



Janne Salonen and Mervi Takala

# Working career and income of part-time pensioners in Finland

Finnish Centre for Pensions  
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## ABSTRACT

This report primarily examines part-time pension recipients who retired between the years 2005–2009. The report is based on register data, through which, for the first time, it is now possible to comprehensively take into account all earnings that accrue statutory pension. In the course of the review it was discovered that persons retiring on a part-time pension have a clearly better income level than their peers. The pre-retirement earnings of those retiring on a part-time pension between 2005–2009 were approximately 30 per cent higher than that of their peers. The pension level has also increased over the years 2005–2009.

Persons retiring on a part-time pension between 2005–2009 have had careers of equal length or longer than their peers. The career length and higher income explain the increase in pension level. The income of persons transferring from full-time work to part-time pension does not decrease significantly, as salary from part-time work together with the part-time pension cover approximately 90 per cent of the income received from full-time work. The part-time pension usually ends in old-age pension.

Keywords:

- Finland
- Finnish Centre for Pensions
- Register data
- Part-time pension

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# CONTENTS

<b>1</b>	<b>Introduction.....</b>	<b>5</b>
<b>2</b>	<b>Research data .....</b>	<b>7</b>
<b>3</b>	<b>Results.....</b>	<b>7</b>
	Part-time pension leads to old-age pension.....	7
	Duration of part-time pensions.....	8
	Part-time pension costs .....	8
	New retirees on a part-time pension during 2005-2009.....	9
	<i>Volumes and retirement risk .....</i>	<i>9</i>
	<i>Employer sector.....</i>	<i>11</i>
	<i>Length of the career.....</i>	<i>12</i>
	<i>Earned income and pensions .....</i>	<i>13</i>
	<i>Gross pension.....</i>	<i>14</i>
	<i>Net income.....</i>	<i>14</i>
	<i>Income level prior to part-time pension.....</i>	<i>15</i>
	<i>Change in income when retiring on a part-time pension .....</i>	<i>16</i>
<b>4</b>	<b>Summary and conclusions .....</b>	<b>17</b>

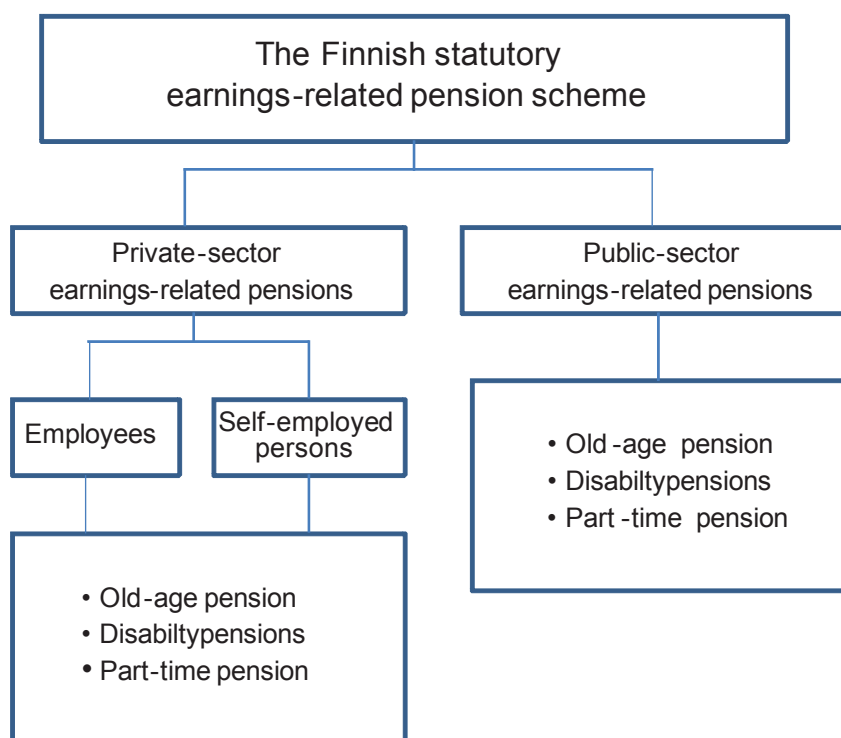
# 1 Introduction

## Part-time pension as part of the earnings-related pension scheme

The purpose of the part-time pension is to promote continued working and to secure longer work ability. When people retire on a part-time pension from full-time work, the pension compensates the reduction in earnings. Thus, the part-time pension offers a way to ease the workload in the final stages of a person's working career.

