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Keskusteluaiheita – Discussion papers

No. 959

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ACTIVE AGEING AND PENSION SYSTEM:

FINLAND

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This paper is part of the "Overcoming the Barriers and Seizing the Opportunities for Active Ageing Policies in Europe" ActivAge Project financed by the EU fifth framework programme (www.iccr-international.org/activage).

ISSN 0781-6847 07.12.2004

PIEKKOLA, Hannu – **HEIKKILÄ**, Anni**, ACTIVE AGEING AND PENSION SYSTEM: FINLAND**. Helsinki: ETLA, Elinkeinoelämän Tutkimuslaitos, The Research Institute of the Finnish Economy, 2004, 35 p. (Keskusteluaiheita, Discussion Papers, 0781-6847; No. 959).

ABSTRACT: The aim of this paper is to analyse active ageing and retirement in Finland at both the individual worker level and the firm level. The Finnish pension system will undergo some remarkable changes from the year 2005 on: the whole of an individual's working life will determine his or her pension income, there will be higher accruals for postponed retirement as of age 63 with a flexible retirement age of 63-68, and pension levels will be automatically corrected, depending on changes in life expectancy. The desired effect of these new pension rules is that the average retirement age would increase by three years from the current 59 years, but the real labour market effects of the pension reform remain unclear. Based on the interviews that have been conducted, large Finnish firms do not believe that the new pension system will have much effect on the retirement age. Some firms have started to implement their own programmes to improve the longer employability of older workers. The organisations that have experienced large changes and adopted new technology have implemented an active ageing policy more successfully than the others.

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TIIVISTELMÄ: Tässä tutkimuksessa analysoidaan suomalaisten työntekijöiden eläkkeelle siirtymistä ja yritysten eläkestrategioita aktiivisen ikääntymisen näkökulmasta. Suomalainen eläkejärjestelmä tulee uudistumaan vuodesta 2005 alkaen niin, että eläke määräytyy koko työssäoloajan tuloista, kertymäprosentti kasvaa ikävuodesta 63 alkaen eläkkeelle siirtymisen ollessa joustavaa ikävuosina 63-68 ja eläkkeiden tasoa tullaan korjaamaan eliniän odotteen muutosten mukaan. Näiden uudistusten tavoitteena on nostaa keskimääräistä eläkeikää kolmella vuodella nykyisestä 59 vuodesta, mutta todellisia vaikutuksia eläkekäyttäytymiseen ovat vielä vaikeaa ennustaa. Suuret suomalaisyritykset eivät haastattelujen perusteella usko uuden eläkejärjestelmän vaikuttavan eläkeikää nostavasti ja jotkut yritykset ovat käynnistäneet omia aktiivista ikääntymistä tukevia ohjelmiaan. Aktiivisen ikääntymisen ohjelmat ovat onnistuneet parhaiten sellaisissa yrityksissä, jotka ovat läpikäyneet suuria organisaatiomuutoksia ja hyödyntävät uutta teknologiaa.

1 Introduction

The following figures show the number of pensioners in Finland and their share of the population.

Table 1. Share of Population Receiving a Pension

	Pensioners	Share of Population, %	Pensioners aged 55-64	Share of Population, %
1993	1,114,400	27.5%	288,500	55.7%
1995	1,134,000	27.6%	282,800	54.1%
1997	1,140,400	27.5%	272,700	50.5%
1999	1,160,200	27.4%	278,500	47.5%
2001	1,183,000	27.4%	290,300	43.2%

POPULATION COVERS PERSONS OVER THE AGE OF 16; PART-TIME PENSIONERS ARE EXCLUDED FROM PENSIONERS.

It is seen that one-fourth of the population are pensioners. In the age group 55-64 one-half of the population have also withdrawn from the labour force. The following table shows the distribution of pensions by pillars.

Table 2. The Distribution of Insurance Contributions, Funds and Pensions by Pillars, 2000

	Statutory Pensions	Occupational Pension Provision	Private Pension Saving
Contributions	94.4%	2.8%	2.8%
Funds	82.7%	11.3%	5.9%
Pensions paid	95.6%	3.5%	0.9%

SOURCE: INSURANCE SUPERVISION AUTHORITY, PRIVATE PENSION SAVING INCLUDES PERSONAL PENSION SCHEMES PAID BY THE EMPLOYER

It is seen that the importance of the second pillar, occupational pension provision, is rather small in Finland. The third pillar, private pension savings, has become more popular in recent years, but funds are still relatively small. In addition, the government is implementing a new act that will substantially reduce the tax incentives for private pension saving. Until now, in the tax assessment, savings were deductible from earnings. The proposed system limits the maximal deduction to 30%.

2 The Structure of the Pension System in Finland

A special feature of Finnish social security and the Finnish insurance market is that private insurance providers handle earnings-related pension insurance and workers' compensation, which are part of statutory social insurance. The private-sector pension providers are supervised by the Ministry of Social Affairs and Health and the Insurance Supervisory Authority. Under the regulations of the Employees' Pensions Act, TEL, an employer can choose the pension provider with which earnings-related pension insurance is arranged for the employees. Insurance can be taken out with one of the current six pension insurance companies. When Finland joined the EU in 1995, the legislation was changed, with the result that insurance companies handling statutory earnings-related pension insurance cannot handle any other type of insurance.

Pension provision for employees and for farmers is handled centrally by their own separate pension providers established by law. Entrepreneurs who are insured under YEL arrange their personal earnings-related pension with a pension insurance company or a pension fund. In 2002 98.6 per cent of entrepreneurs had arranged their earnings-related pensions with a pension insurance company and 1.4 per cent with a pension fund.

2.1 The First Pillar Pension Rules in the Old System

Pension Wage

Pensionable income is average earnings from the last ten years of working life, or from the last four years in the earlier system.

Pension Accrual

Pension accrual starts at age 23 in the old system, which will be in force until 2005. The accrual rate is 1.5%, and at the ages of 60-64 2.5%. The early retirement pension at the ages of 60-64 is reduced by 0.40% for every month that retirement occurs before the age of 65. For example, a person with 25 years of working career and retiring at age 65 has a replacement rate of 10*1.5% + 15*2.5%=52.%. The pension is thus 0.52 times the pensionable income.

In 1998 the government pension was 2,547 FIM (428.37 €) a month, or 2,272 FIM (382.12 €) for a married person, depending on the municipality of residence. This is reduced by one-half of the amount exceeding 245 FIM (41.21 €) a month of the pension based on employment contracts. This is not paid if the earnings-related pension exceeds 5,090-5,311 FIM (856.08-893.25 €) a month, depending on the municipality. The maximal replacement rate is 0.60. Pension income is taxable. Additional sickness insurance for pensioners is 2.7% (in addition to 1.5%).

Disability Pension

Pension accrual starts at age 23, at 1.5%, and is reduced to 1.2% at ages 50-60 and to 0.8% at ages 60-65. The disability pension consists of

a) Pension entitlement at the time of disability

b) Upcoming pension until age 50 = Disability months until age 50 * pension wage / 800

c) Upcoming pension at age 50-59 = Disability months at age 50-59 (120 or less) * pension wage / 1000

d) Upcoming pension at age 60-65 = Disability months at age 60-64 (60 or less) / 1500 where unemployment period = unemployment days / 22

The disability pension is thus

= min [(a)+b)+c)+d)), 0.6*pension wage]

Unemployment Pension

The unemployment pension is equal to the disability pension at the time the person is entitled to the disability pension (if disabled). Those born later than 1945 can be 57 years of age in 2002 at the earliest and are not entitled to pension supplement until they reach the old age pension age of 65. For those born before 1945 pension supplement is also earned in a period of unemployment. This is equal to 0.8 times the number of months of unemployment times pension divided by the number of months until age 65.

The unemployment pension consists of

a) Pension entitlement at the time of unemployment

b) Upcoming pension until age 60 = unemployment months until age 60 * pension wage / 1000 after 500 days of unemployment (approx. 2 years)

c) Upcoming pension since age 60 = unemployment pension months until age 65 (60 or less) * pension wage / 1500 after 500 days of unemployment (approx. 2 years)

d) Pension supplement after 500 days of unemployment: coefficient = 0.8 * unemployment months / (504 – unemployment months) where unemployment months = unemployment days until age 60 / 22 and 504 shows the months between age 23 and 65.

