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# SUMMARY

The amount of the take-home net pension is affected by how the earnings-related and national pension benefits and the taxation of pensions are determined. This review outlines how these factors have been determined for the year 2020 in Finland. The tables with examples illustrate what the total net pension consists of in the different income brackets. We have also examined the taxation of pensions in general terms and have compared the tax and contribution burden of pension recipients and wage earners in different income brackets.

At the beginning of 2020, the monthly amount of the full national pension increased by 34 euros and the full guarantee pension by 50 euros. The index adjustments are included in these amounts. In 2020, the full monthly national pension for a single person is 662.86 euros and for a married or cohabiting person 591.97 euros. Together with the guarantee pension, the minimum pension amount in 2020 is 834.52 euros per month for both single and married or cohabiting persons. The housing benefit is adjusted so that the increases in national pensions do not reduce the housing benefit correspondingly.

Earnings-related pensions rose by 1.23 per cent at the beginning of 2020. The wage coefficient used, for instance, to revalue earnings when determining the pension rose by 2.04 per cent.

Those born in July–December 1956 and those born in January–March 1957 will reach their retirement age of 63 years and 6 months and 63 years and 9 months respectively in 2020. Starting earnings-related pensions are adjusted with the life expectancy coefficient. The life expectancy coefficient for those born in 1958 has been confirmed at 0.95404. It reduces the cohort's monthly pensions by 4.6 per cent, starting in 2020.

The municipal taxation of earnings has been slightly mitigated in 2020 due to increases in the basic, income and pension income deductions. The change in the basic deduction affects the taxation of both wage earners and pension recipients.

The discretionary increases of the amount of the full national pension have been taken into account in the amendments of the pension income deductions in 2020 so that they do not affect the amount of the pension income in taxation. In 2020, the amount of the full pension income deduction in municipal taxation rises by 180 euros to 9,230 euros. The amount of the full pension income deduction in state taxation decreases from 11,590 euros in 2019 to 11,540 euros in 2020.

The income tax scale for 2020 has been mitigated by adjusting the income limits by approximately 3.1 per cent. The highest income bracket added to the income tax scale in 2013, also called the solidarity tax, is kept unchanged in 2020. According to the Government programme, the so-called solidarity tax will be in force throughout the term of government.

In 2020, the average municipal tax rate is 19.97 per cent (19.88% in 2019). The public broadcasting tax is 2.5 per cent for an annual income that exceeds 14,000 euros. However, the maximum broadcasting tax amount is 163 euros.

In 2020, the earnings-related pension contribution rate for wage-earners aged 17–52 and 63–67 is 7.15 per cent and for those aged 53–62 years, 8.65 per cent (6.75% and 8.25% in 2019 respectively). The unemployment insurance contribution decreases from 1.5 per cent in 2019 to 1.25 per cent in 2020.

In 2020, the medical care insurance contribution for wage earners is 0.68 per cent. No medical care insurance contribution was levied from wage earners in 2017, 2018 and 2019. The medical care insurance contribution levied on pension and other benefit income is 1.65 per cent in 2020 (1.61% in 2019). The health insurance contribution is 1.18 per cent for wage earners with an annual income of at least 14,574 euros (1.54% in 2019 for an annual income of 14,282 euros).

The changes in tax and contribution rates of pension and wage income compared to 2019 are minor. Comparing the tax rate in 2020 for the same amount of income and with average municipal tax rates, the tax rate for pension recipients is reduced slightly in 2020, in particular in the lower income brackets. The highest reduction (0.6–1.1 percentage points) will be for a pension income of 1,000–1,500 euros per month.

The net pension of a person who gets only a national pension from Kela will rise by about 6.4 per cent compared to 2019 because of the discretionary increases of the national and the guarantee pensions. The net pension in the income level at which national pensions are no longer paid will rise by 1.3–1.8 per cent. As inflation is assumed at 1.2 per cent in 2020, the real growth of a person receiving a guarantee pension will be around 5 per cent. The increase in net pension of pensions that amount to more than 1,000 euros roughly equals the price development, which means that there is no change in the purchasing power of the pension compared to in 2019.

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# 1 Introduction

Pension provision in Finland is based on two statutory schemes: the earnings-related pension scheme and the residence-based national pension scheme and guarantee pension. Earnings-related pensions are intended to ensure that people retiring from work can maintain a reasonable level of consumption compared to their pre-retirement income. The national pension and guarantee pension, then, ensure a minimum level of pension income for persons who worked for such a short period of time or whose earnings were so low that they have only a small or no earnings-related pension at all. In addition, pensioners may receive a housing allowance and other benefits through the Social Insurance Institution of Finland (Kela). Pensioners may also be eligible to receive compensation under motor liability, workers' compensation, patient or military accident insurance (LITA), which takes precedence over earnings-related pensions. These compensations, like statutory pensions, are subject to tax under the same principles as earned income.

The economic welfare of pensioners depends most importantly on their monthly pension income and on how this compares with their pre-retirement earnings. When earnings-related pension legislation was drafted in the 1960s, the target was to peg pensions at 40 per cent of earned income after 40 years' employment. Following the step increase in the 1970s, the target was raised to 60 per cent. At the same time, pensions were capped at 60 per cent of the individual's highest earnings during their career. Since the 2005 pension reform it has been harder to establish an exact target for the level of earnings-related pension. The reform included the introduction of a life expectancy coefficient, which impacts the amount of monthly pension payable. The most recent pension reform in 2017 included the decision to incrementally raise the statutory retirement age and to harmonize pension accrual rates at different ages.

Because of progressive taxation, the net pension to pre-retirement net earnings ratio is higher than the gross ratio. In other words, an individual's pension is taxed with a lower average tax rate than their wage because their pension is lower than their wage. Differences in tax deductions and allowances and social security contributions furthermore mean that pensions and wages also differ in terms of their tax and contribution burdens. Persons who have only a national pension pay no tax on their pension income.

The earnings-related pension scheme has been phased in incrementally. The amount of earnings-related pension as a proportion of overall pension income has steadily increased, while the share of national pension has decreased accordingly. Until 1995 the national pension consisted of a universal basic amount and an additional amount dependent on other pension income. Since 1996 persons receiving a specified minimum in earnings-related pension have no longer been eligible to receive a national pension. The guarantee pension was introduced in March 2011 to secure a minimum pension income for persons with a low earnings-related or national pension.

Discretionary increases have been made to national pensions from time to time. In the 2000s, the discretionary increases were made in 2001, 2005, 2006 and 2008. Since the guarantee pension was introduced, discretionary increases have been made only to the guarantee pension, in 2016, 2018 and 2019. The discretionary increases made to the guarantee pension have directly affected recipients of the smallest pensions. Since the increases are made to the national pension, the recipients of slightly higher pensions are also affected. As a result, the number of pension recipients entitled to a national pension grows.

In 2020, the national and the guarantee pension was raised as part of the government grogramme which stated that the income level of those receiving a small pension is to be improved. The pensions of approximately 609,000 pension recipients, whose total pension is below 1,200–1,300 euros per month, were increased.

At year-end 2018, around 62 per cent of Finnish resident recipients of a pension in their own right had only an earnings-related pension (old-age, disability and farmers' special pensions; excluding part-time pension and partial old-age pension). Around 33 per cent had a pension under both the national pension and the earnings-related pension scheme, and five per cent received only a national pension. National pensions were paid to 564,000 persons, 77,000 of whom received the pension in full. In 2018 there were 103,000 guarantee pension recipients, with an average monthly guarantee pension of 170.71 euros. The total number of Finnish resident recipients of a pension in their own right at year-end 2018 was 1,485,000.

In 2018 the average monthly pension of Finnish resident old-age and disability pension recipients was 1,680 euros, with earnings-related pension accounting for an average 1,538 euros, Kela pension for 125 euros and LITA pension for 17 euros. The average monthly pension income for persons receiving both a Kela pension and an earnings-related pension was 1,044 euros, with earnings-related pension accounting for 771 euros, Kela pension for 266 euros and LITA pension for 7 euros. The total monthly pension income for persons who received only a national pension was 759 euros (including guarantee pension), while the average for persons who had only an earnings-related pension was 2,095 euros. These figures include any survivors' pension paid to the pension recipient. The average earnings-related old-age pension for new retirees in 2018 was 1,823 euros a month.

Statistics Finland figures show that the average monthly earnings of full-time wage and salary earners in 2018 stood at 3,455 euros. The average earnings-related old-age pension for persons retiring in this year was thus around 53 per cent of average wage and salary earnings.

This report examines the effects of different factors on overall pensions and net pension income in 2020. Chapter 2 looks at how earnings-related pensions are determined. Chapter 3 deals with national pensions, national pension supplements and the guarantee pension, and Chapter 4 moves on to compensations from motor liability and workers' compensation. Chapter 5 covers the general principles of taxation and compares the taxation of pension recipients and wage earners. Furthermore, it considers situations where earned income includes both pension and employment income, as in the case of partial old-age pensions. Chapter 6 describes the formation of gross and net pensions at different income levels and looks at how net pension income has changed over the past 10 years. The appendices provide time series on sums and contributions that impact on total pension income.

# 2 Earnings-related pensions

A Finnish earnings-related pension is payable in the form of an old-age pension, disability pension, years-of-service pension and survivors' pension as well as a partial old-age pension or part-time pension. New part-time pensions are no longer granted, but existing part-time pensions are still paid out.

Earnings-related pension accrual has been calculated on a calendar year basis since 2005. Pension rights accrued before 2005 are calculated based on legislation in force at the time. Pension entitlements accrued for service under different earnings-related pension acts and for self-employment are added together. The total amount of earnings-related pension earned is finally multiplied by the life expectancy coefficient.

Earnings-related pensions are integrated with statutory benefits paid out under the Workers' Compensation Act, the Motor Liability Insurance Act and the Patient Injuries Act. These benefits take precedence over earnings-related pension, which is only payable to the extent that it exceeds these benefits.

Statutory earnings-related pension provision for employees and the self-employed is managed by pension insurance companies, industry-wide and company pension funds and special pension institutions. Earnings-related pensions in current payment are primarily funded from insurance contributions paid by employers, employees and the self-employed, and from accumulated pension assets and returns from these assets.

From the beginning of 2019, the national Incomes Register was implemented. It contains data on all wage and salary earnings. The Incomes Register is a joint database of several authorities. It makes reporting wages and salaries to different parties much easier. Also the earnings-related pension system utilises the Incomes Register. Pension and other benefit payments will be reported to the incomes register as of 2021.

## 2.1 Old-age pension

The age of eligibility for old-age pension is being progressively raised by 3 months a year from 63 to 65 years for persons born in 1955 and later (Table 2.1). For persons born in 1965 and later, the threshold for old-age pension will be tied to life expectancy. The first increase of no more than two months to the 65-year retirement age for persons born in 1965 will be endorsed in 2027 and take effect in 2030. The upper age limit for insurance obligation and for pension accrual will also rise, but in full years. Projections on the retirement age for persons born in 1965 and later have been presented in Tabel 2.8 in the appendix.

**Table 2.1.**
Old-age pension: retirement age, age at which insurance obligation ends and pension accrual, by year of birth

| Year of birth | Retirement age | Age at which insurance obligation ends |
|---|---|---|
| 1954 or earlier | 63 yrs | 68 yrs |
| 1955 | 63 yrs 3 mos | 68 yrs |
| 1956 | 63 yrs 6 mos | 68 yrs |
| 1957 | 63 yrs 9 mos | 68 yrs |
| 1958 | 64 yrs | 69 yrs |
| 1959 | 64 yrs 3 mos | 69 yrs |
| 1960 | 64 yrs 6 mos | 69 yrs |
| 1961 | 64 yrs 9 mos | 69 yrs |
| 1962–1964 | 65 yrs | 70 yrs |
| 1965 and younger | to be confirmed later | 70 yrs |

Long-term unemployed individuals born before 1958 and entitled to additional days of unemployment benefit can claim an earnings-related old-age pension at age 62. Persons born in 1958 and later can claim an earnings-related old-age pension when they reach the retirement age for their age group.

Pension accrual rules were revised from the beginning of 2017. The pension accrual rate is 1.5 per cent for each year of service from the age of 17, for self-employed persons from the age of 18. For persons aged 53–62 the accrual rate for the transition period (2017–2025) is 1.7 per cent of earnings. Earnings-related pensions are adjusted using a life expectancy coefficient (see chapter 2.8).

The rate of pension accrual for earnings on which social security benefits are based (unsalaried periods) is 1.5 per cent. The same rate of 1.5 per cent applies to earnings from paid employment and self-employment while receiving a pension, up to the upper age limit for insurance obligation. Although workers have to resign from their employment before they retire on an old-age pension, they may take up work again (in a new employment relationship) in retirement without restrictions: working will not reduce their earnings-related pension.

The pension will be increased by 0.4 per cent for each month of deferral. Persons born between 1949 and 1953 are eligible to receive an increase for late retirement no earlier than from the beginning of 2017.

When pensions are calculated, career lifetime earnings are adjusted to the level of the first year of pension using a wage coefficient.

## 2.2 Partial old-age pension

Persons aged 61 or over have the option to take payment of 25 or 50 per cent of their accrued pension in the form of a partial old-age pension. The amount of partial old-age pension is calculated based on the pension rights accrued by the end of the year preceding the year the pension commences. Eligibility for a partial old-age pension starts at age 61; there is no upper age limit. The age limit will rise to 62 years for persons born in 1964. The age limit will subsequently be tied to changes in life expectancy and will rise along with the old-age retirement age.

The portion of pension taken out early is subject to an early retirement reduction, which is 0.4 per cent for each month that the pension is taken early. For instance, a partial old-age pension taken one year early is permanently reduced by 4.8 per cent. Persons who take payment of a partial old-age pension starting from the calendar month after they have reached their retirement age will receive an increase for deferred retirement, which is 0.4 per cent for each month that the pension is deferred.

Partial old-age pensions are adjusted using a life expectancy coefficient confirmed for the year that the pension starts, if this is before the year the person turns 62. If the partial old-age pension starts during the year the person reaches age 62, or later, the adjustment will be made using the life expectancy coefficient confirmed for the person's age group.

A partial old-age pension awarded at 25 per cent can be exchanged for a 50 per cent pension, but no other changes can be made to the amount of pension payable. The pension cannot be discontinued, but it can be cancelled within three months of pension commencement.

There are no employment or earnings restrictions while drawing a partial old-age pension. Old-age pension accrues at a rate of 1.5 per cent on income from employment while drawing a partial old-age pension, or at a rate of 1.7 per cent during the transition period (2017–2025). The remainder of the pension is granted at the earliest age of retirement without a deduction for early retirement, or later, with an increase for late retirement.

**Part-time pensions** are no longer granted. Pensions granted before the scheme was discontinued at the start of 2017 are still being paid according to the rules in force before 2017. At the end of October 2019, part-time pensions were paid out to around 1,200 persons. Income from employment while receiving a part-time pension accrues old-age pension at a rate of 1.5 per cent, or 1.7 per cent during the transition period. Persons born before 1953 furthermore accrue old-age pension at an annual rate of 0.75 per cent on the reduction of income.

## 2.3 Disability benefits

Disability benefits under the earnings-related pension scheme are the disability pension, partial disability pension, cash rehabilitation benefit and partial cash rehabilitation benefit. A full disability pension is paid to a person suffering a loss of at least three-fifths of working capacity; the criterion for a partial pension is a loss of at least two-fifths of working capacity. A partial disability pension is half the amount of the full disability pension for the insured person. The cash rehabilitation benefit is always granted for a fixed period, and it is the same amount as the disability pension.

A disability pension consists of the pension that the individual has accrued by the time of disability onset and the projected pension component. The projected pension component is calculated from the beginning of the year of the pension contingency to the end of the month when the individual reaches old-age retirement age. If the retirement age has not yet been set for the age group, the termination age for the projected pension component is the corresponding age specified for the nearest age group. For persons born in 1965 and later, the termination age for the projected pension component is currently 65 years, which is the earliest age of eligibility stipulated in the law for persons born in 1964. As a rule, the projected pension component is calculated based on earnings over five years before the year of the pension contingency. The accrual rate for the projected pension component is 1.5 per cent.

The disability pension is multiplied by the life expectancy coefficient issued for the age group turning 62 during the year of the pension contingency. The coefficient is applied only to the portion of the pension earned before the beginning of the disability. The coefficient will therefore have a lesser effect than in determining the amount of old-age pension. The life expectancy coefficient does not change when the disability pension is converted into an old-age pension.

A permanent lump-sum increase is added to the disability pension or cash rehabilitation benefit when five full calendar years have elapsed since the commencement of pension payments. The increase depends on the person’s age at the start of the year that the increase is made. For employees aged 31 and younger, the pension increase is 25 per cent, and from age 31 the increase drops by one percentage point per year of age. Persons over 55 at the beginning of the year no longer receive the lump-sum increase.

While drawing a pension, disability pension recipients may earn up to 40 per cent and partial disability pension recipients up to 60 per cent of their average pre-disability earnings. How the earnings limits are applied is also affected by for how long the earnigns limits are exceeded. According to the temporary act for the promotion of return to work, both full and partial disability pension recipients may in any case earn at least 834.52 euros a month (2020). The act expires at the end of 2020.

When the disability pension recipient’s earned income exceeds the 60 per cent limit or the highest earnings limit, pension payments will be suspended for a minimum of three months and a maximum of two years. Pension accrues for income earned while pension payments are suspended at a rate of 1.5 per cent on annual earnings.