Part-time pension is one of the benefits of the statutory earnings-related pension scheme. It is an option for employees in both the private and the public sector. Both wage-earners and the self-employed persons are entitled to part-time pension.

*Figure 1. Structure of the statutory earnings-related pension scheme.*



The part-time pension was introduced in the private sector in 1987 and in the public sector in 1989. Between the beginning of 1987 and the end of 2009, approximately 105,000 persons have retired on a part-time pension.

Over the years, the part-time pension has undergone several adjustments (see Table 1). The latest change was made in June 2009, when the age limit for part-time pension for those born in 1953 or later was set at 60–67 years.

**Table 1.** The most important changes made to part-time pension.

1 January 1987: part-time pension introduced in the private sector 1 July 1989: part-time pension introduced in the public sector	for wage-earners and self-employed aged 60-64 in the private sector for employees in the public sector aged 58
1 January 1994	lower age limit in both sectors: 58 years the pension = half of the reduced earnings
1 July 1998	lower age limit: 56 years based on a temporary act valid for 4 years
1 January 2003	lower age limit: 58 years
1 January 2005	age limits: 58–67 years
2011	age limits: 60–67 years

The changes in the terms and conditions for part-time pension are clearly visible in the volumes of new retirees on a part-time pension during different years. In 2002, before the age-limit was increased to 58 years, a record-high number (more than 14,000) of persons retired on a part-time pension.

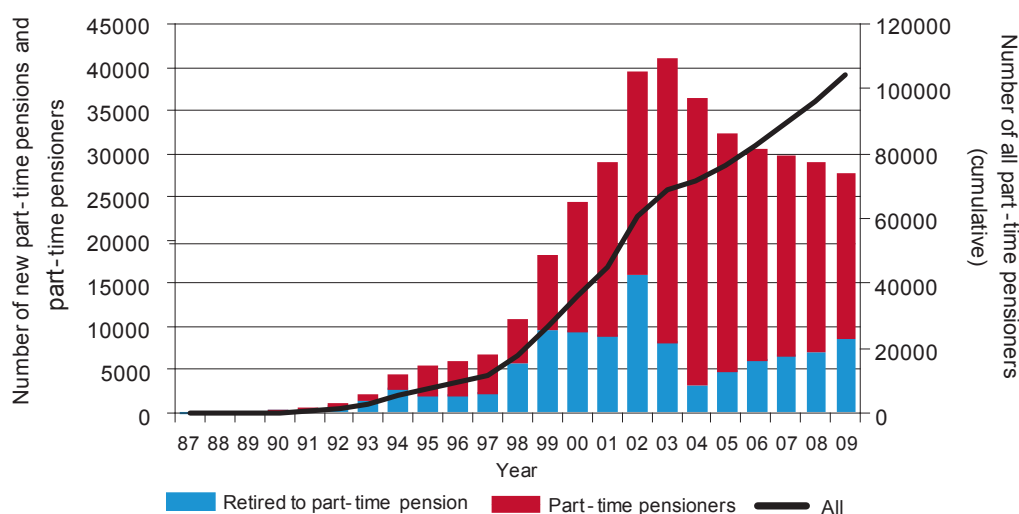
Figure 1 shows the annual development in the number of retirees on a part-time pension. Not until a few years after the act came into force in 1987 was this option used more frequently. Before 1995, the age limits were different in the public and the private sector. The level of the part-time pension was higher the later in life a person retired on a part-time pension.

In 1994, the age limits in the private and the public sectors were unified to 58 years. The accrual rate for the earnings reduction no longer depended on age or the time of the actual retirement. This is visible in a slight growth in the volume of new retirees on a part-time pension. However, measured in percentages, the growth was significant.

The left vertical axis shows that the year 2002 was clearly a peak year in the number of persons retiring on a part-time pension, after which the volume diminished. The reason is that, during 2003 and 2004, no new cohorts were covered by the right to retire on a part-time pension. The pension stock took a downturn.

Figure 1 also includes information on how many persons in total have drawn a part-time pension. Looking at the right vertical axis, we see that, by the end of 2009, nearly 105,000 persons have used the option to retire on a part-time pension.



