

# Finnish pension system and disability risk management

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# Finland: a small Nordic country

- Relatively large and sparsely populated country in Northern Europe with lots of forests and lakes
- Population 5,5 million
- Independent republic since 1917
- Member of the European Union since 1995
- Exports: (heavy) machinery and electronic equipment, pulp and paper, metals and timber
- GDP per capita: ca 40 000 euros (45 000 USD)
- International brands: Nokia, Jean Sibelius

# One of the Nordic welfare states

- Public services: universal provision of daycare, education, health care
- Social protection: earnings related social insurance systems (pensions and unemployment), means-tested basic benefits (housing, basic income), universal benefits (family allowances)
- Organized labour markets: high unionization rate ( $> 70\%$ ), high union coverage, wage bargaining between social partners
- Large public sector providing services (local government) and social insurance (central government and social insurance funds):  $G/GDP > 50\%$
- High taxes: progressive income taxes & consumption taxes;  $T/GDP = 45\%$
- Income distribution among the most equal in the world, high social cohesion and trust

# The Finnish pension system: Occupational pensions

- System established in 1962
- Comprehensive and compulsory; auto-enrollment, self-employed and entrepreneurs also included; centralized income register
- Partly funded with notional accounts; funding ratio 30 %, contributions ca 25 % of wages
- Earnings-related pension insurance, defined benefit principle
- Flexible retirement age: 64-69 years
- Old age pension with survivors' pension & disability pension included

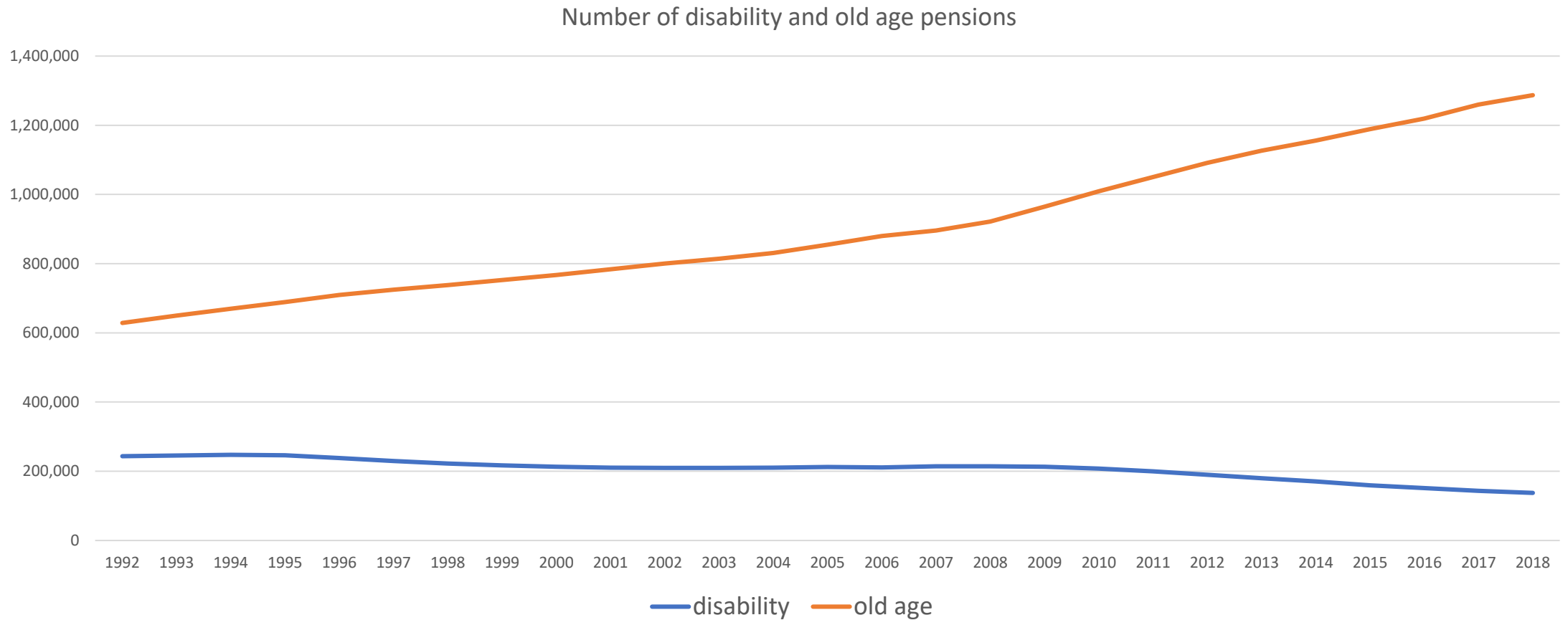
# The Finnish pension system: basic income support