A full disability pension is converted into an old-age pension and a partial disability pension into an old-age pension equivalent to a full disability pension from the beginning of the month after the pension recipient reaches retirement age. If the disability started before 2017, the pension is converted into an old-age pension at the age of termination of the projected pension component for the disability pension concerned.

## 2.4 Years-of-service pension

The years-of-service pension can be claimed by a person born in 1955 or later no earlier than at age 63. The age limit is tied to life expectancy as of the 1965 birth cohort. For this and subsequent cohorts the age limit is always two years lower than the full retirement age. In 2020 a years-of-service pension can be claimed by the 1957 birth cohort, whose retirement age is 63 years and 9 months. The maximum duration of payment for years-of-service pensions for that cohort is thus nine months before the pension is converted to an old-age pension. The first years-of-service pensions were granted in 2018. By the end of October 2019, a total of 40 persons had been granted a years-of-service pension, but only 11 of them were still in payment.

A years-of-service pension requires loss of working capacity, but to a lesser extent than in the case of disability pension. Eligibility requires an employment history spanning at least 38 years and involving high physical and mental stress. Furthermore, the individual may have claimed maternity, paternity or parental allowance for no more than three years. The length of employment criterion is verified on the basis of data in the earnings- and accrual register of the earnings-related pension system and reliable documentation submitted by the pension applicant.

The amount of years-of-service pension is calculated based on the pension rights accrued by the end of the month before the pension starts. The years-of-service pension is smaller than the disability pension because it does not include a projected pension component.

## 2.5 Survivors' pensions

The survivors' pensions consist of the surviving spouse's pension and the orphan's pension. The surviving spouse's pension is paid out under certain conditions to the spouse of the deceased person. A partner in a same-sex registered partnership is treated in the same way as a spouse. The orphan's pension can be claimed by the deceased person's children under age 18.

Survivors' pensions are based on the deceased person's old-age or disability pension at the time of death. If the deceased person was not yet retired or had not reached their retirement age, the survivors' pensions are determined based on the pension they would have received had they lost their ability to work at the time of death.

The survivors' pension cannot exceed the deceased person's full earnings-related pension. The shares of the deceased person's earnings-related pension received by the surviving spouse and children are shown in Table 2.2. The orphan's pension is paid until the child reaches 18 years of age.

**Table 2.2.**
Surviving spouse's and children's shares of survivors' pension

| | Number of children | | | | |
|---|---|---|---|---|---|
| | 0 | 1 | 2 | 3 | 4– |
| Surviving spouse's pension | 6/12 | 6/12 | 5/12 | 3/12 | 2/12 |
| Orphan's pension | - | 4/12 | 7/12 | 9/12 | 10/12 |
| Total | 6/12 | 10/12 | 12/12 | 12/12 | 12/12 |

If there are no underage children and the surviving spouse is not retired, he or she will be paid a full (6/12) surviving spouse's pension for six months. After these six months, the surviving spouse's own or imputed earnings-related pension income will reduce the amount of surviving spouse's pension paid out.

Any pension received by the surviving spouse that is over and above 723.00 euros a month (2020) will reduce the amount of survivors' pension payable to the surviving spouse. This threshold for the reduction of the surviving spouse's pension is adjusted in line with the wage coefficient. If the surviving spouse's own pension income falls below the threshold, the surviving spouse's pension will not be reduced.

The reduced surviving spouse's pension is calculated using the following formula (if the surviving spouse's own pension is larger than the reduction threshold and that there are no underage children):

Reduced surviving spouse's pension =
0.5 x deceased person's pension – 0.5 x (surviving spouse's own pension – 723.00e)

Table 2.3 lists some examples of a reduced surviving spouse's pension.

**Table 2.3.**
Reduced surviving spouse's pension (€)

| | Deceased person's pension | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Surviving spouse's own pension | 500 | 1 000 | 1 500 | 2 000 | 2 500 | 3 000 | 3 500 | 4 000 |
| 0 | 250 | 500 | 750 | 1 000 | 1 250 | 1 500 | 1 750 | 2 000 |
| 500 | 250 | 500 | 750 | 1 000 | 1 250 | 1 500 | 1 750 | 2 000 |
| 1 000 | 112 | 362 | 612 | 862 | 1 112 | 1 362 | 1 612 | 1 862 |
| 1 500 | 0 | 112 | 362 | 612 | 862 | 1 112 | 1 362 | 1 612 |
| 2 000 | 0 | 0 | 112 | 362 | 612 | 862 | 1 112 | 1 362 |
| 2 500 | 0 | 0 | 0 | 112 | 362 | 612 | 862 | 1 112 |
| 3 000 | 0 | 0 | 0 | 0 | 112 | 362 | 612 | 862 |
| 3 500 | 0 | 0 | 0 | 0 | 0 | 112 | 362 | 612 |
| 4 000 | 0 | 0 | 0 | 0 | 0 | 0 | 112 | 362 |

## 2.6 Unsalaried periods

Sickness and rehabilitation benefits, parental allowances, unemployment benefits and training and education subsidies add to pension entitlements (see Table 2.4). Pension-like benefits also accrue for periods of caring for a child under three and periods of study, as stipulated in separate provisions of law. For periods on earnings-related social benefits, pension rights accrue according to the earnings on which the social benefit concerned is determined. Calculations of accrued pension and the projected pension component take these earnings into account in different ways.

The earnings that form the basis of the daily allowances paid by Kela under the Health Insurance Act was amended as of the beginning of 2020. The earnings that form the basis of the pension was amended correspondingly. The pension is based on an annual income for 12 calendar months. The income may include wages and salaries, the confirmed income of self-employment and benefits. The share of the earnings that form the basis of the benefit when calculating the pension was also changed for these benefits. In the future, the earnings that form the basis of the following benefits are calculated as follows: the parenthood allowance as 121 per cent (previously 117%), Kela's rehabilitation allowance as 55 per cent (65%), and the sickenss allowance as 62 per cent (65%).

Benefits that accrue under the Act on Compensation for Pension Accrual from State Funds for Periods of Childcare and Periods of Study are based on the same fixed amount. Benefit earnings are counted as double in the projected pension component.

Studies leading to a higher university degree afford entitlement to pension accrual for five years, a polytechnic bachelor's degree for four years and a university bachelor's degree and a vocational upper secondary qualification for three years. However, persons completing more than one qualification or degree can only accrue pension entitlement for a maximum of five years in total.

The pension accrual rate is 1.5 per cent of earnings on which benefits are based. Pension is earned for periods on social security benefits if the person's lifetime career earnings are at least 18,171.45 euros (at 2020 level). No pension accrues for the benefit for time during which pension under an earnings-related pension act is paid. As of the beginning of 2020, a pension paid from abroad does not prevent pension from accruing for unpaid periods.

As benefits may be calculated on an annual or monthly basis but are usually paid per diem, the earnings used in determining benefits must be converted into daily earnings for purposes of pension calculation. These daily earnings are multiplied by the number of benefit days to obtain the annual earnings for the calculation of the benefit scheme concerned.

**Table 2.4.**
How earnings used in social benefit determination count towards pension entitlement (2020 values)

| Benefit | Percentage or amount counted towards earned pension | Percentage or amount counted towards projected pension component |
|---|---|---|
| Maternity, paternity and parental allowance | 121% | 121% |
| – For period paid to employer (employer pays maternity pay) | 21% | 21% |
| – Minimum | €757.14/month | €757.14/month |
| Earnings-related unemployment benefit | 75% | 100% |
| Rehabilitation allowance (Kela) | 55% | 100% |
| Rehabilitation allowance (earnings-related pension acts, LITA) | 65% | 100% |
| LITA compensation for loss of income | 65% | 100% |
| Adult education allowance | 65% | 100% |
| Sickness allowance and special care allowance | 62% | 100% |
| Infectious disease allowance | 65% | 100% |
| Job alternation compensation | 55% | 100% |
| Basic daily allowance and labour market support under the Unemployment Security Act | 0% | €1,514.28/month |
| Sickness allowance after basic daily allowance | 0% | €1,514.28/month |
| Home care allowance | €757.14/month | €1,514.28/month |
| Qualification or degree | €757.14/month | €1,514.28/month |

## 2.7 Indices

When pensions are calculated, career lifetime earnings are adjusted to the level of the first year of pension using a wage coefficient. The wage coefficient in 2020 is 1.446, up 2.04 per cent from the year before. Changes in employees' earnings have an 80 per cent weighting and changes in consumer prices a 20 per cent weighting in the coefficient. The wage coefficient is also used to annually adjust the monetary amounts specified in earnings-related pension acts, which among other things determine the terms and conditions for pension insurance and accrual.

Pensions in payment are adjusted at the start of each year using an earnings-related pension index, in which changes in earnings level have a 20 per cent weighting and changes in consumer prices an 80 per cent weighting. In 2020 the earnings-related pension index increased by 1.23 per cent from the previous year to 2,617 points.

The wage coefficient and the earnings-related pension index are determined based on official Statistics Finland time series of wage and salary indices and consumer price indices. The index of wage and salary earnings measures the development of all employees' earnings from regular working hours. Prices are monitored using the national consumer price index. The development of earnings and consumer prices is measured by annual third quarter change. The wage coefficient and the earnings-related pension index is issued by the Ministry of Social Affairs and Health each year by the end of October.

## 2.8 Life expectancy coefficient

Since 2010 all new old-age pensions have been adjusted using a life expectancy coefficient to automatically account for changes in life expectancy.

In times of rising life expectancy, the coefficient will reduce the monthly pension payout, but not the lifetime amount of old-age pension received by the beneficiary if they live out the new projected life expectancy.

A life expectancy coefficient is set for each birth cohort at age 62. In 2019 the life expectancy coefficient is fixed at 0.95404, which applies to old-age pensions for persons born in 1958. The coefficient also applies to younger age groups who are granted an early old-age pension, a disability pension or a partial old-age pension in 2020.

Pensions granted to persons retiring in 2020 at their retirement age or older are adjusted by a coefficient that was confirmed for the age group (Table 2.8).

The method used to calculate the coefficient changes for those born in 1965 or later as the retirement age is tied to life expectancy.

The life expectancy coefficient impacts on survivors' pensions via the deceased person's pension. The coefficient is not applied to survivors' pensions themselves, but its effect is mediated through the deceased person's pension on the basis of which survivors' pensions are calculated.

The life expectancy coefficient is not applied to national pension. The national pension and guarantee pension contribute to offset in part the reduction in earnings-related pension caused by the life expectancy coefficient.

# 3 National pension benefits

Administered by the Social Insurance Institution of Finland (Kela), the national pension scheme offers national pension and guarantee pension benefits to provide a basic pension income for persons with limited or no earnings-related pension security. Funding for national pension benefits and the operating costs of the National Pension Fund comes from the state budget.

The National Pensions Act provides for three types of pension benefits that are paid out by Kela: the old-age pension, the disability pension and survivors' pensions. The old-age pension and disability pension are subject to the same rules of determination. These pensions are supplemented by a guarantee pension for individuals with inadequate overall pension income. The determination of survivors' pensions is covered in a separate chapter below.

Pension recipients may furthermore qualify for a housing allowance, pensioners' care allowance, a child increase or a front-veteran's supplement.

## 3.1 National pension

### 3.1.1 Entitlement to national pension

Entitlement to a full **old-age pension** under the National Pensions Act begins at age 65 and entitlement to an early old-age pension at age 63. For persons born in 1965 or later the age limit for national old-age pension will be tied to the age group's retirement age as set out in the relevant earnings-related pension act. Persons born in 1958–1961 are eligible to receive an early old-age pension at age 64. Persons born in 1962 or later cannot take early payment of a national pension.

Long-term unemployed individuals born before 1958 who receive additional days of unemployment benefit are entitled to a national old-age pension under the National Pensions Act with no reduction for early retirement at age 62. For long-term unemployed individuals born between 1958 and 1961, the age limit is 64 years. Long-term unemployed persons born in 1962 or later are not entitled to receive an unreduced old-age pension before reaching full retirement age.

Persons with an illness, handicap or injury that prevents them from earning a reasonable income may be eligible to receive a **disability pension** under the National Pensions Act. A reasonable income is defined as monthly earnings of over 834.52 euros.

Persons with only a partial (earnings-related) old-age pension or years-of-service pension do not qualify for a national pension if they have not reached the national old-age pension retirement age.

### 3.1.2 Amount of national pension

The amount of national pension depends on the person's pensionable earnings, family status and length of residence in Finland. The full national pension in 2020 rose by 34 euros as a result of the discretionary and index increase. The full pension for a single person living alone is 662.86 euros a month and for a married or cohabiting person 591.79 euros a month. The amount of national pension decreases with increasing pension income, as one-half of the beneficiary's earnings-related pension is deducted from the full national pension. However, deductions from the national pension are only made when other pension income exceeds the threshold income of 56.04 euros a month (2020). The minimum national pension paid out in 2020 is 6.75 euros a month.

National pension = Full national pension – 0.5 x (other pension income – threshold income)

**Table 3.1.**
Full national pension in 2020 (€/month)

| | Full national pension | Earnings-related pension income ceiling for national pension eligibility |
|---|---|---|
| Single person | 662.86 | 1 368.21 |
| Married or co-habiting | 591.79 | 1 226.13 |

An old-age pension that is taken early is permanently reduced by 0.4 per cent for each month the pension is claimed before the retirement age. A deferred national pension is increased by 0.6 per cent for each month that the pension is postponed beyond the retirement age. For persons born in 1962 or later, the national pension is increased by 0.4 per cent for each month that the pension is postponed beyond the retirement age.

Kela calculates the amount of national pension payable based on annual euro values. The monthly earnings-related pension is multiplied by 12 and rounded to the nearest euro. Threshold incomes are included in the calculations on an annual basis. The final monthly national pension is rounded to the nearest cent. The amount of a national pension in payment is reviewed in the event of a change in marital status or other than an indexation change in the beneficiary's earnings-related pension.

### 3.1.3 Earnings considered for the calculation of national pension

The following sources of pension income are considered for purposes of calculating the individual's national pension:

- statutory earnings-related pensions,
- voluntary pension arrangements provided by the employer,
- reduction for early retirement on earnings-related old-age pension (for survivors' pensions the deceased person's reduction for early retirement is not included),
- the MYEL component of farmers' early retirement aid,

- compensation paid out under the Workers' Compensation Act, the Motor Liability Insurance Act and the Military Accidents Act, excluding any lump-sum increases to these compensations, and
- partial old-age pension including any reduction for early retirement and excluding any increase for deferred retirement.

The following are excluded from earnings-related pension income when calculating the amount of national pension payable.

- the portion of earnings-related pension accrued from employment in 2005–2016 after age 63,
- the increase for deferred retirement on earnings-related pension for periods after reaching full retirement age,
- child increase to earnings-related pension,
- rehabilitation increase to earnings-related pension,
- portion of pension accrued for studies and for periods of caring for a child under three (applies also to portion included in survivors' pension), and
- lump-sum increase to disability pension after five years (also applies to portion included in survivors' pension).

The national pension is reduced by the full amount of survivors' pension paid out under the earnings-related pension scheme. In other words, the 4.5 per cent accrual rate earned by the deceased person for employment at age 63–67 and included in the survivors' pension will also reduce the amount of national pension payable. An earnings-related old-age pension and partial old-age pension taken early are counted as income without deduction for early retirement.

Pensions and compensation received from abroad will under certain conditions reduce the amount of national pension. An earnings-related pension paid from another EU country will reduce the amount of national pension in the same way as a Finnish earnings-related pension where EU Social Security Regulation 883/2004 is applicable.

The following pension income from abroad will affect the amount of national pension payable:

- statutory and voluntary earnings-related pensions based on wage or salaried employment and self-employment,
- own pensions and survivors' pensions based on accidents at work,,
- own pensions and survivors' pensions based on traffic accidents,
- survivor's pensions based on military injuries,
- benefits corresponding to farmers' early retirement benefits, and
- pensions corresponding to national pension and survivors' pensions under the National Pensions Act.

## 3.2 Guarantee pension

The guarantee pension is a benefit provided by Kela for low-income pensioners. However the benefit is not paid to persons who receive only a part-time pension, partial disability pension, survivors' pension or partial old-age pension. The guarantee pension is a taxable benefit and paid only to persons resident in Finland.

In 2020, the full amount of the guarantee pension is 834.52 euros per month. The discretionary and index increases raised the full amount with 50 euros compared to in 2019. Married or cohabiting persons who receive only a national pension are paid a maximum of 242.73 euros a month in guarantee pension. The lowest amount of guarantee pension paid out is 6.75 euros a month.

The guarantee pension is not increased when taken out late, but the early retirement reduction rules are the same as for the national pension. Therefore, the earliest age at which old-age pension recipients can claim a guarantee pension is the same as for the national pension, that is, 63 years.

The amount of guarantee pension payable depends on the beneficiary's other pension income, including pension payments from abroad. It is not affected by receipt of a pensioner's care allowance, front-veterans' supplement or child increase, nor by earnings from employment, capital income or property, or by receipt of an informal care allowance. However, the amount of guarantee pension is considered when calculating the pensioner's housing allowance. A partial old-age pension does not give its recipients the right to a guarantee pension. If the beneficiary has a partial old-age pension and additionally another pension that qualifies them for a guarantee pension, the partial old-age pension in payment will reduce the amount of guarantee pension payable.

