

**Article 22 of the Constitution of the ILO**

Report for the period 1 June 2012 to 31 May 2017, made by the **Government of Finland**

on the

**INVALIDITY, OLD-AGE AND SURVIVORS' BENEFITS CONVENTION, 1967 (No. 128)**

(ratification registered on 13 January 1976)

**Direct Request, 2012***Suspending a disability pension*

Regarding Article 13 of the Convention, the Committee of Experts specifically asked how the Act Promoting Return to Work from a Disability Pension (738/2009) has improved the employment prospects of disabled persons.

Since 1999, it has been possible in the national pension system to suspend a disability pension when the recipient's wage income exceeds the earnings limit. The Act Promoting Return to Work from a Disability Pension (738/2009), which entered into force for a fixed period at the beginning of 2010, extended the option of suspending a disability pension to disability pensions granted pursuant to employment pension legislation and fixed-term disability pensions pursuant to the National Pension Act (568/2007). The Act also applies to guarantee pensions granted as disability pensions. The earnings limit specifying how much a disability pension recipient may earn in wages is currently a flat EUR 737.45 per month (at the 2017 index level). This earnings limit also applies to career pensions and to rehabilitation allowances granted pursuant to employment legislation. The Act will remain in force until the end of 2020.

A disability pension granted pursuant to the National Pension Act (568/2007) is suspended when the recipient's wage earnings exceed EUR 737.45 per month.

A disability pension granted pursuant to employment pension legislation is suspended and payment stopped if the recipient is in paid employment and the earnings from that employment exceed

- both EUR 737.45 per month (at the 2017 level) and
- 60% of the established average monthly earnings in the period before the disability pension.

While a disability pension is suspended, the recipient may earn unlimited wage income.

If a full disability pension in the employment pension system is converted into a partial disability pension, this is usually because of the recipient's wage earnings. An indefinitely valid full disability pension or a full rehabilitation allowance will be converted into a partial disability pension if the recipient's wage earnings are over 40% but under 60% of the aforementioned established average monthly wage earnings. This conversion is done if the change in the recipient's working capacity is estimated to last for at least one year. In addition to the wage income, other considerations such as medical aspects must be considered in evaluating the change in working capacity.

A disability pension may be suspended for a period of no less than three months and no more than two years. If the recipient's wage earnings fall below the statutory earnings limit, payment of the suspended disability pension is resumed without a new assessment of working capacity. Thus, currently valid legislation allows the recipient of a disability pension to try doing a job without fear of losing the disability pension or having a full disability pension converted permanently into a partial disability pension. A disability pension may be suspended again once it has been paid again for at least one month. In the time between suspensions, the recipient's wage earnings must not exceed the statutory earnings limit.

A disability pension recipient who is employed while the pension is suspended accrues further employment pension. The accrual percentage is the same as for employment alongside an old-age pension, i.e. 1.5% of annual earnings. If the recipient wishes to remain employed indefinitely after two years, the disability pension will be cancelled retroactively as of the date of suspension, and the recipient will then accrue further employment pension for the period during which the disability pension was suspended, at the rate of 1.5% (aged under 53) or 1.7% (aged 53 to 62) as of 2017. Before 2017, the pension accrual percentage was 1.9% for persons aged 53 to 62.

While a disability pension is suspended, the employment of the recipient is supported by paying him/her the maximum disability allowance for a person aged 16 or over as per the Disability Benefits Act (570/2007), which is EUR 416.91 per month (at the 2017 index level). In order to receive this disability allowance, all disability pensions granted to the recipient must be currently suspended. Also, it is required that the pension recipient was the recipient of a care allowance immediately before the suspension of the disability pension; this care allowance is then replaced by the larger disability allowance.

If the pension recipient was the recipient of a pensioner's housing allowance immediately before the suspension of the disability pension, payment of the housing allowance will continue for as long as the recipient is eligible, even though the disability pension is not paid while it is suspended.

Between 2010 and 2015, 3,980 persons suspended a disability pension granted pursuant to employment pension legislation and/or the National Pension Act. About 15% of these suspended both kinds of disability pension (employment pension and national pension). Slightly under 47% suspended only a disability pension under the employment pension system, and about 38% suspended only a disability pension pursuant to national pension. During the period under review, there were 2,803 suspension periods under the national pension system and 2,500 under the employment pension system. There were 513 simultaneous such periods.

The average length of a disability pension suspension between 2010 and 2015 was 8 months. The average length was longer for disability pensions under the national pension system, 18 months. About 60% of these suspension periods were less than a year long, and about 25% lasted more than two years.

Those who receive a partial pension are more likely to suspend it than those who receive a full pension. About 55% of the suspended pensions were partial pensions. In 2015, 401 disability pensions under the employment pension system were suspended; 150 of these were partial disability pensions and 62 were partial rehabilitation allowances. The number of full disability pensions and full rehabilitation allowances suspended was 98 and 91, respectively. Under the national pension system there are only full pensions, so only full disability pensions of this kind were suspended.

At least two benefits were collected from KELA during pension suspension by 8% of those with a disability pension under the employment pension system and 22% of those with one under the national pension system. The most common benefits collected from KELA while a pension was suspended were sickness allowance and pensioner's housing allowance. The monthly statistics show that the number of people suspending their pensions has grown gradually, while the number of people collecting other benefits during a pension suspension has remained stable in relative terms but increased in absolute terms.