The unemployment pension

= min [(a)+b)+c))*(1+coefficient), 0.6*pension wage]

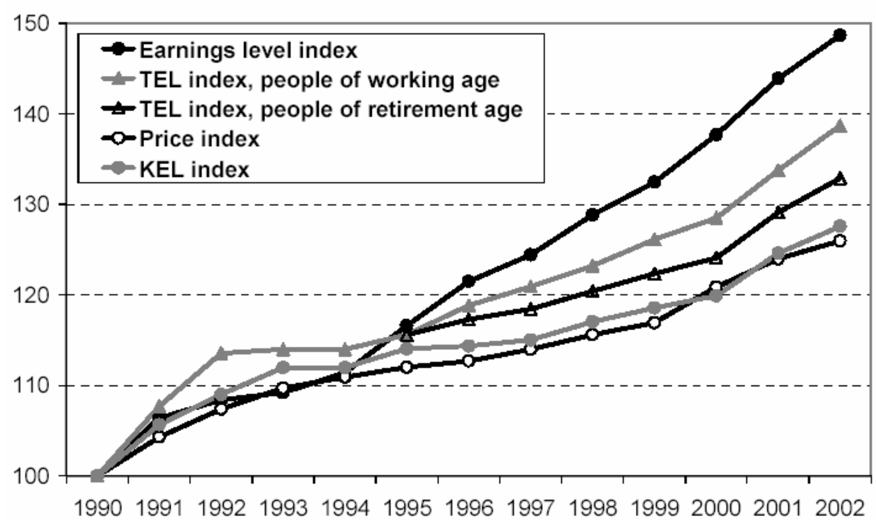
Public Sector Earnings-Related Pensions

In the public sector, pension accrual has originally been clearly faster than in the private sector. A pension has accrued at a rate of 2.2 per cent of the wage, when the maximal accrual level of 66 per cent can be achieved in 30 years. The retirement age (63 years) has also been lower than in the private sector. In addition, the public sector has had numerous industry- and occupation-specific lower retirement ages. In 1993–1995 major changes to the pension acts were implemented in all public-sector pension schemes, with the aim of harmonising the pension legislation with the private sector TEL scheme. The changes take effect gradually. Thus, the insured that entered public-sector employment before the legislative changes, depending on their age and the duration of the employment contract, retained either all or part of their previous pension benefits (the 2.2 per cent accrual rate, lower retirement age and maximum accrual level of 66 per cent) or at least their higher accrual rates up to the legislative changes. The full effect of the changes only concerns persons who entered or enter public-sector employment for the first time after 1992.

TEL Index

Figure 1 shows the development of the earnings level and the price level as well as that of the pension indices from 1990 to 2002. The bended index means that pensions are indexed by 80%, based on the wage index, and by 20%, based on the price index, before 65 years of age and by 20%, based on the wage index, and by 80%, based on the price index, from 65 years of age. It should be noted that the system with two indices was first used in the earnings-related pension scheme from the beginning of 1996, after which the figure shows the development in the TEL index for persons of retirement age.

Figure 1. Development of the earnings level and consumer price indices and of the pension indices in 1990–2002; 1990=100



SOURCE: STATISTICS FINLAND, VITAL STATISTICS (VÄESTÖN MUUTOKSET)

Finland ran into a recession at the beginning of the 1990s, when the pension indices developed at an exceptionally even faster rate than the earnings level with about one year's delay. Still, since the recession the real growth in the earnings level has been exceptionally strong, which is why the differences between the indices have grown abnormally fast since 1995.

2.2 The First Pillar: the New System from 2005 onwards

This section describes the changes in the Finnish pension system. The most important changes are the inclusion of an individual's whole working life in the determination of pension income, higher accruals for postponed retirement as of age 63 with a flexible retirement age of between 63-68 and automatic correction for the pension level, depending on changes in life expectancy. The description relies heavily on Hietaniemi and Vidlund (2003) and especially on the article regarding pension benefits in this book, written by Kalle Elo and Arto Laesvuosi.

Pensionable Earnings

After the change in 2005 the pension in all schemes will be determined on the basis of the average earnings for the whole work history, and so the structure of the work history (employment contracts of different lengths) will not affect the amount of pension. Thus, every monthly earnings times accrual is summed up when pensions are calculated. The obligation to take out insurance and the accrual of an old-age pension will start from the beginning of the month after the person has reached the age of 18. Accrual is 1.5% before the age of 53, 1.9% at the age of 53-62 and 4.5% at the age of 63-68. It is possible to take the old-age pension between the ages of 63 and 68.

The new system is partly financed by an increase in the social security payment of employees by 30 per cent from the age of 54 onwards. Pension is reduced by 7.2% at age 62 if retirement takes place at age 62 and not at age 63. However, entitlement to unemployment benefits and from there to pension at 62 keeps the pensionable age at 60 as before. Pension income is taxable. Additional sickness insurance for pensioners is 2.7% (in addition to 1.5%).

If a person is unemployed at 60 years of age, he or she can have pensions without deduction; the accrual rate stays at 1.9 per cent a year. This assumes that the unemployment benefits are 60% of earnings. At the age of 63 an unemployed person is entitled to a full pension. If he or she retires a year earlier, the pension is deducted by 7.2%.

Pension Accrual for Unpaid Periods

In the private sector, where the TEL scheme is used, the unpaid periods within an employment contract will have already accrued a pension before the new system if the unpaid period is shorter than a year. In addition, certain periods of unemployment, training and rehabilitation stated in the Act have been taken into account in the increment for credited periods calculated on top of the earnings-related pension. From 2005 on, the increment for credited periods will be cancelled.

Under the new system an earnings-related pension accrues during periods of unemployment, training and rehabilitation and during periods of maternity, paternity and parent's allowance and sickness allowance. Pensionable periods will also include periods of caring for a child aged under 3 as well as studies that end with graduation.

Integration of pensions will be abolished in the new Act. According to current legislation the total sum of the pensions accrued from different employment contracts is restricted to 60 per cent of the highest wage of the work history. From 2005 on, the integration of pensions will be discontinued, so that, for instance, the pensions accrued during the period of accelerated accrual rates (ages 63–68) will not be obliterated due to the integration of pensions. The benefits that take precedence over the earnings-related pension (e.g. benefits from statutory workers' compensation and motor insurance) will, however, reduce the amount of the earnings-related pension.

Life Expectancy Coefficient

The life expectancy and changes in longevity in the Act of 2005 will be used to revalue new pensions. The accrued pension will be multiplied with a life expectancy coefficient when the old-age pension starts. This will reduce the monthly payable pension in circumstances of increasing life expectancy but will not reduce the pension payable over the pensioner's whole time in retirement if the person reaches the age foreseen by the life expectancy. The life expectancy coefficient will be determined at the age of 62 for each age group separately. This coefficient will be applied for the first time on old-age pensions that start in 2010.

Unemployment and Other Provisions

The unemployment pension scheme will be gradually abolished, as long-term unemployment provision will be transferred from the pension scheme to the unemployment security scheme. Under the national pension scheme those born before 1950 will still be entitled to an unemployment pension between the ages of 60 and 64. Persons born in 1950 or later will no longer be entitled to an unemployment pension. Persons born in 1950 or later who receive continued unemployment allowance are entitled to an earnings-related pension without reductions from the age of 62. Entitlement to continued unemployment allowance arises if the maximum period of 500 days for the unemployment allowance ends after the person has reached the age of 59. Then unemployment allowance will be paid until the pension starts or until the person reaches the age of 65.

Under the new Act the age limit for the early old-age pension will increase from 60 to 62 years and the monthly abate for early retirement will increase from 0.4 to 0.6 per cent. Persons born before 1945 will retain their right to an early old-age pension at the age of 60. Persons born after 1943 will no longer be entitled to an individual early retirement pension, as the individual early retirement pension will be abolished. In the old system, the individual early retirement pension has often been used as an alternative to the unemployment pension, since health reasons may sometimes play a secondary role in the granting of it.

National pension

The national pension scheme guarantees a minimum pension if the person's own earnings-based pensions are small. The scheme includes the national pension and the national survivors' pension payable to the surviving spouse and the children. Furthermore, a housing allowance and pensioners' care allowance, as well as an increase for a child, can also be paid.

The national pension and the national survivors' pension include the same types of benefits as the private-sector statutory earnings-related pension scheme, i.e. pensions on the basis of old age, incapability for work, and unemployment. The entitlement criteria for the pensions are very similar in the earnings-related and the national pension schemes. However, the partial disability pension and the part-time pension are not included in the benefits of the national pension scheme.