The following will be considered as pension income for purposes of calculating the amount of guarantee pension payable:

- national pension,
- statutory earnings-related pensions,
- voluntary pension arrangements provided by the employer,
- all pensions and compensation received from abroad that, if paid in Finland, would be considered as income,
- the MYEL component of farmers' early retirement aid,
- compensation paid out under the Workers' Compensation Act, the Motor Liability Insurance Act and the Military Accidents Act, excluding any lump-sum increases to these compensations,
- partial old-age pension including any reduction for early retirement and excluding any increase for deferred retirement, and

- other pensions and compensation (journalist pensions, athlete and artist pensions and survivors' pensions, pensions and survivors' pensions for Artist Professors and artist grant recipients, special compensation paid to spouses of officials in foreign representative offices, survivors' pensions under the Act on Compensation for Crime Damage, survivors' pension under the Patient Injuries Act).

Immigrants aged 65 or over and immigrants over 16 and disabled under the National Pensions Act are also entitled to receive a guarantee pension if they meet the length of residence requirements.

| Guarantee pension = €834.52 – other pension income |
|---|

## 3.3 Survivors' pensions

### 3.3.1 Surviving spouse's pension

Entitlement to a surviving spouse's pension under the National Pensions Act is restricted to surviving spouses aged under 65. A surviving spouse's pension can be claimed if the surviving spouse and the deceased person were married and if they married before the deceased person turned 65. The surviving spouse is not eligible to receive a surviving spouse's pension after the death of an unmarried partner, but the children of the unmarried widow(er) may be eligible to receive an orphan's pension from Kela.

The surviving spouse's pension consists of an initial pension and a continuing pension if applicable. Surviving spouses can claim an initial pension for six months after the death of their spouse. The initial pension is a fixed amount unaffected by the surviving spouse's income or property assets. In 2020 the initial pension is 327.54 euros a month.

If the surviving spouse has a dependant child under the age of 18, the surviving spouse's continuing pension will include the basic amount (€102.60/month) and, depending on income, an additional amount. The additional amount will not be paid if the surviving spouse's income is more than 1,120.96 euros a month (€977.38 for married or cohabiting persons).

If the surviving spouse does not have a dependent child under the age of 18, the continuing pension may consist only of the additional amount, which is dependent on the claimant's income. If the surviving spouse has a monthly income of over 56.04 euros, half the amount of excess income will be deducted from the full additional amount. No surviving spouse's pension will be paid if the claimant's monthly income exceeds 1,107.46 euros (€63.96 for married or cohabiting persons).

Other income reduces the surviving spouse's continuing pension. The calculation will consider 60 per cent of earned income, unemployment security, sickness daily allowance and children's home care allowance; and 100 per cent of the surviving spouse's own pension income, survivors' pensions paid to the surviving spouse after the spouse's death, interests and dividends received, other capital income, and confirmed income under YEL and MYEL (Self-Employed Persons' Pension Act and Farmers' Pensions Act). The same earnings-related pension components are considered as income as in the calculation of the claimant's own national pension.

**Table 3.2.**
Amount of surviving spouse's pension in 2020 (€/month)

| | |
|---|---|
| Initial pension (6 months) | 327.54 |
| Full continuing pension when claimant has dependant under 18 | |
| – living alone | 635.08 |
| – married or cohabiting | 563.31 |
| Full continuing pension when claimant has no dependant under 18 | |
| – living alone | 532.48 |
| – married or cohabiting | 460.71 |

## 3.3.2 Orphan's pension

Orphan's pensions are paid out by Kela to children under the age of 18: the deceased person's own child, the deceased person's adopted child, or a child who at the time of death was the deceased person's dependant. Kela may also grant a so-called student's pension to full-time students aged over 18 until they turn 21. This benefit only includes the basic amount of the orphan's pension. If both parents or guardians of the child have died, the orphan's pension is paid separately after each of them.

Orphan's pensions include a basic amount that is independent of earnings, plus an additional amount that is paid if survivors' or assistance pensions paid from other than Kela sources come to less than 238.30 euros a month. Orphan's pensions are unchanged from 2018 due to indexation freezes.

Orphan's pension = basic amount + (full additional amount – 0.5 x (other survivor's pensions – threshold income))

**Table 3.3.**
Orphan's pension in 2020 (€/month)

| | |
|---|---|
| Basic amount | 60.27 |
| Child's additional amount | 91.16 |
| Full orphan's pension | 151.43 |
| Threshold income = earnings ceiling for full pension eligibility | 56.04 |

## 3.4 Pension assistance

Pension assistance is a one-off arrangement intended to provide income security for long-term unemployed persons ahead of their retirement on old-age pension. The act entered into force on 1 June 2017 and applied to persons born before 1 September 1956. As of 1 October 2019, this scheme for the long-term unemployed was rolled out to apply to persons born before 1 September 1958 who have been out of work almost without interruption for five years. Furthermore, it was required that they had been eligible to receive labour market support on 31 August 2018.

The pension assistance is equal to the amount of guarantee pension (€834.52/month in 2020). For tax legislation purposes, the pension assistance is subject to the same rules as pensions. Pension assistance beneficiaries are entitled to a child increase, pensioners' housing allowance and pensioner's care allowance under the National Pensions Act. The pension assistance ends when the beneficiary reaches their retirement age, or at age 65 at the latest. In October 2019, the number of pension assistance recipients was around 4,500.

## 3.5 National pension index

Benefits under the national pension scheme are adjusted annually based on the national pension index. The 2020 national pension index is 1633 points, which is 1.0 per cent higher than in 2019. In 2020, the index increase was included in the discretionary increases of the guarantee pension (€50) and the national pension (€34). In 2017–2019, no increases were made to benefits tied to the national pension index. In 2017 the national pension index was lowered by 0.85 per cent.

The national pension index is adjusted annually based on the cost-of-living index. The index point figure for the following year is calculated by dividing the mean whole-number cost-of-living index (defined in law) for the previous year's third-quarter months (July, August and September). The freezing of the national pension index is intended to be permanent. As a result, the divider was changed from 1.192 to 1.206 as of the beginning of 2020. Kela confirms the national pension index for the next calendar year by the end of October each year, and benefits under the new index are paid out from the beginning of January the following year.

## 3.6 Length of residence requirements and adjustment of Kela pensions to length of residence

All persons who live in Finland and who have lived in the country for at least three years after reaching age 16 may be eligible to receive a national pension and a guarantee pension. There is no length of residence requirement if a disability pension, and possibly a guarantee pension, is granted to a young person.

Eligibility for a survivors' pension requires that the deceased person had lived in Finland for at least three years after reaching age 16. Furthermore, eligibility for a surviving spouse's pension requires that the surviving spouse has lived in Finland for at least three years before the death of the deceased person and after reaching age 16, and furthermore that the surviving spouse has moved to Finland within one year of the death of the deceased person. As for orphan's pensions, it is required that the child has lived in Finland at the time of the death of the deceased person or moved to Finland within one year of the deceased person's death.

Where EU Social Security Regulation 883/2004 is applicable, the accrual of pension rights in another EU country will be considered for the determination of pension rights and the calculation of pensions. Claimants who have not accumulated a one-year insurance period in any country are nonetheless entitled to a national pension if they were last insured in Finland and if their insurance period from all countries is at least three years in total.

If the claimant meets the length of residence requirements but if either the claimant or the deceased person has spent less than 80 per cent of their time between age 16 and the start of the pension or age 65 in Finland, the national pension and the surviving spouse's pension will be adjusted to the length of time lived in Finland. The orphan's pension and guarantee pension are not adjusted according to length of residence.

## 3.7 Pensioners' housing allowance

Pensioners' housing allowance can be claimed by low-income pensioners who are permanently resident in Finland in rented or owner-occupied accommodation. If both spouses have pensions that qualify them for housing allowance, they are to file their application jointly and the allowance will be shared between them. If the claimant shares accommodation with children under age 18 or people other than their spouse or partner, they may qualify for general housing allowance.

Pensioners' housing allowance is not granted to persons in receipt of a partial disability pension, partial old-age pension or part-time pension, nor to those with voluntary pension insurance. These persons may be eligible to claim general housing allowance.

A pensioners' housing allowance may be granted if the claimant's annual housing costs are at least 712 euros (in 2020). The minimum allowance is 6.75 euros a month. The pensioners' housing allowance is 85 per cent of acceptable housing costs exceeding the deductible. The basic deductible for all pensioners is 616.46 euros a year.

Depending on the pensioner's and his or her spouse's income there may be an additional deductible on top of the basic deductible. The limits and percentages for the deductible changed as of the beginning of 2020 so that the discretionary increases of the national and guarantee pensinos would not affect the amount of the housing allowance and reduce the effect of the pension increases on the disposable income. The additional deductible is 41.3 per cent (previously 40%) of the household income exceeding the income limits that are determined according to family status. The amount of pensioners' housing allowance is affected by virtually all regular income received by the claimant and the claimant's spouse. The amount of housing allowance is not adjusted according to length of residence in Finland.

Housing allowance =
0.85 x (acceptable housing costs – (basic deductible + additional deductible if applicable))

The maximum acceptable housing costs are determined according to municipality of residence. In 2020 the maximum amount of acceptable housing costs will rise by 1.4 per cent to reflect the increase in housing expenditure.

**Table 3.4.**
Maximum acceptable housing costs in 2020 (€/year)

| Cost-of-living category I | Cost-of-living category II | Cost-of-living category III |
|---|---|---|
| 8 360 | 7 688 | 6 745 |

Cost-of-living category I: Espoo, Helsinki, Kauniainen and Vantaa.
Cost-of-living category II: Hyvinkää, Hämeenlinna, Joensuu, Jyväskylä, Järvenpää, Kerava, Kirkkonummi, Kouvola, Kuopio, Lahti, Lappeenranta, Lohja, Nurmijärvi, Oulu, Pori, Porvoo, Raisio, Riihimäki, Rovaniemi, Seinäjoki, Sipoo, Tampere, Turku, Tuusula, Vaasa and Vihti.
Cost-of-living category III: other municipalities.

**Table 3.5.**
Income limits for additional deductible in 2020

| | €/year | €/month |
|---|---|---|
| Single person living alone | 9 300 | 775.00 |
| Spouse not eligible for housing allowance | 13 341 | 1 111.75 |
| Spouse eligible for housing allowance | 15 184 | 1 265.33 |

**Table 3.6.**
Maximum housing allowance in 2020 (€/month)

| | Cost-of-living category I | Cost-of-living category II | Cost-of-living category III |
|---|---|---|---|
| Single person living alone | 548.50 | 500.90 | 434.10 |
| Spouse eligible for housing allowance | 274.25 | 250.45 | 217.05 |

## 3.8 Other supplements

Table 3.7 lists the amounts of pensioners' care allowances, child increases, front-veterans' supplements and veteran's supplements in 2020. Provisions concerning the pensioners' care allowance are laid down in the Disability Allowances Act. The allowance is intended to offset the costs from living at home and special costs incurred by pensioners with illnesses and disabilities. Pensioners' care allowances are granted at three rates – basic, middle and highest – based on the claimants' need for assistance, guidance and supervision and the amount of special costs.

Pensioners can claim a child increase for children under age 16. War veterans may be eligible to receive a front-veteran's supplement and an additional front-veteran's supplement. Persons receiving an additional front-veteran's supplement and a middle-rate or the highest care allowance are furthermore paid a special veteran's supplement.

The front-veteran's supplement and the front-veteran's supplement paid abroad will be increased as of April 2020. The front-veteran's supplement will rise from around 50 euros to 125 euros.

**Table 3.7.**
Amounts of other supplements in 2020 (€/month)

| Pensioner's disability benefits adjusted to length of residence | | Pension benefit components unadjusted to length of residence | |
|---|---|---|---|
| Basic care allowance | 71.21 | Child increase | 22.15 |
| Middle-rate care allowance | 155.15 | Front-veteran's supplement | 50.68* |
| Highest care allowance | 328.07 | Additional front-veteran's supplement | Full amount 257.19 (at least 6.51) |
| | | Special veteran's supplement | 107.49 |

* Will rise to 125 euros as of 1 April 2020.

# 4 Primary benefits

Compensation paid under workers' compensation and motor liability insurance takes precedence over earnings-related pensions. The same applies to compensation paid under the Patient Injuries Act for insurance contingencies occurring on or after 1 January 2017. In other words, earnings-related pension payments will be made only to the extent that the pension exceeds the amount of primary benefit. However primary benefits do not reduce the amount of earnings-related pension accrued for employment after the calendar year of the accident. New earnings-related pension is also accrued for periods of daily allowance under workers' compensation insurance and periods of compensation for loss of earnings equivalent to daily allowance under motor liability insurance based on the benefit concerned.

Loss of earnings is compensated out of primary benefits at the actual amount that the injured party would have earned had the accident not occurred. Primary benefits include compensation for loss of earnings or, with certain exceptions, pensions under the following acts:

- Workers' Compensation Act,
- Occupational Accidents and Diseases Act for Farmers,
- Motor Liability Insurance Act,
- Act on Compensation for Military Accidents and Service-related Illnesses,
- Act on Compensation for Accidents and Service-related Illnesses in Crisis Management Duties, and
- Patient Injuries Act.

Statutory workers' compensation insurance takes precedence over motor liability insurance. Furthermore, compensation for road traffic accidents and accidents at work takes precedence over patient insurance.

**The Workers' Compansation Act** provides for compensation of loss of earnings and medical expenses due to accidents at work and occupational diseases. Daily allowance under statutory workers' compensation insurance is paid out for a maximum of one year. In the event of continued incapacity to work the beneficiary will receive a workers' compensation pension. A rehabilitation allowance may be paid at the same rate as the daily allowance and worker's compensation pension. The insurance also covers medical examination and treatment costs, compensation for permanent harm, the costs of vocational and medical rehabilitation, and a funeral grant and survivors' pension to family members in the case of death.

For the first four weeks after the date of the accident, the amount of daily allowance payable under the Workers' Compensation Act is the same as the amount of sick pay for employees; alternatively, it is determined on the basis of earnings during the four weeks before the accident. After the first four weeks, the daily allowance is 1/360 of the injured person's annual earnings. The daily allowance can also be paid out in the form of a partial compensation if the individual's incapacity and loss of earnings is partial. The person's capacity for work must be reduced by at least 10 per cent.

The full workers' compensation pension is 85 per cent of annual earnings for persons under 65 and 70 per cent of annual earnings for those over 65. The workers' compensation pension can also be paid out in the form of a partial compensation if the person's capacity for work and loss of earnings is at least 10 per cent.

If the accident occurs in employment while receiving an old-age pension, the daily allowance and workers' compensation pension will be paid for a maximum of three years, but not beyond age 68. In this case the daily allowance and workers' compensation pension are not deducted from the earnings-related pension.

Persons injured in a road accident receive compensation under the **Motor Liability Insurance Act**. Insurance coverage includes medical expenses, loss of earnings, temporary and permanent harm and loss of maintenance to the surviving spouse and children. There is no ceiling for compensation paid for personal injuries; instead the compensation shall reflect the true loss.

Compensation for personal injury can also be paid under the **Patient Injuries Act**. The primary benefit is a loss of earnings compensation or pension granted to the injured party based on an injury sustained. Compensation for loss of maintenance to persons entitled to maintenance is a primary benefit that takes precedence over a survivors' pension. Compensations paid to a close relative for the care of the injured party are not primary benefits.

# 5 Taxation

Earnings-related pensions, national pensions and guarantee pensions are all taxable income in Finland. However, the national pension child increase, pensioners' care allowance, front-veteran's supplement, special veteran's supplement and housing allowance are exempt from tax.

Pensions paid under workers' compensation motor liability and patient injury insurance are taxed as earned income. However daily allowances paid under these insurances or compensation received based on temporary incapacity for work are not treated as pension income.

A collective supplementary pension and a lump-sum pension provided by the employer are both taxed as earned income.

A pension based on voluntary personal pension insurance is taxed as capital income under legislation that took effect from the beginning of 2005. Previously this pension was taxed as earned income. A pension paid out based on a voluntary pension scheme is taxed as either earned income or capital income depending on the tax deductions made for the respective insurance premiums.

## 5.1 Deductions in earned income taxation

Expenses incurred from acquiring or managing income are deductible for purposes of income tax. There are separate deductions, allowances and credits for income subject to state taxation and municipal taxation.

In addition to deductions which reduce the amount of taxable income, there are various tax allowances and credits that are subtracted from the individual's tax liability. These include the earned income credit, disability credit in state taxation, child maintenance credit, domestic help credit, credit for deficit in capital income, and special deficit credit. The following only covers some of the most important deductions and allowances available to pensioners and employees. Tax deductions are explained in more detail in Appendix 1.

For purposes of municipal taxation, **pensioners** may qualify for a pension income allowance and a basic allowance; for purposes of state taxation, they may qualify for a pension income allowance and a disability credit. In municipal taxation the disabled person's allowance is granted only if the taxpayer has other sources of earned income besides pension income. The maximum basic allowance was increased by 235 euros to 3,540 euros from the beginning of 2020.

In municipal taxation the amount of the pension income allowance is determined based on the full amount of national pension. The allowance therefore varies following indexed and discretionary increases to the national pension. In the changes in the pension income allowance in 2020, the discretionary increases of the full national pension have been taken into account so that they do not affect the amount of the pension income allowance. In 2020, the full amount of pension income allowance in municipal taxation will rise by 180 euros to 9,230 euros as the coefficient is decreased from 1.395 to 1.346. The pension income allowance and basic allowance mean that low-income pensioners pay no municipal tax on annual pension earnings of less than 11,575 euros (€965/month). Eligibility for pension income allowance extends to annual earnings of 27,329 euros (€2,277/month).

In state taxation, the amount of pension income allowance is affected by the lower limit for state income tax as well as the amount of the full national pension. The full amount of pension income allowance is calculated by first multiplying the full amount of national pension by 3.726 (formerly 3.867) and then deducting from the product the lowest taxable income in the progressive income tax scale and rounding the remainder to the nearest 10 euros. The full amount of pension income allowance in state taxation will decrease from 11,590 euros in 2019 to 11,540 euros in 2020. Because of this allowance the threshold for state taxation of pensions in 2020 will be 24,656 euros per annum (€2,055/month).