- National pension payable to those without sufficient occupational pension
- Means-tested flat rate pension
- Financed directly from tax revenues
- Flat-rate minimum disability pensions for those without work history (disabled)

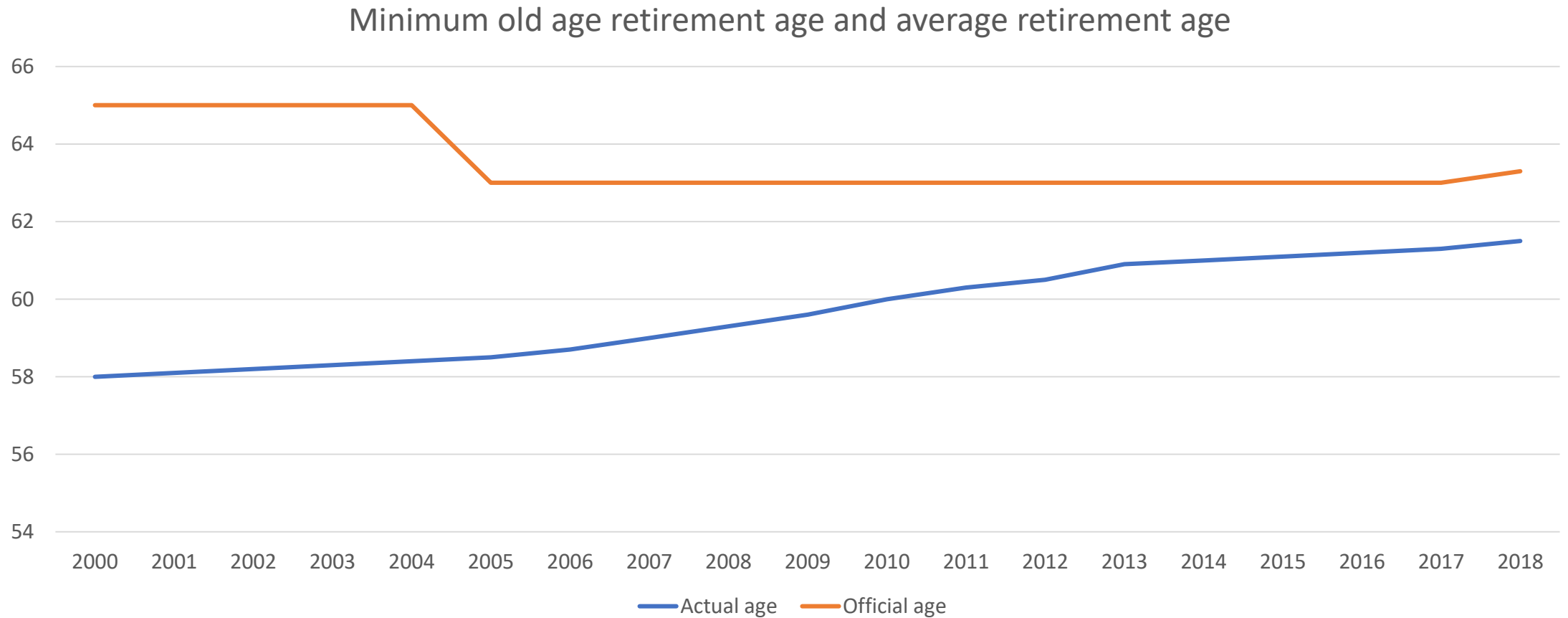
# Disability pensions

- In the case of disability worker is entitled to disability pension which is equal to his/her old-age pension (ca 60 % of wage)
- Before 2005 retirement age was 65 yrs, and majority of workers retired through disability pensions
- In 2005 retirement age was decreased to 63 yrs in order to decrease early retirement through disability
- The criteria of disability have been tightened over time and health and wellbeing have improved with rising living standards
- As a result, there has been a long downward trend in disability although the level is still rather high in international comparison