Amounts of national pension benefits in 2003

The amount of the national pension depends on the pension recipient's earnings-based pension income, family ties and municipality of residence. A full national pension is granted on the basis of 40 years of residence. The amounts of the full national pension are shown in Table 3.

Table 3. The National Pensions in 2003, euros/month

Family ties and Municipality	National Pension, Full	Earnings-based Pension for Full National Pension	Earnings-based Pension, no Full National Pension
Single 1st	493.45	46.25	1010.88
Single 2nd	472.93	46.25	969.80
Married 1st	434.17	46.25	892.30
Married 2nd	416.69	46.25	857.38

SOURCE: KELA

The national pension decreases as the earnings-based pension income increases, so that it is reduced by half of the pension recipient's earnings-based pension that exceeds 46.25 euros per month. A voluntary supplementary pension based on an employment contract or self-employment is considered as an earnings-related pension when the pension is determined, according to the national pension scheme. When the earnings-based pension exceeds a certain upper limit, no national pension is paid. If the earnings-related pension is at least about 1,000 euros per month for a single family in the first category municipality, the pensioner is no longer entitled to a national pension.

2.3 The Second Pillar: Occupational Pension Provision

The importance of occupational pension provision is rather small in Finland. This is a result of the fact that in the statutory earnings-related pension there is no upper limit for the pensionable earnings and the amount of the payable pension. Thus, the statutory pension provision very well maintains the income level of highly paid employees too when they have retired. In Finland, the second pillar pension provision consists almost exclusively of voluntary supplementary pension insurance arranged by individual employers. There are very few industry-wide supplementary pension schemes. Supplementary pension provision can be arranged with a life insurance company, a company pension fund or an industry-wide pension fund.

In 2001, occupational pension provision was arranged with 94 company pension funds, 12 industry-wide pension funds, and 14 life insurance companies. In addition, 17 foreign insurance companies had a branch in Finland, and 323 foreign companies had stated that they carried on insurance business in Finland. Also, seven burial and severance payment funds, and 69 employee sickness funds were in operation. Many company and industry-wide pension funds have been closed since a certain date. This means that persons employed after this date will no longer come under the supplementary pension scheme. 61 company pension funds and one industry-wide pension fund have been closed.

Coverage

The most common way to arrange supplementary pension provision has been to arrange it as group pension insurance with a life insurance company. In 2001, there were 99,000 insured persons. This number also includes terminated insurance policies that have been formed into paid-up policies. In 2001, supplementary pension provision had been arranged for 58,000 employees in company pension funds and for 9,800 employees in industry-wide pension funds. There is no statistical information available on the number of pension commitments based on company book reserves, but they are not very common.

The number of personal pension schemes amounted to 344,000 in 2001, and, according to a survey, approximately 10 per cent of them had been taken out by the employer. The number of personal pension schemes has increased rapidly during the past few years, whereas the majority of company pension funds have been closed to new employees.

Supplementary pensions are used for reducing the retirement age and, as for older generations, for raising the level of the pension to that of a full earnings-related pension. Younger generations may also need supplementary pension provision, if the period of approximately 40 years of pensionable service required for a full statutory pension cannot be accrued. Personal pension arrangements often apply only to old-age pensions, and these insurance policies are, in the first place, intended to reduce the retirement age.

The contents of the supplementary pension benefits are specified in the rules of the company or the industry-wide pension funds or in the insurance contracts of insurance companies. Even though it is possible to freely agree on payable benefits, the regulations related to the tax treatment of insurance contributions unify in practice the contents of the benefits. The target level of the supplementary pension is usually set so that, together with the statutory pensions, it adds up to a fixed percentage of the salary.

Financing of occupational pensions

The insurance contribution for occupational group pension insurance can be divided between the employer and the employee. As regards registered supplementary pensions, the employee's share of the contribution must not exceed 50 per cent of the total costs. The most common way of financing occupational pensions is that the employer alone pays for the whole supplementary pension. In company pension funds this is the rule, i.e. the employer pays the whole cost of the supplementary pension. Personal pension insurance may be financed by either the insured person himself or his employer.

2.4 The third Pillar: Personal Pension Provision

Table 2 in the introductory section showed the importance of the different pillars of pension provision in the Finnish pension system. It is said that the importance of the third pillar is minor in Finland. This is a consequence of the fact that in the statutory earnings-related pension the pensionable earnings and the amount of the pension payable have no upper euro limit.

At the end of 2002, the number of personal pension schemes amounted to 430,000 (taken out with Finnish insurance companies). This corresponds to a good 12 per cent of the Finnish population aged between 15 and 64. Approximately 10 per cent of these personal pension schemes had been taken out by employers and thus they tend to belong to the second pillar.

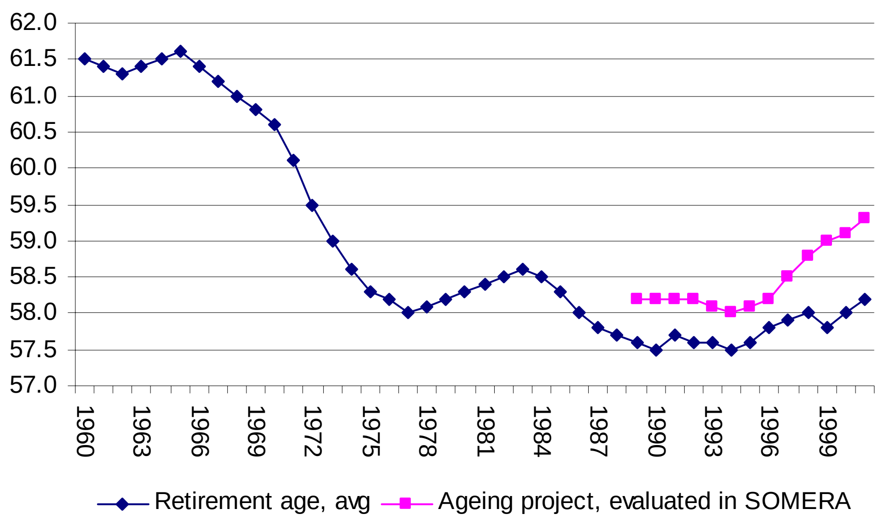
This number has increased considerably in recent years. In 2001, almost 56,000 new pension insurance policies were taken out, and in 2002 the number was 85,000. In 2002, personal pension schemes were most common among persons aged between 35 and 39. Of those insured, the proportion of men and women was equally large. Personal pension schemes are typically more frequent among self-employed persons than among employees. In 2002 one fourth of the self-employed persons had a personal pension scheme, whereas only 10 per cent of the employees had such insurance.

The average amount of personal pensions already being paid was approximately 480 euros a month in 1998. The most typical retirement age in the new insurance contracts was 60 years. The duration of the pension was generally agreed to be from two to ten years. The majority of the new insurance contracts are unit-linked, which means that they are purely based on the investment income. Of the pension insurance savings, the share of guaranteed-return policies (whereby the insurance company guarantees a certain minimum return on the investment) is, however, still nearly 90 per cent, and that of unit-linked insurance remains at around 10 per cent.

3 Retirement Behaviour

The following figure shows the average age of retirement in Finland

Figure 2. Average Age of Retirement, 1960 – 2001

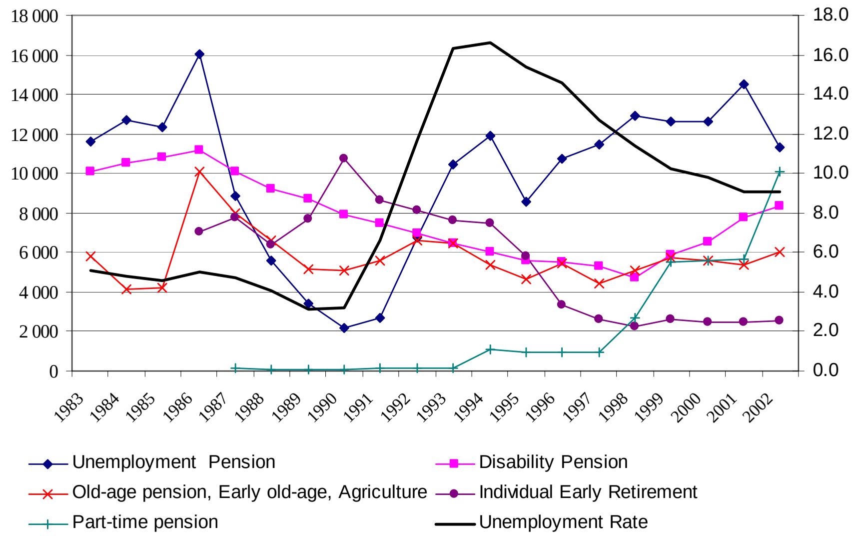


SOURCE: SOMERA PROJECT 2002, MINISTRY OF SOCIAL AFFAIRS AND HEALTH, THE FINNISH PENSION ALLIANCE ESTIMATES (EVALUATED).

