

Research Programme of
the Finnish Centre for Pensions
2015–2019



Finnish Centre for Pensions
ELÄKETURVAKESKUS



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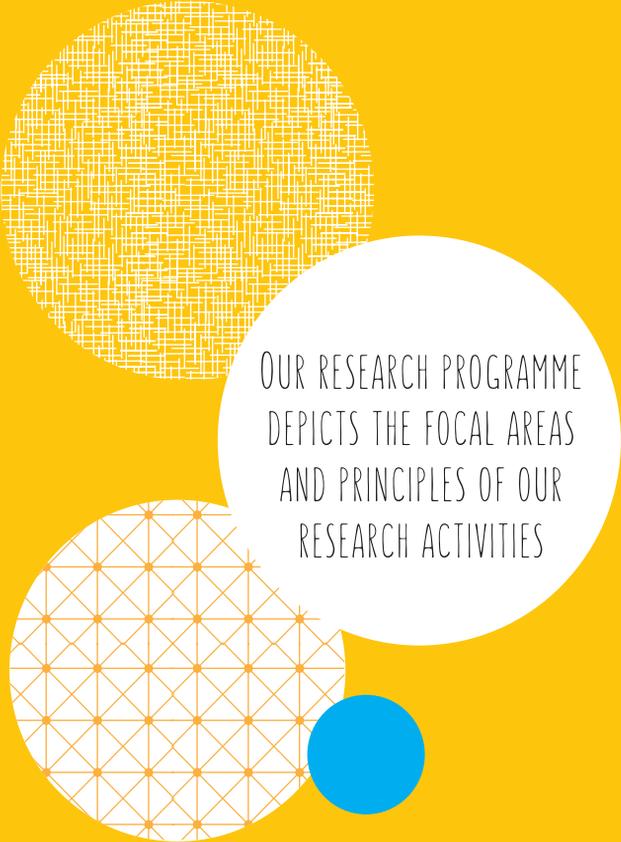
Research activities support the evaluation and improvement of pension policy

A central strategic objective of the Finnish Centre for Pensions is to produce high-level and widely useful expertise to support the evaluation and improvement of pension provision. The mission of our research is to produce reliable information for decision-makers on the functionality of pension provision and on the implementation of the set goals, as well as on the efficiency of pension policy measures. Our research subject is the overall pension provision and related key factors.

Research is one of our statutory assignments. The management of research-enabling data and our practical pension know-how provide us with a strong basis for producing research data. The statutory nature of the earnings-related pension system poses a general obligation to produce research that serves society. This obligation has become increasingly important along with the growing significance of earnings-related pension provision.

At the Finnish Centre for Pensions, we engage in independent social science and economics research which is concrete and empirical by nature. Our research activities include both projects that directly serve decision-making and projects that require a long-term research approach. We also engage in active research cooperation. Our customers include decision-makers, experts, research and educational institutions, the media as well as citizens.

Our research operations are based on a research programme spanning five years. The programme supports the implementation of systematic research. Our research programme for the years 2015-2019 depicts the basis for and principles of our research. It shows that our research is directed towards important issues in terms of the near-future improvement of the pension provision.



OUR RESEARCH PROGRAMME
DEPICTS THE FOCAL AREAS
AND PRINCIPLES OF OUR
RESEARCH ACTIVITIES

Pension provision increasingly significant

The pension system is a significant social institution, which affects both the livelihood of individuals and the general economic development.

The Finnish pension system is largely based on statutory pensions: the earnings-related pension and the national and guarantee pensions, which secure a minimum income. Nearly all persons who reside in Finland are at some point in their life insured under the earnings-related pension system. At year-end 2013, the number of persons insured under the earnings-related pension acts numbered approximately 2.4 million. The status of the earnings-related pension within the overall pension provision has gained strength as the number of persons receiving an earnings-related pension has grown while the number of national pension recipients has been reduced. The significance of supplementary and voluntary pensions is slight.