**Figure 1.** Part-time pension recipients and new retirees on a part-time pension 1987–2009.

## 2 Research data

Our study is based on the total data of the Finnish Centre for Pensions's registers on new retirees on part-time pension during the period 2005–2009. The data comprises approximately 32,700 persons. A new retiree refers to a person who is drawing a part-time pension at the end of the year of retirement. The data includes versatile information on the person's working career, earnings and family, as well as some significant background information.

## 3 Results

### Part-time pension leads to old-age pension

Table 2 shows which pension the part-time pension has been converted into once the person's working career has terminated. The figures in the table are based on part-time pensions that have ended before 2009.

Part-time pension is usually converted into old-age pension. This happened in 73 per cent of the cases. 15 per cent transferred to a disability pension. People on part-time pension who feel that their health is poor are likely to transfer via a disability pension to old-age pension.

A part-time pension may end in the pension recipient going back to full-time work. Approximately four per cent continue working full-time after drawing a part-time pension. A part-time pension may also end in unemployment.

**Table 2.** *After part-time pension, per cent.*

After part-time pension	Men	Women	Total
Old-age pension	34.7	38.5	73.2
Disability pension	6.3	8.9	15.2
Unemployment pension	3.0	3.3	6.3
Continued working career	1.9	2.0	3.9
Death	1.0	0.5	1.5
Total	46.9	53.2	100.0

### Duration of part-time pensions

The duration of and staying on a part-time pension depends on the pension's lower age limit. The lower age limit has varied between 56 and 60 years, and the changes have been clearly visible in new part-time pensions and their duration. Part time pensions that have ended prior to 2008 have lasted, on average, for 2–4 years: one year at the minimum and 4.3 years at the most.

### Part-time pension costs

Tablet 3 presents a calculation of the costs of the part-time pension and alternative routes of leaving work for the period when the pensioner receives pension in his/her lifetime.

**Table 3.** *Overall cost of some alternatives for the statutory earnings-related pension scheme, thousand Euros.*

Person, age 58–63	Men	Women
In part-time work	194	230
On disability pension	281	317
In full-time work	195	234
In full-time work, from which to part-time pension when 60	214	252
On part-time pension	227	265

According to the calculation the costs of those who continue in part-time or full-time work similar. Retiring to part-time pension is a slightly more expensive alternative. Disability is the most expensive one.

## **New retirees on a part-time pension during 2005-2009**

### ***Volumes and retirement risk***

In general, persons retire on a part-time pension as soon as they have reached the required minimum age. During the period under review, the main age limit has been 58 years<sup>1</sup>. Between 2005 and 2008, nearly 2,000 persons retired on a part-time pension per year at the age of 58. In 2009, the total volume of new retirees increased, in particular the volume of those aged 58. The increase can be explained by the size of the cohorts and the known forthcoming changes.

The same type of increase occurred in 2002, when a record-high number of persons retired on a part-time pension. The explanation lies in the fact that, as of the beginning of the following year, the lower age limit for part-time retirement rose by two years.

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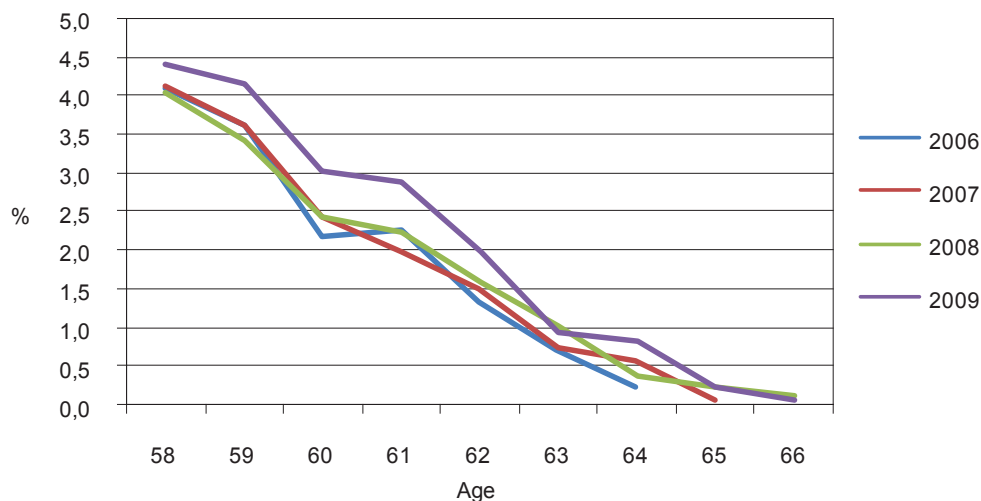
1 Those born in 1946 or earlier have been entitled to retire on a part-time pension between the ages of 56–64.