It is seen that the average age of retirement decreased rapidly at the beginning of the1970s. A new drop in the average age of retirement occurred at the end of the 1980s. This relates to the introduction of relatively generous early retirement paths. The unemployment rate was relatively low, but still it was believed that older workers were no longer needed in the labour market. The lowest average retirement age, 57.5 years, was reached at the beginning of 1991. Since then the average age of retirement has increased. It can also be seen that the actual average retirement age depends on the definition. A corrected average retirement age shows a value closer to 60 years and may also be more comparable to the figures obtained in other countries.

The following table shows the transition to early retirement by type of pension benefit. Transitions are from the labour force in the previous year.

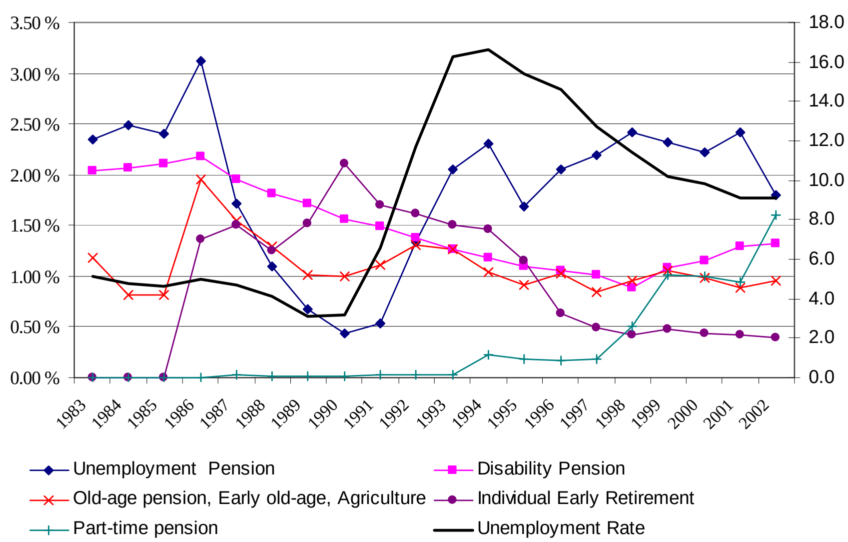
Figure 3. Transition to Early Retirement by Pension Benefit in 1983-2002



SOURCE: SOURCE: FINNISH CENTRE FOR PENSIONS ETK.

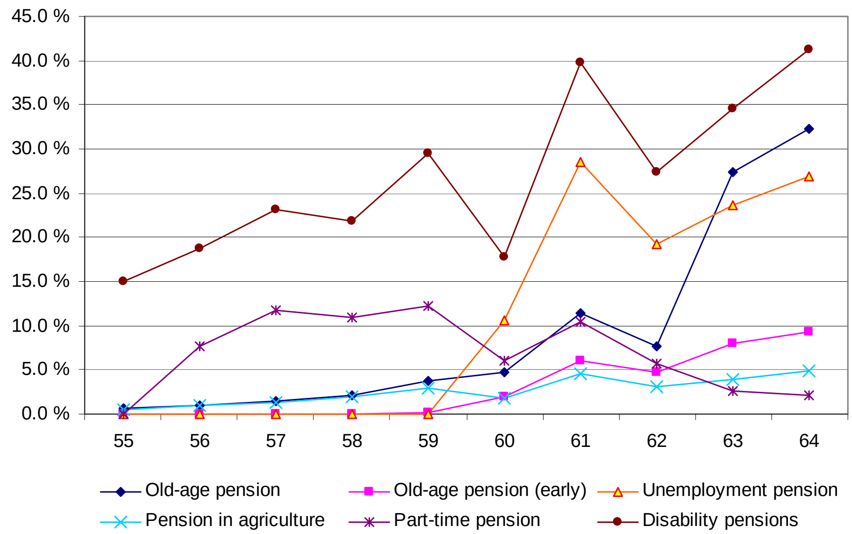
It is seen that the early retired such as unemployment pensioners and disability pensioners (including closely related individual early retirement) form the largest share of all the newly retired. The withdrawal to unemployment pension has followed the unemployment rate quite closely since 1990, which increased to 16% at the time of the recession. The number of disability pensioners decreased until 1998, when it started to rise again. It is seen that the part-time pension has increased in popularity in recent years. Taking this into account, it is clearly seen that the withdrawal to early retirement has increased in recent years. The total number of transitions was 38,360 in 2002 compared with 35,726 in 2001 and 32,796 in 2000. One explanation is the ageing of the population. Figure 4, which follows, shows the early retired as a share of the age group of 55-64 years old.

Figure 4. Transition to Early Retirement by Pension Benefit as Share of Population 54-64 in 1983-2002



It can be seen that the shape of the development is essentially the same as in Figure 3, since the number of 54-64 year-olds increased from 496,000 to 599,000 by 2002. In the last year, 2002, the number of 54-64 year-olds increased to 631,000, and we can notice some drop in the share of individuals in unemployment pension, but no change in other types of the early retired. The average total transition rate has stayed at 6% in the last four years, which is comparable to the figures that prevailed in the recession. The following figure shows a cross-section of pensioners in 2001 by age shown as the share of the age group.

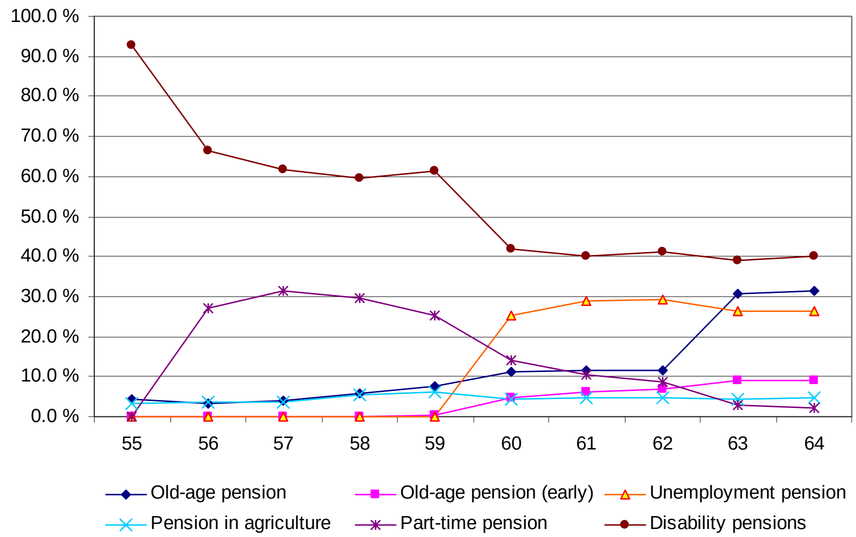
Figure 5. Pensioners by Pension Benefit as Share of Age Group in 2001



SOURCE: SOURCE: FINNISH CENTRE FOR PENSIONS ETK .

It is seen that disability pensioners form the majority of the early retired and especially so before the age of 60. In the unemployment pension pipeline, individuals can be unemployed and receive unemployment benefits from age 57 until they are categorised as unemployment pensioners at the age of 60. Thus, at ages 55-59 most of the unemployed are going to stay permanently out of working life and belong to the unemployment pension pipeline (not included in the figures here). The following table shows the distribution of pensioners as a share of all pensioners.

Figure 6. Pensioners by Type as Share of All Pensioners in the Age Group in 2001



SOURCE: SOMERA PROJECT 2002, MINISTRY OF SOCIAL AFFAIRS AND HEALTH, FINNISH CENTRE FOR PENSIONS (EVALUATED).

Figure 6 is analogous to Figure 5 showing that the disability pension and the unemployment pension pipelines form the majority of the early retired. The part-time pension is also fairly popular. The rules for part-time retirement are made more strict (minimum age 57 and the level of pension is cut to some extent) and early retirement in old age will also decline in the future.