The pension provision concerns a noteworthy proportion of the Finnish population as every third adult

in our country receives a pension. In 2013, the number of pension recipients was 1.5 million, of whom 1.4 million received an earnings-related pension. As the baby boomers have retired, the income of an increasing proportion of the Finnish population consists of a pension. As the population ages, the significance of the pension provision will grow further. In an ample decade, the number of persons aged 65 and above will rise from the current 1 million to approximately 1.5

PENSION RECIPIENTS IN 2013

1.5
MILLION

million. The population is ageing earlier and faster in Finland than in the other EU Member States. A review of the adequacy of pensioners' income lies at the core of pension provision research.

The pension system has several economic dimensions. The annually paid statutory pension expenditure amounts to an ample 13 per cent of GDP. The percentage has been predicted to rise with a few percentage points in the next few decades. Pension expenditure makes up for more than 40 per cent of social expenditure and 25 per cent of public finances. Earnings-related pension contributions, the pension level and their age limits, along with other conditions, affect the employment rate and the economic dependency ratio. The earnings-related pension system is part of public economy, so the growing pension expenditure due to the ageing population

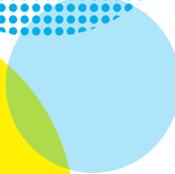
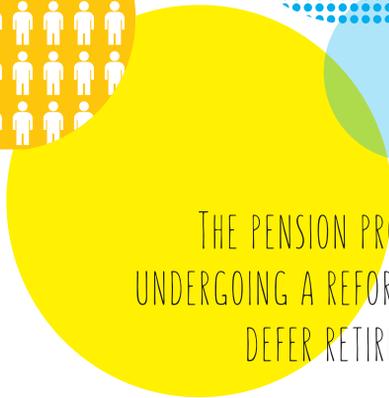
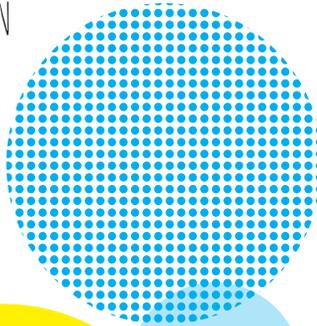
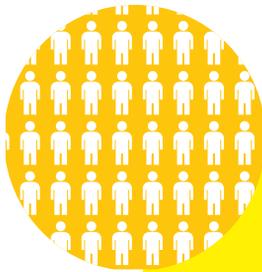


THE NUMBER OF PENSION RECIPIENTS IS GROWING

will affect the sustainability of the long-term financing of the public economy. The economic significance is also manifested in the investment assets of the earnings-related pension system. Their value exceeds 80 per cent of GDP and is three times larger than the state budget. Pension systems are arrangements involving long-term liabilities and obligations. As these liabilities are substantial in the comprehensive Finnish pension system, the financial sustainability of the pension system is one of the key issues within social and pension policy. The social and financial sustainability of the system must be assessed also from the point of view of intergenerational fairness.

The pension systems of most countries have undergone reforms in the last few decades. In Finland, reforms improving the financial

THE PENSION PROVISION
IS FINANCIALLY
SIGNIFICANT



THE PENSION PROVISION IS
UNDERGOING A REFORM IN ORDER TO
DEFER RETIREMENT



sustainability were launched in the 1990s. The goals of the measures have been to adjust to the changes in population structure, to curb the rise in pension expenditure and to streamline and simplify the system. The 2005 pension reform was followed by a number of separate adjustments. At present, the preparatory work for a new pension reform is under way. The reform, which is to come into effect in 2017, is described as the largest socio-political reform of the decade. Its aim is to secure the financing of the earnings-related pension system and a sufficient pension level far into the future. One of the basic tasks of our research activities is to assess the effects of the changes to the pension system. Under this programme, we will focus on the assessment of previous pension reforms. As for the 2017 earnings-related pension reform, we can only make preliminary estimates of its consequences.

More than before, an extension of working life has become a pension

political goal. It is also one of the key goals of the 2017 earnings-related pension reform. The pension system is increasingly reviewed from the point of view of employment and as part of the public economy. The aim to extend working lives is linked to strengthening the sustainability of public economy; continuing at work or retiring will affect the volume of tax assets collected.