**Table 4.** *New retirees on part-time pension in 2005–2009, volumes and percentage distribution.*

Year of birth	Volume				
	2005	2006	2007	2008	2009
1951					2455
1950				2197	2075
1949			2295	1748	1429
1948		2249	1852	1158	1216
1947	2305	1825	1141	930	735
1946	889	912	735	526	278
1945	741	623	378	235	135
1944	452	288	149	52	25
1943	271	109	63	18	3
1942	76	35	7	8	1
1941	46	3	8	1	
1940	1		6		
1939			1		
<i>Total</i>	<i>4781</i>	<i>6044</i>	<i>6635</i>	<i>6873</i>	<i>8352</i>
Year of birth	Per cent				
	2005	2006	2007	2008	2009
1951					29.4
1950				31.9	24.8
1949			34.6	25.4	17.1
1948		37.2	27.9	16.8	14.6
1947	48.2	30.2	17.2	13.5	8.8
1946	18.6	15.1	11.0	7.7	3.3
1945	15.5	10.3	5.7	3.4	1.7
1944	9.5	4.8	2.2	0.7	0.3
1943	5.6	1.8	0.9	0.3	0.0
1942	1.6	0.6	0.1	0.1	0.0
1941	1.0	0.0	0.1	0.0	
1940	0.0		0.1		
1939			0.0		
<i>Total</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>

Although part-time pension has increased in popularity, the retirement risk has not increased during the last five years (Figure 2). When the number of persons retiring on a part-time pension is calculated in relation to the number of their peers continuing at work, it is evident that the retirement risk has remained at 2–3 per cent. Even among those aged 58, the retirement risk has remained fairly stable.

**Figure 2.** From full employment to part-time pension, share of employed in the previous year, %.



### **Employer sector**

Table 5 shows the share of persons retiring on a part-time pension, by gender and employer sectors. Over the years, the share of men and women and sectors has remained fairly stable. The table also shows that, of those retiring on a part-time pension, the majority are women: on average, 55 per cent between 2005 and 2009. These shares have remained constant over the years.

Two out of three new retirees on a part-time pension retired from the private sector, while the rest retired from the public sector. The majority of new retirees from the public sector are women, while the majority from the private sector are men.

**Table 5.** *New part-time pension retirees by gender and employer sector in 2005–2009, per cent.*

	Sector	2005	2006	2007	2008	2009
Males	Private	36	33	32	33	37
Females	Private	26	25	26	25	27
Males	Public	11	12	11	12	10
Females	Public	27	30	31	30	26
All		100	100	100	100	100

The same observation has been made regarding part-time pensions as regarding other types of pensions: people tend to retire at the beginning of the year or in early autumn. During 2005–2009, in any given year, seventeen per cent of the new retirees on a part-time pension retired in January, while 29 per cent retired in August-September.

Preliminary numbers from the year 2010 indicate 30 percent growth in part-time pensions. This means that about 9600 new persons will choose part time-pension in the year 2010.

### ***Length of the career***

Previous studies have shown that the working careers of those retiring on a part-time pension have been fairly long, according to their own estimates. Based on a study conducted in 2007, the average career of men retiring on a part-time pension spanned 41.4 years and that of women, 39.1 years.

The working career of persons retiring on a part-time pension is longer than that of their peers. According to a review of the register data, working careers have been prolonged during recent years. In 2005, the average working career of part-time pensioners was 32.6 years. In 2009, it had increased to 33.1 years. The increase has been steady year by year<sup>2</sup>.

When comparing the length of the working career of those who have retired on a part-time pension with that of their peers who continued at work, it is noteworthy that the careers of those continuing at work have also become longer. In 2005, the average working career of persons continuing in full-time employment spanned 32 years, and between 2007–2009, the average working career spanned 32.5 years. Nevertheless, in general, the working careers of people continuing in full-time employment are shorter than of those retiring on a part-time pension (Figure 3).