4 The Debate on Pension Reform

The Finnish Parliament decided on a new pension system to come into force from 2005 onwards and to be fully operational in 2009. In the intermediary period individuals can decide as to whether their pensions are calculated according to old or new rules. It can be said that the pension rules are complex. Thus, experts have been able to decide on details, without much public scrutiny. However, the pension reform has been a tripartite process, where labour unions have defended their interests. The new system is, in principle, less favourable to the highly educated, but not necessarily when one takes into account the fact that the highly educated generally stay longer in the labour market. Under the old system, pension income was determined based on the last few years of earnings (ten or four years earlier) and the highly educated have wage curves that rise more steeply. Under the new system, pension income is determined from earnings from the whole of the working career, and calculations start from age 18 instead of 23 as in the earlier system. Thus the labour union for professional employees resisted the new pension reform in 2003. A compromise was reached, which gave higher yearly accruals at 1.9 per year from 53 years of age onwards. The strong influence of the labour unions on decision-making also ensured that the pension levels were not cut. Actually, sample calculations indicated that for many employees the pension level has been increased. One major reason for this is the inclusion of the whole of the working career and the inclusion of years of education and leaves of absence.

A second much celebrated part of the new pension system is high yearly accruals during the ages 62-68 of 4.5% per year. The retirement age is flexible, since the employee can decide when to retire; he or she receives some 4.5% higher gross pension income for every additional postponed year of retirement. Additionally, there is no floor for the maximal replacement rate, which can reach the level of 100% if the person does not retire before 68 years of age. One should note, however, that the old system also includes a higher accrual rate of 2.5% from the age of 60 years. Additionally, the last earnings are the basis for the entire pension income and thus higher accruals cover a much larger share of the pension income. It is believed that this new system will postpone retirement, although very little econometric analysis is done to examine its effects (see the next section). The flexible retirement age is supported in public discussion. It remains, however, to be seen how this system will be applied to professional salaried workers and to those in the public sector. Employers have, in principle, no right to force a person to retire, and this may have important side effects, particularly in the public sector.

A third interesting character of the new system is the correction for life expectancy. Since life expectancy is expected to increase from the current level, this will be able to reduce the pension level by up to 20% by 2030. This rather notable reduction in pension payments is discussed rather seldom.

All in all, it can be said that a typical retiree does not know the new system very well. Firms do not believe the new system to be very different in terms of the early retirement routes.

Older age cohorts who retire before 2012 may also have fewer incentives to consider the alternative, since they may choose their pension according to calculations based on either the old or the new rules. The debate on the sustainability of the Finnish pension system continues.

5 Effects of Pension Reforms on the Labour Market

The labour market effects of the pension reform have been studied very little so far. The most important issue is the use of the early retirement routes. Only one out of seven workers continues to work until 65 years of age. Thus it is clear that shifts in the pensionable age are relatively unimportant. Experts obtain conflicting results. The pension rule calculations typically make *ad hoc* assumptions regarding the effects of the retirement age. Some moderate estimates state that the average retirement age will increase by one year owing to the pension reform. A mere one year's increase would certainly be a rather unimportant achievement. This should be contrasted with the expected increase in lifetime by one year in every ten years, as in the recent decades. One important factor that is seldom considered is that the baby-boom generation is more skilled and educated than the previous cohort, which has raised the employment rate of older workers in recent years (see Piekkola and Kauhanen (2004)). Tuulia Hakola, of the Finnish Pension Institute, is among the few who have evaluated the incentive effects of the new old-age pension. She comes to the conclusion that the likelihood of retiring will increase by 5% from the age of 62 for every year. Thus the incentive system without additional restrictive measures is unlikely to prolong participation in working life.

The restrictive measures can be summed as

- substitution of extended unemployment benefit with extended benefits for unemployment pension,
- the unemployment (pension) pipeline starts at age 57 and not at age 55,
- abolishment of individual early retirement, but disability pension access is eased
- eligibility for a part-time pension starts at age 58 and not at age 56,
- the pension index is composed of 80% for the price index and 20% for the wage index, earlier 50% and 50% in working age.

Only a few of these restrictive measures have clear predictable effects. These include a low pension index and postponed eligibility for a part-time pension. It is, hence, clear that restrictive measures will not have very strong effects. The desired effect is that the average retirement age will increase by three years owing to the new pension rules. According to the SOMERA Report (2002) this would lower pension expenses by around 5 percentage points by 2050. It remains to be seen how many workers in the future will reach the flexible retirement age of 63 so that the high accruals thereon can become effective.

One reform implemented is the sharing of disability pension costs among employers. In the recruitment of older workers, the eventual disability pension is not borne entirely by big employers but shared across employees. This should encourage the recruitment of older workers. Older workers also have greater incentives to continue to participate in working life, since this always raises the pension level. This was not so in the earlier system, where pensionable income was based on the last years of earnings. Thus, an individual approaching the retirement age would not accept low-paid jobs, since this would decrease his pension level.

According to the interviews we conducted, large Finnish firms do not believe that the new pension system would have much effect on the retirement age (see Section 6). This has obviously been a reason why some firms have started to implement their own programmes to improve the longer employability of older workers.

Conflicts in the Implementation of Pension Reform

All partners were part of the negotiation process that took place at a separate council that was set up for the reform. The shift from the accrual of the pension wage from the last ten years to the accrual from each individual year separately depending on the wage level was believed to hurt the better educated. The highly educated have a strongly rising wage curve, and thus they benefit more from a system where pensions depend on the last years of earnings. This created a great deal of criticism of the new system.

It can be said that not too many people will suffer from the reform and so there will be few complaints. On the other hand, the adjustment for life expectancy from 2009 onwards may effectively cut pension incomes by over 20% by 2030. There has been very little discussion about this, since it is not properly understood yet.

6 Retirement Behaviour and Preferences of Older Workers

In a Eurostat (2003, p. 5) comparison of time use in 13 countries, the paid work hours are longer for men while women supply more domestic work. Eurostat (2003) also finds that, among the employed, women supply more total work than men in several countries. Piekkola and Harmoinen (2003) only find this so for the 45-64 year-olds in Finland, Germany and Portugal, and only in Portugal is the difference significant, 12.3 hours. One reason is that in this age category the children have already grown up. On the other hand, it is also evident that in two-adult households, i.e. excluding singles, in Finland men tend to supply significantly more total work than women.

Piekkola and Harmoinen (2003) show that, in most countries, employed older men and women thus contribute equally to the total work. This shows the relevance of considering allocation of the total work between paid work and domestic work over a lifetime as these appear to be close substitutes. The marginal value of non-paid-work time can be higher in men's retirement decisions. The first reason is the longer working days leading to the scarcity of leisure time. The second reason is the observed substitution of domestic work for paid work. For men, the increase in domestic work after withdrawal from the labour market is larger in relative terms (double on average), and the effect of accounting for domestic work on the financial incentive to retire is greater for them. Men start from 10 hours less domestic work than women and, hence, the economic value of the change in domestic work is greater for men in their decision to retire. This can be explained by the gender specialisation of work and women's continuity of lifetime patterns: Men supply more paid work before retirement while women specialise in domestic work. After retirement, women's time use changes less than men's. This shows the relevance of analysing time use patterns over the years. Piekkola and Harmoinen's results also differ from Gauthier and Smeeding (1999), who find time use in early years after retiring to be rather similar compared with pre-retirement.

Accounting for the value of household work yields on average 40 per cent higher replacement rates, close to 100%, and respectively lower option values for retirement. A 30 per cent decrease in the full replacement rate induces an increase in the employment rate at 55-64 years of age by 10 per cent. Although the replacement rates with full incomes are rather similar for men and women, the option values for postponed retirement are, for this reason, lower for men than for women. Piekkola and Harmoinen find, however, the magnitude of the effects of option values to be modest. In some countries with relatively high option values or a strong income effect for continuing to work (notably Germany and Finland under the new system), the replacement rate can, however, be so high as to encourage early retirement through the direct substitution effect. The additional pension income must certainly be around 5 per cent per year for it to be desirable from the financial viewpoint to postpone retirement. New pension systems with an emphasis on pension accruals designed to facilitate longer working lives may fail when replacement rates amended with the value of domestic work stay at this high level and when the scarcity of time for leisure and substitutability of paid-for domestic work prevails. This is especially true for men, given the inflexibility in paid working times. However, it is noteworthy that a low employment rate and early retirement of the low educated also relate to a poor labour market situation and not only to retirement incentives.