The retirement trend is not only a significant research subject from the point of view of the pension system but also more broadly from the point of view of social and economic policy. In addition to pension legislation, retirement is affected by many other factors such as the development of the population's work ability and matters relating to the improvement of working conditions and the attitudes of employees and employers. Various measures of working life and rehabilitation hold a key position in terms of retirement. We need research of these various factors, as well as of how a deferred retirement through different measures can be achieved.

Focal areas of research and connecting views

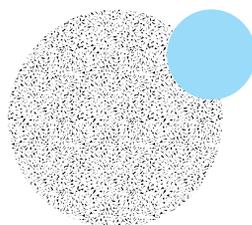
In 2015-2019, our research activities at the Finnish Centre for Pensions will be directed at four focal areas: adequate pension provision, financial sustainability of the pension system, working lives and their development, and transfer to retirement.

The areas we will focus on are determined by issues relating to the content of pension provision. The focal areas overlap and their research themes will consist of research questions that are closely related to each other. The pension system interacts with other social institutions. Therefore, it is important that we review the system comprehensively and take the various connections into account.

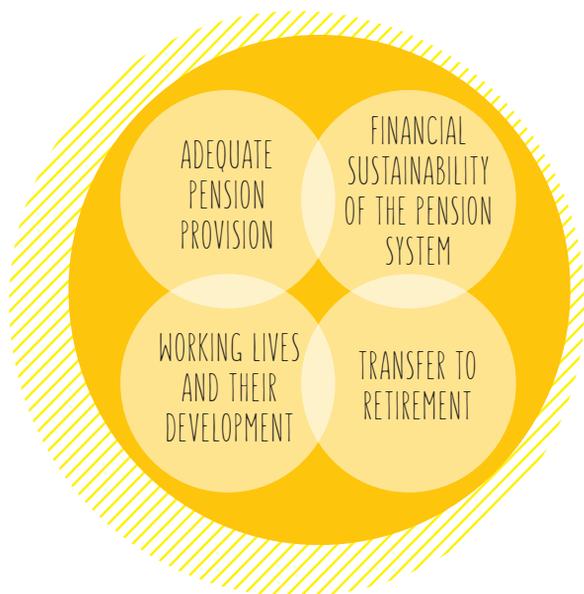
Our focal areas will be linked to the objectives of the 2017 pension reform. By focusing our research activities on the areas listed above, we can produce data of the most topical issues concerning pension provision. The need for data is great within the focal areas of working lives and retirement, which is why

it is justifiable to focus on them separately.

Under this research programme, we will review changes over time, between population groups and internationally. We will put special emphasis on the assessment of the impacts of pension reforms. In addition to making consequence analyses of individual reforms, it is



WE WILL REVIEW CHANGES
OVER TIME, BETWEEN
POPULATION GROUPS
AND INTERNATIONALLY



FOCAL AREAS OF OUR RESEARCH ACTIVITIES 2015–2019

essential that we make long-term reviews which highlight the effects of the structural changes of the system. We will use register data for individual-level follow-up studies and for long-term population-level analyses of the changes. In the comparison between population groups, we are interested in the differences between genders, generations and socioeconomic groups.

With international comparisons and by placing Finland into a larger context, we can produce important information for Finnish decision-

making. In our research activities at the Finnish Centre for Pensions, it is important that we take into account the international audience and produce research data in which we assess the Finnish pension system from an international point of view.

We will define annually the new research projects that will be implemented under this programme. More detailed descriptions of our research projects are available on our website at www.etk.fi/en.

Research on the adequacy of pension provision

The key task of the pension system is to secure the income in old-age, in the event of disability or the death of the family's breadwinner.

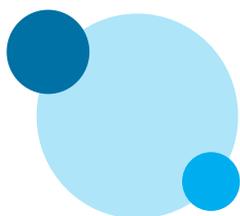
Assessing the implementation of the basic task of the pension provision requires multifaceted research that utilises different types of data.