The clearest difference between these two groups can be found in the first cohort that reaches the age entitling to part-time pension. When comparing the 58-year-olds who have retired on a part-time pension with their peers who have continued in full-time work, the difference is significant. The working career of those retiring on a part-time pension has been nearly 1.5 years longer than that of their peers in full-time employment.

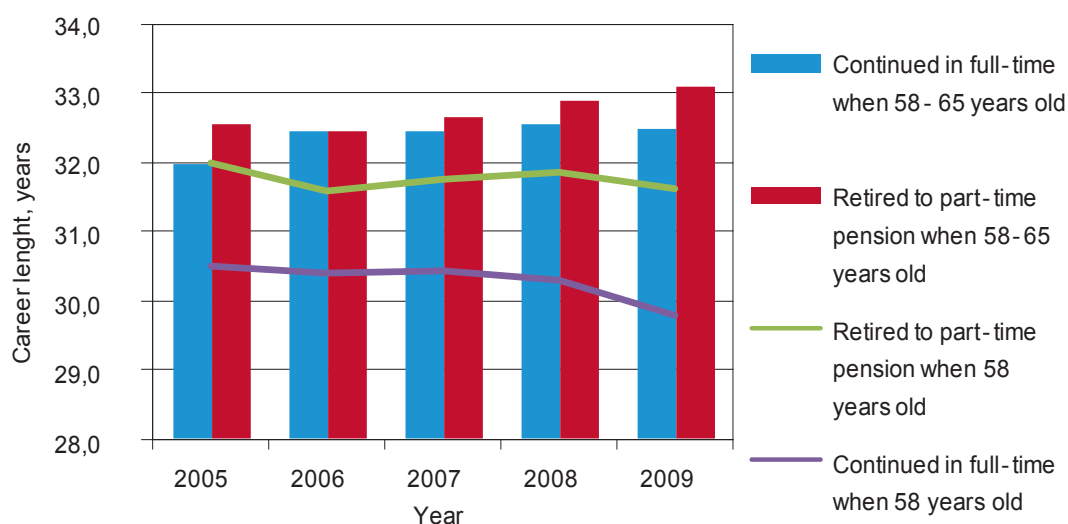
<sup>2</sup> The working career is calculated from the age of 23 until the end of the year in which the person retires on a part-time pension. If work done prior to the age of 23 were included, approximately 2.4 years should be added to the figures in this study.

The vast majority of people retiring on a part-time pension do so directly from full-time work. This is a requirement for the granting of a part-time pension in the public sector, while in the private sector no more than six months can elapse between the end of the full-time work and the beginning of the part-time pension. Between 2005–2009, approximately six per cent of those retiring on a part-time pension have had an unpaid period during the six months preceding retirement.

When examined by type of benefit, part-time pension is clearly most often preceded by benefit periods relating to work ability and rehabilitation. This means that nearly five per cent of those retiring on a part-time pension are either ill or in rehabilitation.

Men's working careers are regularly longer than women's. During the years under review, the average working career of men was 1.5–2.0 years longer than that of women. This corresponds well with the observations made in surveys.

**Figure 3** The average career length of persons retiring on a part-time pension and of their peers continuing at work during the period 2005–2009.



### **Earned income and pensions**

The available registers contain information on income and pensions, making it possible to review the income of part-time pensioners prior to retirement, during the retirement year and during the time on part-time pension. The earned income and pension are in gross amounts in the register. Using Finnish Centre for Pensions's tax model we can calculate the net earned income and pensions.

It should be noted, however, that this information is not sufficient to describe the total income of the persons in question. There are other sources of income than pensions or earnings that accrue pensions. For example, capital income and wealth are not included in our calculations.

### Gross pension

Table 6 exhibits the average monthly pension during the period 2005–2009, in 2009 amounts. According to Table 7, the gross pension has undergone a real-time increase from EUR 612 by more than 10 per cent during the period under review.

The relative gender difference in the average pension has remained fairly stable during the period under review. Women's part-time pension is approximately 70 per cent of men's.