**Table 5.1.**
Full amount of pension income allowance in 2020, minimum threshold for the taxation of pensions and ceiling for pension income allowance (€)

| | Full deduction | Threshold for taxes | No deduction |
|---|---|---|---|
| Municipal taxation | 9 230 | 11 575 | 27 329 |
| State taxation | 11 540 | 24 656 | 41 909 |

**Employees** can claim a deduction for work-related expenses and for purposes of municipal taxation a basic allowance and an earned income allowance. In state taxation employees are eligible to receive earned income tax credit. Earnings-related pension contributions, unemployment insurance contributions and health insurance daily allowance contributions paid by employees are all tax deductible.

In 2020 the earned income credit in state taxation is 12.5 per cent for the portion of income exceeding 2,500 euros. The maximum tax credit is 1,770 euros, and it can be claimed on annual earnings up to around 129,900 euros.

## 5.2 Taxes on earned income and statutory social insurance contributions

**State income tax** is payable on taxable earned income in accordance with the progressive income tax scale. In 2020 the tax bracket thresholds were raised by 3.1 per cent, which will have the effect of lowering tax rates compared to 2019.

Income taxation was supplemented with one new income bracket (the so-called solidarity tas) in 2013. In 2016, income taxation was tightened by lowering the threshold for the highest income bracket from 90,000 to 72,300 euros, effectively combining the two highest income brackets. After that, the limit has remained unchanged except for an annual index adjustment corresponding to that made to the other income brackets, as well. In 2020, the threshold for the highest income bracket is 78,500 euros.

**Table 5.2.**
State income tax scale 2020

| Taxable earned income (€) | Tax at lower limit (€) | Tax rate for portion of income exceeding lower limit (%) |
|---|---|---|
| 18 100–27 200 | 8.00 | 6.00 |
| 27 200–44 800 | 554.00 | 17.25 |
| 44 800–78 500 | 3 590.00 | 21.25 |
| 78 500– | 10 751.25 | 31.25 |

The rate of **additional tax on pension income** is unchanged from 2019 at 5.85 per cent for annual pensions of 47,000 euros (€3,917/month) and over.

**Public broadcasting tax** is levied at the same rate as in 2019, that is, at 2.5 per cent on annual earnings of over 14,000 euros. The maximum tax amount is 163 euros. Pensioners have to pay public broadcasting tax starting from earnings of 1,167 euros. The maximum amount is payable on a monthly pension of 1,710 euros and over.

**Municipal tax** is paid on earned income to the taxpayer's municipality of residence based on the local income tax rate. The average municipal tax rate is 19.97, or 0.09 percentage points higher than the year before. Table 5.3 shows the tax rates for selected municipalities.

**Table 5.3.**
Income tax rates in selected municipalities and health insurance contribution in 2020

| | Municipal income tax rate |
|---|---|
| Helsinki | 18.00 |
| Espoo | 18.00 |
| Vantaa | 19.00 |
| Tampere | 20.25 |
| Oulu | 20.00 |
| Turku | 19.50 |
| Kuopio | 20.75 |
| National average | 19.97 |
| Employee's health insurance contribution | 0.68 |
| Pensioner's health insurance contribution | 1.65 |

The amount of **church tax** payable is calculated based on taxable earned income in municipal taxation according to the local church income tax rate. The average church tax rate is 1.39 per cent and is payable by members of the Evangelical Lutheran Church. The church tax is not included in the calculations presented below.

**The health insurance contribution** is determined based on taxable earned income in municipal taxation. Wage earners pay a health insurance contribution of 0.68 per cent of their annual wages in 2020. Wage earners were exempted from payment of the medical care contribution in 2017–2019. The health insurance contribution payable on pension and benefit income is 1.65 per cent (1.61% in 2019). Employees pay a **daily allowance contribution** at a rate of 1.18 per cent if their annual income is at least 14,574 euros (last year 1.54% on income exceeding 14,282euros). If they earn less than 14,574 euros, they pay no daily allowance contribution. Self-employed persons insured under YEL are liable to pay an additional contribution of 0.15 per cent (0.23% in 2019), bringing their daily allowance contribution rate in 2020 to 1.33 per cent. The daily allowance contribution is not payable on pension and benefit income.

In 2020 the employee's **earnings-related pension contribution** for persons aged 17–52 and 63–67 is 7.15 per cent, and for persons aged 53–62 it is 8.65 per cent (6.75% and 8.25%, respectively, in 2019). The employee's **unemployment insurance contribution** fell from 1.5 per cent in 2019 to 1.25 per cent in 2020.

The employee's tax and contribution rate varies by age because statutory contributions differ in different age groups (Table 5.4). Earnings-related pension contributions and unemployment insurance contributions are payable from age 17 and the health insurance daily allowance contribution from age 16. In addition to the contributions listed in the table below (share of gross income), wage earners pay a health insurance contribution of 0.68 per cent based on their taxable earned income in municipal taxation. The contribution is paid when the monthly income exceeds approximately 1,400 euros. The contribution share of the gross income varies according to income level.

**Table 5.4.**
Employee contributions in different age groups

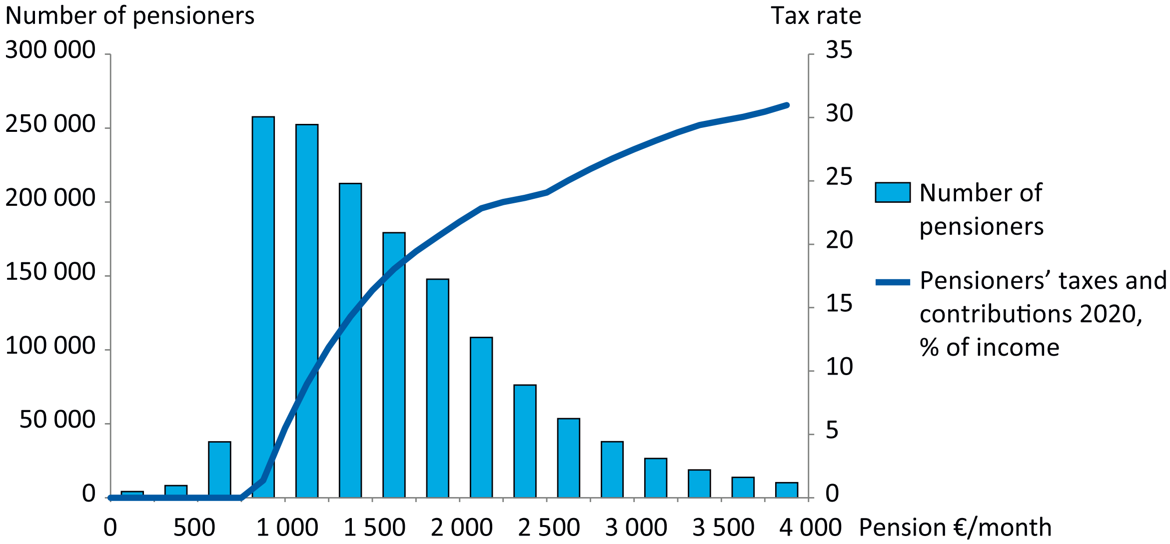
| | Earnings-related pension contribution | Unemployment insurance contribution | Health insurance daily allowance contribution (as of annual income of €14,574) | Total |
|---|---|---|---|---|
| under 53 | 7.15% | 1.25% | 1.18% | 9.58% |
| 53–62 yrs | 8.65% | 1.25% | 1.18% | 11.08% |
| 63–64 yrs | 7.15% | 1.25% | 1.18% | 9.58% |
| 65–67 yrs | 7.15% | 0% | 1.18% | 8.33% |
| 68 yrs | 0% | 0% | 0% | 0% |

## 5.3 Differences in the taxation of pensioners and employees

Statutory pensions are taxed in basically the same way as other earned income. However, the tax and contribution burden on pension and wage income is different because of differences in tax deductions and social insurance contributions.

As shown in Figure 5.1, the number of pension recipients is highest in income brackets with low or zero tax rates. Some 39 per cent of pensioners have a monthly pension of less than 1,250 euros and therefore pay less than 10 per cent in tax. Around 14 per cent have a pension of over 2,500 euros, which attracts a tax rate of over 23 per cent. 2.7 per cent of pensioners have a pension of over 4,000 euros, on which they pay over 31 per cent in tax. Pensioners' other sources of income are not considered in Figure 5.1.

**Figure 5.1.**
Pension income distribution for Finnish-resident recipients of pensions in their own right (excluding part-time pension and partial old-age pension) at 31 December 2018, and pensioner's tax and contribution rate in 2020




The following figures and tables compare the taxes paid by pensioners and wage earners in different income brackets. As a rule, the pensioner's tax rate in 2008–2012 was lower than the employee's tax and contribution rate, which also considers the employee's pension contribution (53–67 yrs) and unemployment insurance contribution. In 2013 an additional tax was introduced to bring the taxation of large pensions in line with the tax and contribution rate for employees aged over 53.

The change in the tax and contribution rate for pension and earned income from 2019 varies in different income brackets. When tax rates for the same level of income are compared to the previous year using average municipal tax rates, the pensioner's tax and contribution rate is slightly reduced in nearly all income brackets. The biggest reduction (–1.1 percentage points) is seen in the tax rate on pensions of around 1,000 euros. The tax rate on pensions exceeding 2,000 euros is reduced by 0–0.4 percentage points.

When comparing the tax rate on wage income to the tax rate for the same income in 2019, the tax and contribution rate will fall by around 0.1–0.8 percentage points. For income higher than that, the taxation will remain unchanged or increase by 0.1–0.4 percentage points.

Figure 5.2 shows the tax and contribution rates for pensioners and wage-earning employees in different income brackets. The employee's tax and contribution rate varies by age because statutory contributions differ in different age groups. Employees aged over 68 no longer pay employee contributions.

**Figure 5.2.**
Employee's and pensioner's taxes and contributions in 2020 (% of income) (Monthly income is annual income/12)

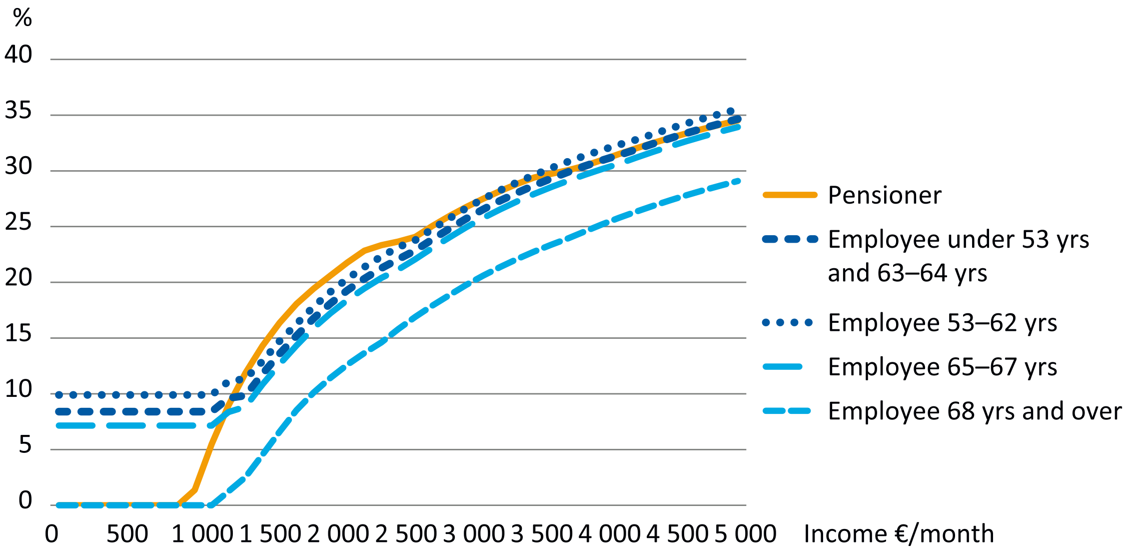
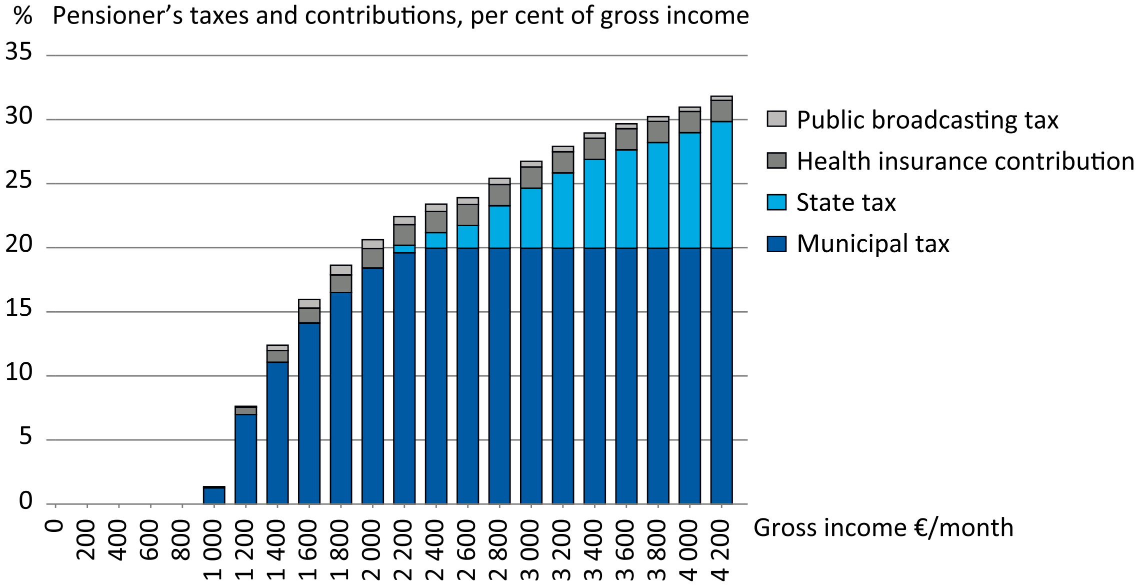



**Table 5.5.**
Taxes and contributions in 2020 (% of income)

| Income €/month (annual income/12) | Pensioner | Employee under 53 yrs and 63–64 yrs | Employee 53–62 yrs | Employee 65–67 yrs | Employee 68 yrs |
|---|---|---|---|---|---|
| 500 | 0.0 | 8.4 | 9.9 | 7.2 | 0.0 |
| 750 | 0.0 | 8.4 | 9.9 | 7.2 | 0.0 |
| 1 000 | 1.4 | 8.4 | 9.9 | 7.2 | 0.0 |
| 1 250 | 9.0 | 9.6 | 11.1 | 8.4 | 1.2 |
| 1 500 | 14.3 | 11.8 | 12.9 | 10.8 | 4.5 |
| 1 750 | 18.1 | 15.2 | 16.3 | 14.3 | 8.5 |
| 2 000 | 20.6 | 18.1 | 19.1 | 17.2 | 11.4 |
| 2 250 | 22.8 | 20.3 | 21.4 | 19.5 | 13.7 |
| 2 500 | 23.7 | 22.1 | 23.2 | 21.2 | 15.8 |
| 2 750 | 25.1 | 23.9 | 24.8 | 23.1 | 17.9 |
| 3 000 | 26.8 | 25.7 | 26.6 | 24.9 | 19.8 |
| 3 500 | 29.4 | 28.7 | 29.6 | 27.9 | 22.8 |
| 4 000 | 31.0 | 30.9 | 31.9 | 30.2 | 25.2 |
| 5 000 | 34.5 | 34.7 | 35.5 | 33.9 | 29.1 |
| 6 000 | 36.9 | 37.3 | 38.1 | 36.5 | 31.7 |
| 7 000 | 39.2 | 39.1 | 40.0 | 38.4 | 34.1 |
| 8 000 | 41.7 | 41.3 | 42.0 | 40.7 | 36.7 |
| 10 000 | 45.1 | 44.7 | 45.4 | 44.1 | 40.1 |
| 15 000 | 49.6 | 48.7 | 49.4 | 48.1 | 44.1 |

Figure 5.3 shows the structure of pensioners' and employees' taxes and contributions in different income brackets. Employees pay an earnings-related pension contribution, unemployment insurance contribution and daily allowance contribution on income that falls below the taxable income threshold. At higher income levels the overall tax rate for pensioners and employees is almost the same, but for employees this also includes earnings-related pension contributions and unemployment insurance contributions, so the share of municipal and state taxes is lower than for pensioners.