Many studies show that ageing people are willing to retire early. In Finland those who choose voluntary early retirement generally enjoy financial, mental and physical well-being (Gould and Saurama 2003, 30). Gustman and Steinmeier (2002) estimate with US data that about two-fifths of those workers retiring at age 62 would not postpone their retirement to age 64 even if that were the pensionable age. Household work can also be more leisurely in its nature once the individuals have retired, while during working life it is considered an excess burden on top of paid work. Neighbourhood help might also be important reason for retirement. In Huovinen and Piekkola (2002), retired men appear to spend more of their time in voluntary work or neighbourhood help.

7 Firm-Level Interviews

7.1 The *Kaiku* Program in the Government Sector

Kaiku—promotion of occupational well-being—is a development and service programme set up to promote well-being at work in State offices, bureaus and institutions in Finland. It is under the direction of the State Treasury. The Active ageing unit (*Kaiku*) in the governmental sector has 10 employees and 4 part-time workers (www.kaikuohjelma.fi). We interviewed the *Kaiku* unit leader, Jyri Tapper. In addition, in education *Kaiku* uses services from Haus. It was established under the auspices of the State Treasury (*Valtiokonttori*), which is responsible for providing pension insurance and rehabilitation programmes in the governmental sector, among other things. The *Valtiokonttori* insurance department is similar to the private insurance companies responsible for pension insurance in Finland. One advantage is that firms are permanently members of it, whereas in the private sectors insurance companies may compete for customer firms. Thus the established well-being programmes have fixed continuity, since the insurance company providing insurance cannot change as it can in the private sector.

The government sector in Finland covers 126,000 employees and 12,000 plants. By the year 2010, 80% of the managers and 50% of the workers will retire. These figures hold if the average retirement age continues to be around 59 years. In recent years there has been an increase in the retirement age, as is apparent from Figure 2, which shows the situation in Finland in general.

The pension insurance in the governmental sector is provided by *Valtiokonttori*. It has also had a rehabilitation programme similar to that in the private sector. Ten years ago the thinking in rehabilitation changed and it became apparent that the focus had to be shifted towards the origin of the causes, to the work unit. The problem is that rehabilitation programmes take effect too late. In the governmental sector, 40% of the employees retire before the retirement age. 23% of this is explained by muscular or skeletonal disease and 43% is explained by mental health problems. It is thought that, ideally, one third of this early retirement could be prevented by the new active age policy.

The objectives of the *Kaiku* programme are as follows:

1. To establish activities that promote occupational well-being as a part of management and everyday working life

- by making activities to promote occupational well-being as a permanent part of management by results and

- by creating a network of developers of occupational well-being within the State administration; and

2. To support ageing workers' continuance in working life

- by benefiting from their strengths and experience and

- by investing in their well-being and knowledge.

The *Kaiku* programme produces services to support the development of occupational well-being in State units. The services include training, consultation, and information services and also *Kaiku* funding. The programme was started in 2002 and will now continue as a permanent unit in *Valtiokonttori*. The programme has three focus points.

1) There is an annual evaluation of performance (*tulosohjaus*). The government sector has implemented evaluation of performance in leadership and wage setting. Well-being at work can also be evaluated as a separate issue,. This includes the possible use of various indexes for well-being at work, and can also take advantage of information gathered by the Ministry of Finance in the survey "All OK at Work" (*kaikki hyvin työssä*). This includes surveys of the work climate also made at the individual level. It can thus be said that gathering information is done relatively well. Perhaps half of the governmental institutes measure well-being with some index that may include surveys. In 80% of all annual evaluation agreements well-being is mentioned in one way or another.

2) The *Kaiku* programme trains developers of occupational well-being within the State administration. 100 people were trained in 2003, 200 will be trained by the end of 2004 and 300 by the end of 2005. The developer network offers training and consultation. The training will comprise diverse types of education that will include network training, workshops, telecommuting, and consultation support. As part of the training, the trainees will develop activities to promote occupational well-being in their own work units and will practise as consultants for other units. The course takes five weeks. This includes four days of an initial seminar and a final seminar. In between, the training is based on the formation of networks among developers and on the course that can be implemented via the net. The purpose is to learn how to carry out development evaluation, how to use personnel accounting and how to do organisational climate studies. The final stage is the implementation of a working life development programme in the work unit, where 20-30% finance can be obtained from *Kaiku*.

3) The service provider network gives information about institutes that provide well-being services. The aim is to offer concrete support in the search for services and for carrying out the projects implemented. Many institutes have entered the network, and eight prominent ones are especially active (the governmental educational institute, House, the Customs Union Institute, the Ministry of Defence Institute, the University, the police department in Helsinki, etc.)

7.2 Nordea: The Leading Financial Services Institute

Nordea is the leading financial services group in the Nordic and Baltic Sea region. The head of HR, Henrik Jäkärä, from Service Centre Finland was interviewed. The Group operates through three business areas: Retail Banking, Corporate & Institutional Banking and Asset Management and Life. Nordea has almost 11 million customers and 1205 bank branches. It employs about 30 000 people. Nordea Bank Finland is part of the Nordea Group. The bank has a leading position in the Finnish money and capital markets, and it has approximately 3.3 million customers.

However, the retirement statistics of Nordea are not representative of financial companies in Finland, because in Nordea's TES (*työehtosopimus*) there is an agreement about gradually lowered retirement ages. The current retirement age for both males and females is 61. Workers born in 1947 or before can still retire as 61-year-olds. (Until the end of 2004 some special groups will be able to retire when they are 60 years old.) Workers born in 1948-1952 are allowed to retire when they are 62 years old. For people younger than that, Nordea starts to apply the rules of the new pension system, according to which a person can retire when he or she turns 63.

In Mr. Jäkärä's opinion, Nordea will be significantly affected by the demographic change. The company has gone through several mergers and restructuring, and during the past ten years it has continuously decreased the number of workers, from almost 20,000 people at the time of Merita to the current number of 9,500 in Nordea Finland. This has meant that the possibilities to recruit new people have been rather limited, and this implies that Nordea's workforce is getting older every year. The average age of Nordea workers is currently more than 47 years. Approximately half of the workforce belongs to the baby-boom generation, which means that they will retire within the next 5-10 years.

Long-Term Strategy towards Older Workers

Nordea's largest business area is retail banking. Nordea's retail banking organisation in Finland has launched an educational programme for ageing workers. The aim of this programme is to improve the motivation of ageing people so that they will continue working until (Nordea's) retirement age despite the rapidly changing world and its challenges. This programme consists of very year education days at the Unitas Congress Centre in Helsinki, and distance learning.

The programme was launched in 2003. It has been welcomed in a positive way but the real effects will be seen within the next 5-10 years when we know the retirement age of the workers who have participated in the programme. A positive feature of this programme, even for workers who are still working, can be the increase in motivation. According to Mr. Jäkärä, this programme may be especially beneficial for an ageing worker who is not interested in vertical progress in the organisation but who can be motivated to successfully manage his tasks until retirement.

According to Mr. Jäkärä, Nordea should start a large-scale recruitment operation in the near future. The practical problems connected with this are the ways in which the personnel costs can be controlled and financial performance can be secured. This will obviously delay the implementation of recruiting, which might cause some difficulties, as many tasks require a lengthy initiation period.

Early Retirement and Redundancies

Nordea has not challenged its workers; people who have quit voluntarily have received a compensation package. This is due to the fact that a compensation package system was already introduced in the early years of Merita Bank. This package meant that when a person voluntarily quit, he / she was offered a maximum of 12 months' salary in compensation. People close to the early retirement pension pipeline have used the opportunity to quit voluntarily, take the compensation package and wait for the beginning of the unemployment pension.

Part-time pensions are not particularly popular at Nordea and Mr. Jäkärä believes that they will become even less attractive now that the calculation system of this pension is about to change.

The Impact of the Public Pension Reform

The HR Director of Nordea, Mr. Jäkärä, does not personally believe in the incentive effect of the rising pension accrual rate after 63 years of age. Mr. Jäkärä believes that, when people reach the age that allows them to retire, they will most often use the opportunity to retire.

Secondly, it is hard to believe that, because entitlements will now be based on lifetime earnings (instead of the last ten years of each employment relationship), one could pay lower salaries to older workers. Mr. Jäkärä believes that people are not willing to give up the benefits they have achieved and hence there will be no real possibilities for wage cuts.