**Table 6.** Average gross monthly pension of part-time pensioners, by gender, in 2009 amounts, EUR/month.

	2005	2006	2007	2008	2009
Total	612	629	633	612	677
Men	746	765	769	742	812
Women	495	518	531	505	559

The average part-time pension has remained at a fairly stable level since 2005. In 2009, the pension grew for both men and women. The long-term real decline in the amount of part-time pension has come to an end; now it may be taking a slight turn upwards.

Table 7 shows that the division of pensions remained fairly similar from 2005 to 2008. The clearest difference is in the pension of those who retired in 2009, as the level increased in all income brackets. From 2005 to 2009, the median and the average pension have increased by an ample 10 per cent. The smallest pensions (P10) have increased by nearly 16 per cent and the largest (P90) by nearly 7 per cent.

**Table 7.** The division of gross pensions in part-time pension, in 2009 amounts, EUR/month.

Year	P10	Q1	Median	Q3	P90	Average
2005	329	399	517	718	997	612
2006	348	421	529	735	1005	630
2007	361	434	541	729	999	633
2008	343	414	519	706	970	612
2009	380	459	573	781	1062	677

### Net income

The impact of taxation on the income is calculated in the form of examples for those who retired on a part-time pension in 2008. The group includes 6,800 persons. The calculation is based on the earned income of the year of retirement, i.e. wages, and pensions in 2008 after retirement on a part-time pension. The income is calculated on an annual level. The taxation is calculated on the gross earned income and pensions.



Table 8 present certain key ratios of the income distribution before and after taxation. The progression in taxation is visible in that, for the smaller income brackets, the taxation is more relaxed, while it is more stringent for higher income brackets.

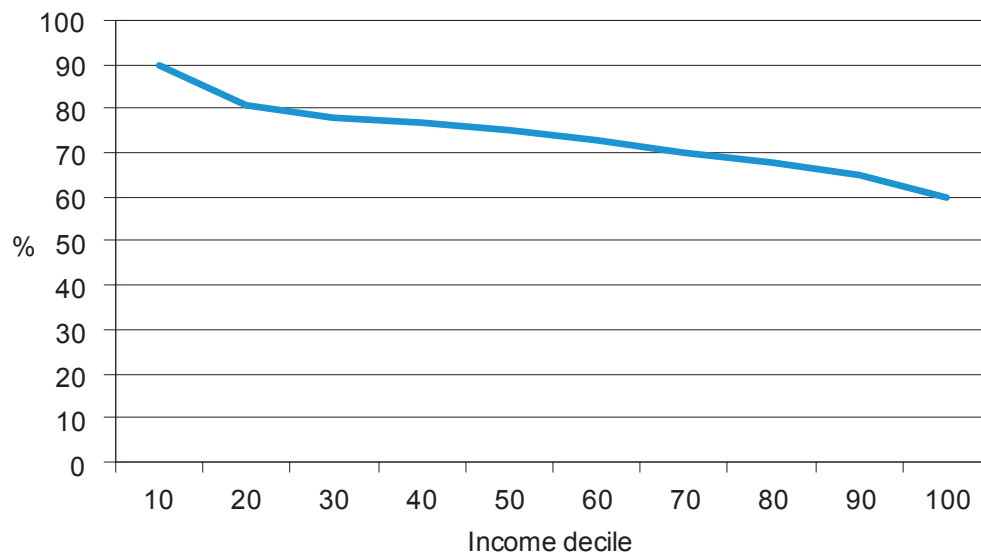
For the median person, the earnings and pension income before tax amounted to EUR 27,644, and after tax, EUR 20,538 per year. Taxation reduces the income of the median person by nearly 26 per cent.

**Table 8.** Key ratios of income distribution of those retiring in 2008 on a part-time pension, EUR/year.

	P10	Q1	Median	Q3	P90	Average
Gross income	16,610	21,587	27,644	37,706	50,195	31,632
Net income	14,084	17,018	20,538	25,701	31,937	22,131

Figure 4 displays the impact of taxation as the income increases. In the lowest decile, the taxation decreases income by approximately 10 per cent, while the income decreases by more than 40 per cent in the highest decile. The average and median of the income ratio are both 73 per cent.