Under this programme, we will examine pension adequacy through both the pension level and the income of pensioners. We will examine the pension provision and the key pension types and population groups in terms of the improvement of the pension provision. We will study, among others, self-employed persons and

immigrants, of whom there is very little previous data.

A pension is a long-term benefit: the average time spent in retirement exceeds 20 years. A key question is how to maintain the pension level over the decades. In the next five years, we will conduct individual-level longitudinal studies of changes in the income level of pensioners.

We will assess the adequacy of the livelihood primarily based on income. In order to gain a more diverse picture, we will also review the livelihood of pensioners through consumption and subjective experiences relating to livelihood. We will conduct a questionnaire survey directed at the retired



UP-TO-DATE INFORMATION
ON PENSIONERS' LIVELIHOOD
AND ITS DEVELOPMENT

QUESTIONNAIRE SURVEYS TO COLLECT DATA
ON PENSIONERS' LIVELIHOOD AND
THE POPULATION'S THOUGHTS ON PENSION
PROVISION

DIVERSE
ASSESSMENT
OF LIVELIHOOD



population in order to receive more extensive data on the livelihood of pensioners.

As people age, the need for care and nursing services will grow, emphasising the significance of services among the older age groups. So far, research data on the significance of services for pensioners' livelihood is scarce. Now the OECD, for example, has aimed at paying increasing comprehensive attention also to the role of services in its reports on pension indicators. We will review the adequacy of pension provision more extensively by taking into account the significance of social and health services and housing for pensioner livelihood.

The adequacy of pension provision has also more extensive dimensions. If the statutory pension provision is not adequate, or not felt to be so, the social sustainability of the system will be put to the test. Under this research programme, we will monitor the working-age population's trust in the pension provision.

It is worth examining the livelihood of pensioners also through international comparisons, which will highlight the similarities and differences of the Finnish system compared to that of other countries. We need both system-level and individual-level comparisons of, for example, disability pensions.

Research on the financial sustainability of the pension system

Financial sustainability is central for the pension system operations. The pension system is a significant financial and social institution.

It effects, among other things, corporate cost levels and public economy. During this research period, we will focus on matters relating to the financial sustainability of the pension system.

Monitoring the development of the expenditure and contributions of the pension system is essential from the point of view of the financial, social and political sustainability. We have regularly produced data on the future development of pension expenditure, contributions and benefits with our long-term projection (LTP) model. We will continue to do so in the next five years. In addition to the baseline projections, the LTP model can be used to produce various alternative projections of, for example, how changes to the return on pension assets, employment and the retirement age affect the

development of expenditure and contributions. Multifaceted reviews of the effect of the return on pension assets on the financial sustainability of the pension system are important.

We will review the financial sustainability of pension provision from a generational point of view, based on the long-term data included in the LTP model. We will also make use of data based on National Transfer Accounts (NTA), in which the pension system is linked to the adequacy analysis of the overall public economy as part of the intergenerational income transfer system. This will also provide an information basis for the consequence analysis of the 2017 pension reform from the point of view of the long-term sustainability of public economy. With overall economic model reviews, we can assess changes in the consumption and labour supply of various age groups relative to changes in taxation and pension provision.

We can also use the model to review how economic disturbances or changes in the environment of the international economy come across through tax or pension systems in the economic circumstances of different generations and their opportunities to sustainably implement the goals set for the pension system.

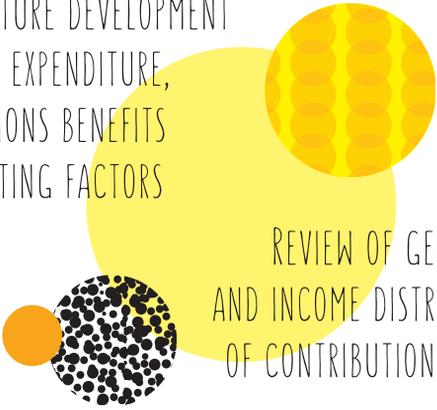
The sustainability of the financing of the pension provision has been highlighted in recent years due to the recession and the decelerated economic growth. The latter affects pension provision in multiple ways. When the economic development is weak, the wage sum will be reduced, as will be the accrued pensions

and the pension contributions paid based on the wages. Under this research programme, we will produce information on the short-term and long-term effects of various overall economic disturbances on the pension system.