**Figure 5.3.**
Structure of pensioner's and employee's (53–62 yrs) taxes and contributions in different income brackets in 2020 (% of gross income)



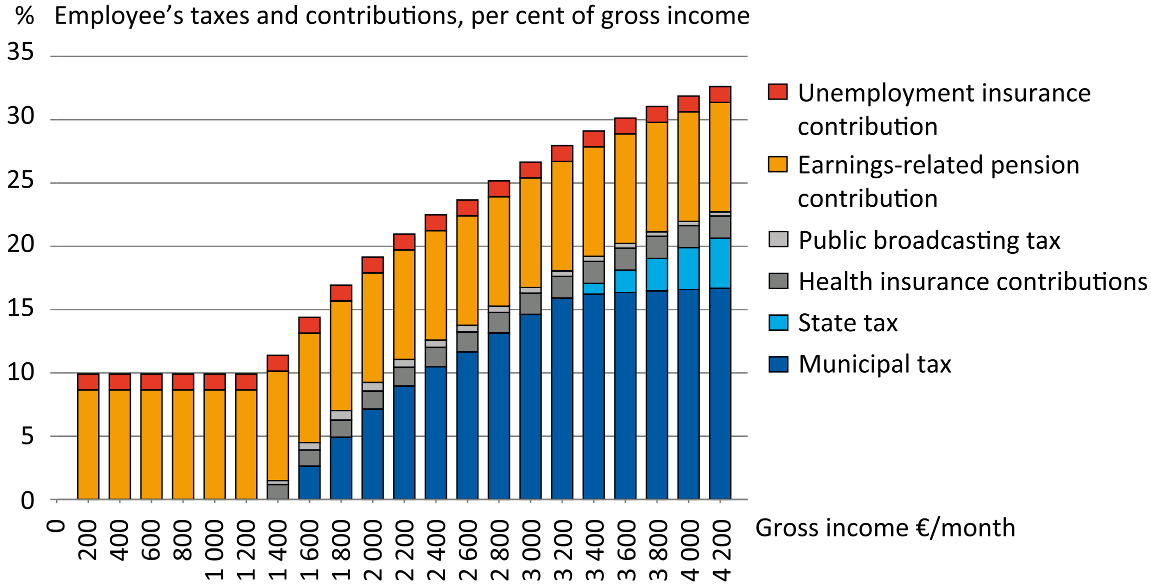
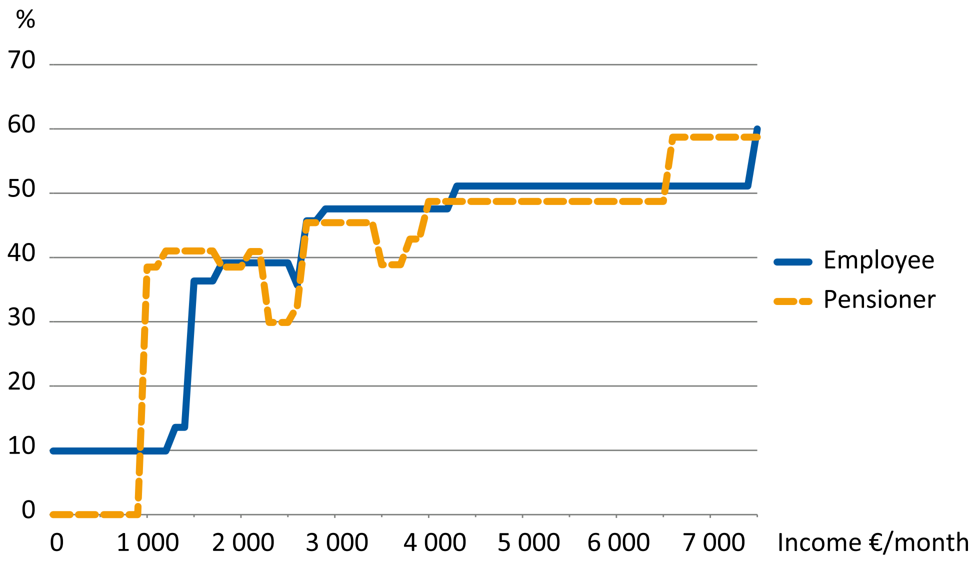



Figure 5.4 shows how large a share of employees' and pensioners' increased earnings goes to taxes and contributions in different income brackets. Pensioners' marginal taxation is essentially unchanged from the year before. In municipal taxation the pension income allowance and basic allowance decrease with increasing income, so the pension tax rate rises sharply for monthly incomes of 1,000–2,200 euros. In this income range the pensioner's marginal tax rate for additional income is around 40 per cent.

The marginal tax rate increases to 45 per cent for a monthly pension of 2,700 euros, which pushes the taxpayer across another threshold in the state income tax scale (after deductions). Additional income attracts a high tax rate in this income bracket, too, because the pension income allowance in state taxation decreases with increasing earnings and is no longer granted at a monthly income of around 3,500 euros.

Monthly earnings of over 4,000 euros attract a marginal tax rate of around 49 per cent. In the highest income bracket – over 6,600 euros for pensioners and over 7,500 euros for employees – the marginal tax rate is around 59 per cent.

**Figure 5.4.**
Pensioner's and employee's (53–62 yrs) marginal tax rate in 2020 in different income brackets




## 5.4 Taxation of earnings consisting of both pension and wage income

Pensioners' wage income is taxed on the same basis as any other wage income. Other earned income reduces the pension income allowance: a decreased allowance will increase the tax rate. On the other hand, wage earners receive a deduction for work-related expenses as well as an earned income allowance and an earned income tax credit. Taken together, these deductions mean that the tax and contribution rate for a combination of pension and wage income is generally lower than the same amount of income comprising only a pension income or a wage income.

Employee contributions are withheld normally from pensioners' wages. However, unemployment insurance contributions are no longer payable after age 65. Earnings-related pension contributions are paid through to the highest age of insurance obligation for the age group. The health insurance daily allowance contribution is not withheld from wages after age 68.

### 5.4.1 Wage income alongside old-age or disability pension income

Gainful employment while on old-age pension does not affect the payment of earnings-related or Kela pensions[1]. Table 5.6. shows the tax and contribution rates for pension recipients who in addition have a wage income. It also shows how large a share of the income from employment is lost to taxes and contributions. For example, the tax rate for a monthly pension of 1,500 euros is 14.3 per cent. If the pensioner additionally earns 6,000 euros a year in wages, the tax and contribution rate for this additional income is 26.9 per cent. The tax and contribution rate for total income is 17.5 per cent. The taxes and contributions are calculated for pensioners aged 63 who have a reduced earnings-related pension contribution (7.15%) and who also pay an unemployment insurance contribution and health insurance daily allowance contribution.

Persons on a disability pension or whose disability pension has been converted into an old-age pension may be eligible for a disabled person's tax allowance. If the degree of disability is 100 per cent, the overall tax rates are 0.3–0.6 percentage points lower than indicated in the table.

Persons on a disability pension are allowed to earn up to 40 per cent and those on a partial disability pension up to 60 per cent of their pre-disability earnings, but always at least 834.52 euros a month. The same monthly earnings limit of 834.52 euros applies to disability pensions under the national pension scheme. Pension payment is suspended when the 60 per cent or 834.52 euro limit is exceeded for at least three months.

As shown in the table, an annual income of 24,000 euros that consists half and half of pension and wage income attracts a tax and contribution rate of 13.8 per cent. The tax and contribution rate is 17.5 per cent for the same total income when pension earnings account for three-quarters, and 20.6 per cent when pension earnings account for all of the income.

1 When the pension for work done in retirement is granted, the national pension will be recalculated, taking into account the pension earned during retirement as a reducing factor.

**Table 5.6.**
Taxes and contributions on pensioner's (63–64 yrs) wage income in 2020

| Pension | Wage income €/year | Total income €/year | Taxes and contributions on wages, % | Tax and contribution rate, % | Tax and contribution rate (%) if total income consisted only of | |
|---|---|---|---|---|---|---|
| | | | | | pension | wage income |
| €1 000/month (€12 000/year) | 0 | 12 000 | | 1.4 | 1.4 | 8.4 |
| | 6 000 | 18 000 | 26.1 | 9.6 | 14.3 | 11.8 |
| | 12 000 | 24 000 | 26.2 | 13.8 | 20.6 | 18.1 |
| | 18 000 | 30 000 | 30.0 | 18.5 | 23.7 | 22.1 |
| €1 500/month (€18 000/year) | 0 | 18 000 | | 14.3 | 14.3 | 11.8 |
| | 6 000 | 24 000 | 26.9 | 17.5 | 20.6 | 18.1 |
| | 12 000 | 30 000 | 25.9 | 18.9 | 23.7 | 22.1 |
| | 18 000 | 36 000 | 29.4 | 21.9 | 26.8 | 25.7 |
| €2 000/month (€24 000/year) | 0 | 24 000 | | 20.6 | 20.6 | 18.1 |
| | 6 000 | 30 000 | 26.0 | 21.7 | 23.7 | 22.1 |
| | 12 000 | 36 000 | 26.1 | 22.4 | 26.8 | 25.7 |
| | 18 000 | 42 000 | 32.3 | 25.6 | 29.4 | 28.7 |
| €2 500/month (€30 000/year) | 0 | 30 000 | | 23.7 | 23.7 | 22.1 |
| | 6 000 | 36 000 | 31.1 | 24.9 | 26.8 | 25.7 |
| | 12 000 | 42 000 | 32.3 | 26.1 | 29.4 | 28.7 |
| | 18 000 | 48 000 | 34.7 | 27.8 | 31.0 | 30.9 |
| €3 000/month (€36 000/year) | 0 | 36 000 | | 26.8 | 26.8 | 25.7 |
| | 6 000 | 42 000 | 37.1 | 28.2 | 29.4 | 28.7 |
| | 12 000 | 48 000 | 32.9 | 28.3 | 31.0 | 30.9 |
| | 18 000 | 54 000 | 35.9 | 29.8 | 32.9 | 32.9 |

### 5.4.2 Partial old-age pension and wage income

Taxes and contributions are determined in the same manner as above in situations where an employee decides to take a partial old-age pension early and to remain in gainful employment. The progressive tax scale eases the impact of a decline in employment income on the reduction in total income. Accordingly, taxes will rise if a partial old-age pension is taken early on top of existing earnings.

The amount of partial early old-age pension is calculated based on pension rights earned by the end of the calendar year preceding the start of the pension (see chapter 2.2 above). For the purposes of the example in Table 5.7, the accrued amount of monthly pension is 1,500, 2,000 or 3,000 euros, and early payment of the pension is taken at 50 per cent rate. The earliest full retirement age for the 1959 birth cohort is 64 years and 3 months, and the pension is taken out 39 months early, bringing the total reduction for early retirement to 15.6 per cent. The partial old-age pension is still multiplied by the life expectancy coefficient confirmed for the first year of the pension.

The table describes different scenarios in which the individual does not work while on a partial old-age pension; does 50 per cent reduced working hours; and continues to work at the same wage level as before. As the partial old-age pension in the example starts at age 61, the individual will pay an increased earnings-related pension contribution at 8.65 per cent of wages.

The last column of the table also shows the corresponding tax and contribution rate for wage income only, without a partial old-age pension. Progression increases the overall tax rate when earned income includes not only wages but also a pension. At the income levels shown in the example, the additional income from the partial old-age pension means that the overall tax rate is 1.2–4.3 percentage points higher than the tax and contribution rate for wage income alone.

**Table 5.7.**
Partial old-age pension and wage income, euros. Person born in 1959.

| Pension earned by the start of partial old-age pension | Partial old-age pension | Wages during partial old-age pension | Gross income total | Net income | Tax rate, % | Tax and contribution rate on wages without partial old-age pension, % |
|---|---|---|---|---|---|---|
| 1 500 | 604 | 0 | 604 | 604 | 0.0 | 0.0 |
| | 604 | 1 500 | 2 104 | 1 779 | 15.5 | 12.9 |
| | 604 | 3 000 | 3 604 | 2 559 | 29.0 | 26.6 |
| 2 000 | 805 | 0 | 805 | 805 | 0.0 | 0.0 |
| | 805 | 2 000 | 2 805 | 2 196 | 21.7 | 19.1 |
| | 805 | 4 000 | 4 805 | 3 178 | 33.9 | 31.9 |
| 3 000 | 1 208 | 0 | 1 208 | 1 113 | 7.8 | 0.0 |
| | 1 208 | 3 000 | 4 208 | 2 908 | 30.9 | 26.6 |
| | 1 208 | 6 000 | 7 208 | 4 376 | 39.3 | 38.1 |

## 5.5 International situations

**Pensions paid abroad** are taxed in the same way as pensions paid to Finnish residents. The tax rate, deductions and tax return procedure are all the same. All taxes paid by pensioners who live abroad, including imputed municipal tax calculated based on the average municipal tax rate, go to the state.

In some situations, tax treaties mean that pensions are not taxed in Finland at all but only in the pensioner's country of residence. The tax treatment of pensions depends on the tax treaty signed between Finland and the country in question to avoid double taxation. Finland has entered into double tax agreements with more than 60 countries.

For example, Finland was previously unable to impose taxes on pensions paid to Portugal, apart from public sector pensions. In 2018 Finland terminated the tax treaty it agreed with Portugal in 1970, and Portugal failed to accept the new treaty in the agreed period. As of 2019, there is no tax treaty in place between Finland and Portugal, which means that tax on pensions paid from Finland is paid to Finland.

Finland and Spain signed a new tax treaty, which took effect on 1 January 2019. Under the tax treaty, pensions received in Spain from Finland are subject to Finnish tax. For private sector pensions there is a three-year transition period during which no taxes will be payable in Finland. This is on the condition that the pension received from Finland is taxable income in Spain. Pensions based on motor liability insurance or other comparable risk insurance policies will continue to be taxed only in Spain.

**Pensions paid from abroad** are often taxed in the source country. In this case no income tax will be imposed on the pension in Finland, but the pension will increase the amount of tax payable on income received from Finland through progression. As a rule, the health insurance contribution is usually payable on pensions received from other countries. Pensions from some countries are not taxed in the country of origin, and in these cases Finland will levy tax on pension income as per normal provisions. For example, as of 2018, under the tax treaty between Finland and Germany, Finland has a right to tax all pensions received from Germany if the person resides in Finland.

**EU officials' pensions** are not taxed in Finland. If EU pension rights are transferred to the Finnish earnings-related pension scheme, the pension will be treated in full as taxable earned income in the same way as other pensions under the earnings-related pension scheme.

## 5.6 Capital income taxation – voluntary personal pension insurance and long-term saving

The capital income tax rate is 30 per cent, rising to 34 per cent for annual income exceeding 30,000 euros. Since 2006 voluntary personal pension insurance payments have also been subject in full to capital income tax. Voluntary personal pension insurance premiums are deductible from taxable capital income in the year the premiums are paid. Pension income from such insurance will be subject to capital income tax in due course.

Voluntary personal pension insurance and long-term savings premiums have been eligible for tax deductions only on condition that pension payments start after age 68, the age of eligibility for deferred retirement under TyEL (Employees Pensions Act). The age limit was raised from 63 to 68 years from the beginning of 2013. The 2017 pension reform also introduced new rules for the tax deductibility of premiums paid: eligibility for tax deductions now required that pension payments can only start after the age that the age group's obligation to insure ends. This age limit is 68 years for persons born in 1957 or earlier, 69 years for those born between 1958 and 1961 and 70 years for those born later. Premiums on voluntary personal pension insurance and long-term savings contracts taken out before 2013 are deductible under previous rules.

The higher age limit also applies to collective additional pension insurance insofar as the employee pays part of the insurance premiums. If the premiums are paid in full by the employer, the pension can be claimed at an earlier age. Pension income through additional pension insurance cover provided by the employer is taxed as earned income.

An annual deduction of up to 5,000 euros can be claimed against capital income for premiums paid on voluntary pension insurance and long-term savings schemes. If the employer has taken out a voluntary pension insurance for the employee, the maximum tax deduction for premiums paid by the employee on their own insurance or long-term savings scheme is 2,500 euros.

Returns earned on savings are not taxed during the saving period. Payments received after retirement age are treated as capital income. Pension insurance policies cannot be repurchased nor can assets in long-term savings be withdrawn before retirement age except in the case of unemployment lasting at least one year, permanent or partial disability, spousal death or divorce.

Pensions paid out from voluntary personal pension schemes are taxed as earned income or capital income depending on how the corresponding premiums were deducted. In old pension insurance policies taken out before 6 May 2004, the share of pension that accumulated on premiums paid before 2006 is taxed as earned income, and the share accumulated on premiums since 2006 is taxed as capital income.

# 6 Total pension income

Statutory pension provision in Finland consists of the earnings-related pension, national pension and guarantee pension. Individuals may also be eligible to receive benefits that take precedence over an earnings-related pension, for instance under workers' compensation or motor liability insurance. In this instance earnings-related pension is paid only to the extent that it exceeds the primary benefit.

Earnings-related pensions are intended to ensure that in retirement, people can maintain a reasonable level of consumption compared to their pre-retirement income. The national pension and guarantee pension, then, are intended to ensure a minimum level of pension income for people who worked for such a short period of time or whose earnings were so low that they have only a small earnings-related pension, or who are not entitled to receive an earnings-related pension at all.

The amount of national pension payable decreases with increasing pension income, as one-half of the amount of earnings-related pension is deducted from the full national pension (see chapter 3.1). No national pension is paid to single living persons with an earnings-related pension of over 1,368 euros, or to persons living with a spouse or partner and receiving an earnings-related pension of over 1,226 euros.

Figure 6.1 shows how earnings-related pension, national pension and guarantee pension income contribute to total pension income according to career wage earnings. Pensioners may also receive a means-tested housing allowance, which is included in Figure 6.2.

The amount of housing allowance is calculated based on assumed monthly housing costs of 528 euros (estimated average housing costs in 2020). At the end of November 2019 a total of 210,800 persons received a pensioner's housing allowance at an average of 237 euros a month.

In Figures 6.1 and 6.2 the earnings-related pension is 50 per cent of wage income and payable to a pensioner living alone. The national pension and guarantee pension are payable from age 65. The Figures are based on the assumption that the full amount of earnings-related pension is taken into account in calculating the amount of national pension.

The earnings-related and the national pension schemes are mutually complementary even with respect to survivors' pensions. A child and a surviving spouse under 65 may simultaneously receive a survivors' pension through both systems. A surviving spouse and a child may also be eligible to receive a survivors' pension or assistance pension under workers' compensation or motor liability insurance. If these survivors' pensions provide adequate income security, Kela will not pay the additional amount to the survivors' pension (see chapter 3.3).