In the annual statistics, each individual is only counted once. This also applies to the grand total for the period under review.

## **I LEGISLATION AND REGULATIONS**

### *2017 Employment Pension Reform*

The purpose of the pension systems in Finland is to secure an income in case of old age, disability or death of a family's primary provider. The statutory pension system consists of several independent parallel systems. The purpose of the employment pension system is to ensure a reasonable income commensurate with previous wage earnings after retiring. The national pension system and the guarantee pension ensure that pensioners receive at least a subsistence income.

The Finnish employment pension system is highly comprehensive, because pension insurance is mandated by law and covers nearly all kinds of paid employment. The employment pension system is based on the accrual system: old-age pension is accrued according to income from employment. The employment pension contribution is likewise determined on the basis of income from employment. The larger the income, the larger the pension contribution and subsequently the pension. Changing employers or switching from the public to the private sector or vice versa generally have no bearing on how pensions are calculated.

In 2014, the expected retirement age in the employment pension system was 61.2 years. The expected retirement age has risen by about two years from where it was prior to the pension reform in 2005. This is due to the age limits for various pension benefits being raised; to the enactment of an elevated pension accrual after a person reaches the age of 63, as an incentive to continue working; to the gradual abandonment of early old-age pension; and to disability pensions. After an initial spurt, the rate of rising of the expected retirement age slowed down as anticipated but picked up speed again in 2014, particularly because of the decline in the number of disability pensions. The number of persons retiring on a disability pension per year has fallen by one fourth since 2008. Today, the shifting of the retirement age is principally affected by economic and employment trends, quality issues in working life and personal choices.

The purpose of the pension reform that entered into force at the beginning of 2017 is to extend working careers because of the dependency ratio, the balance of the economy and the pressures towards raising employment pension contributions. The aim is that by 2025 the expected retirement age of a person aged 25 would be at least 62.4 years. Another aim is to ensure that all generations can enjoy sufficient pension and that all generations will be treated fairly. Working careers longer than at present would lead to higher pensions because of the longer accrual period.

The pension reform involves raising the minimum age for retirement from the present 63 years by three months for every year of birth starting in 1955 until the minimum age for retirement is 65 years. For persons born in 1965 and later, the retirement age is to be linked to life expectancy so that part of the expected longer life would be used for working. The retirement age will remain

flexible: the upper age limit for mandatory pension insurance will be raised by full years, so that for persons born in 1962 and later the upper age limit for mandatory pension insurance will be 70 years.

If an employee or entrepreneur does not exercise the option to retire at the minimum retirement age, his/her pension will be adjusted upwards with a deferment increment of 0.4% per each month of deferment. The purpose of the deferment increment is to incentivise the employee or entrepreneur to continue working after passing the minimum retirement age.

As a new benefit, the employment pension reform introduces the partial early old-age pension, which replaces the former part-time pension. The age limit for the partial early old-age pension is 61 years but 62 years for those born in 1964 or later. The partial early old-age pension may be either 25% or 50% of the pension accrued by the end of the calendar year preceding the start of the pension, according to the employee's or entrepreneur's choice.

There is also another new benefit, the career pension. An employee is entitled to a career pension after his/her 63rd birthday if he/she has been employed for at least 38 years in a job that is strenuous and fatiguing and if his/her working capacity has been impaired because of an illness, injury or disability. Persons born in 1955 or later are eligible for career pensions, and the earliest start date is 1 February 2018.

The Act Promoting Return to Work from a Disability Pension will remain in force until the end of 2020. The purpose of the Act is to encourage recipients of a disability pension to return to work. It continues to be important for disability pension recipients to be able to try to return to work.

## **II-V.**

Nothing new to report.

## **VI**

A copy of this report has been sent to the following labour market organisations:

1. The Confederation of Finnish Industries (EK)
2. The Central Organisation of Finnish Trade Unions (SAK)
3. The Finnish Confederation of Professionals (STTK)
4. The Confederation of Unions for Professional and Managerial Staff in Finland (Akava)
5. Local Government Employers (KT)
6. The Office for the Government as Employer (VTML)
7. The Federation of Finnish Enterprises

## **Statements of the labour market organisations**

*Central Organisation of Finnish Trade Unions (SAK), Finnish Confederation of Professionals (STTK) and Confederation of Unions for Professional and Managerial Staff in Finland (Akava)*

A pension reform entered into force in Finland on 1 January 2017. Employment pension begins to accrue from the age of 17, and the minimum retirement age will rise by increments to 65 years. Pension will now accrue from an employee's entire wages, as the employee's employment pension contribution will no longer be deducted. The new system treats age groups more equally, because people of all ages now accrue pension at a rate of 1.5% of earnings.

New forms of employment pension are being introduced: the partial early old-age pension and the career pension, the latter intended for those who have worked for a long time in physically strenuous jobs. The pension reform does not affect pensions already being paid out nor pensions already accrued.

The pension reform is based on an agreement negotiated by the labour market organisations, and the legislation was prepared on a tripartite basis.