**Figure 4.** Net and gross income ratio of part-time pensioners in 2008, by income decile.



### ***Income level prior to part-time pension***

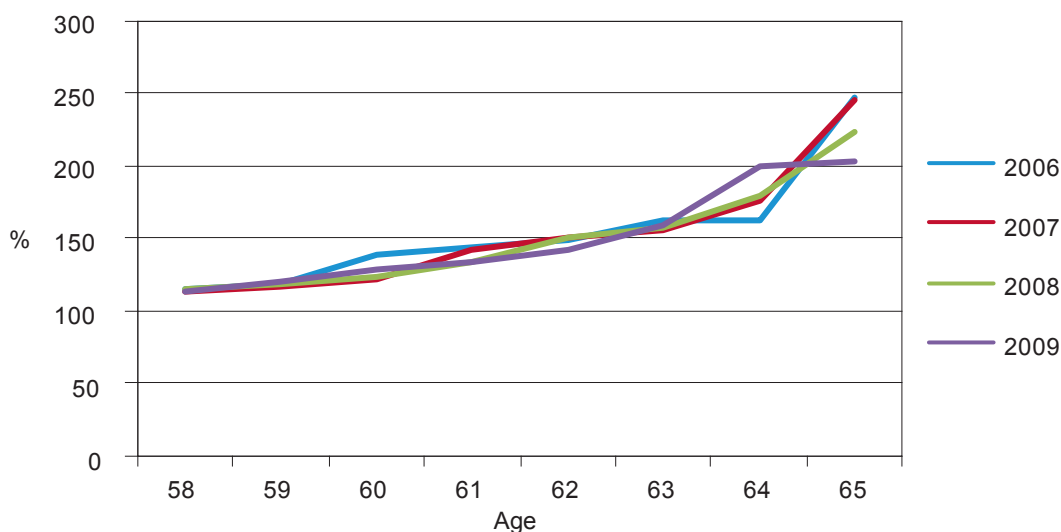
Using the data of this study, it is possible to compare the pre-retirement earnings from full-time employment of those retiring on a part-time pension and the income of their peers who have continued in full-time employment.

Figure 5 shows that, during all years under review and for retirees of all ages, the earnings of part-time pensioners have been higher than that of their peers who have continued in full-time employment. When examined across all ages, the income for those on part-time pension has been approximately 30 per cent higher.

The wages of those retiring on a part-time pension at the age of 58 have been approximately 15 per cent higher than that of their peers in full-time employment. The older the persons retiring on a part-time pension, the more well-paid they are compared to their peers in full-time employment.

There are no major differences between men and women in this respect. Particularly among the younger cohorts, the gender differences are only minor.

**Figure 5.** The earnings of those retiring on a part-time pension in relation to the earnings of those in full-time employment, by age group, prior to retirement on a part-time pension (100 = as large as the earnings of their peers in full-time employment).



### **Change in income when retiring on a part-time pension**

In this study, the replacement ratio of part-time pension has been calculated as a ratio between the income during the retirement year and the preceding year.

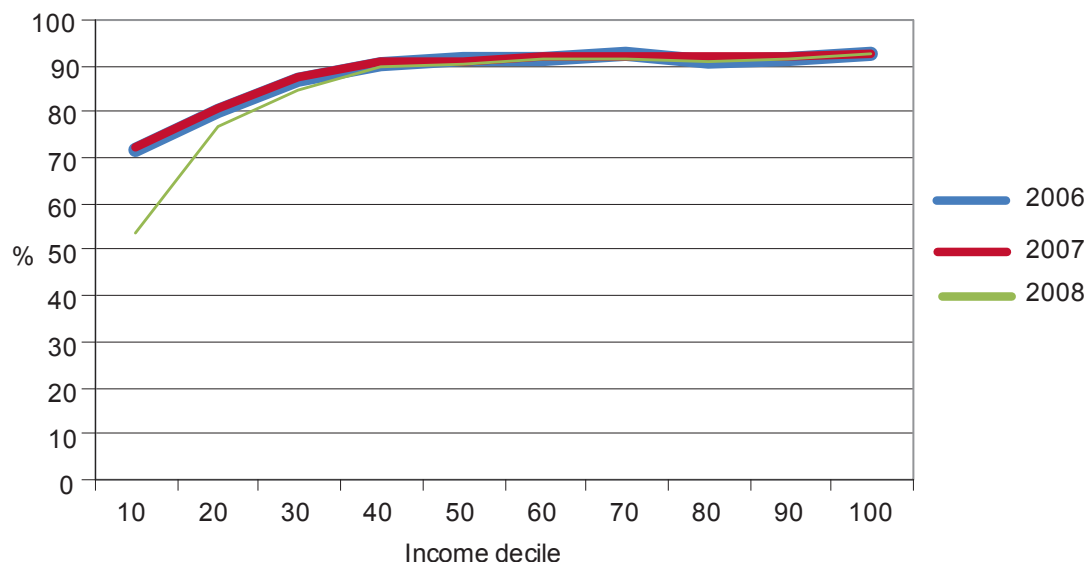
As noted above, in nearly all cases, persons retire on a part-time pension from full-time employment. In practice, the employment has been full time, so it can be considered the primary source of income. The average ratio of gross income has been 87 per cent. After taxation, the average replacement ratio rises to 90 per cent.