**Figure 6.1.**
Total pension income in 2020

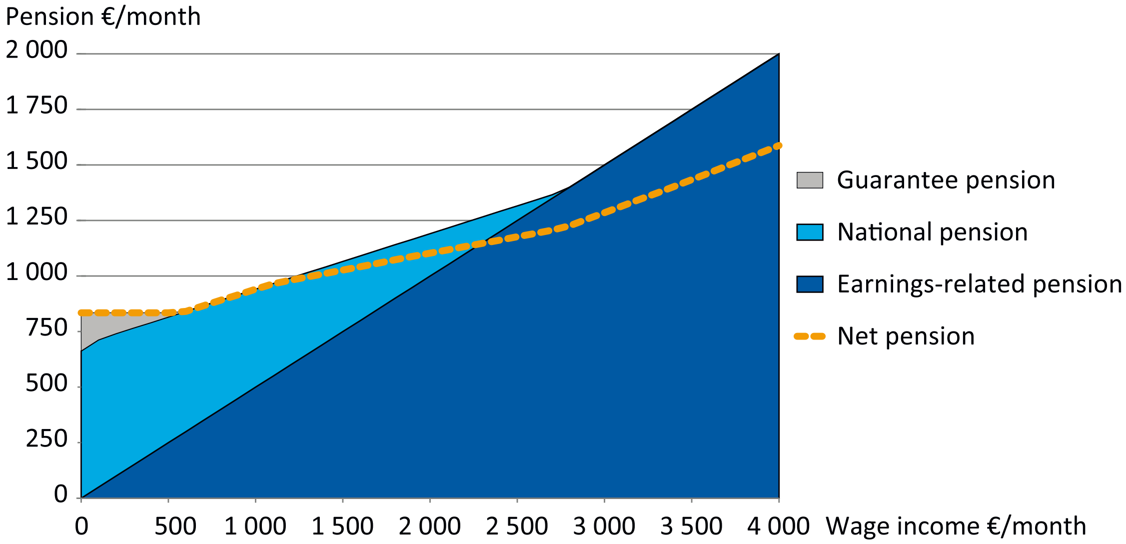
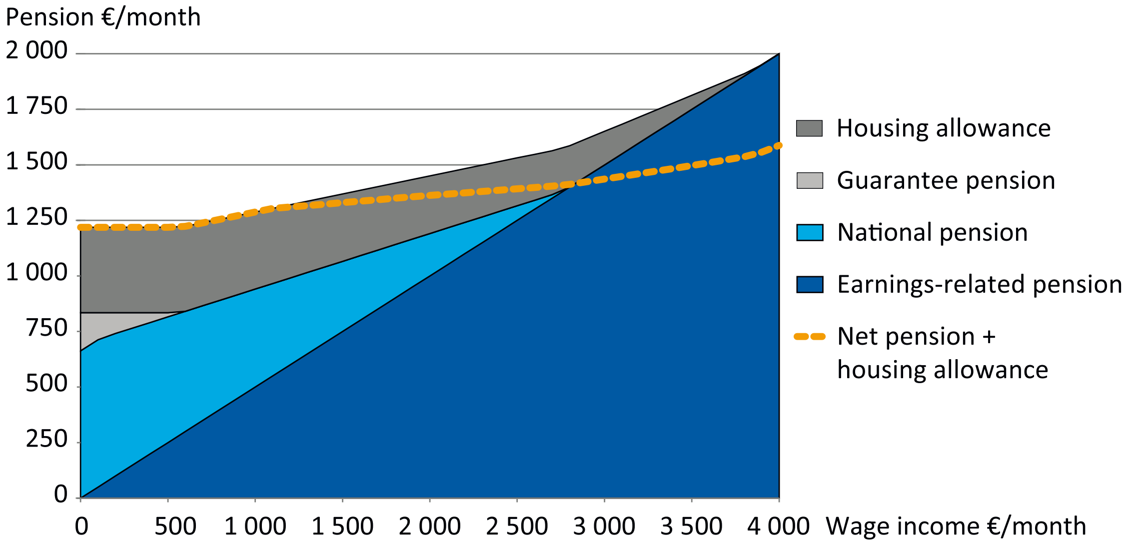



**Figure 6.2.**
Earnings-related pension, national pension, guarantee pension and housing allowance in 2020




## 6.1 Determination of total pension: some examples

The following tables provide some examples of private sector employees' earnings-related pensions, national pensions and guarantee pensions and how they add up in their gross and net total pension income. It is assumed that the earnings-related pension is 50 per cent of the individual's earnings prior to adjustment with the life expectancy coefficient. Net earnings and net pension amounts are calculated based on 2020 tax returns, assuming that earnings are the same for the whole year and that annual income is 12 times monthly income. The municipal tax rate is set at 19.97 per cent, that is, the national average. Employee contributions are calculated based on the rates payable by persons aged 63–64. Housing allowance calculations are based on assumed housing costs of 528 euros a month, the estimated average for housing allowance recipients in 2020.

Table 6.1 illustrates a simplified situation where the national pension is reduced by the full amount of earnings-related pension, and the national pension is a full pension payable at age 65 without a reduction for early retirement. Earnings-related pensions will typically also include components that do not reduce the amount of national pension, such as the increase for deferred retirement and the 4.5 per cent accrual rate earned before 2017.

**Table 6.1.**
Total pension income and net pension in 2020, pensioner aged 65, living alone. National pension is reduced by full amount of earnings-related pension. Life expectancy coefficient 0.96344. Housing costs 528 euros/month.

| Gross wage (GW) €/month | Net wage (NW) €/month | Earnings-related pension €/month | National pension + guarantee pension | Total pension income/month | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Gross | % of GW | Net | % of NW | + housing allowance | % of NW |
| 0 | 0 | 0 | 663+172 | 835 | - | 835 | - | 1 219 | - |
| 250 | 229 | 120 | 631+83 | 835 | 334 | 835 | 364 | 1 219 | 532 |
| 500 | 458 | 241 | 570+23 | 835 | 167 | 835 | 182 | 1 219 | 266 |
| 750 | 687 | 361 | 510 | 872 | 116 | 872 | 127 | 1 243 | 181 |
| 1 000 | 916 | 482 | 450 | 932 | 93 | 932 | 102 | 1 282 | 140 |
| 1 250 | 1 130 | 602 | 390 | 992 | 79 | 981 | 87 | 1 310 | 116 |
| 1 500 | 1 323 | 723 | 330 | 1 052 | 70 | 1 018 | 77 | 1 326 | 100 |
| 1 750 | 1 484 | 843 | 269 | 1 112 | 64 | 1 055 | 71 | 1 342 | 90 |
| 2 000 | 1 638 | 963 | 209 | 1 173 | 59 | 1 092 | 67 | 1 358 | 83 |
| 2 500 | 1 948 | 1 204 | 89 | 1 293 | 52 | 1 163 | 60 | 1 387 | 71 |
| 3 000 | 2 228 | 1 445 | 0 | 1 445 | 48 | 1 253 | 56 | 1 423 | 64 |
| 3 500 | 2 495 | 1 686 | 0 | 1 686 | 48 | 1 395 | 56 | 1 480 | 59 |
| 4 000 | 2 762 | 1 927 | 0 | 1 927 | 48 | 1 543 | 56 | 1 543 | 56 |
| 4 500 | 3 018 | 2 168 | 0 | 2 168 | 48 | 1 688 | 56 | 1 688 | 56 |
| 5 000 | 3 267 | 2 409 | 0 | 2 409 | 48 | 1 844 | 56 | 1 844 | 56 |
| 5 500 | 3 516 | 2 649 | 0 | 2 649 | 48 | 2 006 | 57 | 2 006 | 57 |
| 6 000 | 3 765 | 2 890 | 0 | 2 890 | 48 | 2 138 | 57 | 2 138 | 57 |
| 7 000 | 4 262 | 3 372 | 0 | 3 372 | 48 | 2 400 | 56 | 2 400 | 56 |
| 8 000 | 4 699 | 3 854 | 0 | 3 854 | 48 | 2 682 | 57 | 2 682 | 57 |
| 9 000 | 5 115 | 4 335 | 0 | 4 335 | 48 | 2 933 | 57 | 2 933 | 57 |
| 10 000 | 5 532 | 4 817 | 0 | 4 817 | 48 | 3 180 | 57 | 3 180 | 57 |

For those who have only an earnings-related pension, the gross pension ratio (gross pension/gross earnings) is just under 50 per cent because of the life expectancy coefficient. Persons receiving a national pension have had a low income and therefore have a high pension-to-wage ratio. Because of progressive taxation the net pension to pre-retirement net earnings ratio is higher than the gross ratio. For those who have only an earnings-related pension the ratio in the example is 56–64 per cent in net terms. The last columns include housing allowance based on average housing costs.

Table 6.2 shows the calculated total pension income for a person born in 1956 who is retiring at the age cohort's earliest age of eligibility (63 yrs and 6 mos). A national pension taken before age 65 is subject to a monthly reduction of 0.4 per cent for early retirement: in the example the pension is taken 18 months early, which adds up to a reduction of 7.2 per cent.

**Table 6.2.**
Total pension income and net pension in 2020 at the age cohort's earliest age of eligibility for old-age pension (63 years 6 months), person born in 1956, living alone. Life expectancy coefficient 0.96102. Housing costs €528/month.

| Gross wage (GW) €/month | Net wage (NW) €/month | Earnings-related pension €/month | National pension + guarantee pension | Total pension income/month | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Gross | % of GW | Net | % of NW | + housing allowance | % of NW |
| 0 | 0 | 0 | 615+159 | 774 | - | 774 | - | 1 180 | - |
| 250 | 229 | 120 | 585+69 | 774 | 310 | 774 | 338 | 1 180 | 515 |
| 500 | 458 | 240 | 530 | 770 | 154 | 770 | 168 | 1 175 | 257 |
| 750 | 687 | 360 | 474 | 834 | 111 | 834 | 121 | 1 219 | 177 |
| 1 000 | 916 | 481 | 418 | 899 | 90 | 899 | 98 | 1 260 | 138 |
| 1 250 | 1 130 | 601 | 362 | 963 | 77 | 963 | 85 | 1 302 | 115 |
| 1 500 | 1 323 | 721 | 307 | 1 027 | 68 | 1 003 | 76 | 1 320 | 100 |
| 1 750 | 1 484 | 841 | 251 | 1 092 | 62 | 1 043 | 70 | 1 337 | 90 |
| 2 000 | 1 638 | 961 | 195 | 1 156 | 58 | 1 082 | 66 | 1 354 | 83 |
| 2 500 | 1 948 | 1 201 | 84 | 1 285 | 51 | 1 159 | 59 | 1 385 | 71 |
| 3 000 | 2 228 | 1 442 | 0 | 1 442 | 48 | 1 251 | 56 | 1 422 | 64 |
| 3 500 | 2 495 | 1 682 | 0 | 1 682 | 48 | 1 393 | 56 | 1 479 | 59 |
| 4 000 | 2 762 | 1 922 | 0 | 1 922 | 48 | 1 540 | 56 | 1 540 | 56 |
| 4 500 | 3 018 | 2 162 | 0 | 2 162 | 48 | 1 684 | 56 | 1 684 | 56 |
| 5 000 | 3 267 | 2 403 | 0 | 2 403 | 48 | 1 840 | 56 | 1 840 | 56 |
| 5 500 | 3 516 | 2 643 | 0 | 2 643 | 48 | 2 002 | 57 | 2 002 | 57 |
| 6 000 | 3 765 | 2 883 | 0 | 2 883 | 48 | 2 134 | 57 | 2 134 | 57 |
| 7 000 | 4 262 | 3 364 | 0 | 3 364 | 48 | 2 396 | 56 | 2 396 | 56 |
| 8 000 | 4 699 | 3 844 | 0 | 3 844 | 48 | 2 677 | 57 | 2 677 | 57 |
| 9 000 | 5 115 | 4 325 | 0 | 4 325 | 48 | 2 927 | 57 | 2 927 | 57 |
| 10 000 | 5 532 | 4 805 | 0 | 4 805 | 48 | 3 174 | 57 | 3 174 | 57 |

Table 6.3 shows the total pension income for a person aged 65 retiring in 2020. The retirement age of a person born in 1955 is 63 years and 3 months, and the person continues working for 21 months past their retirement age. The deferral increment does not reduce the national pension. The example assumes that the earnings-related pension accrued by the retirement age is 50 per cent of earnings before adjustment with the life expectancy coefficient. The accrual rate of the pension based on earnings after the retirement age is also calculated based on the same pay level.

**Table 6.3.**
Total pension income and net pension at age 65 in 2020, person born in 1955, living alone. Life expectancy coefficient 0.96344. Housing costs €528/month.

| Gross wage (GW) €/month | Net wage (NW) €/month | Earnings-related pension which reduces national pension | Earnings-related pension which does not reduce national pension | National pension + guarantee pension | Total pension income/month | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Gross | % of GW | Net | % of NW | + housing allowance | % of NW |
| 0 | 0 | 0 | 0 | 663+172 | 835 | - | 835 | - | 1 219 | - |
| 250 | 229 | 127 | 11 | 628+70 | 835 | 334 | 835 | 364 | 1 219 | 532 |
| 500 | 458 | 254 | 21 | 564 | 839 | 168 | 839 | 183 | 1 222 | 267 |
| 750 | 687 | 380 | 32 | 501 | 913 | 122 | 913 | 133 | 1 270 | 185 |
| 1 000 | 916 | 507 | 43 | 437 | 987 | 99 | 978 | 107 | 1 309 | 143 |
| 1 250 | 1 130 | 634 | 53 | 374 | 1 061 | 85 | 1 024 | 91 | 1 329 | 118 |
| 1 500 | 1 323 | 761 | 64 | 311 | 1 135 | 76 | 1 069 | 81 | 1 348 | 102 |
| 1 750 | 1 484 | 887 | 75 | 247 | 1 209 | 69 | 1 114 | 75 | 1 367 | 92 |
| 2 000 | 1 638 | 1 014 | 85 | 184 | 1 283 | 64 | 1 157 | 71 | 1 384 | 85 |
| 2 500 | 1 948 | 1 268 | 106 | 57 | 1 431 | 57 | 1 245 | 64 | 1 420 | 73 |
| 3 000 | 2 228 | 1 521 | 128 | 0 | 1 649 | 55 | 1 373 | 62 | 1 472 | 66 |
| 3 500 | 2 495 | 1 775 | 149 | 0 | 1 924 | 55 | 1 541 | 62 | 1 541 | 62 |
| 4 000 | 2 762 | 2 028 | 170 | 0 | 2 198 | 55 | 1 706 | 62 | 1 706 | 62 |
| 4 500 | 3 018 | 2 282 | 192 | 0 | 2 473 | 55 | 1 890 | 63 | 1 890 | 63 |
| 5 000 | 3 267 | 2 535 | 213 | 0 | 2 748 | 55 | 2 060 | 63 | 2 060 | 63 |
| 5 500 | 3 516 | 2 789 | 234 | 0 | 3 023 | 55 | 2 210 | 63 | 2 210 | 63 |
| 6 000 | 3 765 | 3 042 | 256 | 0 | 3 298 | 55 | 2 360 | 63 | 2 360 | 63 |
| 7 000 | 4 262 | 3 549 | 298 | 0 | 3 847 | 55 | 2 678 | 63 | 2 678 | 63 |
| 8 000 | 4 699 | 4 056 | 341 | 0 | 4 397 | 55 | 2 964 | 63 | 2 964 | 63 |
| 9 000 | 5 115 | 4 563 | 383 | 0 | 4 946 | 55 | 3 246 | 63 | 3 246 | 63 |
| 10 000 | 5 532 | 5 070 | 426 | 0 | 5 496 | 55 | 3 528 | 64 | 3 528 | 64 |

## 6.2 Change in net pension income

Table 6.4 describes how a pension that started in 2010 has developed through to 2020. The national pension has increased in accordance with the national pension index and the earnings-related pension in accordance with the earnings-related pension index. The minimum pension consists of a national pension and a guarantee pension.

