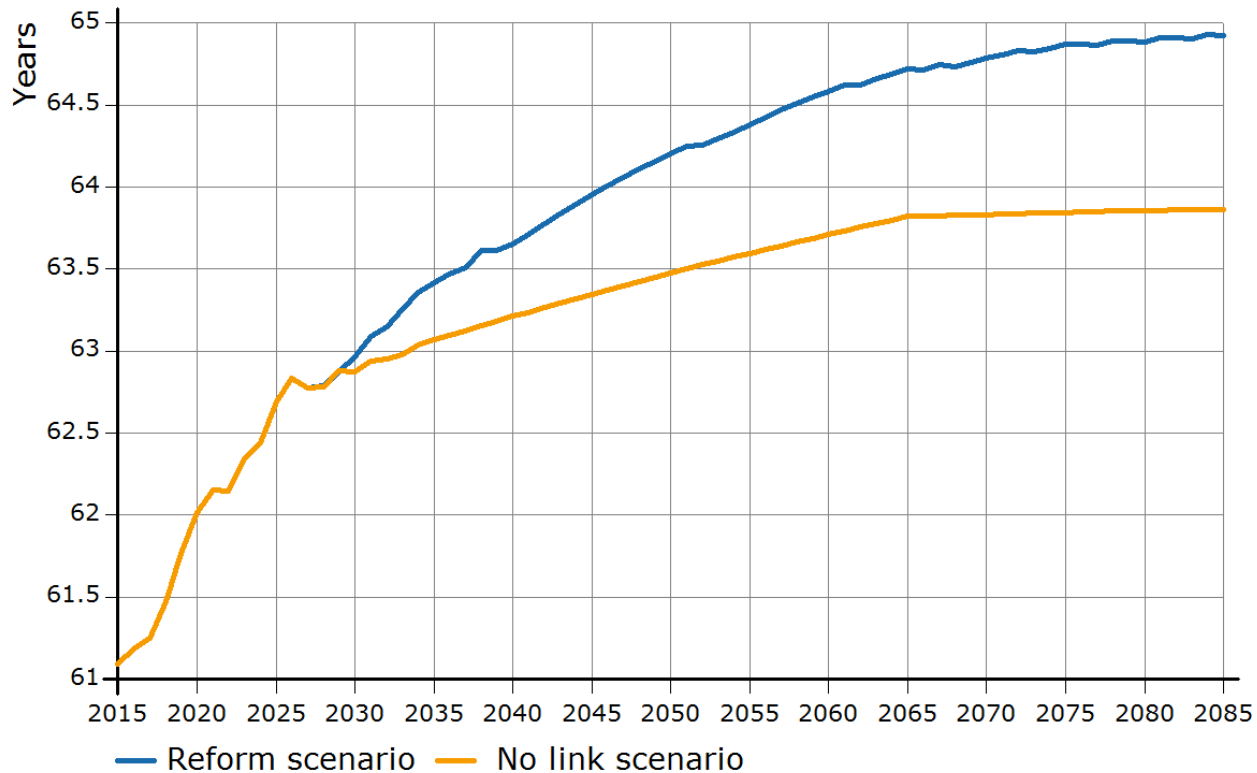
The life expectancy coefficient



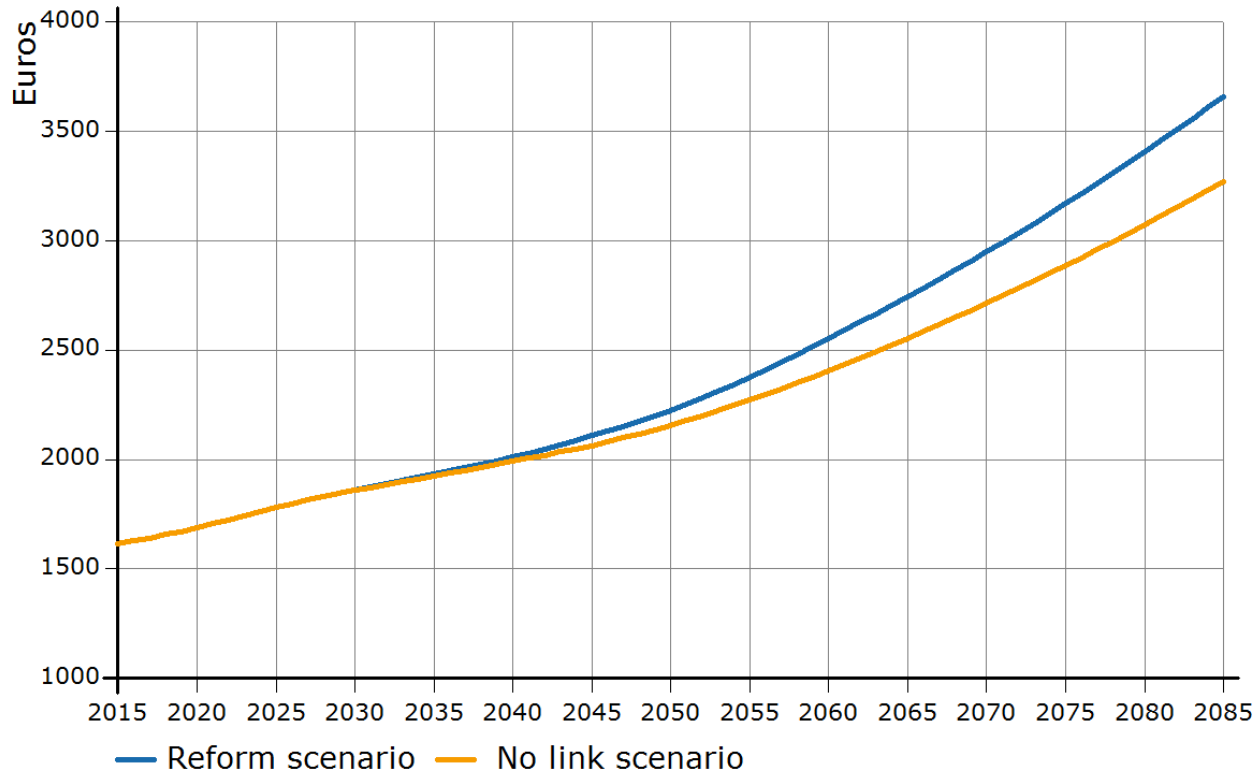
The simulations

- Based on the Long Term Planning Model of the Finnish Centre for Pensions
 - Rule-based deterministic average aggregate model
- Two scenarios
 - Reform: The legislation according to the 2017 reform
 - Life expectancy affects the pension age and the replacement ratio
 - No link: The link of life expectancy to the retirement age is not made and the life expectancy coefficient is not mitigated
 - Life expectancy only affects the replacement ratio
- Sensitivity analysis on the effect of mortality
 - see full paper

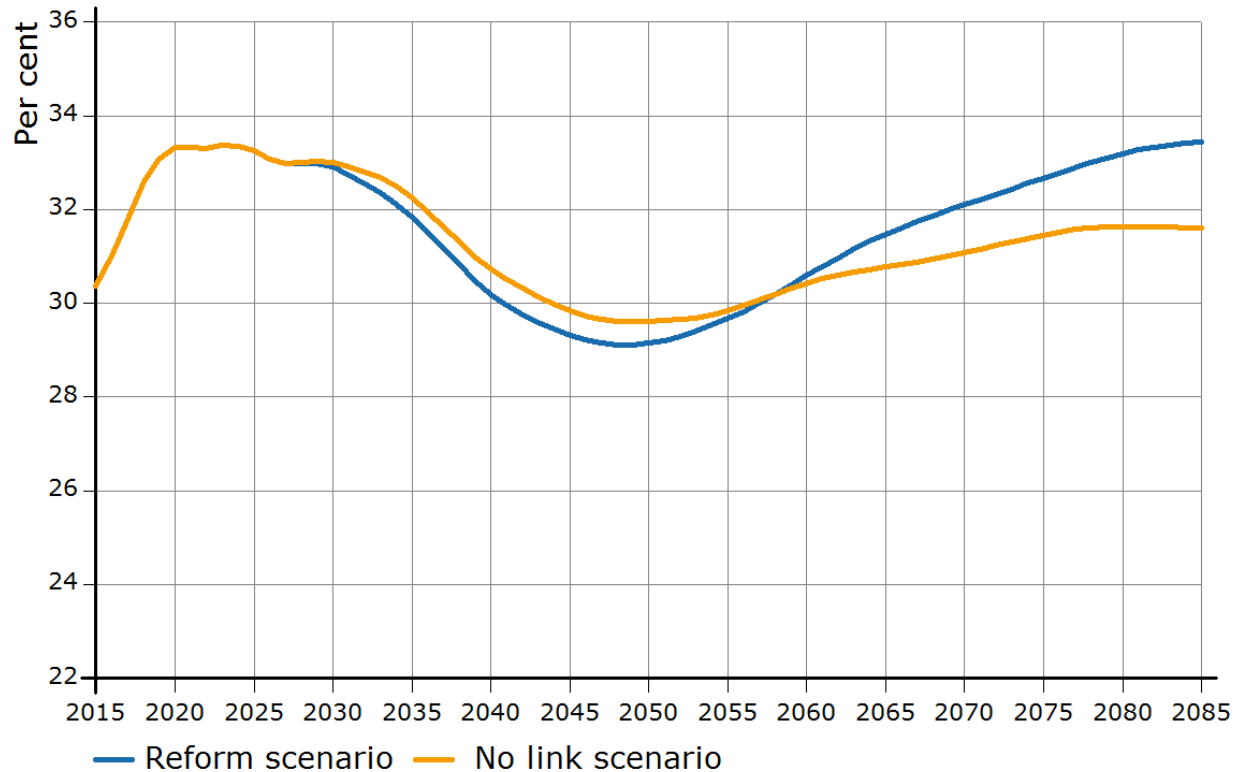
Effective retirement age



Average pension at 2015 prices



Pension expenditure, % of wage sum



The simulations

	2015	2025	2045	2065	2085
Effective retirement age, years					
Reform	61,1	62,7	64,0	64,7	64,9
No link	61,1	62,7	63,3	63,8	63,9
Effect of mortality link	-	-	0,6	0,9	1,1
Average pension, e/month at 2015 prices					
Reform	1613	1782	2109	2743	3658
No link	1613	1782	2064	2553	3270
Effect of mortality link	-	-	44	190	388
Earnings-related pension expenditure (% of wage sum)					
Reform	30,4	33,3	29,3	31,5	33,4
No link	30,4	33,3	29,8	30,8	31,6
Effect of mortality link	-	-	-0,5	0,7	1,8

Conclusions

- Linking the retirement age to life expectancy can
 - Improve the adequacy of pensions
 - Postpone retirement and increase the size of the workforce
- Early retirement should be monitored!

- Full paper also includes the sensitivity analysis on mortality



THANK YOU FOR YOUR ATTENTION!



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