# Developments in disability



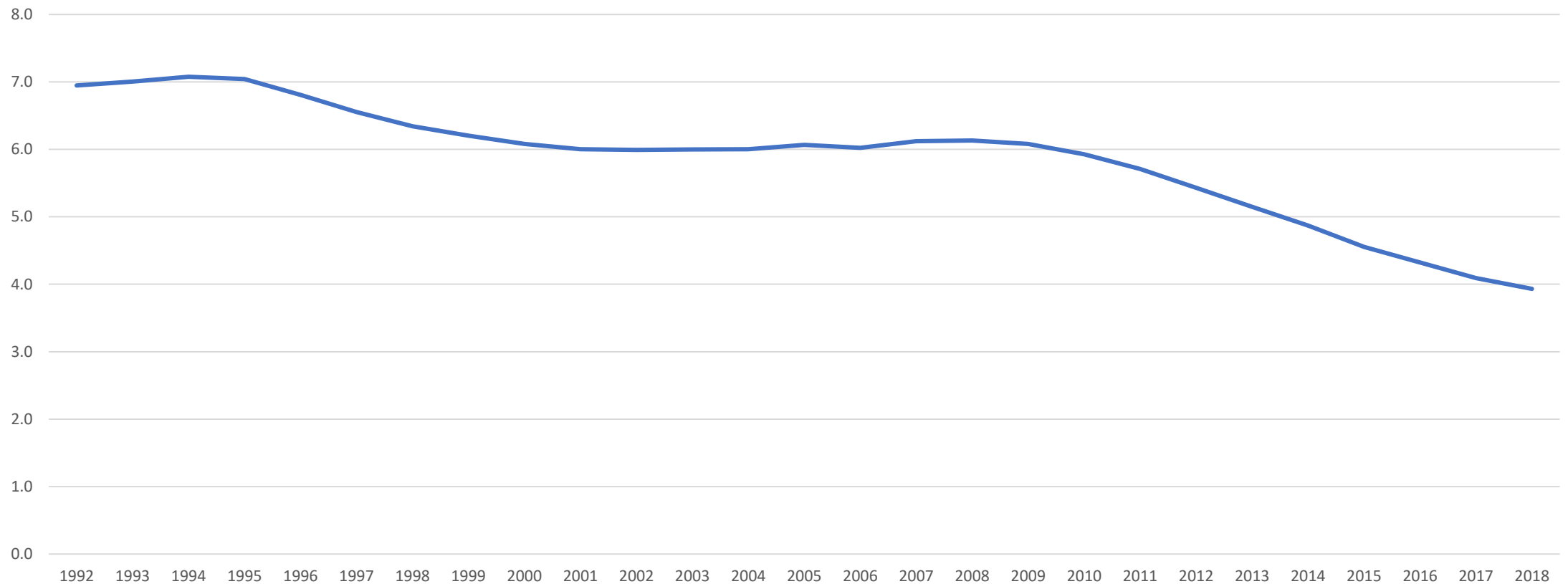
Actual retirement has been below minimum retirement age due to disability – but the difference has been shrinking