**Table 6.4.**
Change in nominal pensions that started in 2010, from 2010 to 2020

| Gross pension €/month | Net pension €/month | Annual change in net pension, % | | | | | | Net pension €/month |
|---|---|---|---|---|---|---|---|---|
| 2010 | | 2016 | 2017 | 2018 | 2019 | 2020 | 2010–2020 | 2020 |
| 584 | 584 | 3.4 | -0.9 | 2.0 | 1.2 | 6.4 | 42.9 | 835 |
| 735 | 735 | 0.4 | -0.4 | 0.2 | 0.5 | 3.7 | 13.5 | 834 |
| 860 | 835 | -0.1 | 0.0 | 1.0 | 1.0 | 2.8 | 16.4 | 972 |
| 985 | 912 | 0.0 | 0.3 | 1.1 | 1.2 | 2.3 | 16.3 | 1 060 |
| 1 110 | 988 | 0.1 | 0.5 | 1.0 | 1.2 | 1.8 | 15.9 | 1 146 |
| 1 250 | 1 074 | 0.1 | 0.7 | 0.8 | 1.3 | 1.8 | 15.8 | 1 244 |
| 1 500 | 1 235 | 0.2 | 0.8 | 0.4 | 1.3 | 1.7 | 14.4 | 1 413 |
| 1 750 | 1 405 | -0.1 | 0.8 | 0.3 | 1.1 | 1.6 | 13.1 | 1 589 |
| 2 000 | 1 569 | -0.1 | 0.8 | 0.3 | 1.3 | 1.3 | 12.2 | 1 760 |
| 2 250 | 1 741 | -0.1 | 0.9 | 0.4 | 1.3 | 1.3 | 12.6 | 1 961 |
| 2 500 | 1 875 | -0.1 | 1.2 | 0.4 | 1.4 | 1.3 | 13.1 | 2 121 |
| 2 750 | 2 010 | -0.1 | 1.3 | 0.4 | 1.4 | 1.3 | 13.3 | 2 277 |
| 3 000 | 2 145 | -0.1 | 1.4 | 0.5 | 1.4 | 1.3 | 13.4 | 2 434 |
| 3 250 | 2 293 | 0.2 | 0.7 | 0.9 | 1.5 | 1.5 | 13.6 | 2 604 |
| 3 500 | 2 437 | 0.2 | 0.9 | 0.9 | 1.4 | 1.4 | 13.4 | 2 763 |
| 3 750 | 2 582 | 0.2 | 1.0 | 0.9 | 1.4 | 1.4 | 12.7 | 2 910 |
| 4 000 | 2 727 | 0.2 | 1.0 | 0.9 | 1.4 | 1.4 | 12.1 | 3 057 |

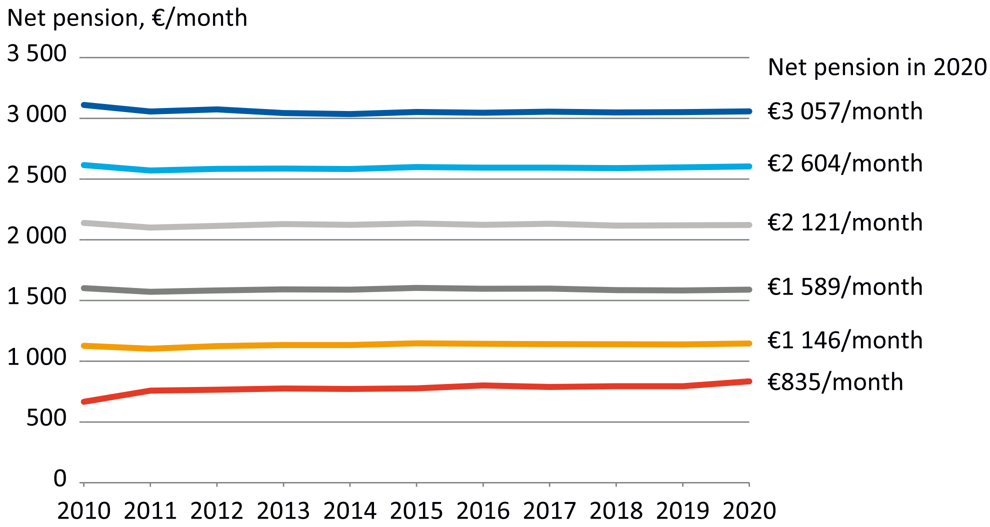
In 2020 the net pension income of persons who have only a national pension will increase by 6.4 per cent from the year before due to the discretionary increases of the national and guarantee pensions. Net pensions below 1,000 euros will increase by around 2–4 per cent. The change reflects the combined effect of the discretionary increase of the national pension, the index adjustments of earnings-related pensions and changes in tax rules. At the income level at which the national pension is no longer in payment, the gross pension will rise by 1.3-1.8 per cent.

As inflation is expected to be 1.2 per cent in 2020, the real growth of the pension of a guarantee pension recipient will be around 5 per cent. Net pensions higher than 1,000 euros will grow in line with the price level, which means that the purchasing power of the pension will remain on the same level or improve only slightly compared to in 2019.

Figure 6.3 presents the development of pensions that started in 2010. The euro amounts have been adjusted in line with the development of consumer prices to the 2020 price level. In other words, the figure shows the development of the purchasing power of pensions over the last decade.

Over the decade, the pension of recipients receiving only a Kela pension has grown in real terms by around 26 per cent. Pensions higher than that have remained almost unchanged in real terms. The change has ranged from -1 per cent to 2 per cent in the income brackets included in Figure 6.3.

**Figure 6.3.**
Net pension income in 2010–2020, at 2020 prices



# APPENDICES

## Appendix 1 Deductions in earned income taxation

| MUNICIPAL TAXATION | STATE TAXATION |
|---|---|
| TOTAL EARNED INCOME<br>– Production-of-income expenses | TOTAL EARNED INCOME<br>– Production-of-income expenses |
| NET EARNED INCOME<br>– Statutory insurance contributions<br>– Collective additional pension insurance contributions<br>– Deduction for reduced capacity to pay taxes<br>– Pension income allowance<br>– Seafarer's deduction<br>– Disabled person's allowance<br>– Student grant allowance<br>– Earned income allowance<br>– Basic allowance | NET EARNED INCOME<br>– Statutory insurance contributions<br>– Collective additional pension insurance contributions<br>– Deduction for reduced capacity to pay taxes<br>– Pension income allowance<br>– Seafarer's deduction |
| = EARNED INCOME FOR TAX YEAR (municipal taxation) | = EARNED INCOME FOR TAX YEAR (state taxation) |

### Deductions and allowances on earned income in state and municipal taxation

#### Expenses incurred in acquiring and maintaining income

- Standard deduction for work-related expenses 750 euros for all wage earners, but not exceeding the amount of wage income.
- Commuting expenses over 750 euros up to a maximum of 7,000 euros.
- Trade union membership fees and unemployment fund contributions.
- Other expenses insofar as they exceed the standard deduction for work-related expenses (e.g. expenses for professional literature, office, work tools).
- Maximum deduction for second home for work 450 euros/month.

### Deductions on net earned income in state and municipal taxation

#### Statutory insurance contributions

- Employee's statutory earnings-related pension contribution (7.15% / 8.65%)
- Unemployment insurance contribution (1.25%)
- Health insurance daily allowance contribution (1.18% of total earned income if annual earnings exceed €14,574; no contribution is payable if annual earnings are less than €14,574).

### Collective supplementary pension insurance contributions

Contributions by taxpayers for collective additional pension insurance provided through a company pension fund, industry-wide pension fund or insurance company to the amount of five per cent of wages up to a maximum of 5,000 euros a year but not exceeding the amount paid by the employer. A further requirement is that the pension shall not commence before the age when the insurance obligation under the Employees Pensions Act (TyEL) ends.

### Seafarer’s tax deduction

The deduction is 20 per cent of annual earnings from maritime employment up to a maximum of 7,000 euros. When total earnings exceed 50,000 euros, the seafarer’s tax deduction is reduced by 5 per cent for the portion exceeding 50,000 euros.

### Deduction for reduced capacity to pay taxes

A discretionary allowance that is granted in the event of a substantial reduction in the individual’s capacity to pay taxes for reasons of unemployment, illness or child maintenance obligations, for instance. In the event of illness, the capacity to pay taxes is considered substantially reduced if the individual’s and their family members’ combined medical expenses during the tax year are 700 euros or more and at least 10 per cent of the sum total of the individual’s net capital and earned income. The maximum deduction is 1,400 euros.

## Deductions on net earned income in state taxation only

### Pension income allowance in state taxation

The full amount of pension income allowance is calculated by multiplying the full amount of national pension for a single person by 3.726 and deducting from the product the lowest taxable income in the progressive tax scale and rounding the difference up to the next 10 euros. The allowance cannot be more than the amount of pension income. In 2020 the maximum pension income allowance is 11,540 euros or a lower amount of pension income. The pension income allowance is reduced by 38 per cent of the amount by which net earned income exceeds the full pension income allowance.

$$11{,}540 - 0.38 \times (\text{net earned income} - 11{,}540)$$

## Deductions on net earned income in municipal taxation only

### Pension income allowance in municipal taxation

The full amount of pension income allowance is calculated by multiplying the full amount of national pension by 1.346 and deducting from the product 1,480 euros and rounding the difference up to the next 10 euros. The allowance cannot be more than the amount of pension income. In 2020 the maximum pension income allowance is

9,230 euros or a lower amount of pension income. If the taxpayer's net earned income exceeds the full pension income allowance, the deduction is reduced by 51 per cent of the excess.

9,230 – 0.51 x (net earned income – 9,230)

### Disabled person's allowance in municipal taxation

A deduction of 440 euros is made on a disabled person's net earned income other than pension if their degree of disability is 100 per cent. If the person's degree of disability is less than 100 but at least 30 per cent, the deduction is adjusted accordingly as a percentage of 440 euros. However, the minimum deduction may not be less than that to which the individual was entitled in 1982.

Persons in receipt of a full disability pension during the tax year are considered to have a 100 per cent disability rating without need for a separate certificate; recipients of a partial disability pension will be given a 50 per cent rating. Taxpayers retain their right to a disabled person's allowance in accordance with their disability pension status even after the disability pension is converted into an old-age pension.

### Student grant allowance

The maximum student grant allowance is 2,600 euros but no more than the amount of the grant. No allowance is granted if net annual earned income exceeds 7,800 euros.

### Earned income allowance in municipal taxation

The earned income allowance is calculated based on taxable wages or other earned income from work done for another person and a partner's earned income share of business profits or agricultural income, but not on pension income or daily unemployment benefits.

The earned income allowance is 51 per cent of earnings exceeding 2,500 euros up to 7,230 euros, and 28 per cent for the portion exceeding 7,230 euros. The maximum allowance is 3,570 euros. If the taxpayer's net earned income exceeds 14,000 euros the amount of the allowance is reduced by 4.5 per cent of the excess. Net earned income includes any pension income and other benefits.

Earned income allowance = 0.51 x (Earned income – 2,500), up to 7,230 euros + 0.28 x (Earned income – 7,230) for earnings exceeding 7,230 euros, maximum 3,570

If net earned income › 14,000 euros:
Earned income allowance – 0.045 x (Net earned income – 14,000)

### Basic allowance

The basic allowance is calculated on net earned income after natural deductions in municipal taxation. If the taxpayer's net earned income after these deductions does not exceed 3,540 euros, this full amount will be deducted from net earned income. If the amount of net earned income exceeds the full amount of the basic allowance, the allowance is reduced by 18 per cent of the excess.

3,540 – 0.18 x (Net earned income – 3,540)

## Tax credits against state income tax

### Earned income credit

The earned income credit is calculated based on the same earnings as the earned income allowance in municipal taxation. The credit is 12.5 per cent of total income exceeding 2,500 euros. The maximum credit is 1,770 euros. If the taxpayer’s net earned income exceeds 33,000 euros the credit is reduced by 1.84 per cent of the excess. The earned income credit is given before the deficit credit and special deficit credit. If the credit exceeds the amount of tax on earned income, it is deducted proportionally from municipal tax, the medical care contribution and church tax.

If net earned income < 33,000 euros:
0.125 x (Earned income – 2,500)

If net earned income > 33,000 euros:
0.125 x (Earned income – 2,500) – 0.0184 x (Net earned income – 33,000)

### Disability credit

The disability credit is calculated by multiplying the individual’s degree of disability (30–100%) by 115 euros. Taxpayers who during the tax year have received a disability pension under statutory pension insurance will be considered to have a 100 per cent disability rating without need for a separate certificate; those in receipt of a partial disability pension will be given a 50 per cent rating. Taxpayers retain their right to a disability credit in accordance with their disability pension status even after the disability pension is converted into an old-age pension.

### Child maintenance credit

The child maintenance credit is 1/8 of the amount of maintenance allowance paid, subject to a maximum of 80 euros per child.

### Domestic help credit

The maximum annual credit is 2,250 euros. Taxpayers are entitled to deduct the employer’s social security contributions, statutory pension contributions, workers’ compensation insurance contributions, group life assurance contributions and unemployment insurance contributions (but not the employee’s share of these contributions) paid on housekeeping work, care and nursing provision, and maintenance and renovation work on their home or holiday home as well as 15 per cent of wage remuneration paid. In 2020 domestic help credit can be claimed on 40 per cent of wage payments totalling over 100 euros to a person registered in the prepayment register.

The credit is deducted primarily from state income tax. If the credit exceeds the amount of state income tax, the excess can also be deducted from municipal tax, the medical care contribution and church tax in proportion. The excess can also be transferred to the other spouse. In the case of tax on earned income the credit is deducted after other deductions and before the credit for deficit in capital income.

### Credit for deficit in capital income

Credit for deficit in capital income can be claimed on interest payments on housing loans, student loans and debt incurred in acquiring or maintaining income. A deficit is created if the taxpayer has no capital income or if deductible expenses against capital income are higher than the capital income itself. The deficit credit can be deducted from earned income tax at the capital tax rate (30%). The maximum amount of deficit credit is 1,400 euros. The maximum child increment is 400 euros for one and 800 euros for two or more children.

In 2020 interest paid on a housing loan is 15 per cent tax deductible (25 per cent in 2019 and 35% in 2018). Taxpayers can claim 30 per cent of deductible housing loan interest payments as deficit credit.

### Special deficit credit

A special deficit in capital income may also be created based on voluntary pension insurance premiums that are deductible from capital income. If the sum total of deductible insurance premiums exceeds the total of taxable capital income, 30 per cent of the excess will be deducted from the tax payable on earned income. The amount of special deficit credit is not included in the calculation of the maximum amount of credit for deficit in capital income.

### Tax allowance for entrepreneurial and self-employment income

Five per cent of net income from business, agriculture and reindeer farming is deductible for tax purposes when that income is declared in the tax returns of a natural person or an estate of a deceased person. The corresponding allowance is granted in forestry taxation.

# Appendix 2 Time series

**Appendix Table 2.1.**
Full pension income allowance in municipal and state taxation in 1990–2020 (€)

| | Pension income allowance in municipal taxation | | Pension income allowance in state taxation |
|---|---|---|---|
| | Single person | Spouse | |
| 1990 | 4 692.44 | 3 733.77 | 3 528.70 |
| 1991 | 4 995.18 | 4 204.70 | 3 767.40 |
| 1992 | 5 197.01 | 4 372.89 | 4 087.00 |
| 1993 | 5 382.01 | 4 541.07 | 4 389.70 |
| 1994 | 5 382.01 | 4 541.07 | 4 221.50 |
| 1995 | 5 516.56 | 4 641.99 | 4 255.20 |
| 1996 | 5 533.38 | 4 658.81 | 4 120.60 |
| 1997 | 5 567.02 | 4 709.26 | 3 851.50 |
| 1998 | 5 684.75 | 4 810.17 | 3 885.10 |
| 1999 | 5 785.66 | 4 894.27 | 3 868.30 |
| 2000 | 5 869.76 | 4 961.54 | 3 902.00 |
| 2001 | 6 273.41 | 5 331.56 | 1 463.20 |
| 2002 | 6 540 | 5 580 | 1 500 |
| 2003 | 6 640 | 5 660 | 1 550 |
| 2004 | 6 690 | 5 710 | 1 530 |
| 2005 | 6 810 | 5 830 | 1 430 |
| 2006 | 6 950 | 5 960 | 1 460 |
| 2007 | 7 150 | 6 140 | 1 590 |
| 2008 | 7 710 | 6 670 | 11 060 |
| 2009 | 8 130 | | 12 490 |
| 2010 | 8 130 | | 11 300 |
| 2011 | 8 170 | | 11 150 |
| 2012 | 8 530 | | 11 660 |
| 2013 | 8 880 | | 12 630 |
| 2014 | 8 950 | | 12 610 |
| 2015 | 9 140 | | 12 540 |
| 2016 | 9 110 | | 12 230 |
| 2017 | 9 040 | | 11 860 |
| 2018 | 9 040 | | 11 560 |
| 2019 | 9 050 | | 11 590 |
| 2020 | 9 230 | | 11 540 |

**Appendix Table 2.2.**
State income tax threshold and average municipal and church tax rates in 1990–2020

| | State income tax threshold | Average municipal tax rate, % | Average church tax rate, % |
|---|---|---|---|
| 1990 | 6 391 | 16.47 | |
| 1991 | 6 728 | 16.62 | 1.28 |
| 1992 | 6 728 | 16.88 | 1.28 |
| 1993 | 6 728 | 17.20 | 1.3 |
| 1994 | 6 896 | 17.52 | 1.3 |
| 1995 | 7 064 | 17.53 | 1.3 |
| 1996 | 7 232 | 17.51 | 1.3 |
| 1997 | 7 568 | 17.43 | 1.3 |
| 1998 | 7 737 | 17.54 | 1.3 |
| 1999 | 7 905 | 17.62 | 1.3 |
| 2000 | 8 006 | 17.67 | 1.3 |
| 2001 | 11 100 | 17.67 | 1.3 |
| 2002 | 11 500 | 17.78 | 1.3 |
| 2003 | 11 600 | 18.03 | 1.3 |
| 2004 | 11 700 | 18.12 | 1.3 |
| 2005 | 12 000 | 18.29 | 1.33 |
| 2006 | 12 200 | 18.40 | 1.33 |
| 2007 | 12 400 | 18.46 | 1.33 |
| 2008 | 12 600 | 18.55 | 1.33 |
| 2009 | 13 100 | 18.59 | 1.32 |
| 2010 | 15 200 | 18.98 | 1.33 |
| 2011 | 15 600 | 19.17 | 1.34 |
| 2012 | 16 100 | 19.25 | 1.4 |
| 2013 | 16 100 | 19.38 | 1.4 |
| 2014 | 16 300 | 19.74 | 1.42 |
| 2015 | 16 500 | 19.82 | 1.43 |
| 2016 | 16 700 | 19.86 | 1.43 |
| 2017 | 16 900 | 19.91 | 1.37* |
| 2018 | 17 200 | 19.86 | 1.39 |
| 2019 | 17 600 | 19.88 | 1.39 |
| 2020 | 18 100 | 19.97 | 1.39 |