The closer international cooperation has increased the interest in the pension reforms of other countries and their effects. Participating in the international pension discussion requires that we monitor the pension reforms and the related research of other countries. We will conduct international comparisons of issues that are central to the financing of pension provision, such as the contribution level.

RESEARCH ON FUTURE DEVELOPMENT
OF PENSION EXPENDITURE,
CONTRIBUTIONS BENEFITS
AND AFFECTING FACTORS

REVIEW OF GENERATIONAL
AND INCOME DISTRIBUTION EFFECTS
OF CONTRIBUTIONS AND BENEFITS



Research on working lives and their development

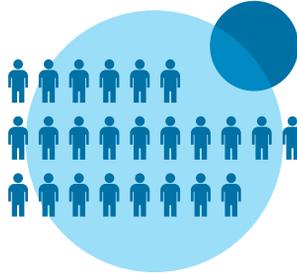
The length and timing of working life and the earnings received during that period in life will affect the pension amount on an individual level. On a system level, working lives affect the financial sustainability. The significance of working life on the determination of the pension provision level became increasingly essential in the 2005 pension reform when the actuarial assumptions of earnings-related pensions were adjusted. The socio-political aims of extending working lives will increase the need for research data on the subject. We need research on the length of and earnings accrued during working life, as well as of the changes they are undergoing and of the differences between population groups.

Due to the advanced data sources available to us at the Finnish Centre for Pensions, we have made new openings in the analysing of the length of working lives. During this research programme period, we will continue to produce up-to-date

information on the development of working lives. In addition to information on the recent development of working lives, there is a need for studies of the long-term development and adjustments. The research-based scenarios of the long-term development of working lives support the monitoring and evaluation of pension policy.

Working lives may include interruptions that are due to, for example, periods of unemployment or parental leaves. Along with the 2005 reform, pension has accrued more extensively for unpaid periods. The data on the frequency and allocation of unpaid periods between population groups, as well as of working life after breaks, is significant from the point of view of the pension provision. Reviews of the tail end of working life will form an important part of our research activities, but we will also review the early and mid-stages of working life. A successful start to working life will fortify its later

RESEARCH ON STAGES IN WORKING LIFE THAT ARE OF SIGNIFICANCE FOR THE PENSION PROVISION



RESEARCH ON THE EFFECTS OF WORKING CONDITIONS ON RETIREMENT AND LENGTH OF WORKING LIVES

stages and the accrual of pension provision.

During the programme period, we will produce data on how the pension level is affected by the length and timing of working life. We will also examine the wage profiles of the working-age population: how do the earnings develop during working life and how do the wage profiles differ by, for example, gender.

We will monitor the development in working life to assess how changes in working conditions and the structure of wage earner groups will affect the length of working lives and the transfer to retirement. In the next five years, we will examine and collect data on which features relating to working conditions are

most central in terms of extending working lives and retiring. The objects of study are the working conditions, the courses of change, the stability of working life and the retirement intentions of different groups of wage earners. We will collect expertise relating to the subject in cooperation with various parties.

Our research on working lives is mainly based on national data but, whenever possible, we will expand our research of the subject with international comparisons. Such comparisons will offer perspective, for example, when assessing the magnitude of gender gaps or differences between socioeconomic groups. A natural reference group for Finland is Europe and, in particular, the Nordic countries.

Research on retirement

The rise of the average effective retirement age will promote the extension of working lives. It is important that we study the individual and institutional reasons underlying the routes to retirement and how the routes are selected. We will examine the effects of the incentives of the pension system on retirement and how these effects differ between population groups. We will also monitor and study how frequently the new pension types – the years-of-service pension and the partial old-age pension – are used, as well as how they will affect the transfer to retirement.