Occupational Pensions

Nordea has two different pension trusts. One of them is for workers who have a work history with the former KOP Bank and the other is for people who were employed by the former SYP Bank. These trusts enable Nordea workers to have a lower retirement age. Both of these trusts were closed in 1991, so only workers who were already employed then will be entitled to this advantage. Still, most workers of Nordea belong to this scheme. This occupational pension does not exceed 60% of the earnings of the past ten years even if the person continues working after the retirement age. The level of 60% of earnings has remained the same and will also be the same in the future.

Recruitment

During the past ten years only a little recruitment has been carried out at Nordea because of the need to cut down the number of employees. Most of the little recruitment done has been carried out to secure the future of the company, and the target group here has been young people. On the other hand, when it comes to open positions requiring some specific expertise and attributes, age does not play any role at all, and the most eligible candidate will be chosen based on test results and objective assessment. Positions requiring managerial experience are more probably filled with older workers.

There is no general prejudice in Nordea towards the quality of IT skills of older people. Mr. Jäkärä does not believe that Nordea provides such innovative new products that being 50 years of age is any real obstacle to dealing with such things.

Vocational Training and Health at Work

The need for vocational training is based on the type of tasks the person carries out, and this is not affected by his / her age. If something changes in the general tasks, all the workers that are affected will attend training, regardless of their age. According to Mr. Jäkärä, when we talk about training in order to proceed in one's career, the main question is whether the person himself has sufficient motivation to develop his skills. These conceptions and desires are screened in development discussions (*kehityskeskustelu*). For example, the official language of the whole Nordea concern is English, and to be able to carry out tasks at the Nordic level, for example, the person has to either master English already or to be willing to learn it.

Nordea pays considerable attention to its workers' healthcare. It provides healthcare services that exceed Finnish legal requirements. Nordea organises regular health checks for its employees every five years. For ageing workers (who have turned fifty) these health checks come more often, every three years. Nordea also has a tradition of providing lunch at work. Mr. Jäkärä believes that this has led to the situation that Nordea's salaried employees are healthier than Finnish people on average. Supporting this view is the fact that Nordea gets refunds from the yearly pre-payments of disability pension fees, as the proportion of disability pensioners is lower in Nordea than in Finnish companies on average.

7.3 Large Manufacturing Firms

A few large Finnish manufacturing firms were interviewed anonymously. The persons interviewed were the companies' HR directors. All the large firms interviewed here keep records of the age structure of their workforce. Not all firms keep records of retirement statistics, but the mean retirement age is known approximately. In the paper and pulp and metal industries considered this is close to the average level in Finland of around 60.

The general comment from all the interviewees is that they believe that ageing people do not want to be treated in a special way as "ageing people" because it is hard for them to admit that they are getting older. According to our interviewees, only a few people consider ageing as a positive thing after they have passed a certain age. No large-scale ageing programmes have been available that would have been applicable for these companies in a reasonable way. Our interviewees believe that a greater challenge than directing ageing workers is to direct a workforce with a diverse age structure.

Long-Term Strategy towards Older Workers

The ageing of the Finnish population is not always perceived as affecting one's own company yet, but there is an acknowledged threat that it will have an effect in the future. For example, in one of the companies interviewed a third of the company's workforce will retire within the next ten years. This is, though, considerably less than the 50% recorded in the Finnish governmental sector on average. All the companies interviewed have started to make plans about how their units should be prepared for the change of generation. These plans mostly concern recruitment of the new workforce.

Some companies have started to work with a programme that aims at encouraging people to stay longer in their jobs. The reason for this is that the incentive effects of the public pension reform are believed not to be strong enough without practical measures at the firm level. When developing these programmes, companies discovered, by also using expert opinions, what the main factors would be for people to continue longer in their working lives. The starting point is that up-to-date professional competence is a central prerequisite for staying at work, but at the same time we should notice that the strengths of the workers will develop in a different direction when they grow older. The programme includes education, managerial training and taking care of the prerequisites of physical work such as things affecting health, and offering rehabilitation programmes (work and ability TYKY programmes).

Early Retirement and Redundancies

The early retirement pension pipeline has clearly been the most popular way for early retirement in the firms interviewed. Part-time pensions have also gained popularity in recent years. In some firms in the paper and pulp industry around 3% of the personnel are part-time pensioners, which adds up to 10% of the aged population of those firms. The most typical arrangement here is that 60% of the time is spent working and 40% of the time is spent being retired. The part-time pension contract usually remains similar all the time. Disability pensions are relatively few in number in the large manufacturing firms interviewed.

Only a few companies provide any extra monetary compensation in redundancies in addition to the legal requirements. In these situations firms may try to organise occupational training either within the firm or in co-operation with the authorities. This training aims at developing people's skills in a way that has more demand in the labour market. Naturally, relocations within the company are made before any new people are recruited. One more measure that has been used in a few cases is to try to encourage people laid off to set up their own small companies that could concentrate on producing those activities that are not profitable for the case company any more.

It is interesting to note that these days the workforce is generally considered well educated and thus the principles according to which people are laid off are not, for example, the lack of professional skills and competence, but are related to other things. Our interviewees argue that if older people are the target of dismissals, the reason is only that those people have the chance of early retirement pension pipelines, not that they are less productive than younger workers.

The Impact of the Public Pension Reform

None of the companies expects any dramatic rise in the average retirement age of its personnel because of the public pension reform. Still, the fact that 62-year-olds can decide whether they want to leave earlier with a slightly smaller pension may have a positive effect in raising the average age. This is because the cut in the level of the pension is steeper than it is nowadays in the early retirement pensions.

It is believed that the main reason for the prevalence of early retirement is the opportunity to enter the early retirement pension pipeline. This has changed the norms in the working places in a way that co-workers regard it strange if somebody stays at work for longer than the pipeline's minimum age, especially if there are young people unemployed at the same time. Our interviewees believe it may be hard to change this attitude, as it will happen only gradually when people see older workers around them.

It is not likely that firms will pay older workers lower salaries because entitlements will now be based on life-time earnings (instead of the last ten years of each employment relationship). Wages cannot be lowered and will be the same, regardless of the pension system.

Even if the reform clarifies the yearly accrual of pensions, one of our interviewees does not believe that this will have any real effect on retirement behaviour. One factor behind the weak effect is that during the transition period people may have difficulties in finding out what their yearly pension accruals are.

Occupational Pensions

Some of the companies interviewed have (additional) occupational pensions, but most of them are not applicable to new workers any more. At present, the companies may be able to offer occupational pensions only to their top management.

According to the rules of the pension fund of one of the companies a person can generally retire at the age of 60 years with a lower pension if he or she so requests. However, the occupational pension system of the company in question may also provide incentives to delay retirement after 60 years of age because the amount of pension can be significantly higher if the person retires later (closer to 65 years of age).

According to TEL (the Finnish pension law) a full pension is earned in 40 years of work but the trusts of another case company have enabled the employee to have the full pension after 30 years or, in some cases, only after 25 years of work. Some of these trusts have provided a lowered retirement age for women (62 years or even 60 years) but more recently the demands for the equality of sexes have obliged the company to put an end to the different treatment of women here.

Recruitment

None of the large manufacturing companies interviewed has decided on any upper wage limit for new workers. No recommendations have been made, either. The more experience and evidence of good performance is required for a position, the more probable it is that an older person can be selected as well. This is especially true when there is not enough expertise within the company for the position.

Some industries are conservative in a way that seniority and experience have an effect in the recruitment for higher (floor-level) positions. Even if young people's IT skills may be considerably better, it is almost impossible for them to pass more experienced people in the hierarchy. Older people can be taught the necessary IT skills for the conduct of their new tasks. But in managerial positions, seniority does not play a role in a similar way.

When we talk about blue-collar workers, the main recruitment channel for these companies thus seems to be vocational institutes. This means that the emphasis is on the recruitment of young people.

When we talk about jobs requiring technical expertise, graduate recruitments prevail as well. Sometimes companies need experienced specialists and these positions are advertised in newspapers. No upper age limits (explicit or latent) are allowed in these advertisements.

Vocational Training and Health at Work

In some of the firms interviewed the older workers are trained in the same way as the younger ones. The need for training is determined by basing it on the gap between the person's skills and the requirements of the task, regardless of the employee's age. On the managerial side of one of the firms, there is an internal system screening for potential future managers and also a supporting internal training system. Only young people participate in this training, because the purpose here is to secure the future of the company. Another example of the opportunities offered to young people is the Ph.D. programme of one of the companies.