* Technical changes were made in the calculation method of the church tax rate; in reality, the church tax rate is unchanged from the year before

**Appendix Table 2.3.**
Pensioner's and employee's national pension contribution and health insurance contribution in 1990–2020

| | National pension contribution | | Medical care contribution under national health insurance (Health insurance contribution until 2005) | | | Daily allowance contribution under national health insurance |
|---|---|---|---|---|---|---|
| | Pensioner | Employee | Pensioner | Employee | Increase for earnings of over FIM 80,000 (13,455 euros) | Employee |
| 1990 | 0 | 1.55 | 1.7 | 1.7 | | |
| 1991 | 0 | 1.55 | 1.7 | 1.7 | 1 | |
| 1992 | 3.05 | 3.05 | 2.2 | 2.2 | 1.5 | |
| 1993 | 2.8 | 1.8 | 3.9 | 1.9 | 1.5 | |
| 1994 | 2.55 | 1.55 | 4.9 | 1.9 | 1.9 | |
| 1995 | 1.55 | 0.55 | 4.9 | 1.9 | 1.9 | |
| 1996 | | | 4.9 | 1.9 | 1.45 | |
| 1997 | | | 4.9 | 1.9 | 0.45 | |
| 1998 | | | 4.2 | 1.5 | 0.45 | |
| 1999 | | | 3.9 | 1.5 | | |
| 2000 | | | 3.2 | 1.5 | | |
| 2001 | | | 2.7 | 1.5 | | |
| 2002 | | | 1.9 | 1.5 | | |
| 2003 | | | 1.5 | 1.5 | | |
| 2004 | | | 1.5 | 1.5 | | |
| 2005 | | | 1.5 | 1.5 | | |
| 2006 | | | 1.5 | 1.33 | | 0.77 |
| 2007 | | | 1.45 | 1.28 | | 0.75 |
| 2008 | | | 1.41 | 1.24 | | 0.67 |
| 2009 | | | 1.45 | 1.28 | | 0.7 |
| 2010 | | | 1.64 | 1.47 | | 0.93 |
| 2011 | | | 1.36 | 1.19 | | 0.82 |
| 2012 | | | 1.39 | 1.22 | | 0.82 |
| 2013 | | | 1.47 | 1.3 | | 0.74 |
| 2014 | | | 1.49 | 1.32 | | 0.84 |
| 2015 | | | 1.49 | 1.32 | | 0.78 |
| 2016 | | | 1.47 | 1.3 | | 0.82 |
| 2017 | | | 1.45 | 0 | | 1.58 |
| 2018 | | | 1.53 | 0 | | 1.53 |
| 2019 | | | 1.61 | 0 | | 1.54 |
| 2020 | | | 1.65 | 0.68 | | 1.18 |

**Appendix Table 2.4.**
Employee's earnings-related pension insurance contribution and unemployment insurance contribution in 1993–2020

| | Employee's earnings-related pension insurance contribution, % | | Unemployment insurance contribution, % |
|---|---|---|---|
| | under 53 yrs | 53 yrs→ | |
| 1993 | 3.0 | 3.0 | 0.20 |
| 1994 | 3.0 | 3.0 | 1.87 |
| 1995 | 4.0 | 4.0 | 1.87 |
| 1996 | 4.3 | 4.3 | 1.50 |
| 1997 | 4.5 | 4.5 | 1.50 |
| 1998 | 4.7 | 4.7 | 1.40 |
| 1999 | 4.7 | 4.7 | 1.35 |
| 2000 | 4.7 | 4.7 | 1.00 |
| 2001 | 4.5 | 4.5 | 0.70 |
| 2002 | 4.4 | 4.4 | 0.40 |
| 2003 | 4.6 | 4.6 | 0.20 |
| 2004 | 4.6 | 4.6 | 0.25 |
| 2005 | 4.6 | 5.8 | 0.50 |
| 2006 | 4.3 | 5.4 | 0.58 |
| 2007 | 4.3 | 5.4 | 0.58 |
| 2008 | 4.1 | 5.2 | 0.34 |
| 2009 | 4.3 | 5.4 | 0.20 |
| 2010 | 4.5 | 5.7 | 0.40 |
| 2011 | 4.7 | 6.0 | 0.60 |
| 2012 | 5.15 | 6.50 | 0.60 |
| 2013 | 5.15 | 6.50 | 0.60 |
| 2014 | 5.55 | 7.05 | 0.50 |
| 2015 | 5.70 | 7.20 | 0.65 |
| 2016 | 5.70 | 7.20 | 1.15 |
| 2017* | 6.15 | 7.65 | 1.60 |
| 2018 | 6.35 | 7.85 | 1.90 |
| 2019 | 6.75 | 8.25 | 1.50 |
| 2020 | 7.15 | 8.65 | 1.25 |

* Since 2017 persons aged 17–52 and 63–67 have had a reduced earnings-related pension contribution rate and persons aged 53–62 an increased contribution rate.

**Appendix Table 2.5.**
National pension index, TEL halfway index, earnings-related pension index and wage coefficient in 1990–2020

| | National pension index (wages 0.0/ prices 1.0) | | TEL halfway index (wages 0.5/ prices 0.5) | | Earnings-related pension index (wages 0.2/ prices 0.8) | | Wage coefficient (wages 0.8/ prices 0.2) | |
|---|---|---|---|---|---|---|---|---|
| | Point figure | Change % | Point figure | Change % | Point figure | Change % | Point figure | Change % |
| 1990 | 1045 | 7.1 | 1481 | 6.8 | | | | |
| 1991 | 1104 | 5.6 | 1595 | 7.7 | | | | |
| 1992 | 1139 | 3.2 | 1682 | 5.5 | | | | |
| 1993 | 1170 | 2.7 | 1688 | 0.4 | | | | |
| 1994 | 1170 | 0.0 | 1688 | 0.0 | | | | |
| 1995 | 1192 | 1.9 | 1712 | 1.4 | 1712 | | | |
| 1996 | 1195 | 0.3 | 1760 | 2.8 | 1737 | 1.5 | | |
| 1997 | 1202 | 0.6 | 1791 | 1.8 | 1754 | 1.0 | | |
| 1998 | 1223 | 1.7 | 1825 | 1.9 | 1783 | 1.7 | | |
| 1999 | 1239 | 1.3 | 1868 | 2.4 | 1812 | 1.6 | | |
| 2000 | 1253 | 1.1 | 1903 | 1.9 | 1838 | 1.4 | | |
| 2001 | 1302 | 3.9 | 1981 | 4.1 | 1912 | 4.0 | | |
| 2002 | 1333 | 2.4 | 2054 | 3.7 | 1968 | 2.9 | | |
| 2003 | 1349 | 1.2 | 2103 | 2.4 | 2002 | 1.7 | | |
| 2004 | 1357 | 0.6 | 2151 | 2.3 | 2028 | 1.3 | 1000 | |
| 2005 | 1362 | 0.4 | 2191 | 1.9 | 2047 | 0.9 | 1028 | 2.8 |
| 2006 | 1377 | 1.1 | 2246 | 2.5 | 2081 | 1.7 | 1063 | 3.4 |
| 2007 | 1401 | 1.7 | 2311 | 2.9 | 2127 | 2.2 | 1100 | 3.5 |
| 2008 | 1436 | 2.5 | 2363 | 2.3 | 2178 | 2.4 | 1124 | 2.2 |
| 2009 | 1502 | 4.6 | 2494 | 5.5 | 2286 | 5.0 | 1192 | 6.0 |
| 2010 | 1502 | 0.0 | 2538 | 1.8 | 2292 | 0.3 | 1231 | 3.3 |
| 2011 | 1508 | 0.4 | 2578 | 1.6 | 2323 | 1.4 | 1253 | 1.8 |
| 2012 | 1565 | 3.8 | 2663 | 3.3 | 2407 | 3.6 | 1291 | 3.0 |
| 2013 | 1609 | 2.8 | 2738 | 2.8 | 2475 | 2.8 | 1327 | 2.8 |
| 2014 | 1630 | 1.3 | | | 2509 | 1.4 | 1350 | 1.7 |
| 2015 | 1637 | 0.4 | | | 2519 | 0.4 | 1363 | 1.0 |
| 2016 | 1631 | -0.4 | | | 2519 | 0.0 | 1373 | 0.7 |
| 2017 | 1617 | -0.9 | | | 2534 | 0.6 | 1389 | 1.2 |
| 2018 | 1617 | 0.0 | | | 2548 | 0.6 | 1391 | 0.1 |
| 2019 | 1617 | 0.0 | | | 2585 | 1.5 | 1417 | 1.9 |
| 2020 | 1633 | 1.0 | | | 2617 | 1.2 | 1446 | 2.0 |

**Appendix Table 2.6.**
Full amount of national pension, income limits and step increases to national pension in 1990–2020 (€)

| | Full national pension | Annual income limits (euros) for | | Step increase |
|---|---|---|---|---|
| | | full national pension eligibility | minimum national pension | |
| 1990 | 372.36 | 428.90 | | |
| 1991 | 393.39 | 454.10 | | |
| 1992 | 405.84 | 467.60 | | |
| 1993 | 416.94 | 481.00 | | |
| 1994 | 416.94 | 481.00 | | |
| 1995 | 424.84 | 489.40 | | |
| 1996 | 425.85 | 491.10 | 8 907.20 | |
| 1997 | 428.37 | 494.50 | 10 533.60 | |
| 1998 | 435.77 | 502.90 | 10 718.60 | |
| 1999 | 441.49 | 509.60 | 10 858.20 | |
| 2000 | 446.54 | 514.70 | 10 979.30 | |
| 2001 | 464.03 | 534.80 | 11 409.90 | €12.28/month |
| 2002 | 487.60 | 549 | 11 987 | |
| 2003 | 493.45 | 555 | 12 130 | |
| 2004 | 496.38 | 559 | 12 203 | |
| 2005 | 505.24 | 561 | 12 247 | approx. €7/month |
| 2006 | 515.86 | 567 | 12 553 | €5/month |
| 2007 | 524.85 | 577 | 12 895 | |
| 2008 | 558.46 | 591 | 13 851 | €20/month |
| 2009 | 584.13 | 618 | 14 488 | |
| 2010 | 584.13 | 618 | 14 488 | |
| 2011 | 586.46 | 621 | 14 546 | |
| 2012 | 608.63 | 644 | 15 095 | |
| 2013 | 630.02 | 667 | 15 628 | |
| 2014 | 633.91 | 671 | 15 723 | |
| 2015 | 636.63 | 674 | 15 790 | |
| 2016 | 634.30 | 671 | 15 732 | |
| 2017 | 628.85 | 666 | 15 598 | |
| 2018 | 628.85 | 666 | 15 598 | |
| 2019 | 628.85 | 666 | 15 598 | |
| 2020 | 662.86 | 672 | 16 418 | €34/month |

The figures given apply to a person living alone in a municipality ranked in the highest (I) cost-of-living category. The municipal cost-of-living classification was discontinued from the beginning of 2008. Since 1996 all sources of pension income have affected the amount of national pension payable. Previously the national pension consisted of a basic amount and an additional amount, and only the latter affected the amount of national pension payable.

**Appendix Table 2.7.**
Full guarantee pension and minimum pension in 2011–2020 (€)

| | Full guarantee pension | | Minimum pension | Step increases |
|---|---|---|---|---|
| | Lives alone | Lives with a partner | | |
| 2011 | 101.28 | 167.55 | 687.74 | |
| 2012 | 105.10 | 173.88 | 713.73 | |
| 2013 | 108.80 | 179.99 | 738.82 | |
| 2014 | 109.47 | 181.11 | 743.38 | |
| 2015 | 109.94 | 181.88 | 746.57 | |
| 2016 | 132.55 | 204.23 | 766.85 | €23.27/month |
| 2017 | 131.41 | 202.47 | 760.26 | |
| 2018 | 146.42 | 217.48 | 775.27 | €15.01/month |
| 2019 | 155.67 | 226.73 | 784.52 | €9.25/month |
| 2020 | 171.66 | 242.73 | 834.52 | €50/month |

The full amounts of guarantee pension shown in the Table are for persons in receipt of a full national pension.

**Appendix Table 2.8.**
Life expectancy coefficient and retirement age by age cohort. The life expectancy coefficients are projections for persons born in 1959 and later and the retirement ages for persons born in 1965 and later. The projections are based on Statistics Finland's population projection of 2019.

| Year of birth | Life expectancy coefficient | Reducing effect of life expectancy coefficient on monthly pension, % | Retirement age |
|---|---|---|---|
| 1947 | 1.00000 | 0.0 | 63 yrs |
| 1948 | 0.99170 | 0.8 | 63 yrs |
| 1949 | 0.98689 | 1.3 | 63 yrs |
| 1950 | 0.98351 | 1.6 | 63 yrs |
| 1951 | 0.97914 | 2.1 | 63 yrs |
| 1952 | 0.97552 | 2.4 | 63 yrs |
| 1953 | 0.97200 | 2.8 | 63 yrs |
| 1954 | 0.96800 | 3.2 | 63 yrs |
| 1955 | 0.96344 | 3.7 | 63 yrs 3 mos |
| 1956 | 0.96102 | 3.9 | 63 yrs 6 mos |
| 1957 | 0.95722 | 4.3 | 63 yrs 9 mos |
| 1958 | 0.95404 | 4.6 | 64 yrs |
| 1959 | 0.949 | 5.1 | 64 yrs 3 mos |
| 1960 | 0.944 | 5.6 | 64 yrs 6 mos |
| 1961 | 0.938 | 6.2 | 64 yrs 9 mos |
| 1962 | 0.932 | 6.8 | 65 yrs |
| 1963 | 0.926 | 7.4 | 65 yrs |
| 1964 | 0.921 | 7.9 | 65 yrs |

| Year of birth | Life expectancy coefficient | Reducing effect of life expectancy coefficient on monthly pension, % | Retirement age |
|---|---|---|---|
| 1965 | 0.921 | 7.9 | 65 yrs 2 mos |
| 1966 | 0.918 | 8.2 | 65 yrs 3 mos |
| 1967 | 0.915 | 8.5 | 65 yrs 4 mos |
| 1968 | 0.915 | 8.5 | 65 yrs 6 mos |
| 1969 | 0.912 | 8.8 | 65 yrs 7 mos |
| 1970 | 0.910 | 9.0 | 65 yrs 8 mos |
| 1971 | 0.910 | 9.0 | 65 yrs 10 mos |
| 1972 | 0.907 | 9.3 | 65 yrs 11 mos |
| 1973 | 0.905 | 9.5 | 66 yrs |
| 1974 | 0.903 | 9.7 | 66 yrs 1 mo. |
| 1975 | 0.901 | 9.9 | 66 yrs 2 mos |
| 1976 | 0.899 | 10.1 | 66 yrs 3 mos |
| 1977 | 0.899 | 10.1 | 66 yrs 5 mos |
| 1978 | 0.897 | 10.3 | 66 yrs 6 mos |
| 1979 | 0.895 | 10.5 | 66 yrs 7 mos |
| 1980 | 0.894 | 10.6 | 66 yrs 8 mos |
| 1981 | 0.892 | 10.8 | 66 yrs 9 mos |
| 1982 | 0.890 | 11.0 | 66 yrs 10 mos |
| 1983 | 0.889 | 11.1 | 66 yrs 11 mos |
| 1984 | 0.887 | 11.3 | 67 yrs |
| 1985 | 0.886 | 11.4 | 67 yrs 1 mo. |
| 1986 | 0.884 | 11.6 | 67 yrs 2 mos |
| 1987 | 0.883 | 11.7 | 67 yrs 3 mos |
| 1988 | 0.882 | 11.8 | 67 yrs 4 mos |
| 1989 | 0.880 | 12.0 | 67 yrs 5 mos |
| 1990 | 0.879 | 12.1 | 67 yrs 6 mos |
| 1991 | 0.878 | 12.2 | 67 yrs 7 mos |
| 1992 | 0.877 | 12.3 | 67 yrs 8 mos |
| 1993 | 0.876 | 12.4 | 67 yrs 9 mos |
| 1994 | 0.873 | 12.7 | 67 yrs 9 mos |
| 1995 | 0.872 | 12.8 | 67 yrs 10 mos |
| 1996 | 0.871 | 12.9 | 67 yrs 11 mos |
| 1997 | 0.870 | 13.0 | 68 yrs |
| 1998 | 0.869 | 13.1 | 68 yrs 1 mo. |
| 1999 | 0.869 | 13.1 | 68 yrs 2 mos |
| 2000 | 0.866 | 13.4 | 68 yrs 2 mos |
| 2001 | 0.865 | 13.5 | 68 yrs 3 mos |
| 2002 | 0.865 | 13.5 | 68 yrs 4 mos |

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FINNISH CENTRE FOR PENSIONS,
REPORTS

# Total pension in Finland 2020

## How are earnings-related pensions, national pensions and taxation determined?

In this review, we bring together the components which affect the determination of the total pension in Finland in 2020. The amount of the take-home net pension is affected by how the earnings-related and national pension benefits and the taxation of pensions are determined. The examples and figures illustrate what the Finnish total net pension will consist of in the different income brackets. The taxation of pensions is different from that of wage income due to various tax deductions and contributions. This review compares the tax and contribution burden of Finnish pension recipients and wage earners. It also looks at the taxation of pension recipients' wage income.

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The Finnish Centre for Pensions, an expert on earnings-related pensions, is a statutory body that develops pension provision and produces joint services for all parties to the scheme. In the Reports series, we publish reviews, surveys and projections that serve the assessment and development of the pension provision.

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