In addition to the effective transfer to retirement, we will examine the retirement intentions of the population and changes occurring in those intentions. In addition to descriptive data, it is essential that we find out the connection between the various factors involved and their effect on the decision to retire and the retirement intentions. Under this research programme, we will examine the connection between the intended and the effective retirement age. From the point

of view of the employment of the elderly labour force, a crucial factor is how employers respond to the employment of elderly people and relate to the pension system, i.e. to the age limits.

The working life of many people will end when they retire on a disability pension. The number of starting disability pensions has decreased in recent years. At the same time, the number of partial disability pensions and temporary disability pensions granted in the form of a cash rehabilitation benefit has increased. We need research on the changes of starting disability pensions and their underlying factors. We will study the differences in starting disability pensions in terms of population groups, as well as the changes in time relating to starting disability pensions.

In the forthcoming five-year period, we will also study disability pensions in terms of the disease categories that they are based on. It is essential to examine the connection between health, work ability as well as working conditions

CHANGES IN NUMBER OF STARTING DISABILITY PENSIONS



DESCRIPTIVE AND ECONOMETRIC ASSESSMENTS OF RETIREMENT, RETIREMENT INTENTIONS AND THEIR CHANGES

and retirement. This type of research will offer us valuable information in support of an early prediction of disability. It is crucial that we examine the significance of various measures such as rehabilitation.

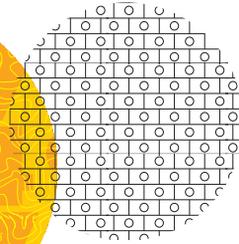
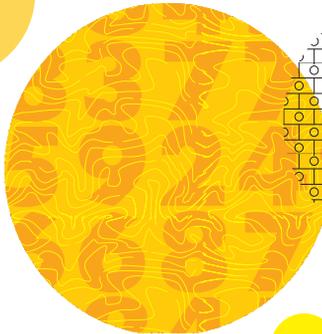
In addition to information on factors that can predict retirement on a disability pension, we need data on the process of retiring on this pension type. We also need to know more about the phases that those who retire on a disability pension go through, as well as on the role of the employer in the prevention of disability. It is important that we examine how the principle of the employer's deductible in relation to the earnings-related pension contribution is realised in disability pensions and what the related costs are.

In recent years, working while drawing a pension has become increasingly common, and a growing number of pensioners

engage in gainful employment while drawing an old-age pension. The partial disability pension has become increasingly common, and it is possible to work while drawing a disability pension or to suspend a pension while working. We will produce data on the frequency of working while receiving a pension and on its development. An analytical review of the concept of work ability and on the principles of the pension system and their current functionality is required.

The earliest eligibility age for retirement has been raised or made more flexible in many countries in the last few years. By examining the pension reforms of other countries and their effect in terms of the retirement age, we can receive useful data for an assessment of the Finnish pension system. We will produce data on, among other things, how the flexible retirement age has worked in the Nordic countries.

MULTIDISCIPLINARY RESEARCH AND ACTIVE
RESEARCH COOPERATION



OUR STRENGTH LIES
IN EMPIRICAL RESEARCH
THAT UTILISES
MULTIFACETED DATA



Research practices of the Finnish Centre for Pensions and their development

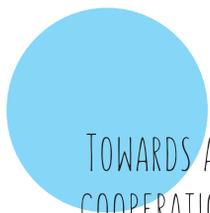
The strengths of our research activities lie in empirical research based on register and statistical data. We use multifaceted and internationally unique data. Improving the usability of our register data and creating a shared earnings register for the earnings-related pension field have promoted research that makes use of our registers. We will continue improving the usability of register data in the next five years. We will also make use of the pension simulation model (ELSI model) that we have developed and the long-term projection model (LTP model). In addition, we will compile our own questionnaire data. Studies based on a combination of registers and questionnaires will allow for a versatile review of various phenomena. In addition to these, we will make use of other national and international data in our research.