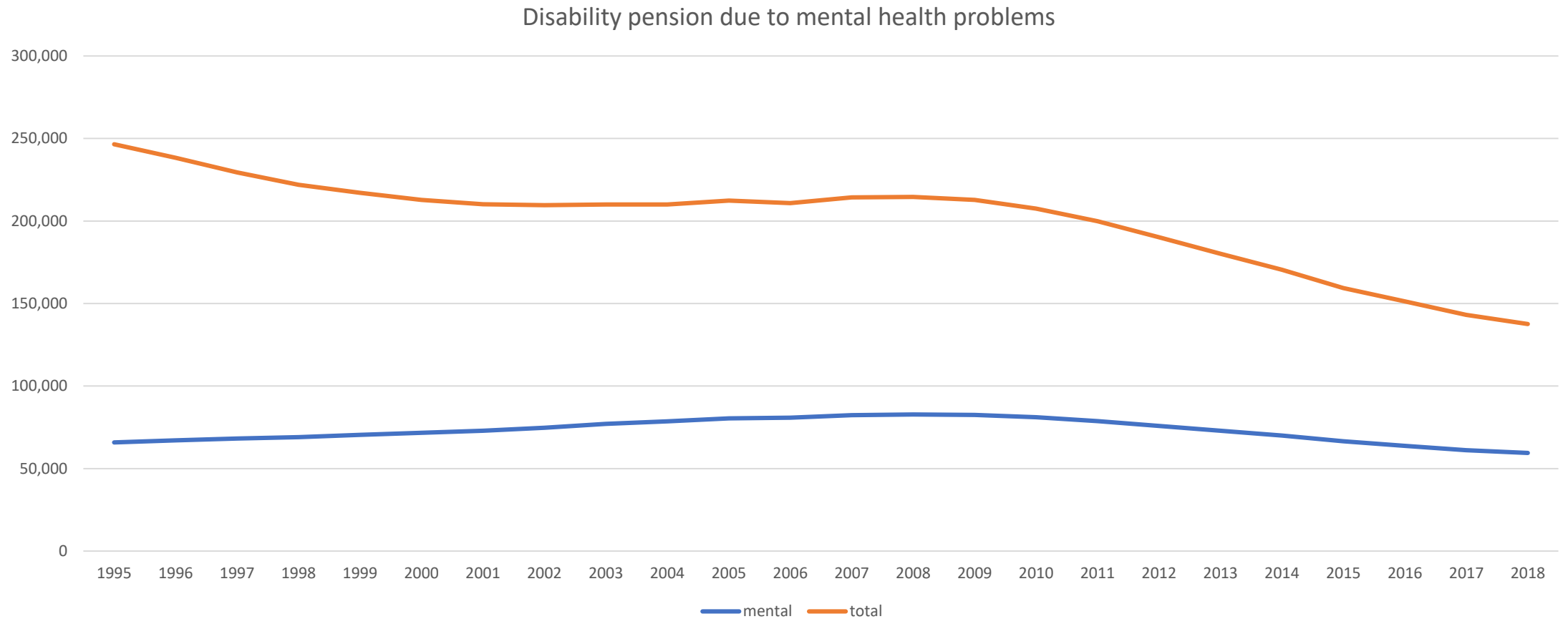


# Disability as a percent of working-age population has halved in 25 years

Disability pensioners as a share of working age population, percent



# Main causes of disability used to be back pain and heart disease – mental problems prevail



# Disability risk

- Disability risks have decreased
- Main reasons: better health, more safe jobs, more focus on disability reduction
- In the 1980s disability pension was an easy and soft way out of work in layoff situations
- Disability risk management improved, and disability criteria have been tightened

# How the pension system prevents disability?

- Experience rating
  - Large employers have to bear the costs of the disability pensions of their workers – an incentive to prevent disability cases
  - The disability costs of small employers are shared by all employers
- Occupational rehabilitation
  - Pension insurance companies finance and facilitate individual occupational rehabilitation programmes which seek to find new jobs for people who have become partly disabled
  - Employers and occupational health providers are expected to react to long sick leaves in order to prevent worse situations (=permanent disability)

# How effective is occupational rehabilitation?

- The volume of rehabilitation programmes has been multiplied over 20 years while the disability risk has decreased
- Today it is rare that anyone gets permanent disability pension; instead most cases are offered temporary or part time disability support combined with rehabilitation programme
- Rehabilitation looks effective and about 70 percent of cases are successful – they return to the labour market
- Rehabilitation is less successful when applied to people with sporadic work history
- The success rate seems to decrease when the volumes go up

# Current problems

- Minimum retirement age is increasing towards 65 years (in 2027)
- Higher retirement age increases the disability risk of over 60 years old persons
- For younger people the main reason of disability is mental health disorders and the number of cases is not decreasing
- More focus on mental health is needed and working life should be more inclusive

# Ways forward

- In rapidly ageing society it will be important to increase labour force participation
- Public policy (= new government) is focusing on improving the employment prospects of partly disabled with the help of support (active labour market policy programmes) and incentives (introduction of linear model of disability pension)

# Conclusions

- There have been good achievements in disability reduction
- It is not clear what have been the decisive factors explaining the development: better life or better health care?
- Pension system has contributed to the reduction by occupational rehabilitation programmes and by better medical reviews
- The impact of experience rating in disability pension contributions is ambiguous
- When physical hazards have decreased, the risk of mental health disorders is on the rise



**THANK YOU!**