The replacement ratio has experienced a slight downtrend. In 2006, the replacement ratio was 80 per cent, while it was 75 per cent in 2008. The annual median has remained at 78 per cent.

Figure 6 shows that, in the lower four income deciles, the gross replacement ratio of the part-time pension and earnings for part-time work is clearly lower than for those with an

average income or for the well-paid, whose change in income is very small. Furthermore, except for in the first decile, the differences between the years under review are very slight.

**Figure 6.** Gross replacement ratio of persons retiring on a part-time pension, by income decile.



## 4 Summary and conclusions

Our study is based on Finnish Centre for Pensions's register data of persons retiring on a part-time pension during the review period 2005–2009. Register data covers earnings and pensions.

The part-time pension has been an option for more than 23 years. Over the years, more than 105,000 persons have retired on a part-time pension.

Finnish wage earners and self-employed persons show great interest in part-time pension. It is also a target of interest from a pension policy point of view, especially after the pension reform in 2005, when other paths to an early retirement have been abolished.

Changes in age limits and pension accrual rates have an impact on the decision to retire. As for changes in age limits in relation to part-time pension, the strongest impact was in 2002, when the pension risk increased, predicting changes in age limits that were realized in the following year.

The part-time pension was introduced in order for it to replace the disability pension. According to the register data, 15 per cent of persons on part-time pension transferred to a disability pension. We can therefore assume that these persons may have used the part-time pension to postpone retirement on a disability pension.

One of the central goals of the pension reform in 2005 is a prolonging of working careers. The question of whether the part-time pension assists in the achieving of this goal has been raised. *The first key finding of our study* is that persons who retire on a part-time pension have a more solid working career than their peers who carry on working. All persons who retired on a part-time pension in 2005–2009 had careers that were at least as long as, or longer, than

those of their peers in full-time employment. For example, those aged 58 who retired on a part-time pension had worked longer than their peers who continued in full-time employment. The difference is approximately 1.5 years, which can be considered significant.

The lower age limit for part-time pension during the period under review, 2005–2009, was 58 years. The youngest cohorts have been the most eager to retire on a part-time pension. Of all persons retiring on a part-time pension per year, approximately 60 per cent have been aged 58–59 years. The number of new part-time retirees has been on the rise, which is primarily a result of the size of the new cohorts. However, the actual retirement risk has not increased notably.

The nominal pension level of those retiring on a part-time pension has increased during the period under review (2005–2009). Apart from the exception in 2007, the real pension level has also risen. As in other pension types, women's pensions are smaller than men's.

High-level pensions are due to the fact that part-time pensioners have a more stable working career and fall within the higher income brackets than their peers in full-time employment. *The other key result of our study* is that those retiring on a part-time pension have a considerably higher income level than their peers. Those retiring on a part-time pension in 2006–2009 earned an income prior to their retirement that was 30 per cent higher than that of their peers. Of those retiring on a part-time pension at the age 58, approximately 15 per cent received higher wages than their peers in full-time employment.

When examining the changes in income of those retiring on a part-time pension, we observe that the change is only minor. The median gross replacement ratio is approximately 90 per cent. The median net replacement ratio that takes taxation into account is 95 per cent. *The third key result of our study* is that retiring on a part-time pension does not seem to reduce the income level considerably, i.e. the income remains more-or-less unchanged.



**The Finnish Centre for Pensions** is the statutory central body of the Finnish earnings-related pension scheme. Its research activities mainly cover the fields of social security and pension schemes. The studies aim to paint a comprehensive picture of the sociopolitical, sociological and financial aspects involved.

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