In some firms, one essential thing that is emphasised when the firm is trying to encourage people to stay longer in their working life is to make sure that their occupational skills are up to date. The appreciation of the development of occupational skills means that the company finds different ways and develops programmes with which this can be done. Our interviewees emphasised that the greatest responsibility lies within each worker himself. They have to be willing and motivated to use the opportunities offered by the company.

In many of the case firms there are regular health checks every five years for the company's workers, but they are not more frequent for older workers. Most of the large manufacturing companies have their own doctors on site and workers can use their services whenever they feel ill. Some companies' occupational healthcare examines certain risk factors (like higher blood pressure and cholesterol) more accurately in ageing workers. The aim is to trace these risks and symptoms as early as possible and assign proper treatment for the people needing it and thus to secure their ability to continue working. The companies can agree with KELA (the Social Insurance Institution of Finland) about the number of yearly rehabilitation programmes (*TYKY-ohjelmat*) that are part of the company's 'ageing' programme.

8 Barriers to and Opportunities for Active Ageing

This study has analysed active ageing and retirement both at the individual worker level and at the firm level. It appears that organisations that have experienced large changes and adopted new technology have successfully implemented active ageing policies. In the public sector these institutions have usually also avoided lay-offs so that downsizing in personnel, if required, is done by a decrease in recruitment and via early retirement routes. The problem is that no or little recruitment may also have led to an age structure where there are many ageing workers and young workers but very few workers of 45 years of age. In the government sector 80% of the managers and 50% of the employees retire in the course of ten years.

It is evident that baby-boomers are, to a great extent, responsible for implementing the new well-being concepts at the firm level. The old pension system obliged all to retire by 64 years of age in the public sector or by 65 in the private sector. The new system has no such limits. In the public sector a certain percentage of managers will have the incentive to continue until 70 years of age.

In what follows we present a list some of the important barriers to and opportunities for active ageing.

Participation of All Partners

Co-operation is important in the prolonged stay at work and in the issues concerning well-being. All partners usually agree when it comes to well-being, and this is an easy issue to implement. In contrast, pension reforms with cuts in levels of benefit are controversial. The new legislation on job security states that assigning the appropriate work burden is the responsibility of the employer. This is so not only for manufacturing workers but also for white-collar workers. To implement this, co-operation is called for. The opportunity is to have partners co-operating more not only in terms of well-being issues but also in pension reform.

Similar Social Security Payments irrespective of Age

Social security payments are the other side of the coin, since they are used, in major part, to finance the pensions in the pay-as-you-go system. The rule so far has been the benefit system so that older workers should pay more. The OECD (2003) also shows that social security contributions paid by employers increase both with the age of the worker and with the size of the company. For a firm with 50 employees, the contribution rate ranges between 15% and 26%, depending on the employee's age. The rationale for this is also that the risks of both disability and unemployment increase with age. It has been emphasized in the labour market analysis that older workers thus face several obstacles in recruitment, since social security payments are higher. Also, the human capital of older workers tends to be firm-specific and lost when they are out of work (see Piekkola (2004c)). It is important to remove employers' barriers to hiring and retaining older people. A new system is now being established, where the social security payments collected for pensions are no longer age-specific. The social security contribution rates for older workers should thus be set equal to those of prime-age workers.

The social security payments for disability benefits are firm-specific. Large companies pay up to 80% of the disability and unemployment pensions until the person is transferred to an old-age pension at the age of 65. The firm may obtain a discount in payments if the number of disability beneficiaries decreases. In addition, under the new system, firms may no longer carry the burden of eventual disability if it recruits older workers. Thus the possibility for financial burden from disability should no longer form a barrier to the recruitment of older workers.

New Wage Policy

Seniority pay is no more common in Finland than elsewhere in Europe (OECD, 2004). Despite this, a most welcome opportunity in this respect is the decrease in the importance of seniority pay and substitution of this for performance-related pay. This has made wage profiles less steep in recent years. Thus, the wages of older workers can be closer to the respective productivity. When the wage level is relatively decreased it can be good to have a correspondingly higher accrual rate, as in the new pension system. Under the old system, the decrease in wages would, on the other hand, strongly encourage early retirement, since pension income is based on the last years of earnings.

Flexibility of Working Time and Pension System

The new system allows more flexible participation in working life after retirement. This is important, in addition to arranging working time so that employees actually find time to participate in training. The public employment service needs to encourage the older unemployed to participate in job searching and active labour market programmes. All too often, there has been little interest in making active labour market programmes available to this group. In addition, it is important to promote part-time career information and guidance for all age groups, and especially for older people.

Discontinuance of Age Discrimination

Perhaps an even more important issue highlighted in Piekkola (2004c) is the implicit age discrimination. These attitudes also affect the allocation of time and money spent on training different age groups. Since middle-level managers do most of the hiring in companies, it is crucial to influence their attitudes towards older people. Thus, measures such as those that have been taken in the National Programme for Ageing should continue over the longer term to promote a change in attitudes among both management and colleagues at the workplace. The new pension system as such could raise flexibility and avoid a rush to early retirement as early as possible. Retirement can be planned more smoothly.

Education

Pension reform tackles education very little, but adult education can be an important opportunity to improve labour force participation. Some ageing programmes have already included the training not only of older people, but also of managers and human resource staff. Long-term measures like this are important and valuable tools to influence employer attitudes not only towards older workers and firms’ hiring practices but also towards early retirement. Finnish firms invest large amounts in the retraining of workers, up to 5% of sales. However, firms have incentives to invest in a younger workforce that has a longer working career ahead. It is thus likely that public support will be required to support the adult education of older workers at the firm level too. The OECD (2003) suggests that one good example already used is to personalise secondary training for adults by the use of a system of competence-based tests. It should also involve close co-operation with the social partners, since some co-financing of training is called for, given that many of the returns to training accrue to individual firms and workers.

The reason for the lower incidence of training among older workers in Finland does not depend solely on employers’ unwillingness to train them. It also concerns workers’ motivation to undertake training. The main reason why workers in Finland do not undertake employer-paid training seems to be a lack of time: almost half of the adult work force reply that they are too busy at work to participate in training.

Healthier Working Environment

The OECD (2003) report finds that Finnish workers report a higher incidence of unpleasant working conditions, work tasks and time-flexibility compared with the average in the European Union. Perhaps as a result, Finns also report a relatively higher incidence of work-related health problems compared with the European Union average. Furthermore, older Finns seem to experience a worse working environment compared with prime-age Finns, which is less common in other countries.

On the other hand, Finnish health care at the firm level is excellent. Most employees are entitled to visit doctors free of charge. For many employees the system also includes regular health assessments. It is evident that abolishment of early retirement incentives will require further development of the system. Doctors should be better aware of the alternative rehabilitation measures. As such, pension institutes provide a good service for employers in rehabilitation opportunities (see Piekkola (2004c)).

Firm-Level Activity

The firm level interviews in the previous chapter indicate some important issues to be taken into account at the firm level for prolonging working life.

- Well-being should be understood as part of the daily management as a concept.
- Age management relates to a mixing of new and older workers
- HRM should include developers and educators in active ageing issues

- HRM should be innovative leadership, where every individual is considered uniquely

- A network dealing with ageing issues should be formed in the organisations

- There should be four stages in the evaluation: well-being evaluation, age management learning, setting targets for well-being, and a well-being at work development plan

It is clear that new active ageing projects at the firm level are real opportunities for making the atmosphere more positive. Firm-level management also means operation at the grassroots level with concrete measures. These issues are very difficult to implement if only legislative measures are used.

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10 Interviews

Seppo Mansukoski at the Administrative Development Centre of The Finnish National Union of State Employees and Special Services (Hallinnon kehittämiskeskus HAUS). Seppo Mansukoski is development leader at HAUS, which is the management centre for public organisations. HAUS is comparable to ITO, which is the management institution for private organisations. HAUS and ITO may also compete for services provided for the public sector. Seppo Mansukoski has been in the field for 30 years. HAUS also has knowledge of expertise at the EU level.

Jyri Tapper from the *Kaiku* unit at *Valtiokonttori*. Jyri Tapper is a project leader at the active ageing unit for the Finnish governmental sector.

Henrik Jäkärä, Head of HR at the Service Centre Finland of Nordea Bank. Nordea is the biggest bank in Finland and also in the Nordic area.

Several persons from the HR managements of large Finnish manufacturing firms were interviewed; they are responsible for HR and related active ageing programmes. The interviewees remained anonymous

WWW sites:

www.etk.fi Finnish Centre for Pensions

www.kela.fi the Social Insurance Institution of Finland.

www.terveys2015.fi Public health programme

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