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SUMMARY

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Total pension in 2019

How are the earnings-related and national pensions and taxation determined?

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 will be determined in 2019. The tables with examples illustrate what the total net pension will consist 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.

The 2019 national pension has been frozen at the 2018 level. It follows that the amount of the national pension will be the same as in 2018. In 2018, the full monthly national pension for a single person is 628.85 euros and for a married or cohabiting person 557.79 euros. A discretionary increase of 9.27 euros has been made to the guarantee pension. As a result, together with the guarantee pension, the minimum pension amount in 2019 is 784.52 euros per month for both single and married or cohabiting persons.

Earnings-related pensions will rise by 1.45 per cent at the beginning of 2019 due to the earnings-related pension index. The wage coefficient used, for instance, to revalue earnings when determining the pension will rise by 1.86 per cent.

In 2019, those born in 1956 will reach their retirement age of 63 years and 6 months. Starting earnings-related pensions will be adjusted with the life expectancy coefficient. The life expectancy coefficient for those born in 1957 has been confirmed at 0.95722. It will reduce the monthly old-age pensions of that cohort – or any early old-age pensions starting in 2019 – by 4.3 per cent.

The state income tax rate will be slightly mitigated in 2019 due to increases in the basic, income and pension income deductions. In 2019, the income tax scale will be alleviated by adjusting income limits by 2.6 per cent. The taxation of pensions will be mitigated as the factors of the pension income deduction in both municipal and state taxation have changed. The amount of the full pension income deduction in municipal taxation will rise by 10 euros to 9,050 euros. The amount of the full pension income deduction in state taxation will rise by 30 euros to 11,590 euros. The solidarity tax, that is, the reduced lower limit of the highest income bracket on the tax scale, intended to tighten the taxation of large incomes temporarily, will be kept unchanged in 2019.

The taxation of wage earners will be tempered by a higher income tax relief. The taxation of both pension recipients and wage earners will also be affected by the higher maximum basic tax deduction.

In 2019, the average municipal tax rate will be 19.88 per cent (19.86% in 2018). The public broadcasting tax will be 2.5 per cent for an annual income that exceeds 14,000 euros. The maximum tax amount is 163 euros.

In 2019, the earnings-related pension contribution rate for wage-earners will be 6.75 per cent (aged 17–52 and 63–67) and 8.25 per cent (aged 53–62). The equivalent rates in 2018 were 6.35 and 7.85 per cent respectively. The unemployment insurance contribution of wage-earners will decrease in 2019 from 1.9 per cent to 1.5 per cent.

In 2018, wage earners no longer had to pay the medical care insurance contribution. The same applies in 2019. The medical care insurance contribution levied on pension and other benefit income will rise to 1.61 per cent in 2019 (1.53% in 2018). The health insurance contribution will be 1.54 per cent (1.53%) for wage earners with an annual income of at least 14,282 euros (€14,020).

The change in tax and contribution rates of pension and wage income varies at different income levels. Comparing the tax rate in 2018 for the same amount of income, and with average municipal tax rates, the tax rate for pension recipients will be reduced slightly in all income brackets in 2019. The highest reduction (0.5 percentage points) will be for a pension income of 1,000 euros per month.

The net pension of a person who gets only a national pension from Kela will rise by about 1.2 per cent. The pension amounts in the higher pension brackets will rise by 0.4–1.4 per cent. However, in real terms, pensions will be reduced slightly since the predicted inflation for 2019 is 1.5 per cent. In the last ten years, the pension of those with only a national pension from Kela has grown real-term by about 18 per cent. The pension of those with a monthly pension income of 1,000 to 1,200 euros will grow by approximately two per cent, while the pension of those with a monthly pension income of 1,400 to 3,000 euros will decrease by about two per cent.

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