We aim at conducting multifaceted research for decision-makers, experts and citizens. The Finnish

Centre for Pensions is committed to following the guidelines on good scientific practices issued by the Finnish Advisory Board on Research Integrity. Our activities include transmitting research data, providing expertise in various bodies that support decision-making, participating in social discussions as well as in domestic and international research and expert networks.

We conduct social and economic research. The pension system has both social and economic policy consequences, which is another reason why the need for multidisciplinary research is significant. Our research activities are based on our researchers' know-how and professional skill, which we enhance by supporting our staff's training and research careers.

Cooperation with other instances that study issues relating to pension provision is an important part of our research activities. This cooperation allows



TOWARDS A STRENGTHENED INTERNATIONAL COOPERATION AND AN IMPROVED SCIENTIFIC RESEARCH QUALITY

us, on the one hand, to supplement our own know-how profile and, on the other hand, to promote the research about pension provision conducted by others. We cooperate with other research and expert institutions and with universities through joint projects and by sharing research funding and data. The Finnish Centre for Pensions annually funds or co-funds research projects that are of interest in terms of the assessments and improvement of the pension system. More data on the research funding and sharing of data is available online at our website www.etk.fi/en.

In the next five-year period, we will focus on expanding cooperation by participating in international pension-related conferences and by increasing our research cooperation. The increasing internationalisation will help us improve the quality of our research and increase foreigners' understanding of the Finnish pension system.

We will also improve the scientific quality of our research. Our aim is to publish the results of our key research projects in international scientific journals. This premise is based on the external evaluation of our research operations conducted in 2013. According to the evaluators' recommendations, we should expand our selected research subject to include international comparisons and more systematically aim for international publication. Our research operations were evaluated as being of good scientific quality and estimated to have much to offer to international pension discussions and research. Since the Finnish pension system is not very well known abroad, we should develop our research activities in a more international direction while simultaneously holding on to our primary task of supporting the national decision-making relating to pension policy.

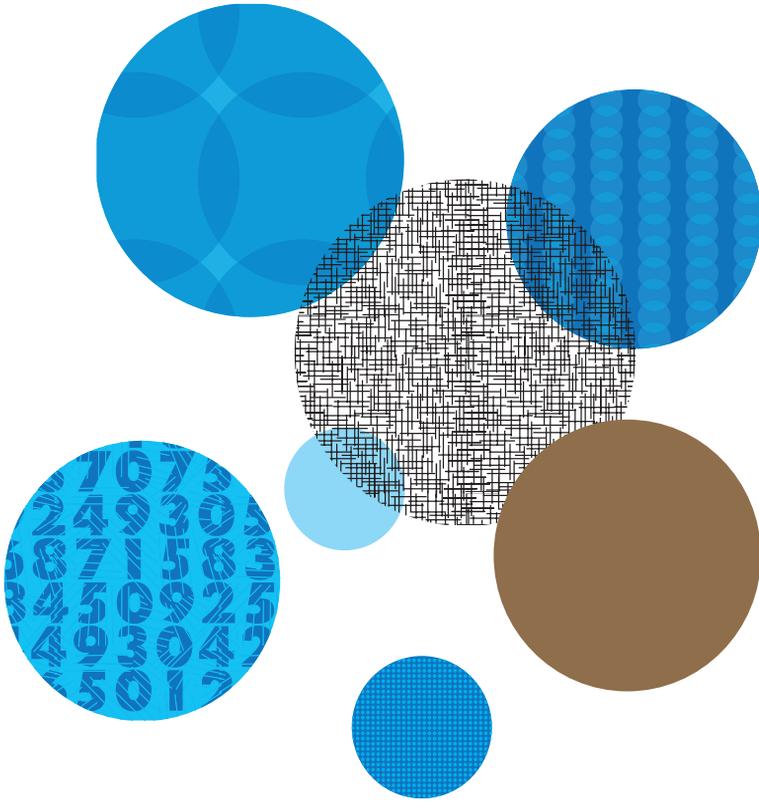


Our research concept

We engage in multifaceted research for decision-makers, experts and citizens.

We are active in domestic and international research networks.

We participate as experts in the social debate.



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